TOAGOSEI

Maximizing Efficiency, Driving Performance



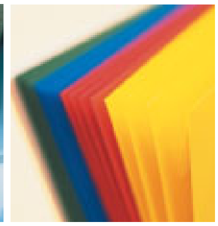
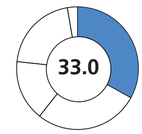
Annual Report 2006

Toagosei's Business Domains

Business Segment | **Sales by Segment**

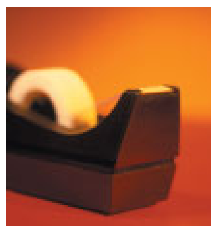
(%)

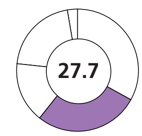
Commodity Chemicals

	Millions of yen		
	2006	2005	2004
Sales	**¥51,486**	¥47,892	¥46,271
Operating Income	**5,496**	4,026	3,319

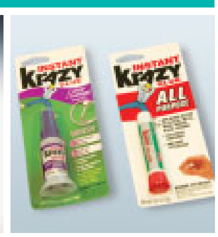
Acrylic Products

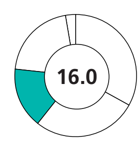




	Millions of yen		
	2006	2005	2004
Sales	**¥43,115**	¥45,111	¥41,926
Operating Income	**1,226**	5,344	3,269

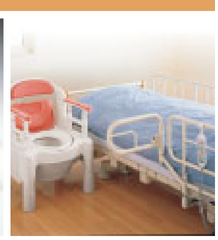
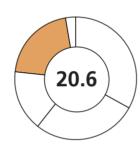
Specialty Chemicals



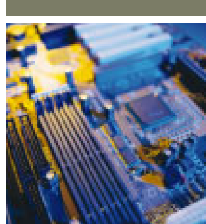
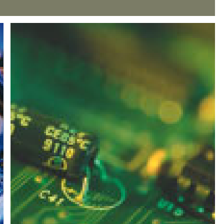
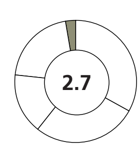
	Millions of yen		
	2006	2005	2004
Sales	**¥24,993**	¥22,351	¥20,645
Operating Income	**3,705**	3,234	2,882

Plastics

	Millions of yen		
	2006	2005	2004
Sales	**¥32,076**	¥31,655	¥30,656
Operating Income	**3,076**	3,302	3,897

Other Businesses

	Millions of yen		
	2006	2005	2004
Sales	**¥4,131**	¥4,433	¥4,784
Operating Income	**(553)**	(670)	(758)

2 Financial Highlights

3 Message from the President

6 Research & Development

8 Commodity Chemicals

10 Acrylic Products

12 Adhesives

14 Functional Materials

16 Plastics

18 Environmental Activities and Social Responsibility

20 Board of Directors and Corporate Auditors

21 Financial Section

41 Corporate Data

The catch phrase on the cover, "Maximizing Efficiency, Driving Performance" expresses the core concept behind our medium-term management plan for fiscal 2005-2007. It was printed using ink made from our popular UV/EB-curable acrylic product *Aronix*.

Description	Main Products and Application
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 polymer flocculants have proven effective in the purification of sewage and industrial wastewater. In the civil engineering and construction fields, acrylic polymer resins make ideal water-resistant coatings for roofs, external walls and so on. The Toagosei Group offers an integrated service from material production to on-site application.	**Acrylic esters:** Acrylic fibers, fiber processors, paints, pressure sensitive and other adhesives, leather processors, paper processors, and acrylic rubber **Acrylic acid:** Nonwoven cloth binders, flocculants, dispersants, paper processors, superabsorbent resin, and detergent builders **Polymer flocculants:** Treatment of various kinds of wastewater and dehydration of sludges **Construction materials:** One-pack waterproof spray materials, decorative waterproof wall materials, permeable type water-absorption preventive agents, chemical grouts, and earth resistance reducing agents
Toagosei has developed and commercialized a long list of unique and high-value-added products for both industrial and consumer use. These include the cyanoacrylate instant adhesive *Aron Alpha* (sold under the name *Krazy Glue* in the U.S.), as well as the silver-based antimicrobial agent *Novaron*. The UV-curable resin *Aronix* has become widely used in paints, inks, and as surface coatings for cell phones, compact discs and many other applications.	**Cyanoacrylate Instant Adhesives:** For bonding rubber, plastic, metal, and wood in industrial and consumer uses **Heat-resistant adhesives:** For bonding metal and ceramics used in high-temperature environments **Hot melt adhesives:** For bonding plastics, metals, and textiles For bonding difficult-to-bond plastics like polyethylene, polypropylene polyester, and nylon **Special Monomers and Oligomers:** Raw material for paints, printing inks, coatings, and adhesives **Silver-based antimicrobial agents:** For kitchen and bathroom equipment, building materials, and textiles **Antifungal agents:** For kitchen equipment, home appliances, and paints
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
To make our dreams of the future come true, we are putting our efforts into developing products that facilitate harmony between human activities and the natural environment. In the electronics field, our high-purity ethylene carbonate, and our TRIES silane chemicals for CVD (chemical vapor deposition) processing, are attracting attention from makers of LCDs and semiconductor devices. At Toagosei, we will continue to develop products that meet user needs and are in tune with the times.	

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

Financial Highlights

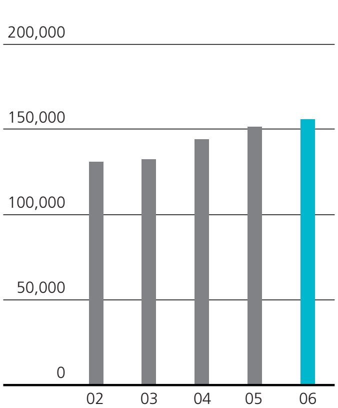
Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31, 2006, 2005 and 2004

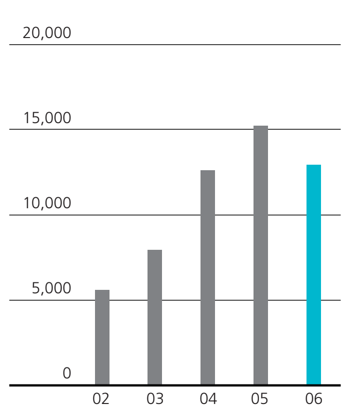
	Millions of yen			Thousands of U.S. dollars (Note 1)	06/05
	2006	2005	2004	**2006**	Change (%)
Net sales	**¥155,804**	¥151,443	¥144,283	**$1,308,070**	2.8
Operating income	**12,950**	15,236	12,611	**108,721**	(15.0)
Income before income taxes and minority interests	**13,522**	16,846	10,321	**113,529**	(19.7)
Net income	**6,961**	12,131	8,996	**58,445**	(42.6)
Per share of common stock (in yen and dollars):					
Net income	**26.64**	46.31	34.38	**0.22**	(42.4)
Cash dividends applicable to the year	**7.50**	7.50	6.00	**0.06**	—
Total assets	**195,607**	186,521	174,766	**1,642,238**	4.8
Net worth (Note 2)	**103,870**	99,501	83,513	**797,985**	4.4

Notes 1: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥119.11 = $1.00.
2: Net worth refers to the amount of net assets after deduction of minority interests.

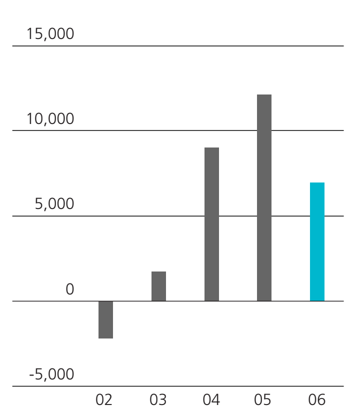
Net sales
(Millions of yen)



Operating income
(Millions of yen)



Net income (loss)
(Millions of yen)



Message from the President

Steering a course toward strong growth by stepping up the pace of development of priority businesses, while restructuring existing businesses

Akihiko Yamadera
President

Profits declined in FY2006, but efforts to strengthen management continue

Q Could you describe Toagosei's operating environment during fiscal 2006, the term ended December 2006, and the business performance you achieved?

A We were fortunate enough to enjoy a favorable business environment in the previous term, being able to raise our selling prices amid a tight supply situation, but the situation returned to its normal severe state in 2006. Particularly with regard to acrylic acid and acrylic esters, considerable capital investment took place to boost production capacity at plants in China owned by European makers, as well as locally-owned plants. As a result of this series of start-ups of new production lines, the East Asian market began to suffer from an oversupply situation, resulting in a steep fall in average prices on the market. At the same time, as crude oil prices stayed at a high level, so did prices of raw materials such as naphtha, as well as fuels. This situation pushed down our earnings, and despite earnest efforts to cut costs, we recorded a year-on-year decline in net income on a consolidated basis. In line with our policy of distributing profit to our shareholders through the payment of dividends at a stable level, we decided to maintain our dividend at ¥7.50 per share, the same level as the previous year.

Our business performance, unfortunately, did not live up to our expectations. We made progress in strengthening our business structure by such means as shifting the weight of our product lineup further toward items with high profit margins, and by reorganizing administrative procedures for greater efficiency. Thanks to these efforts, we kept the ratio of operating income to sales above the critical 8% mark, at 8.3%. Moreover, we were able to push through price raises on almost all products, following which earnings improved. As a result, we are now looking forward to year-on-year increases in both revenues and earnings for all our divisions in the current term.

Targets under medium-term management plan may be attainable

Q Calendar 2006 was the second year of Toagosei's current three-year management plan. What sort of progress was made?

A At ¥13.0 billion, operating income failed to reach our target of ¥13.9 billion under the medium-term plan. The biggest single factor behind this was that we were relying on our three priority businesses – UV-curable resins, adhesives, and high-purity inorganic chemicals – to be our main growth drivers. Unfortunately, UV-curable resins encountered problems with the production facilities at our factory in Zhangjiagang in China, leading to a decline in capacity utilization. Although the problems involved have now been almost completely solved, we fear that we will be unable to reach the operating income target (under the medium-term plan) for the current term, too.

However, as our management structure improvement initiative is continuing to make headway, we can expect to see expansion in both our priority businesses and value-added products. The targets for the end of the final year of the medium-term plan may thus still be within reach.

Higher proportion of strongly competitive products to be main driver of growth

Q Could you please give the readers some details regarding Toagosei's business strategy for the current term, the success of which is crucial to attaining the overall targets set under the Company's medium-term management plan?

A As far as our priority businesses are concerned, we intend to amalgamate the UV-Curable Resins Group – which is currently part of the Functional Materials Department – with the Adhesives Division to create a new organizational unit named the Functional Resins Department. We expect this to facilitate sales growth. Demand for UV-curable resins is rising sharply in the Chinese market. Against this background, we plan to reach new customers and find new applications for our products, with a particular aim of expanding sales to makers of components used in the IT sector. In the field of adhesives, demand for UV-curable adhesives is rising from users in the electrical equipment and electronic materials industries, and good growth is projected over the near future. Sales of hot-melt adhesives to manufacturers of smart cards are setting a brisk pace, while sales of reaction adhesives to electronic material makers are also growing. We plan to bolster our marketing efforts so as to push these trends even further. Our plans for overseas developments in the adhesives business are currently concentrated on the city of Zhuhai in China's Guangdong Province, where we have good hopes of increased sales to automotive companies.

With regard to high-purity inorganic chemicals, we have responded to the increase in demand by constructing new production facilities at our Tokushima Plant for high-purity liquefied hydrogen chloride and high-purity hydrochloric acid. From here onward we will be conducting aggressive marketing campaigns for these products targeted at overseas customers in the information technology sector.

In Acrylic Products, one of Toagosei's core business domains, we have learned the lessons of the substantial decline in product prices in the reporting term, and are reorganizing our upstream operations (acrylic esters and acrylic acid) and expanding our downstream operations (acryl polymers, flocculants, etc.). By these means, we aim to produce an optimally balanced business portfolio.

In upstream operations, we are looking to expand our marketing channels to countries other than China, such as in Southeast Asia and the Indian subcontinent. At the same time, we will be expanding the number of versions of our products to create a lineup with greater variety. In downstream operations, we will be investing even more time and money in developing high-value-added acryl polymer products. Our flocculant operations were taken over in October 2006 by MT AquaPolymer, Inc., a joint venture with Mitsui Chemicals Inc. These measures expanded the Toagosei Group's total product lineup.

Companies like ourselves who operate in the chemical industry rely for their continued existence on their ability to develop new products. Thus our research and development system is the very core of the Company. We are currently in the midst of creating a new organizational structure that will improve the efficiency of research and facilitate the discovery of valuable new products. As a specific example, from April 2007 we divided our research staff into the following three groups.
(1) The New Business Planning Group – Staff dedicated to R&D on themes that are expected to yield fruit over the long term in the form of new businesses
(2) The New Materials Development Group – Staff who focus on improving the properties of new materials that are already on the road to eventual commercialization
(3) The Advanced Science Research Laboratory – In charge of research in the fields of life sciences and bioinformatics

We are also taking steps to improve the technological base of our production division, and have set up a Technology Training Center to ensure that our younger staff possess not only the necessary leading-edge expertise, but also the practical skills that they can learn only from their superiors in the Company.

In addition, we are making more determined efforts than ever to push through price raises in negotiations with our customers, in order to pass on the higher costs we pay for our raw materials. Needless to say, we will redouble our efforts to cut costs. Over the long haul, we are confident that our creation of a well-balanced lineup of competitive products will assure us of adequate profit margins.

Aiming at Growth through Aggressive Investment

Q In closing, do you have a message for your shareholders?

A Although Toagosei's business performance for the reporting term was disappointing, I believe we have effectively tackled our organizational issues, and that our business base is now emerging significantly stronger as a result. Our corporate culture has also been revitalized, and our employees are now much more aware of the need to reduce or hold down costs.

Investments from here on will be aimed at planting the seeds of vigorous future growth and improving the Company's profitability. Specific examples of this policy will become clear when we release our next medium-term management plan, covering the period FY2008-2010. I would like to assure our shareholders that they can expect a favorable pace of growth from Toagosei over the next few years. I hope you will continue to support us in our efforts to realize this goal.

Contributing to society through the development of innovative new products

Dramatically improving efficiency through new R&D

As a chemical corporation, which must consistently come up with new products, research and development is the starting point for business. At Toagosei, each production department is responsible for research that is peripheral to or extensions of its current production operations. In parallel with this, up to now, our Corporate Research and Development Department has been responsible for R&D from the long-term perspective, spanning all the operational fields of the production departments.

To clarify the objective and mission of R&D at every stage of the development process, we have divided the research responsibilities of the former Corporate Research and Development Department between two new departments. Development of new technologies in the medium-and long-term is now being handled by the New Business Planning and Promotion Department. The New Materials Development Department, meanwhile, undertakes research on technologies that are nearing commercialization.

The New Business Planning and Promotion Department has set up two laboratories: a basic technologies laboratory, specializing in analytical technologies and materials design, and a cutting-edge science research laboratory. In addition, to bolster support for research and development, we have newly established a technology information survey and analysis team, joining the physical property assessment group in the department. In this way, we have been able to dramatically improve efficiency in our research and development activities. To cultivate recruits for employment, we continue to dispatch researchers to university laboratories around the country.

Commercialization of next-generation core products

We cannot report smooth progress in our research and development across the board. In the electronics field, however, sales of triethoxysilane (TRIES), a specialty silicon used as a raw material for semiconductor resists, continued to rise steadily, and demand for hexachloride HCD (hexachlorodisilane), a silicon

Toagosei's Advanced Science Research Laboratory at Tsukuba

nitride membrane material used in the production of semiconductors, has also been growing.

In this field, we have expanded our lineup of new functional silicone materials through a tie-up with Materials of the U.S., with the aim of increasing our presence in the market.

We are patiently trying to achieve commercial production of solder resist film for hard disk drives. Meanwhile, in the life sciences field, we are undertaking development of hydrocarbon electrolyte membranes for polymer electrolyte fuel cells, and are in the process of realizing high-performance features. As for medical diagnostic and testing agents, we are focusing primarily on auto-immune system diseases.

The search for future core technologies and the acquisition of core technologies

We participate in the Technology Research Association for Advanced Display Materials (TRADIM), targeting next-generation mobile applications, and supervise our area of specialty, which is the development of adhesive agents. The Association has been making progress in a comprehensive research and development project, which has already entered the second stage. In other fields, we continued to study holographic data storage materials. In the field of bioinformatics, which is drawing much attention these days, our joint research with Yokohama City University's School of Medicine on neuronal differentiation inducers (peptides) has been chosen for the Japan Science and Technology Agency's Research Program in Innovative Technology Development.

Looking forward to the fruits of group-wide collaboration in R&D

Regarding the structure for research within business divisions, we have decided to merge our two laboratories into the Functional Resins Laboratory, taking into consideration the acceleration of research and development in our priority business of adhesives and UV-curable resins. Our aim is to further accelerate research and development in this area. As for inorganic high-purity products, we have decided to pursue collaboration in research and development between our Commodity Chemicals Department and our subsidiary Tsurumi Soda Co., Ltd. In the Acrylic Products Department, we plan to further concentrate on themes in which we enjoy a competitive advantage in polymer-related research and development. We consider it necessary to further increase collaboration with affiliates operating in this area.

This year, 2007, being the final year of our three-year management plan, we will make a special effort to ensure that our research and development activities produce concrete results.

Commodity Chemicals

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

Salt is the principal raw material used in the production of caustic soda.

Research into high-purity inorganic chemicals.

Sales increase thanks to growth in shipment volume and price raises

Toagosei enjoyed an increase in sales for the reporting term, ended December 31, 2006. This is attributable to a number of positive factors, including: the Company's success in passing on the increased prices of raw materials and fuel to the selling prices of its products; growth in sales of hydrochloric acid; favorable shipment volumes for high-purity products; and a sharp rise in prices on the copper market (thanks to which we enjoyed an increase in revenues from the sale of copper recovered from used ferric chloride solutions returned to us by customers in the electronics sector).

As a result of a decline in demand for chlorinated solvents, as well as for chlorine, which is employed in the bleaching process at paper and pulp manufacturing plants, sales of these products posted a slight year-on-year decline. On the other hand, shipments of sulfuric acid and industrial-use gases held firm, securing a year-on-year growth in sales.

As a result of the above, sales of commodity chemicals on a consolidated basis recorded a year-on-year rise of 7.5%, to ¥51.5 billion.

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

We set out the restructuring of our existing businesses and the enhancing of our capabilities in high-purity inorganic chemicals as priority goals. This was part of an overall

- ***Sales increase thanks to growth in shipment volume and price raises***
- ***Restructuring existing businesses and enhancing capabilities in high-purity inorganic chemicals***
- ***Putting greater focus on products for growth markets, particularly the IT field***

clarification of the status of each of our businesses, which were put into one of two categories: businesses to be nurtured and reinforced, and businesses to be down-scaled, or even withdrawn from completely. In this way, we have radically overhauled our portfolio of businesses.

In line with this policy, at our Nagoya Plant we expanded our hydrochloric acid production lines and constructed production facilities for hypobromous acid for use in municipal water supply systems. Our subsidiary Tsurumi Soda will also be constructing hypobromous acid production facilities in 2007. This will put us well on the way to achieving our targets under the current medium-term business plan, and we have already reached our profit targets ahead of the original schedule. However, among our existing businesses, our chlorinated solvent business has been suffering worse-than-projected declines in demand, and its profitability has deteriorated markedly. There is thus a pressing need for us to draw up plans for a radical reorganization of this business.

We are continuing to expand the production capacity of our top-priority inorganic high-purity chemicals business. Measures taken or scheduled include the following:

- Increased production capacity of high-purity liquefied hydrogen chloride in November 2006, at our Tokushima Plant
- Increased production capacity of high-purity chlorine in April 2006, at our Nagoya Plant
- Increased production capacity of high-purity caustic potash (potassium hydroxide) in July 2006 at the plant of Tsurumi Soda
- Production capacity of high-purity caustic soda scheduled to be increased in March 2007 at Tsurumi Soda
- Production capacity of ultra-low-sodium caustic potash scheduled for March 2007 at our Nagoya Plant

Once this new equipment all goes fully operational, we expect to be able to effect an early turnaround of our whole business operational structure, enabling us to fully meet our customers' demands in terms both of product quality and reliability of supply. In turn, this will enable us to secure an acceptable level of earnings.

Putting greater focus on products for growth markets, particularly the IT field

Toagosei's medium-term management plan places emphasis on products for the information technology field, which is experiencing strong growth. Particular focus is being put on semiconductors, LCDs, and plasma displays.

With respect to the Company's high-purity inorganic chemicals, we have set a sales target for 2007 of twice the ¥2.1 billion recorded in 2004.

To attain this, we must not only develop attractive new products and bolster our production capacity, we must also enhance our marketing capabilities and speed up our efforts to satisfy our customers across the total spectrum of their needs, including product quality and reliability of supply.

Achieving the twin goals of expanding the scale of downstream acrylic operations and realizing a high-earnings business structure

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

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

Profitability of downstream products rising sharply

Despite decreased sales of acrolein in 2006, sales of downstream products such as water-soluble polymer powders, UFO (uniform functional oligomer) polymers, and construction-use resins were generally favorable during the term. Thanks to progress in our phased withdrawal from unprofitable operations in the downstream products field, a steady series of new products has been brought to market, and the profitability of our downstream operations as a whole has thus improved dramatically. In the field of monomer products, however, we were unfortunately unable to pass on to our customers the steep increase in the prices of our raw materials, as a result of which profitability deteriorated markedly. During the reporting term, we spun off our polymer flocculant business to establish the new company MT AquaPolymer jointly with Mitsui Chemicals in October, with the objective of reorganizing the business structure along more efficient lines.

Creating a high-earnings business structure

The reporting period was the middle year of the Company's three-year medium-term management plan, and in line with our basic policy of expanding the scale of operations in downstream derivative products, which the management adopted for the Acrylic Products segment, the year saw further progress in implementation of the various action plans adopted at the start of the medium-term

- ***Profitability of downstream products rising sharply***
- ***Creating a high-earnings business structure***
- ***Expanding the scale of our downstream operations***

plan. Our greatest challenge is to place strategic focus on products that display distinctive technologies.

Accordingly, management resources were selectively focused on the development of products that optimally leverage Toagosei's proprietary technologies, such as advanced dispersants and yield-improvement agents, as well as strongly weather-resistant sealing agents. These products were successfully developed and launched on the market one after another. We continued to innovate our production methods to raise productivity and product quality still further; adopted a new production method for plastic thickening agents; and increased production capacity of powdered products as well as invested in equipment for the granulation of powder products. As a result of these measures, we achieved results approximately in line with those envisaged in the action plans drawn up under the medium-term management plan, and were able to register profits that reached or exceeded our initial targets.

Expanding the scale of our downstream operations

As the current term is the final year of our medium-term management plan, we are redoubling our efforts in the development of downstream products with the aim of meeting our initial earnings targets. At the same time, we are pursuing various initiatives in collaboration with affiliated companies to raise the competitiveness of the Toagosei Group as a whole. These include the restructuring of our Singapore operations; improving the profitability of our cationic flocculant operations; and raising the efficiency of the polymerization process for forming polyacrylic polymer.

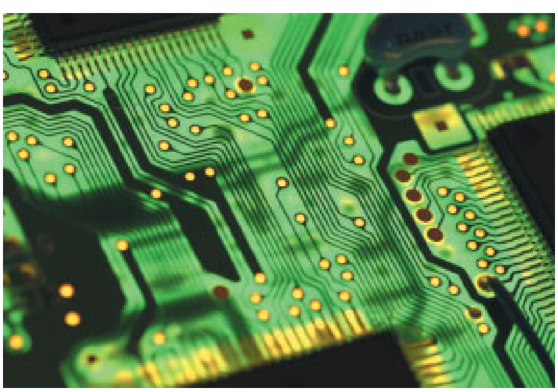
As part of our current medium-term management plan, we are continuing to focus on our core competencies in downstream operations while withdrawing from lines deemed unprofitable. Thanks to the success of these efforts, we have achieved a sharp improvement in the operating margin, thus firmly establishing a business base for sustainable earnings. In our next medium-term management plan, we aim to aggressively expand the scale of our downstream product operations through the exercise of M&A methods as well as the licensing-in of new technologies, both in pursuit of our basic policy targets and by boosting sales of existing products by effecting improvements in product quality. In this way, we have very good hopes of raising operating income still further in this segment.

Adhesives

New stick-type consumer-use instant adhesive launched on domestic market

New industrial adhesive products developed for growing markets of automotive components and electronics

PES hot melt adhesives are used for smart cards.



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

To achieve steady growth in the Company's adhesives business, which is one of our core domains, we have selectively narrowed down the number of individual products, product/application fields, and targeted customer categories, and have taken steps to speed up the process to profitable commercialization by investing more in our product development staff and facilities.

On the Japanese market, shipments to retailers of consumer-use adhesives were roughly in line with our expectations. In industrial-use adhesives, sales to customers in the automotive component and electronics sectors were favorable, and as a result, domestic sales as a whole posted a year-on-year increase.

On overseas markets, Toagosei Zhuhai Co., Ltd. and Toagosei Hong Kong Limited were included in the scope of consolidation, thus causing sales on a consolidated basis to rise sharply over the previous year. On a consolidated basis, the adhesives business registered both revenues and earnings in excess of the targeted levels.

Marketing and product development initiatives in 2006

During the reporting term we added another new product to our lineup of consumer-use instant adhesives available in the domestic market, with the launch of a stick-type version as Extra Series of *Aron Alpha* (sold under the name *Krazy Glue* in the United States).

In the field of industrial adhesives, we put the main focus of our development efforts on UV-curable, hot-melt,

- *An overview of sales in 2006*
- *Marketing and product development initiatives in 2006*
- *Medium-to-long-term outlook and strategies*

and reaction adhesives as strategic products for customers in the growing markets of automotive components and electronics.

Having determined that UV-curable adhesives was an important product category where Toagosei could effectively showcase its superiority in UV-exposed cationic resin production and related technologies, we devoted considerable effort to product development in this area. Our efforts were rewarded with a strong increase in demand for automotive components such as filter applications. As for hot-melt adhesives and reaction adhesives, growth grew steadily for such applications as IC substrates and related products, notably for use in smart cards. We continued to address development efforts toward the perfection of a technology for the production of industrial-use instant adhesives that would raise our productivity.

In the United States, we brought to market new consumer-use instant adhesive products in the *Krazy Glue* brand.

In industrial adhesives, we focused on developing products tailored to the specific application requirements of individual industrial clients.

Medium-to-long-term outlook and strategies

In the Japanese market, we intend to shorten the development lead times of new products in the *Aron Alpha* brand of consumer-use adhesives. This is part of our marketing strategy of raising the brand profile.

In the field of industrial-use adhesives, we intend to amalgamate this business with the UV-curable resin business, as we believe this will produce synergies in both marketing and technology and help to strengthen the business base of our UV-curable resin operations. We will also be promoting the adhesive processing business as a means of raising the added value of our adhesives operations as a whole. Furthermore, we plan to make full use of the adhesive products development facilities at our Takaoka Plant to achieve improvements in both production technology and product quality.

On overseas markets, we anticipate increased sales of instant adhesives in China and Europe, while our efforts in the United States will focus on the development of new industrial-use products.

Functional Materials

Our tripartite network of production bases in Asia, and efforts to speed up the development of products for makers of flat panel displays

Our UV/EB-curable resin *Aronix* is used in the manufacture of components for LCD televisions.

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

Sales grow thanks to progress in development for FPD use

At the beginning of the previous term, the Functional Materials Department was separated from the Acrylic Products Department and set up as an independent entity focusing on high-performance, high-value-added materials, particularly the UV/EB curable resin *Aronix* and the inorganic ion-exchanger *IXE*. By making the department into an independent entity, its business performance has become easier to evaluate, and its specialization in advanced functional materials has won greater trust from our customers.

The Functional Materials Department's No.1 product, *Aronix*, is available in two series: the M Series consists of raw materials for the manufacture of compound products, and the UV Series comprises finished compound products. We are particularly investing development resources in strengthening the UV Series, which are high-value-added products selling at premium prices. Sales have been especially boosted by our development focus on applications in the flat panel display (FPD) manufacturing sector.

We also boast a range of unique and highly functional inorganic materials, notably the inorganic ion-exchanger *IXE* and the silver-based antimicrobial agent *Novaron*. We will continue to focus energy and resources on marketing as well as research into more advanced and specialized material functions, so as to open up and exploit new markets for higher grade products.

- ***Sales grow thanks to progress in development for FPD use***
- ***Production plant network covering Japan, Taiwan, and China facilitates reliable supply to customers***
- ***Creating and nurturing potential blockbuster products***

Production plant network covering Japan, Taiwan, and China facilitates reliable supply to customers

During the reporting term, our consolidated Chinese production subsidiary Zhangjiagang Toagosei Chemical began fullscale operations, which means that with our Nagoya Plant in Japan and Toa-Jet Chemical in Taiwan, we now have three functional materials production bases in East Asia. As far as sales are concerned, the steady upward trend in demand for our functional materials in East Asia, together with our establishment of a tripartite production network capable of ensuring a reliable supply, allowed us to expand sales overseas. As a result, sales of UV-curable resins by the Toagosei Group for the reporting period came to ¥11,842 million (up 13% over the previous year), while the operating income registered by this business came to ¥946 million, a dramatic increase of 126% over the previous term.

In the current term, we will be further expanding the production and sales activities of our tripartite system covering Japan, Taiwan and China, and will be putting particular emphasis on utilizing our Taiwan and China bases to develop the market for our functional materials on the Asian mainland.

In the UV Series, we are putting effort into developing new products in the field of FPDs, and are focusing on creating new products that will hopefully become our main earnings drivers in the category of UV-curable resins. Toagosei already enjoys the top market share in East Asia for this category of product. We are currently studying the feasibility of constructing another plant in one of the countries in the region, as a follow-up to our successful Chinese foothold.

Creating and nurturing potential blockbuster products

Toagosei has become a member of the Technology Research Association for Advanced Display Materials (TRADIM), which has been set up to develop a next-generation display for mobile communication handsets. In early spring of 2007, Project No. 1 (the basic research phase) was completed, and Toagosei contributed to the success of TRADIM’s research through the development of a number of important technologies. Following on from this, we are taking part in Project No. 2, which consists of developing practical applications, and we are confident of contributing much to the successful outcome of this project.

In other news, our unique new UV/EB-curable material *Oxetan* has received considerable praise for its safety, high curability, and other features, and we have commenced shipments to makers of paints for cans, ink for ink-jet printers, and ink used in printing on food wrappings. We have already acquired patent rights (both the basic patent and applications) in Japan, the United States, and Europe, and *Oxetan* has tremendous potential for future sales.

Plastics

Launch of high-performance new products planned in the fields of pipes and couplings, as well as nursing care
Simultaneously focusing on nurturing new businesses

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

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

Targets under the medium-term plan unlikely to be reached

Amid a general increase in raw material prices, our processed resin products (i.e. molded plastic products) business is experiencing a polarization of business fortunes. While sales of pipes and couplings for sewer system and water drainage use fell year-on-year in 2006, owing to weaker demand from the public sector, sales of products to the private sector followed a recovery trend. Total sales of these products in the term ended December 2006 were up 1.3% year-on-year, at ¥32,076 million. We were able to push through selling price raises on our mainline pipes and couplings, and sales in volume terms also rose slightly.

Sales of nursing care products and household articles held firm, while shipments of molded compound plastic products also held their ground, but overseas demand for elastomer compounds declined, resulting in a slight decline in total sales of compounds.

At the profit level, we raised our selling prices to pass on to our customers the price increases in raw materials, but were unable to raise our selling prices sufficiently to cover the higher raw material prices in their entirety. Overall, sales in volume terms also stagnated, leading to the posting of a decline in earnings.

• *Targets under the medium-term plan unlikely to be reached*

• *Progress toward achieving goals under medium-term plan*

• *Addressing five priority management issues*

Progress toward achieving goals under medium-term plan

Regarding efforts to attain the goals laid down under the medium-term plan, we have been focusing our efforts on five areas within our existing businesses, i.e. sewer products, electric power and telecommunications cable products, nursing care products, environmental preservation products, and elastomer compounds. We have been putting our utmost efforts into both the development of new products and the marketing of existing ones. Particularly in relation to the growing market for nursing care products, we are focusing on niche markets that are unlikely to be affected by legislative amendments, and are aiming to become a comprehensive maker of welfare-related products targeted at the whole elderly consumer generation.

We are carefully examining the feasibility of expansion into overseas markets with respect to our pipes and couplings. We are restricting consideration of new business ventures to two or three themes while continuing our surveys of potentially promising new markets and candidate technological "seeds" that could blossom into profitable new businesses. In addition, we have constructed three new distribution centers that will centralize all logistics and delivery operations to speed up delivery times and thereby raise customer satisfaction levels.

Addressing five priority management issues

Our efforts during the current term, the final year of our current medium-term management plan, will be focused on the following five priority issues.

1. Developing new products based on close observation of market needs in the above-mentioned five priority areas (while simultaneously taking steps to improve the cost-competitiveness of existing products)
2. Rigorously enforcing cost-cutting in all departments to improve earnings
3. Further reinforcing our quality management system to ensure that our products fully meet our customers' exacting quality standard requirements
4. Redesigning our organizational structure along more efficient lines to facilitate the speedy realization of profitable new businesses
5. Creating a new corporate culture through staff training and reeducation, and ensuring that our corporate culture is constantly renewed to meet the changing circumstances of the external environment

Through the uncompromising pursuit of these five objectives, we hope to make good progress toward meeting our original targets under the three-year plan.

Environmental Activities and Social Responsibility

In its current medium-term management plan started in fiscal 2005, the Toagosei Group clearly spelled out its policy of putting top management priority on environmental protection by defining as a priority task the reduction and reinforced management of the environmental load caused by the Group's business operations. At the same time, the management of the Group takes its corporate social responsibility very seriously. In line with this stance, we are strengthening our compliance system and also making renewed efforts to ensure that we pay due attention to the rights of the individual, and that we practice no discrimination on the grounds of gender, ethnicity, age, etc. in our staff promotion, compensation and hiring activities.

Responsible Care - the Fundamental Stance of the Toagosei Group

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

Environmental management by setting specific targets

The Toagosei Group has determined three priority issues within its overall environmental protection activities – promoting energy conservation, reducing the volume of industrial waste generated by the Group's operations while promoting reuse and recycling; and reducing emissions of substances harmful to the environment. Specific numerical targets are set every year, and all employees of the Group are working toward their attainment.

To realize a continuous cycle of improvement in our environmental management activities, we effectively employ the Deming Cycle with respect to our own environmental management systems, which are in conformity with the ISO 14001 international standards.

We adopted the environmental accounting system in fiscal 2000 to make our environmental preservation measures more widely known among our customers and stakeholders. This also allows us to obtain a more precise grasp of the cost-effectiveness of our environmental activities, enabling us to find ways of pursuing them more efficiently.

In addition, we are putting even more effort into a wide range of environmental and social contribution activities, including education for our staff in environmental matters, the development of environmentally friendly technologies, afforestation programs, and cleanup initiatives in the local communities where we operate.

Environmentally friendly technology

Development of electrolysis using gas diffusion electrodes

Caustic soda production is a classic example of an energy-intensive industry. Toagosei is taking part in a joint project to develop an electrolysis method using gas diffusion electrodes that could result in as much as a 40% saving in power consumed. The technology, using gas diffusion electrodes, is attracting considerable attention as an effective method of retarding the global warming process in line with the goals of the Kyoto Protocol. This technology is currently under joint development by caustic soda companies in Japan (including ourselves), and since 2005, we have conducting development work on the application of this technology at the commercial level at our Nagoya Plant.

Achievements in tackling priority issues

1	Energy conservation	In fiscal 2006, we reduced total energy consumption by 4.2% year-on-year, but energy intensity at our workplaces increased by 1.2% despite a 1% reduction target, partially due to a decline in production volume. Carbon dioxide emissions were cut by 7.7% year-on-year.
2	Reduction of industrial waste	The amount of industrial waste generated in fiscal 2006 decreased by 8.4% year-on-year, and thanks also to progress made in the reuse of resources, the volume of waste subject to final disposal declined by a sharp 60%, from 467 tons to 188 tons.
3	Cutting emissions of environmental load substances	As a result of mechanical problems with our pollutant removal facilities, emissions of certain substances covered by the PRTR Law increased from 44 tons in the previous year to 50 tons in fiscal 2006. We will implement more rigorous control of our pollutant removal facilities.

Corporate Social Responsibility and Compliance

Fulfilling our responsibilities to all our stakeholders

The Toagosei Group has issued to all its executives and employees the Group's Code of Conduct and the Manual of Behavioral Standards. We are also pursuing a compliance-focused style of management, centered on the Compliance Committee, which includes outside members. Additionally, to identify and remedy problems at an early stage, we have set up two whistleblower hotlines (one within the Company and one outside it operated by a legal firm) to enable staff to report on suspected illegal or unethical behavior by conventional mail, e-mail or telephone. Our most recent initiative in this field was the establishment in April 2006 of the Internal Control Section to perform the twin function of strengthening the Group's compliance and corporate governance.

Regarding respect for individual rights, particularly the avoidance of discrimination, in our hiring practices, we take great pains to ensure that hiring, job assignment, and pay & promotion are all conducted with full respect for fairness and the rights and dignity of the individual. In particular, we conduct education sessions targeting our male staff regarding the need to conform to the provisions of the Equal Employment Opportunities Law, and to ensure that no sexual harassment takes place within Group companies.

In our relationships with our customers, we take great care to observe the stipulations of the Personal Information Protection Law, which came into full effect in April 2005, and have drafted our own Personal Information Protection Policy.

We also take fully into consideration the legal and ethical requirements relating to consumer protection and product safety.

Other social contributions by the Group include providing support for local sports events near our plants, giving guided tours of our plants to local people, and participating in community events. In these and other ways, the Toagosei Group cultivates a harmonious and friendly relationship with the local communities of which it is a corporate member.

Board of Directors and Corporate Auditors

Shigehisa Hibino Katsutoshi Yamada Manabu Terao Bunshiro Fukuzawa Akihiko Yamadera Akio Arisawa Futoshi Hashimoto Jun Kuboyama

Chairman
Bunshiro Fukuzawa

President
Akihiko Yamadera

Directors
Manabu Terao
Akio Arisawa
Katsutoshi Yamada
Futoshi Hashimoto
Shigehisa Hibino
Jun Kuboyama

Senior Executive Officers
Yasushi Funaki
Toyohiko Kitano
Yoshinobu Yamashita
Hisanori Abe
Suemori Takashima

Executive Officers
Kunio Sato
Yasutaro Yasuda
Shigeo Suzuki
Masaharu Matsubara
Masakazu Ishii
Shinichiro Otani
Norihiko Ono
Shoji Kawamura
Kazuaki Nakagawa
Kazuo Kiyota
Akira Komine

Corporate Auditors
Hiroo Taki
(Standing)
Takeyoshi Ono
Shou Sato
Masao Numata
Fumihiro Hanada

(As of March 31, 2007)

Financial Section

Five-Year Selected Data

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen (except per-share data)				
	2006	2005	2004	2003	2002
For the fiscal year:					
Net sales	**¥155,804**	¥151,443	¥144,283	¥132,455	¥131,092
Income (loss) before income taxes and minority interests	**13,522**	16,846	10,321	6,125	1,198
Net income (loss)	**6,961**	12,131	8,996	1,719	(2,195)
Per-share data:					
Per share of common stock:					
Net income (loss)	**26.64**	46.31	34.38	6.57	(8.37)
Cash dividends applicable to the year	**7.50**	7.50	6.00	3.00	3.00
At year-end:					
Total assets	**195,607**	186,521	174,766	166,005	165,838
Net worth (Note)	**103,870**	99,501	83,513	74,476	71,648
Number of employees	**2,573**	2,523	2,597	2,735	2,792

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

Contents

Five-Year Selected Data 21
Management's Discussion & Analysis 22
Consolidated Balance Sheets 26
Consolidated Statements of Income 28
Consolidated Statement of Changes in Net Assets 29
Consolidated Statements of Cash Flows 31
Notes to Consolidated Financial Statements 32
Report of Independent Auditors 40

Management's Discussion & Analysis

Overview of Fiscal 2006

During the fiscal year under review, ended December 2006, the Japanese economy continued to stage a moderate recovery, driven by rising capital spending following an improvement in corporate earnings on the back of increased sales. Stronger personal spending in the first half of the year also contributed to the overall economy.

In the chemical industry, however, given the sustained rise in materials prices in line with the surge in oil and naphtha prices, business conditions remained difficult.

In this environment, the Group has taken the initiative in establishing a business base for the generation of steady revenues. In July 2006, it established the second production base for high-purity liquefied hydrogen chloride by our subsidiary Tsurumi Soda Co., Ltd., located on the premises of our Tokushima Plant. In October 2006, the Group spun off the polymer flocculants business to establish MT AquaPolymer, Inc., a consolidated subsidiary formed as a joint venture with Mitsui Chemical, Inc. Meanwhile, faced with sustained high prices of raw materials and fuels, the Group strove to adjust its product prices and to focus on bolstering productivity. But these initiatives failed to fully overcome the impact of a rise in costs. Moreover, market prices, particularly for acrylic acid ester, remained sluggish in East Asia in the first half of the year, reflecting the Group's stagnant earnings.

As a result, the Group recorded sales of ¥155,804 million on a consolidated basis for the reporting period, a rise of ¥4,360 million (US$36 million), or 2.9% from the previous year.

Operating income declined ¥2,285 million, or 15.0% from the previous year, to ¥12,950 million (US$108 million). (Recurring profit fell ¥2,980 million, or 18.0%, to ¥13,603 million.) Net income declined ¥5,170 million, or 42.6%, to ¥6,961 million (US$58 million).

Sales by Segment

Commodity Chemicals

Sales of caustic soda and inorganic high purity products rose from the previous year following the price increase to accommodate the surge in prices of raw materials and fuels.

Sales of inorganic chlorides rose from the previous year on buoyant shipments of hydrochloric acid and the rise in prices of a number of chloride products. This offset a decline in shipments of iron chloride solution following the withdrawal of a major consumer from the business.

Sales of chlorinated organic solvents declined slightly from the previous year due to a fall in demand both in Japan and overseas, and a slowdown in demand for vinyl chloride materials.

Sales of sulfuric acid rose from the previous year, reflecting brisk shipments.

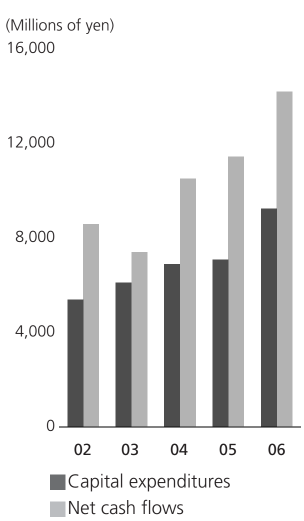
Sales of industrial gases also rose, albeit slightly. The key factor was again robust shipments.

As a result, total sales of the commodity chemicals segment amounted to ¥51,486 million, an increase of ¥3,594 million, or 7.5%, over the previous year.

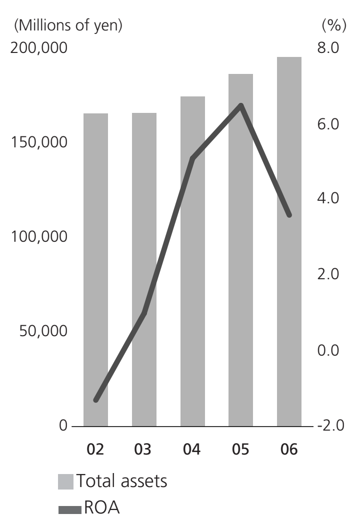
Acrylic Products

Sales of acrylic esters declined significantly from the previous year, despite steady shipments in the domestic market. The decline came as the price increase in the products could not offset the impact of higher costs following the surge in prices of raw materials and fuels.

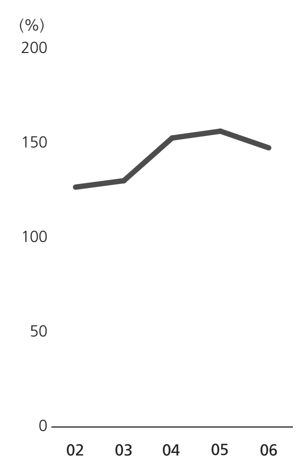
Capital expenditures & net cash flows



Total assets & ROA



Current ratio



Moreover, demand in East Asia, mainly China, remained sluggish in the first term of the year.

Sales of acrylic polymers rose strongly from the previous year reflecting the Group's focus on the sales expansion of new products.

Sales of products for the construction and civil engineering sectors rose by a small margin from the previous year with steady shipments of repair products for the civil engineering sector.

Sales of polymer flocculants surged with the establishment of MT AquaPolymer, Inc., a consolidated subsidiary, on October 1, 2006, following the integration of the polymer flocculants business of the Group.

As a result, total sales of the acrylic products segment registered a year-on-year decline of ¥1,995 million, or 4.4%, to ¥43,115 million.

Specialty Chemicals

Sales of adhesives for consumer-use in Japan were down from the previous year, the result of stagnant shipments. In contrast, sales of industrial adhesives in Japan rose, thanks to brisk shipments of hot-melt-type products and reactive adhesives. Overseas sales jumped significantly, following the inclusion of Toagosei (Zhuhai) Limited and Toagosei Hong Kong Limited among subsidiaries.

Sales of the acrylate oligomer Aronix rose sharply from the year-ago period, because of brisk shipments for the electronics materials industry, and the inclusion of TOA-DIC Zhangjiagang Chemical among subsidiaries.

Sales of products developed in house posted a significant year-on-year increase, thanks to brisk shipments of the silver-based antimicrobial agent Novaron.

As a result of the foregoing, total sales of the specialty chemicals segment rose ¥2,642 million year on year, or 11.8%, to ¥24,993 million.

Plastics

Sales of piping materials rose slightly over the previous period, attributable to partial success in raising product prices despite weak shipments associated with falling demand.

Sales of general consumer-use products posted a modest year-on-year gain, with strong shipments of nursing care products.

Sales of raw material compounds were down slightly from the previous year, as weak shipments of the compounds for manufacturers of food containers countered strong shipments for the production of molded plastics.

As a result, total sales of the plastics segment came to ¥32,076 million, a year-on-year increase of ¥421 million, or 1.3%.

Other Businesses

Sales of agrichemical-related products fell sharply from the previous year, following the business transfer carried out in September 2005.

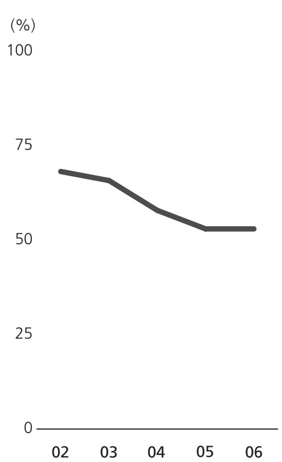
Revenues from facility construction and repair work rose year-on-year. Sales of transport services also increased from the previous year.

As a result, total sales of the other businesses segment came to ¥4,131 million, a year-on-year decline of ¥301 million, or 6.8%.

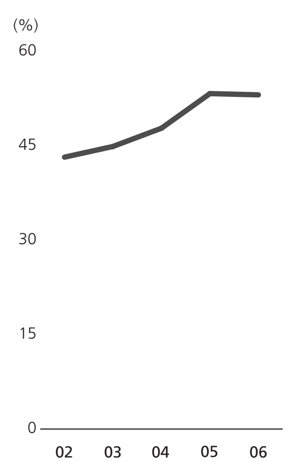
Cash Flows

Net cash provided by operating activities showed a year-on-year decrease of ¥6,780 million, to ¥11,600 million (US$97 million), reflecting primarily an increase in the payment of income tax in spite of a decline in income before income taxes. Expenditures for the fulfillment of guarantees also increased.

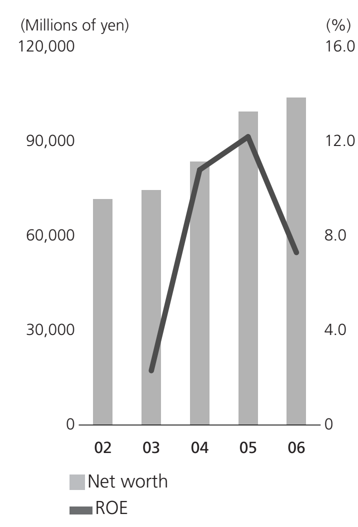
Ratio of property, plant & equipment to long-term capital



Net worth ratio



Net worth & ROE



Net cash used in investing activities rose ¥3,204 million year-on-year, to ¥10,093 million (US$84 million), reflecting an increase in expenditures for the acquisition of property, plant and equipment.

Net cash provided by financing activities was ¥583 million, thanks to a year-on-year increase in inflow of ¥11,294 million resulting from a rise in proceeds from the issuing of commercial paper, which offset outlays on bond redemptions.

Due to the widening of the scope of consolidation, cash and cash equivalents increased by ¥564 million during the term under review. As a result, the balance of cash and cash equivalents at the reporting-term end stood at ¥14,186 million, up ¥2,745 million from the previous term.

Business Performance Prospects for Fiscal 2007

We estimate sales of ¥164,000 million, recurring profit of ¥15,200 million and net income of ¥7,400 million on a consolidated basis for the current term, ending December 2007.

Cash Flow Prospects for Fiscal 2007

Net cash provided by operating activities is projected to reach ¥17,000 million, primarily attributable to an increase in income before income taxes.

Net cash used in investing activities is projected to be ¥12,000 million, reflecting a rise in expenditures for the acquisition of property, plant and equipment.

Net cash used in financing activities is projected at ¥5,000 million, mainly as a result of the Group's efforts to reduce interest-bearing debts.

(1) Cost competition

Products manufactured and sold by the Group include many products that are difficult to differentiate from other companies' products in terms of their nature and performance. There is consequently a possibility that, at a time of intensifying price competition, the Group may not maintain its edge over competitors that are able to sell products with the same qualities as those of the Group's products at lower prices, despite its efforts to strengthen marketing activities and reduce costs, and this could influence the business performance and financial position of the Group.

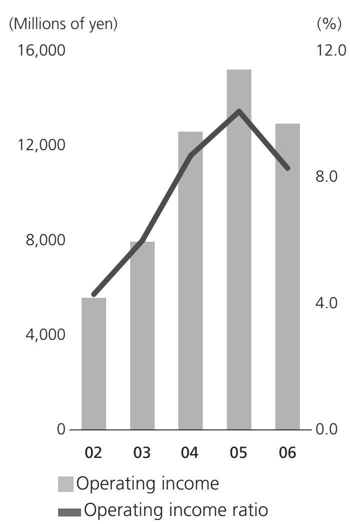
(2) Changes in the price of crude oil and naphtha

The purchase prices of the major raw materials of products manufactured and sold by the Group are affected by changes in crude oil and naphtha prices. Therefore, if product prices do not change sufficiently and if sufficient rationalization is not achieved to accommodate a change in crude oil and naphtha prices, there is a possibility that it will influence the business performance and financial position of the Group.

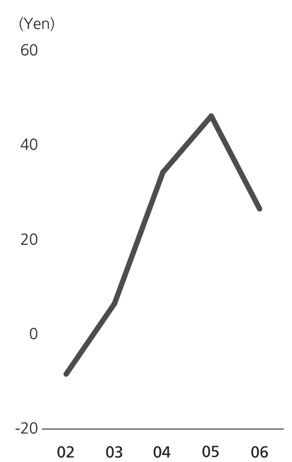
(3) Product liability

In spite of our efforts to ensure a high level of product quality, there is a possibility that, if a customer or a third party experiences losses as a result of an unexpected defect in products manufactured and sold by the Group, not all losses incurred will be covered by product liability insurance, thereby having an influence on the business performance and financial position of the Group.

Operating income & ratio as a percentage of net sales



Net income (loss) per share



(4) Earthquakes and other natural disasters

The production plants of the Group are located mostly in the Tokai Region of Japan. If a major earthquake were to occur in Tokai, substantial losses including the suspension of operations could result, and will influence the business performance and financial position of the Group.

(5) Major litigation

There are no lawsuits currently pending or in process. If a lawsuit is brought against the Group in the future concerning its business activities, there is a possibility that it will influence the business performance and financial position of the Group.

(6) Deferred tax assets

The deferred tax assets of the Group are based on an amount that is recorded after judging the potential for collection based on forecasts of future taxable income. If the forecast of future taxable income deviates from actual results, there is a possibility that it will influence the business performance and financial position of the Group.

(7) Changes in foreign currency exchange rates

For the reporting period, overseas sales of the Group accounted for 13.9% of total sales. The Group includes seven overseas consolidated subsidiaries and one overseas affiliated company subject to the equity method. There is therefore a possibility that a change in exchange rates will influence the business performance and financial position of the Group.

(8) Changes in interest rates

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

(9) Application of impairment accounting to fixed assets

The Group has applied the accounting standards for the impairment of fixed assets. Due to the application of these standards, there is a possibility that a significant change in the future market prices of land and business environments will influence the business performance and financial position of the Group.

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

Consolidated Balance Sheets

Toagosei Co., Ltd. and Consolidated Subsidiaries

December 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
Assets			
Current assets:			
Cash and cash equivalents	**¥ 14,186**	¥ 11,440	**$ 119,101**
Notes and accounts receivable	**49,214**	47,926	**413,188**
Inventories (Note 5)	**17,333**	14,377	**145,526**
Short-term loans receivable	**9,315**	8,993	**78,212**
Deferred tax assets (Note 10)	**603**	601	**5,063**
Other current assets	**2,704**	1,563	**17,419**
Allowance for doubtful receivables	**(3,165)**	(3,378)	**(26,575)**
Total current assets	**89,563**	81,524	**751,936**
Property, plant and equipment (Note 8):	**247,325**	244,189	**2,076,446**
Accumulated depreciation	**(174,427)**	(172,895)	**(1,464,426)**
Property, plant and equipment, net (Note 6)	**72,897**	71,294	**612,020**
Investments and other assets:			
Investment securities (Notes 4 and 8)	**26,816**	28,283	**225,138**
Long-term loans receivable	**227**	280	**1,910**
Intangible assets, net	**2,230**	1,004	**18,729**
Deferred tax assets (Note 10)	**262**	314	**2,201**
Other assets	**3,715**	3,929	**31,191**
Allowance for doubtful receivables	**(105)**	(109)	**(884)**
Total investments and other assets	**33,146**	33,703	**278,286**
Total assets	**¥195,607**	¥186,521	**$1,642,243**

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable	¥ 21,204	¥ 19,854	$ 178,020
Short-term bank loans (Note 8)	4,793	3,930	40,241
Current portion of long-term debt (Note 8)	9,582	6,892	80,446
Commercial paper	15,000	9,000	125,934
Deferred tax liabilities (Note 10)	3	0	29
Accrued income taxes	1,837	3,264	15,427
Reserve for loss on guarantees granted to the obligations of others	—	1,085	—
Other current liabilities	8,225	8,071	69,061
Total current liabilities	60,646	52,098	509,160
Long-term liabilities:			
Long-term debt (Note 8)	10,657	16,340	89,479
Deferred tax liabilities (Note 10)	3,623	2,658	30,422
Accrued retirement benefits for employees (Note 9)	1,151	1,842	9,666
Accrued retirement benefits for directors	153	309	1,289
Other long-term liabilities	2,461	3,460	20,669
Total long-term liabilities	18,048	24,611	151,527
Commitments and contingencies (Note 17)			
Net assets:			
Shareholders' equity (Notes 11, 16 and 20):			
Common stock, without par value:			
Authorized – 480,000,000 shares			
Issued:			
2006 – 263,992,598 shares	20,886	—	175,353
2005 – 263,992,598 shares	—	20,886	—
Capital surplus	15,069	15,063	126,516
Retained earnings	59,717	54,644	501,366
Treasury stock (Note15)	(624)	(550)	(5,246)
Total shareholders' equity	95,048	90,044	797,990
Valuation and translation adjustments:			
Unrealized holding gain on securities	8,418	9,697	70,681
Unrealized gain on hedging derivatives	8	—	69
Translation adjustments	395	(239)	3,318
Total valuation and translation adjustments	8,822	9,457	74,068
Minority interests	13,042	10,309	109,496
Total net assets	116,913	109,811	981,555
Total liabilities and net assets	¥195,607	¥186,521	$1,642,243

Consolidated Statements of Income

Toagosei Co., Ltd. and Consolidated Subsidiaries

December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Net sales	¥155,804	¥151,443	$1,308,070
Cost of sales	111,799	105,645	938,622
Gross profit	44,005	45,798	369,448
Selling, general and administrative expenses (Notes 9 and 12)	31,054	30,561	260,720
Operating income	12,950	15,236	108,728
Other income (expenses):			
Interest and dividend income	508	491	4,270
Interest expense	(363)	(384)	(3,053)
Equity in earnings of affiliates	583	439	4,895
Impairment loss on property, plant and equipment	(1,623)	(8)	(13,634)
Gain on change in equity ownership percentage	1,205	—	10,121
Gain on sales and disposal of property, plant and equipment	—	415	—
Provision of reserve for loss on guarantees granted to the obligations of others	—	(63)	—
Other, net	262	711	2,202
Income before income taxes and minority interests	13,522	16,846	113,529
Income taxes (Note 10):			
Current	3,923	4,952	32,942
Deferred	1,933	(914)	16,232
	5,857	4,037	49,174
Minority interests	(703)	(677)	(5,909)
Net income (Note 20)	¥ 6,961	¥ 12,131	$ 58,445

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Toagosei Co., Ltd. and Consolidated Subsidiaries

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

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

Consolidated Statement of Changes in Net Assets

Toagosei Co., Ltd. and Consolidated Subsidiaries

December 31, 2006	Thousands of U.S. dollars (Note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2005	$175,353	$126,463	$458,775	$(4,619)	$755,973
Cash dividends			(17,006)		(17,006)
Bonuses to directors			(245)		(245)
Net income			58,445		58,445
Purchases of treasury stock				(828)	(828)
Gain on sales of treasury stock		52		201	253
Increase in consolidated subsidiaries			1,397		1,397
Net changes in items other than shareholders' equity					
Balance at December 31, 2006	$175,353	$126,516	$501,366	$(5,246)	$797,990

December 31, 2006	Thousands of U.S. dollars (Note 3)					
	Valuation and translation adjustments					
	Unrealized holding gain on securities	Unrealized gain on hedging derivatives	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at December 31, 2005	$81,417	$—	$(2,014)	$79,403	$ 86,552	$921,929
Cash dividends					(1,438)	(18,445)
Bonuses to directors					(26)	(272)
Net income					5,909	64,355
Purchases of treasury stock						(828)
Gain on sales of treasury stock						253
Increase in consolidated subsidiaries					18,039	19,437
Net changes in items other than shareholders' equity	(10,736)	69	5,332	(5,334)	459	(4,875)
Balance at December 31, 2006	$70,681	$69	$ 3,318	$74,068	$109,496	$981,555

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toagosei Co., Ltd. and Consolidated Subsidiaries

December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Operating activities			
Income before income taxes and minority interests	¥13,522	¥16,846	$113,529
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	7,908	7,516	66,397
Impairment loss on property, plant and equipment	1,623	8	13,634
Decrease in provision for doubtful receivables	(222)	(749)	(1,866)
(Decrease) increase in provision of reserve for loss on guarantees granted to the obligations of others	(1,085)	63	(9,114)
Reversal of provision for retirement benefits	(747)	(530)	(6,273)
Increase (decrease) in other provisions	4	(8)	36
Interest and dividend income	(508)	(491)	(4,270)
Interest expense	363	384	3,053
Foreign currency exchange loss (gain)	556	(186)	4,671
Equity in earnings of affiliates	(583)	(439)	(4,895)
Gain on change in equity ownership percentage	(1,205)	—	(10,121)
Gain on sales of property, plant and equipment	—	(415)	—
Gain on sales of investments in securities	(617)	(14)	(5,186)
Loss on disposal of property, plant and equipment	496	998	4,166
Out-of-court settlement of accident claim	—	(200)	—
Decrease (increase) in receivables	651	(1,714)	5,466
Increase in inventories	(2,044)	(1,525)	(17,168)
(Decrease) increase in payables	(951)	755	(7,986)
Directors' bonuses paid	(32)	(24)	(271)
Other	357	1,259	3,002
subtotal	17,485	21,533	146,803
Interest and dividend received	972	491	8,161
Interest paid	(370)	(389)	(3,110)
Income taxes paid	(5,310)	(3,428)	(44,582)
Payment for guarantees of obligation	(1,173)	—	(9,881)
Settlement package received for accident	—	200	—
Cost related to accident restoration paid	—	(27)	—
Net cash provided by operating activities	11,600	18,380	97,390
Investing activities			
Purchases of time deposits	(1)	(28)	(10)
Proceeds from sales of marketable securities	—	140	—
Purchases of investments in securities	(922)	(63)	(7,741)
Proceeds from sales of investments in securities	713	33	5,991
Purchases of property, plant and equipment	(9,225)	(7,333)	(77,450)
Proceeds from sales of property, plant and equipment	117	438	984
(Increase) decrease in short-term loans	(332)	406	(2,787)
Long-term loans made	(27)	(118)	(226)
Collection of long-term loans	90	5	756
Proceeds from purchase of a newly consolidated subsidiary	272	—	2,285
Other, net	(779)	(368)	(6,546)
Net cash used in investing activities	(10,093)	(6,889)	(84,744)
Financing activities			
Increase in short-term bank loans	583	—	4,898
Increase (decrease) in commercial paper	6,000	(6,000)	50,373
Proceeds from long-term loans	3,300	—	27,705
Repayment of long-term loans	(1,892)	(2,545)	(15,885)
Redemption of bonds	(5,000)	—	(41,978)
Proceeds from sales of treasury stock	30	118	253
Purchases of treasury stock	(98)	(150)	(828)
Repayment of lease obligation	(146)	(154)	(1,231)
Cash dividends to shareholders	(2,192)	(1,979)	(18,408)
Net cash provided by (used in) financing activities	583	(10,711)	4,895
Effect of exchange rate changes on cash and cash equivalents	91	160	770
Net increase in cash and cash equivalents	2,181	940	18,331
Cash and cash equivalents at beginning of the year	11,400	10,500	96,052
Cash and cash equivalents of a newly consolidated subsidiary	564	—	4,737
Cash and cash equivalents at end of the year	¥14,186	¥11,440	$119,101

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toagosei Co., Ltd. and Consolidated Subsidiaries
December 31, 2006

1. Basis of Preparation

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

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

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

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

2. Summary of Significant Accounting Policies

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

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

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

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

(b) Foreign currency translation

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

(c) Cash equivalents

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

(d) Securities and investment securities

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

Contributions to investment business limited liability partnerships and similar partnerships are regarded as securities under the amended Securities and Exchange Law of Japan and practical guidance related to accounting for financial instruments revised as of February 15, 2005, and accordingly, contributions to investment business limited liability partnerships and similar partnerships are disclosed as investment securities.

(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 their residual value except for certain consolidated subsidiaries for which depreciation is calculated by the declining-balance method based on the estimated useful lives of the respective assets and their residual value.

(g) Accounting for impairment of property, plant and equipment

Effective the year ended December 31, 2005, the Company and its consolidated subsidiaries adopted an accounting standard entitled "Opinion Concerning the Establishment of an Accounting Standard for the Impairment of Fixed Assets" (Business Accounting Council, August 9, 2002) and "Guidance on Implementation of the Accounting Standard for the Impairment of Fixed Assets" (Accounting Standards Board of Japan Guidance No. 6, October 31, 2003). The standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company and consolidated subsidiaries are required to recognize an impairment loss in their statement of income if certain indicators of assets impairment exist and if the book value of an asset exceeds the undiscounted sum of its future cash flows.

(h) 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.

(i) Research and development costs

Research and development costs are charged to income when incurred.

(j) Leases

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

(k) 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 since 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 or loss of the Company is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the average remaining years of service of the eligible employees (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 eligible employees.

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

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

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

(l) Reserve for loss on guarantees granted to the obligations of others

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

(m) Derivative financial instruments

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

(n) 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 the resolution of the shareholders at a general meeting to be held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations. See Note 20 and 21.

(o) Accounting standard for directors' bonuses

The Company and its consolidated subsidiaries have adopted "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan Statement No. 4, November 29, 2005) effective the year ended December 31, 2006. As a result of this adoption, selling, general and administrative expenses increased by ¥26 million (U.S.$223 thousand) and operating income, ordinary income and income before income taxes and minority interests decreased by the same amount compared with the corresponding amounts which would have been recorded under the previous method.

(p) Accounting standard for presentation of net assets in balance sheet

Effective the year ended December 31, 2006, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended December 31, 2006, the Company and its domestic consolidated subsidiaries are required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of December 31, 2005 has been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended December 31, 2006. Total shareholders' equity under the previous method of presentation for the year ended December 31, 2006 amounted to ¥103,862 million (U.S.$871,989 thousand).

(q) Accounting standard for business combinations and divestitures

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

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is made at ¥119.11 = U.S.$1.00, the approximate exchange rate at December 31, 2006 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, 2006 and 2005, held-to-maturity securities for which market prices were available are summarized as follows:

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

	Thousands of U.S. dollars		
	December 31, 2006		
	Carrying value	Market value	Unrecognized gain
Unrecognized gain:			
Corporate bonds	$839	$849	$9
Total	$839	$849	$9

	Millions of yen		
	December 31, 2005		
	Carrying value	Market value	Unrecognized gain
Unrecognized gain items:			
Corporate bonds	¥100	¥102	¥2
Total	¥100	¥102	¥2

(b) Marketable securities classified as other securities as of December 31, 2006 and 2005 are summarized as follows:

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

	Thousands of U.S. dollars		
	December 31, 2006		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	$65,202	$185,740	$120,537
Other	429	1,010	581
Subtotal	65,631	186,750	121,119
Securities whose acquisition cost exceeds their carrying value:			
Stock	5,339	4,519	(819)
Total	$70,970	$190,270	$120,300

	Millions of yen		
	December 31, 2005		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥7,566	¥24,011	¥16,445
Other	51	78	27
Subtotal	7,617	24,090	16,472
Securities whose acquisition cost exceeds their carrying value:			
Stock	12	11	(0)
Total	¥7,629	¥24,102	¥16,472

(c) Sales of securities classified as other securities amounted to ¥713 million (U.S.$5,991 thousand) with gain of ¥617 million (U.S.$5,186 thousand) for the year ended December 31, 2006.

(d) Other securities without market value as of December 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Investments in subsidiaries and affiliates:			
Unconsolidated subsidiaries	¥2,186	¥2,291	$18,353
Other securities:			
Unlisted securities	1,177	1,193	9,887
Other	572	598	4,805

5. Inventories

Inventories at December 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Merchandise and finished products	¥10,934	¥ 9,343	$ 91,804
Semi-finished goods	920	720	7,729
Work in process	648	461	5,442
Raw materials and supplies	4,830	3,851	40,550
	¥17,333	¥14,377	$145,526

6. Property, Plant and Equipment

Property, plant and equipment at December 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Land	¥17,862	¥18,381	$149,968
Buildings and structures	23,401	23,683	196,465
Machinery, equipment and other	29,357	26,336	246,472
Construction in progress	2,276	2,892	19,114
	¥72,897	¥71,294	$616,020

7. Impairment Loss of Property, Plant and Equipment

The Company and its consolidated subsidiaries have recognized impairment losses on the following classes of assets for the years ended December 31, 2006 and 2005:

December 31, 2006

Location	Major use	Category	Millions of yen	Thousands of U.S. dollars
Tsukuba city, Ibaraki	Idle	Land and buildings	¥1,051	$ 8,824
Nagoya city, Aichi	Idle	Machinery and equipment	572	4,809
Total			¥1,623	$13,634

December 31, 2005

Location	Major use	Category	Millions of yen
Fukuchiyama city, Hiroshima	Idle	Buildings and structures	¥8

The Company and its consolidated subsidiaries have identified idle assets as one group for the purpose of accounting for impairment of property, plant and equipment on an individual basis.

When there is no specific plan for future use and the book value of such idle assets is less than their respective recoverable amounts, the book value of each idle asset is written down to its recoverable amount. The idle assets listed in the above tables were written down to their respective recoverable amounts and ¥1,623 million (U.S.$13,634 thousand) and ¥8 million of impairment loss were recognized in the statements of income for the years ended December 31, 2006 and 2005, respectively. These losses were reported as other expenses.

The impairment loss for the year ended December 31, 2006 consisted of ¥584 million (U.S.$4,906 thousand) for buildings, ¥528 million (U.S.$4,440 thousand) for machinery, ¥473 million (U.S.$3,975 thousand) for land and ¥37 million (U.S.$311 thousand) for other.

The impairment loss was measured based on the net sales prices of the idle assets as a basis for calculating their respective recoverable amounts. The net sales prices were determined based on a valuation of the assets in question using the valuation techniques of a real estate appraiser.

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

Short-term bank loans, principally unsecured, consisted of notes payable to banks bearing annual interest rates of 1.34% and 0.57% at December 31, 2006 and 2005, respectively.

Long-term debt at December 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
1.35% yen bonds due 2006	¥ —	¥ 5,000	$ —
Loans with collateral from banks, insurance companies and others, bearing annual interest rates of 1.21% and 1.61% for the current portion of long-term debt and long-term debt less current portion at December 31, 2006, respectively	20,239	18,232	169,925
	20,239	23,232	169,925
Less: current portion	(9,582)	(6,892)	(80,446)
	¥10,657	¥16,340	$89,479

Assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Property, plant and equipment, at net book value	¥25,343	¥26,009	$212,772
Marketable securities and investments securities	—	6,845	—
	¥25,343	¥32,855	$212,772

The aggregate annual maturities of long-term debt subsequent to December 31, 2006 are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 9,582	$ 80,446
2008	3,731	31,329
2009	1,866	15,672
2010	358	3,006
2011	3,658	30,711
2012 and thereafter	1,043	8,758
	¥20,239	$169,925

9. Retirement Benefit Plans

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

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of December 31, 2006 and 2005 related to the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥(17,654)	¥(18,018)	$(148,222)
Plan assets at fair value	17,568	17,079	147,497
Funded status	(86)	(938)	(724)
Unrecognized actuarial gain	(809)	(623)	(6,799)
Unrecognized prior service cost	(255)	(280)	(2,142)
Accrued retirement benefits	¥ (1,151)	¥ (1,842)	$ (9,666)

The components of net periodic retirement benefit expenses for the years ended December 31, 2006 and 2005 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥793	¥ 799	$6,665
Interest cost	334	336	2,808
Expected return on plan assets	(107)	(120)	(904)
Amortization of actuarial (gain) loss	(61)	236	(520)
Amortization of unrecognized prior service cost	(25)	(24)	(216)
Total	¥932	¥1,226	$7,832

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

	December 31,	
	2006	2005
Discount rates	Mainly 2.0%	Mainly 2.0%
Expected rate of return on plan assets	Mainly 0.75%	Mainly 0.75%

10. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on earnings, i.e. corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory tax rate of approximately 40.5 per cent for the years ended December 31, 2006 and 2005.

The effective tax rates reflected in the consolidated statement of income for the years ended December 31, 2006 and 2005 differ from the statutory tax rate for the following reasons:

	2006	2005
Statutory tax rate	40.5%	40.5%
Effect of:		
Permanent difference – entertainment expenses	1.3	1.1
Permanent difference – dividend income	(2.6)	(0.4)
Inhabitants' taxes per capita	0.6	0.4
Amortization of negative goodwill	(1.7)	—
Amortization of excess of cost over net assets acquired	—	(1.5)
Equity in loss of affiliates	(1.8)	(1.1)
Valuation allowance	5.2	4.3
Different tax rates applied to income of foreign consolidated subsidiaries	1.1	(2.2)
Loss on investment in consolidated subsidiaries	—	(14.7)
Other, net	0.7	(2.4)
Effective tax rates	43.3%	24.0%

Significant components of the deferred tax assets and liabilities held as of December 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Valuation loss on securities	¥ 1,593	¥ 4,439	$13,374
Elimination of unrealized profit	1,468	1,413	12,328
Accrued retirement benefits	2,268	2,645	19,041
Accrued enterprise tax	202	297	1,702
Allowance for doubtful receivables	1,279	1,991	10,471
Reserve for loss on guaranteed liabilities	—	440	—
Accrued bonuses	85	79	718
Net operating loss carryforwards	1,540	1,272	12,931
Other	1,439	499	12,085
Gross deferred tax assets	9,877	13,079	82,923
Valuation allowance	(4,952)	(4,270)	(41,581)
Total deferred tax assets	4,924	8,809	41,342
Deferred tax liabilities:			
Reserve under Special Taxation Measures Law	(399)	(2,426)	(3,355)
Undistributed earnings of overseas partnerships	(614)	(591)	(5,163)
Gain on contribution of securities to retirement benefit trust	(841)	(847)	(7,061)
Valuation difference on other securities	(5,819)	(6,681)	(48,859)
Other	(10)	(4)	(88)
Total deferred tax liabilities	(7,686)	(10,552)	(64,529)
Net deferred tax liabilities	¥ 2,761	¥ 1,743	$23,186

Local tax law of Japan were revised in March 2003 and a new taxation system went into effect under which a component of enterprise tax is charged based on certain factors other than income (such as amounts of value added and paid-up capital) from fiscal years ending on and after April 1, 2004. In addition, the Company and its domestic consolidated subsidiaries adopted the practical guideline No.12 issued by the Accounting Standards Board of Japan related to the presentation of enterprise tax charged on the basis of certain factors other than income in its statements of income and, accordingly, the portion of enterprise tax related to value added and paid-up capital was reported under selling, general and administrative expenses.

11. Capital Surplus and Retained Earnings

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met. The legal reserve amounted to ¥3,990 million (U.S.$33,498 thousand) and ¥3,990 million as of December 31, 2006 and 2005, respectively.

12. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended December 31, 2006 and 2005 were ¥5,010 million (U.S.$42,062 thousand) and ¥5,275 million, respectively.

13. Leases

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of leased property as of December 31, 2006 and 2005, 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
	2006	2005	2006
Acquisition cost:			
Machinery and equipment ...	¥1,044	¥1,177	$8,769
	¥1,044	¥1,177	$8,769
Accumulated depreciation:			
Machinery and equipment ...	¥ 598	¥ 832	$5,024
	¥ 598	¥ 832	$5,024
Net book value:			
Machinery and equipment ...	¥ 446	¥ 344	$3,746
	¥ 446	¥ 344	$3,746

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥189 million (U.S.$1,593 thousand) and ¥244 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, 2006 and 2005, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to December 31, 2006 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
2007	¥238	¥165	$2,004	$1,393
2008 and thereafter	495	280	4,162	2,352
Total.............................	¥734	¥446	$6,166	$3,746

14. Derivative Transactions

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

The Company is exposed to credit loss in the event of nonperformance by the counterparties to the derivative financial instruments, but any such loss would not be material because the Company enters into transactions only with financial institutions with high credit ratings. The notional amounts of the derivative financial instruments do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's risk exposure in connection with derivative financial instruments. The disclosure of fair value information for derivatives as of December 31, 2006 and 2005 has been omitted since all derivatives have been accounted for as hedges.

15. Treasury Stock

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

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

16. Cash Dividends

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

Year ended December 31, 2006		Millions of yen	Thousands of U.S. dollars
Resolution	Type of shares	Gross amount	Gross amount
March 30, 2006 93rd Annual Shareholders' Meeting	Common stock	¥1,045	$8,777
August 4, 2006 Board of Directors	Common stock	¥ 980	$8,229

Year ended December 31, 2006	Yen	U.S. dollars		
Resolution	Per share	Per share	Record date	Effective date
March 30, 2006 93rd Annual Shareholders' Meeting	¥4.00	$0.033	December 31, 2005	March 31, 2006
August 4, 2006 Board of Directors	¥3.75	$0.031	June 30, 2006	September 6, 2006

Dividends whose record date was in the year ended December 31, 2006 but whose effective date was in the year ending December 31, 2007 were as follows:

Year ended December 31, 2006		Millions of yen	Thousands of U.S. dollars	
Resolution	Type of shares	Gross amount	Gross amount	Resource
March 29, 2007 94th Annual Shareholders' Meeting	Common stock	¥979	$8,225	Retained earnings

Year ended December 31, 2006	Yen	U.S. dollars		
Resolution	Per share	Per share	Record date	Effective date
March 29, 2007 94th Annual Shareholders' Meeting	¥3.75	$0.031	December 31, 2006	March 30, 2007

17. Commitments and Contingencies

At December 31, 2006 and 2005, the Company and consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Guarantees of indebtedness....	¥822	¥1,885	$6,907
	¥822	¥1,885	$6,907

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.

18. Business Combination

Purchase method

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

Because net assets of MTAP was lower than the fair value of MTAP, the Company recognized a difference of ¥1,620 million (U.S.$13,608 thousand) as goodwill. This goodwill is being amortized by the straight-line method over a period of five years.

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

	Millions of yen	Thousands of U.S. dollars
Assets of the polymer flocculant business of the Company	¥3,135	$26,324
Liabilities of the polymer flocculant business of the Company	(655)	(5,505)
Costs directly incurred in acquiring shares of common stock	35	293
Acquisition cost of MTAP shares	¥2,514	$21,113

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥2,423	$20,346
Fixed assets	783	6,577
Total assets	¥3,206	$26,923
Current liabilities	¥1,501	$12,607
Long-term liabilities	68	574
Total liabilities	¥1,570	$13,182

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

	Millions of yen	Thousands of U.S. dollars
Sales and income information:	(Unaudited)	
Net sales	¥4,174	$35,049
Operating income	528	4,441
Ordinary income	527	4,429
Income before income taxes and minority interests	598	5,021
Net income	175	1,476
Net income per share (in full yen or U.S. dollars)	0.67	0.00

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

19. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in the chemical industry segment in Japan. As net sales, operating income and total assets of the chemical business of the Company and its consolidated subsidiaries constituted more than 90% of the consolidated totals for both years ended December 31, 2006 and 2005, the disclosure of business segment information has been omitted.

Geographical Segments

Geographical segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2006 and 2005 are summarized as follows:

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

	Thousands of U.S. dollars			
Year ended December 31, 2006	Japan	Other countries	Eliminations or corporate	Consolidated
Sales:				
Sales to third parties	$1,206,615	$101,454	$ —	$1,308,070
Intersegment sales	20,721	33,665	(54,387)	—
Net sales	1,227,337	136,120	(54,387)	1,308,070
Operating costs and expenses	1,113,196	140,341	(54,196)	1,199,342
Operating income (loss)	$ 114,140	$ (5,221)	$ (191)	$ 108,728
Total assets	$1,573,172	$ 93,137	$(24,066)	$1,642,243

	Millions of yen			
Year ended December 31, 2005	Japan	Other countries	Eliminations or corporate	Consolidated
Sales:				
Sales to third parties	¥137,499	¥13,944	¥ —	¥151,443
Intersegment sales	2,371	3,303	(5,674)	—
Net sales	139,870	17,248	(5,674)	151,443
Operating costs and expenses	127,167	14,504	(5,465)	136,206
Operating income (loss)	¥ 12,702	¥ 2,743	¥ (209)	¥ 15,236
Total assets	¥178,892	¥10,709	¥(3,080)	¥186,521

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, 2006 and 2005 are summarized as follows:

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

	Millions of yen				
Year ended December 31, 2006	Asia	North America	Europe	Other	Total
Overseas sales	$113,502	$30,457	$20,735	$17,236	$ 181,930
Consolidated net sales............					1,307,070
Percentage of overseas sales to consolidated net sales...........	8.7%	2.3%	1.6%	1.3%	13.9%

	Millions of yen				
Year ended December 31, 2005	Asia	North America	Europe	Other	Total
Overseas sales	¥16,206	¥3,427	¥1,703	¥637	¥ 21,975
Consolidated net sales............					151,443
Percentage of overseas sales to consolidated net sales...........	10.7%	2.3%	1.1%	1.4%	14.5%

20. Amounts Per Share

The following table sets forth net income, cash dividends and net assets per share of common stock for the years ended December 31, 2006 and 2005:

	Yen		U.S. dollars
December 31	**2006**	2005	**2006**
Net income:			
Basic	**¥ 26.64**	¥ 46.31	**$0.22**
Diluted..............................	**26.63**	46.29	**0.22**
Cash dividends	**7.50**	7.50	**0.06**
Net assets	**397.56**	380.59	**3.34**

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

21. Subsequent Event

Cash dividends

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2006, was approved at a shareholders' meeting held on March 29, 2007:

	Millions of yen	Thousands of U.S. dollars
Cash dividends - ¥3.75 (U.S.$0.031) per share	¥979	$8,225

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, 2006 and 2005, and the related consolidated statements of income and cash flows for the years then ended, and the related statement of changes in net assets for the year ended December 31, 2006, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

March 29, 2007

Corporate Data

Organization (As of April 1, 2007)

- General Meeting of Shareholders
  - Board of Directors
    - Chairman
    - President
      - Internal Control Section

Corporate Management

- **Corporate Strategy Department**
  - Planning Group
  - Secretariat Group
- **Corporate Research and Development Department**
  - New Technologies Development Group
  - Intellectual Property Group
  - Research Assessment Group
  - Nagoya Research Institute
  - Institute for Advanced Sciences
- **Administrative Department**
  - Personnel & General Affairs Group
  - Investor Relations & Public Relations Section
  - Finance Group
  - Information System Group
- **Supply Chain Management Department**
  - Purchasing Group
  - Logistics Group
  - Sales Administrative Group
  - SCM Center
  - Satellite Marketing Group
- **Technology Administrative Department**
  - Technology Administrative Group
  - Environment & Safety Group
  - Quality Assurance Group
  - Productive Technology Laboratory
  - Technical Training Center

Operations Management

- **Commodity Chemicals Department**
  - Chlorine & Alkali Products Group
  - Sulfuric Acid & Agricultural Chemicals Group
  - Specialty Inorganic Products Group
  - Commodity Chemicals Laboratory
- **Acrylic Products Department**
  - Acrylic Products Group
  - Construction Products Group
  - Macromolecular Material Research Laboratory
  - Kawasaki Plant
- **Functional Materials Department**
  - Adhesives Group
  - Products Development Group
  - UV Curable Resins Group
  - Functional Materials Laboratory
- **New Materials Development Department**
  - Inorganic Functional Materials Group
  - Electronics Group
  - New Materials Laboratory
- **Tokyo Sales Department**
  - Commodity Chemicals Group
  - Acrylic Products Group
  - Functional Materials Group
  - New Materials Development Group
  - Sapporo Sales Office
- **Osaka Branch**
  - General Affairs Group
  - Commodity Chemicals Group
  - Acrylics & Functional Materials Group
  - Shikoku Sales Office
  - Fukuoka Sales Office
- **Nagoya Branch**
  - General Affairs Group
  - Commodity Chemicals Group
  - Acrylics & Functional Materials Group
  - Hokuriku Sales Office
- **Nagoya Plant**
  - Administrative Department
  - Manufacturing Department I
  - Manufacturing Department II
- **Tokushima Plant**
  - Administrative Department
  - Manufacturing Department
  - Sakaide Plant
- **Takaoka Plant**
  - Quality Assurance Section
  - Environment & Safety Section
  - Office Management Group
  - Material Operation Group
  - Manufacturing Section I
  - Manufacturing Section
  - Productive Technology Group

Directory

Domestic Network

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

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

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

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

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

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

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

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

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

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

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

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

Principal Overseas Subsidiaries

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

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

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

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

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

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

Principal Subsidiaries and Affiliates (As of December 31, 2006)

Name of Company	Lines of Business	Our Share (%)	Capital (¥ in millions)
Aron Kasei Co., Ltd.	Manufacture & sale of synthetic resin molded products	61.1	¥4,220
Tsurumi Soda Co., Ltd.	Manufacture & sale of chemical products	100.0	¥2,080
Aron Ever-Grip Ltd.	Manufacture & sale of adhesives	100.0	£223,000
Oita Chemical Co., Ltd.	Manufacture of chemical products	90.0	¥450
Toagosei America Inc.	Manufacture & sale of chemical products; technological research	100.0	US$6,100,000
Nihon Junyaku Co., Ltd.	Manufacture & sale of chemical products	100.0	¥351
TG Corporation	Sale of chemical products	100.0	¥174
Toa Logistics Co., Ltd.	Product distribution	100.0	¥16
TOA Engineering Co., Ltd.	Construction & repair of chemical facilities	100.0	¥50
Toa Techno-Gas Co., Ltd.	Manufacture & sale of industrial gases	100.0	¥400
Toa 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
TOA-DIC Zhangjiagang Chemical Co.,Ltd.	Manufacture & sale of chemical products	60.0	US$5,600,000
Toagosei Hong Kong Limited	Sale of chemical products	100.0	HK$10,988,000
Toagosei (Zhuhai) Limited	Manufacture of adhesives	100.0	HK$9,188,000
MT AquaPolymer,Inc.	Manufacture & sale of chemical products	51.0	¥460
Chubu Ekisan Co., Ltd. (Note)	Manufacture & sale of industrial gases	30.0	¥480
Elmer's & Toagosei Co. (Note)	Sale of adhesives	50.0	US$34,405,000

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: 28,211

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

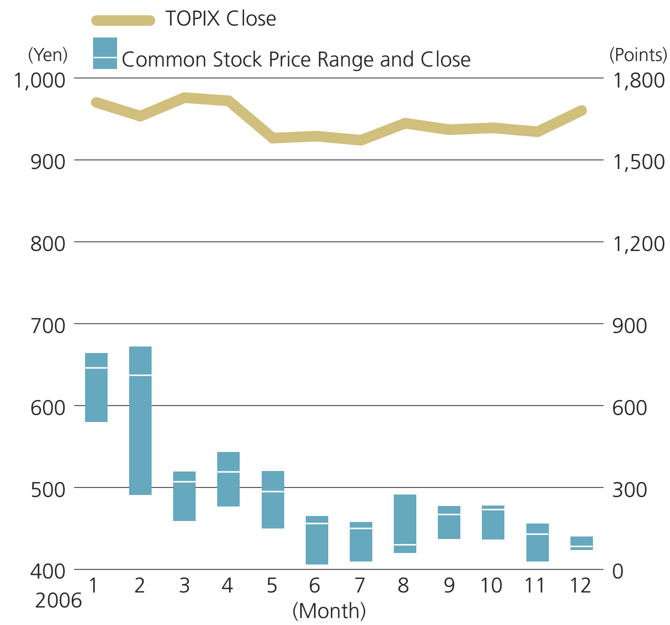
	(%)
The Master Trust Bank of Japan, Ltd. (Trust account)	5.67
Japan Trustee Services Bank, Ltd. (Trust account)	5.32
Sumitomo Mitsui Banking Corp.	4.45
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4.32
Business Partner Shareholders' Committee	2.16
Aioi Insurance Co., Ltd.	2.12
Employee Shareholders' Committee	2.07
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2.03
Mitsui Life Insurance Co. Ltd.	1.78
The Norinchukin Bank	1.51

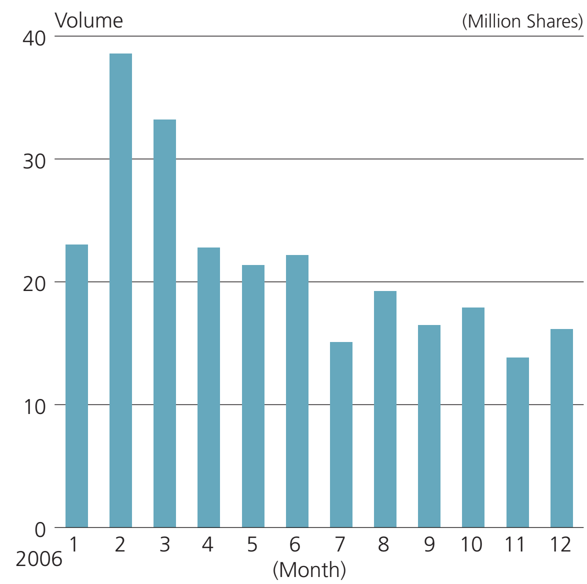
(As of December 31, 2006)

Stock Price Range & Trading Volume

(Tokyo Stock Exchange)

	2002	2003	2004	2005	2006
High	¥210	¥231	¥365	¥680	¥672
Low	¥121	¥133	¥197	¥344	¥406
TOPIX Close (Year-end)	843	1,043	1,149	1,649	1,681





TOAGOSEI

1-14-1 Nishi-Shimbashi, Minato-ku,
Tokyo 105-8419, Japan
Tel: 03-3597-7215
Fax: 03-3597-7217
http://www.toagosei.co.jp/

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