TOAGOSEI

Further growth through collaborative expertise

Annual Report 2012

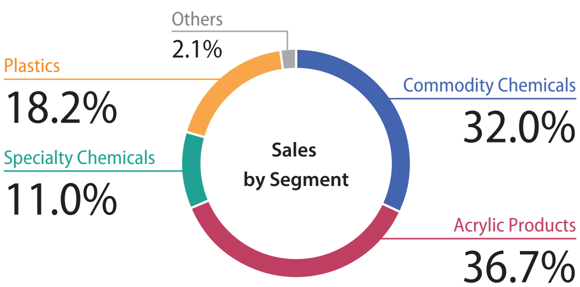
Profile

Since its establishment on March 31, 1942, Toagosei Co., Ltd. has continued to grow along with the whole chemical sector in Japan. Including the parent, Toagosei, the Group comprises 37 companies, engaged in four principal business domains, Commodity Chemicals, Acrylic Products, Specialty Chemicals and Plastics, each of which leverages its unique strengths to push out the frontiers in technological and product development.

As of December 2012, the Group's sales came to ¥148.2 billion and its workforce totaled 2,509, both on a consolidated basis.

Under its slogan "Sharing more happiness with more people through the chemical business," the Group manufactures and markets high value-added products on a global scale, from bases in Japan, Singapore, China, Taiwan, South Korea and the United States.

Sales by Segment & Segment income in 2012



(Millions of yen)

Segment	Sales	Segment income
Commodity Chemicals	47,435	4,413
Acrylic Products	54,354	5,764
Specialty Chemicals	16,350	3,011
Plastics	26,978	1,279
Others	3,084	30

Net sales by Region


Nagoya Plant

Japan*

Toagosei Co., Ltd.
Head Office / Osaka Branch / Nagoya Branch / Shikoku Sales Office / Fukuoka Sales Office / Nagoya Plant / Yokohama Plant / Takaoka Plant / Tokushima Plant / Sakaide Plant / Kawasaki Plant / Hirono Plant / General Center of Research & Development / Institute for Advanced Sciences

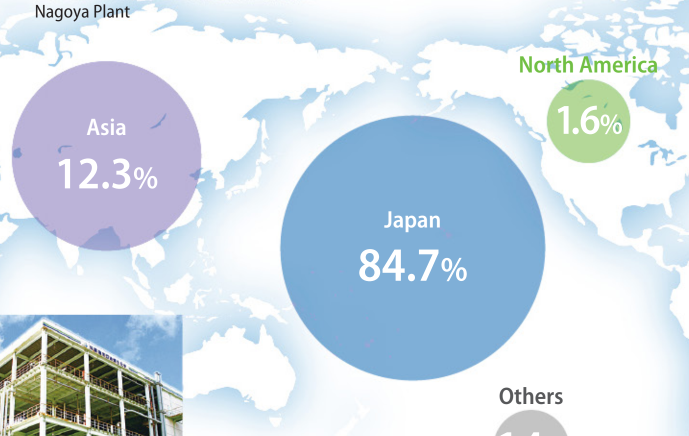
Asia

Singapore
Toagosei Singapore Pte Ltd.

China
Toagosei Hong Kong Limited
Toagosei (Zhuhai) Limited
TOA-DIC Zhangjiagang Chemical Co., Ltd.

Taiwan
Taiwan Toagosei Co., Ltd.
Toa-Jet Chemical Co., Ltd.

Korea
Toagosei Korea Co., Ltd.



Toagosei America Inc.

USA

Toagosei America Inc.
Elmer's & Toagosei Co.


Toagosei Singapore Pte Ltd.


TOA-DIC Zhangjiagang Chemical Co., Ltd.

* Please refer to P52 for Principal Subsidiaries and Affiliates.

Contents

Futoshi Hashimoto, *President*

Commodity Chemicals P2, P10

Acrylic Products P3, P12

Specialty Chemicals P4, P14

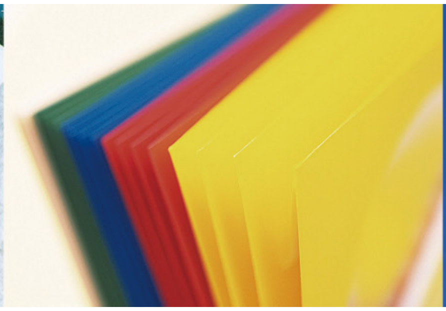
Plastics P5, P18

The catch phrase on the cover, "Further growth through collaborative expertise" expresses the core concept behind our medium-term management plan for fiscal 2011 – 2013.
It was printed using ink made from our popular UV-curable acrylic product *Aronix*.

Commodity Chemicals

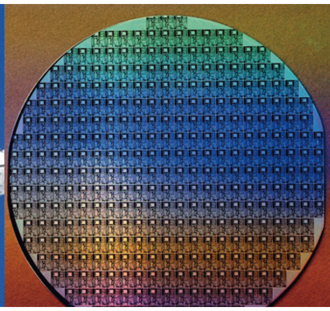
P10

Products created by electrolysis of salt water



Caustic soda is used in papermaking

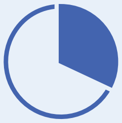
Sodium hypochlorite



High-purity products

In our commodity chemicals business, which boasts the longest history of all operations in the Toagosei Group, we produce caustic soda and chlorine through electrolysis of salt water. Chlorine is then combined with other elements to produce a variety of inorganic chemical products such as chlorides, which form many basic industrial raw materials. We also manufacture high-purity inorganic chemical products, which are employed in the production of such leading-edge industrial products as semiconductors and liquid crystals. In this way, we work to develop new products that match society's ever-evolving needs.

Sales by Segment



32.0%

Chlor-alkali

- Caustic soda

  Has a wide variety of industrial uses, notably in the pulping and bleaching of wood chips during pulp production, and the production of chemicals

- Hydrochloric acid

  We combine chlorine and hydrogen produced through electrolysis to manufacture hydrochloric acid. Toagosei leads Japanese industry in terms of volume produced, and our products are used in the manufacture of seasonings, pharmaceuticals, and a wide range of chemicals.

- Sodium hypochlorite

  Sodium hypochlorite, used for disinfection of water, is in growing demand from makers of high-grade disinfecting agents used in water supply systems, and we are steadily increasing our production capacity.

Sulfuric acid

Used in the production of fertilizers, synthetic fibers, and inorganic chemicals

High-purity inorganic chemicals

- High-purity liquefied hydrogen chloride

  This is an essential agent in the semiconductor production process, and is used in such leading-edge manufacturing industries as electronics, pharmaceuticals, and LCDs. Being the sole manufacturer of this agent in Japan, Toagosei enjoys a world-class reputation for product quality because of its comprehensive management services, encompassing the provision and maintenance of containers.

Industrial gases

- Oxygen
- Nitrogen
- Argon

We handle oxygen, nitrogen, argon, and many other industrial-use gases, meeting the needs of a diverse range of users from key industries to cutting-edge enterprises.

Acrylic Products

P12

Acrylic ester is used to manufacture paint

Acrylic ester is a raw material for adhesives

Polymer flocculants, *Aronfloc*

Special acrylic monomers and oligomers, *Aronix* is used for mobile devices

The acrylic products business is one of the core operations of the Toagosei Group, and Group enterprises within Japan and overseas are working together to strengthen our business base in this field. Our aim is to expand our operations in acrylic derivatives—the downstream portion of our acrylic chain—while also strengthening our business base in the Group's acrylic monomer operations, which is the initiation point of the chain, by enabling the production of cost-competitive derivatives. We boast one of the world's highest levels of technological expertise in the field of UV-curable resins, and our products are being manufactured in Japan, Taiwan, and China and marketed all around the globe under the brand name *Aronix*.

Acrylic monomers

Acrylic acid—the starting point for our acrylic chain—is produced by Oita Chemical Co., Ltd., while acrylic ester is manufactured at our Nagoya plant as well as by Toagosei Singapore PTE Ltd. Acrylic acid is used in the manufacture of acrylic polymers, polymer flocculants, and UV-curable resins, among others, while acrylic ester constitutes the raw material for various acrylic polymers, as well as textiles, paints, and adhesives.

Acrylic polymers

Our acrylic polymers make use of the desirable characteristics of acrylic acid and acrylic ester, and are employed in the manufacture of dispersants and thickeners, adhesives, binders, coatings, and raw materials for pharmaceuticals and cosmetics, as well as in toiletries and various other fields.

Polymer flocculants

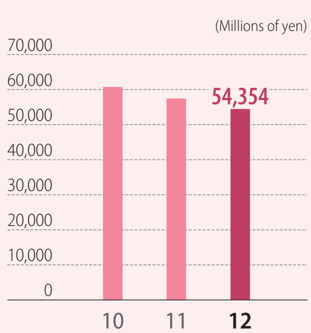
Group member MT AquaPolymer, Inc. employs a high-precision polymer technology base built up over more thirty years to produce high-quality polymer flocculants, and also provides technical services to meet a highly diverse range of needs in the areas of wastewater treatment and sludge purification.

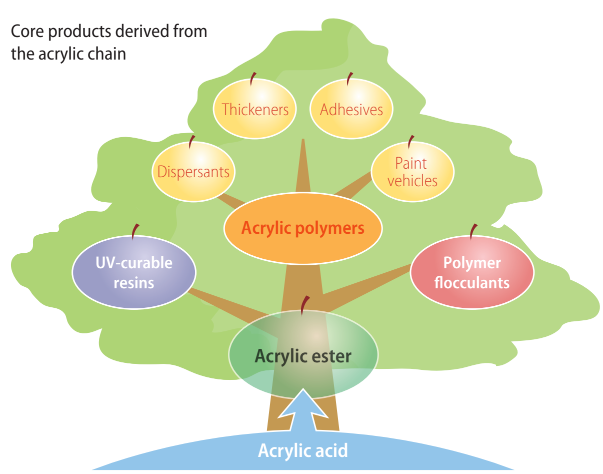
UV-Curable resins

The Toagosei Group manufactures and markets special acrylic monomers and oligomers under the brand name *Aronix*. These products can be cured in a short time by exposure to light, principally ultraviolet radiation.

Sales by Segment

36.7%





Specialty Chemicals

P14

Instant adhesive *Krazy Glue*

Adhesive used on IC cards


Exterior wall tile waterproofing


Novaron for clean and comfortable living

Functional Chemicals

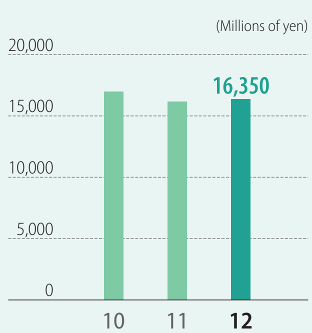
We manufacture a wide range of adhesives offering unique features and developed by our proprietary technologies. In addition to instant glues, we offer hot melt, light curable, and reactive adhesives, meeting user needs in the electronics and automotive industries, and many other fields. Our environment-friendly products for architectural and civil engineering use help improve the longevity of buildings and other structures.

Advanced Chemicals

Our amenity care materials feature a variety of functions, including superior heat resistance and safety, in order to support people's comfortable daily lifestyles. We have also developed a next-generation series of hybrid electronics materials with high functionality and high purity, and offer customized solutions to suit each user's needs.

Sales by Segment

11.0%



Functional Chemicals

Adhesives

- Instant adhesive *Aron Alpha*

  Aron Alpha is an instant adhesive whose main ingredient is alpha cyanoacrylate. It reacts with moisture in the air and cures in a few seconds, boasting excellent workability and high adhesive strength. We offer a wide range of types featuring different viscosity levels, from low-viscosity to gel-type products, as well as those with special functions such as heat resistance or impact resistance.

- Functional adhesive *Aron Mighty*

  The *Aron Mighty* series consists of highly functional and reactive adhesives. We offer distinct grades including epoxy, urethane, nylon, and acrylic systems, used in diverse fields such as electronic materials and automobiles.

Products for construction and civil engineering

We offer a full range of products and services to extend the useful life of buildings, centered on acrylic rubber waterproof coating materials such as rooftop waterproof coatings and exterior wall tile waterproof finishing materials.

Advanced Chemicals

Amenity care materials

- Silver-based inorganic antimicrobial agent *Novaron*

  With its uniform fine particles and superior heat resistance, *Novaron* can be easily mixed into textiles, films, and molded plastic products, and easily dispersed in paints.

- Inorganic-organic hybrid antifungal agent *Cavinon*

  Effective against a wide range of fungi, *Cavinon* features superior heat resistance, weatherability and durability. Consequently, *Cavinon* can be used in a broad array of applications that include mixing into plastics and fibers.

Electronics materials

- Ethylene carbonate

  This offers superior solvency and is one of the main raw materials in the manufacture of electrolytic solutions used in lithium ion secondary batteries. Demand is projected to expand worldwide along with the growing number of personal computers, cell phones, and electric vehicles.

Plastics

P18

PVC small-diameter chambers, manholes, and rigid PVC pipes

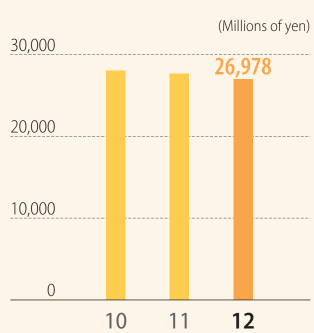
Nursing care products

AR Elastomers are highly-functional thermoplastic elastomers

In 1951, Aronkasei Co., Ltd. became the first Japanese enterprise to launch rigid PVC piping products on the market, under the brand name *Aron Pipe*. Since then, Aron Kasei has leveraged its original *monodukuri* (excellence in manufacturing) capabilities to meet society's needs, responding to new developments from one generation to the next. In addition to the plastics processing technologies we have developed and perfected over many years, we also deploy our staff's expertise in the properties of materials, as well as their know-how required for the practical commercialization of products, enabling the Company to make important contributions to society in a wide field from daily life through infrastructure construction and maintenance to urban development.

Sales by Segment

18.2%



Pipes & couplings

Aronkasei's Piping Materials Business has grown in parallel with the popularization of vinyl chloride piping, and we have built up an extensive track record over more than half a century. Our small-diameter vinyl chloride chambers and manholes, developed from the seeds of original ideas, have greatly contributed to the expansion of Japan's sewerage network. We have also developed small-diameter chambers and manholes for rainwater drainage. We now offer piping systems that provide effective removal of sewage and rainwater runoff covering all applications from single-family houses through condominiums and apartment buildings to large-scale facilities, as well as the construction and maintenance of full-scale sewers.

Nursing care products

Against the backdrop of a rapidly aging population, Aron Kasei manufactures and sells a variety of products for use in nursing care and human services situations. These products, based on the concept of "caring for people," are designed to be safe, easy to use, and multifunctional. They include portable toilets, seats for use in bathrooms and other nursing care bathroom products, handrails and other home improvement goods, and products to help elderly people get about more easily, such as walkers and walking sticks.

Elastomers

Our AR Elastomer series are styrene thermoplastic elastomer compounds that have an elasticity close to that of rubber but can be molded as easily as general plastics and are thus suitable for injection molding, extrusion molding, and film molding. They can also be customized with a variety of value-added properties such as flame-retarding and vibration-suppressing capabilities.

Monodukuri Center

Interview with the President

Futoshi Hashimoto

President
Futoshi Hashimoto

Market environment in 2012 and business performance

Conditions were difficult for the Japanese economy during 2012. Export demand slumped as a result of the ongoing stagnation of the European economies as well as an economic slowdown in Asian countries, notably China. Meanwhile, the demand-stimulation effect of recovery programs in the wake of the March 2011 Tohoku earthquake and tsunami lacked sufficient vigor to kick-start the economy, the yen remained strong on the foreign exchange markets, and electric utility rates rose.

Amid this environment, we at the Toagosei Group worked to expand sales of high value added products and develop new markets for them, and we also took strict steps to reduce costs and effect product price raises to correspond with higher prices of fuel and raw materials. Despite our efforts, however, the Group's earnings continued to be impacted by the weakness of both domestic and overseas markets resulting from a deterioration in the balance of supply and demand.

Issues to be addressed during FY2013, the final year of the Group's current medium-term management plan

Under our current medium-term management plan, dubbed ALL TOA 2013, we have set out three growth strategies: "expanding earnings from core products," "accelerating growth in scale of high value-added products," and "creating new products and new businesses." Fiscal 2013, which is the final year under this plan, will be a crucial period for the steady implementation of these three growth strategies so as to pave the way to the next stage. In January 2013, our two subsidiaries Tsurumi Soda Co., Ltd. and Nihon Junyaku Co., Ltd., which have hitherto manufactured unique products in the Commodity Chemicals and Acrylic Products segments, respectively, were absorbed by Toagosei. Operations got off to a new start at their respective former plants in Yokohama and Hirono, under direct management by Toagosei. Not only is this change expected to help us realize faster and more efficient management of the Group, it has also strengthened our cost-competitiveness and created an organizational structure that maximizes synergy in the field of product development.

The descriptions of our growth strategies provided on page 8 include clear explanations of the targets we aim to achieve. We at the Toagosei Group will continue working as one to achieve our goals and raise the Group's enterprise value.

▲ **Aerial view of Toagosei's Yokohama Plant (former Tsurumi Soda Plant)**

- Manufactures caustic soda and sodium hypochlorite, as well as products essential for the lifeline infrastructure of the Greater Tokyo area
- Develops unique products employing proprietary technologies for the manufacture of high-purity chloralkali products such as high-purity liquefied hydrogen chloride

▲ **Front view of Toagosei's Hirono Plant (former Nihon Junyaku Plant)**

- Manufactures powdered acrylic polymer products, and develops new acrylic product variations
- Has developed a market for unique products such as viscosity control agents in the field of toiletry products like cosmetic creams and toothpaste

Growth Strategy No.1 **"Expanding earnings from core products"**

In the ALL TOA 2013 medium-term management plan, we have designated core product operations posting an annual operating income of ¥1 billion or more as "core product operations." While continuing to expand operations of existing core products, we will focus our strategy on aggressively investing management resources in the production and sale of products thought likely to grow into core products in the near future. In particular, the planned construction of a new acrylic acid production plant at Oita Chemical Co., Ltd., which is currently being pursued as a Group-wide project, is vitally important in realizing a competitive acrylic chain, to which all our core product belong. Construction of this plant is steadily proceeding with completion scheduled for January 2014. In addition, we will direct the concerted efforts of the whole Group into expanding our operations in the field of downstream derivatives of acrylic acid, including acrylic polymers, polymer flocculants, and the UV-curable resin *Aronix*.

Growth Strategy No.2 **"Accelerating growth in scale of high-value-added products"**

We plan to allocate management resources on a priority basis to fields that leverage the Group's technological know-how—such as high-purity inorganic chemicals, downstream acrylic derivatives, and functional adhesives. While accelerating product development efforts, we will take steps to expand existing markets and develop new ones. We will also work to raise Toagosei's brand-name recognition in the field of consumer products, such as our general-purpose instant adhesive *Aron Alpha* and our *Anjyu* line of nursing care products. This is aimed at strengthening our business base and transforming the Group's business structure into one that can deliver a stable level of performance that is relatively immune to fluctuations in the external economic environment.

Growth Strategy No.3 **"Creating new products and new businesses"**

Beginning with the fully fledged start-up in 2011 of our two R&D units—the General Center of R&D and Aronkasei's Monodukuri Center—we plan to strengthen our collaborative relationships with external organizations such as universities to realize faster product development. We also aim to create new products and businesses by aggressively allocating management resources to growth fields such as the environment, energy, and health care.

"ALL TOA 2013" (2011–2013)

Further growth through collaborative expertise

Dividend payments for 2012, and policy on shareholder returns

Our dividend payment policy is based on the principle of providing shareholders with a stable rate of returns on their investment. In determining the amount of dividend to be paid, we keep in mind the importance of maintaining a sound financial position, while at the same time taking into account the Group's business performance over the past several years and the need to set aside adequate funds for future capital investment plans and to pay R&D expenses. On this basis, we aim to maintain a stable annual dividend of ¥8 per share.

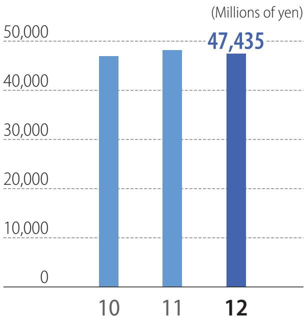
Regarding the allocation of profits for the 2012 business year, although the Group's profits posted a decline, viewed from a medium-term perspective our profit level is high, and we have therefore decided to pay a term-end per-share dividend of ¥5, for an annual dividend of ¥10 per share.

Business performance prospects for 2013

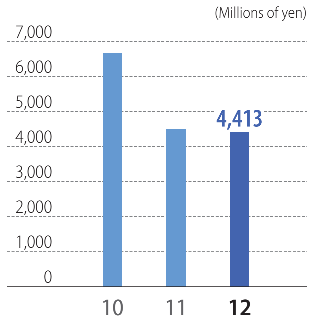
Regarding the business outlook over the near future, there is an expectation of improved business results, particularly among export-oriented companies. This comes against the background of the advent of the new LDP administration at the end of last year, as well as the rectification of the yen's excessively high exchange rate due to the subsequent monetary relaxation measures taken by the Bank of Japan. On the other hand, there are no signs of a strong recovery by economies worldwide, particularly in Europe, and with the weaker yen likely to exert a negative effect in the form of higher prices of fuel and raw materials, we expect business conditions to remain difficult. In these circumstances, at the Toagosei Group we will continue our efforts to secure adequate earnings through steps to expand sales of high value-added products, as well as cost-cutting measures. We project sales, operating income, and net income for 2013 at roughly the same level as in 2012.

Commodity Chemicals

Sales



Segment income



Hisashi Hara
Executive Officer, General Manager, Commodity Chemicals Department

Medium-term Management Plan

Commodity Chemicals Business: **Progress in Addressing Priority Issues**

Further integration of the Toagosei Group's electrolysis operations

- Following integration of Tsurumi Soda's operations, steps taken to commence activities through the Yokohama Plant in January 2013
- Working to further streamline the administrative and management functions while accelerating the pace of new electrolytic technique introduction including the gas diffusion electrode method

Expanding the high-purity, highly functional product business

- As the world's leading manufacturer of liquefied hydrogen chloride, the Company is making full use of its two plant network and is promoting improvements in its filling and maintenance processes. Through these initiatives, the Company plans to expand liquefied hydrogen chloride sales in the years ahead
- In the high-purity alkali products field, steps are being taken to expand sales in Japan and overseas and to cultivate markets outside the semiconductor field by utilizing the Company's technologies

Aggressively developing strategic products

- As the top supplier of sodium hypochlorite in Japan, the Company plans to steadily expand its production capacity for high-grade water purification chemicals from 2013 to 2014
- Commenced operations of addition production capacity facilities for easily soluble copper oxide

2012 Review — Second Year Achievements of Medium-term Management Plan

Sales and profits declined due to a difficult business environment

The Toagosei Group's commodity chemicals business comprises chlor-alkali and sulfuric acid products, high-purity products, and industrial gases. Under the current medium-term management plan, we have set ourselves the target of aggressively developing and expanding the high-purity products business as a profit generator, while ensuring stable performance in the other more mature, established businesses of chlor-alkali and sulfuric acid products and industrial gases.

In 2012, sales and profits in the commodity chemicals business were both below initial targets amid weakness in the Japanese and global economy. This shortfall was attributable to a drop in production and shipments due to sluggish demand in general, as well as a decline in demand for high-purity products used in the key electronics materials field that includes semiconductors and LCDs.

We are steadily implementing initiatives to strengthen strategic businesses, primarily high-purity products, and expect them to bear fruit going forward.

Challenges in 2013 and Our Responses

Boost profits by enhancing operational efficiency in core businesses and actively developing strategic businesses

Tsurumi Soda Co., Ltd. was integrated with Toagosei in January 2013 and was repositioned as the Yokohama Plant. This deepened the level of integration in the chlor-alkali business, which is a core business in commodity chemicals. The next moves will be to fully integrate production, sales and technology, as well as optimize production activities at the three plants in Nagoya, Yokohama and Tokushima and realize efficient operations and sales. Our goal is to strengthen the position of the chlor-alkali business in the industry and increase earnings.

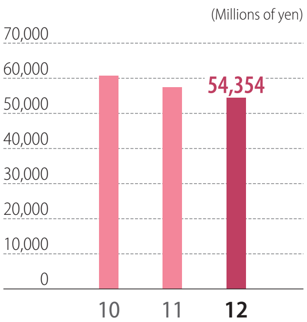
In the chlor-alkali business, we will invest in the business to strengthen its production base in order to achieve stable business profit. In 2012, we installed additional production capacity for easily soluble copper oxide used in PCB plating. With this capacity, we plan to boost output and sales in 2013. In order to reinforce our position as the top supplier of sodium hypochlorite for use in water, we will increase production capacity for high-quality grade water purification chemicals at Yokohama and build a new facility in Nagoya. We also plan to introduce gas-diffusion electrolysis cells to reduce the cost of electric power, which is essential for the chlor-alkali business.

In the high-purity products business, we will continue to make strategic investments in high-purity liquefied hydrogen chloride in order to boost productivity and establish a streamlined production, filling and shipping system. We also plan to boost earnings by accurately addressing rising demand from the semiconductor sector, mainly in East Asia. In high-purity agents, we will continue to expand our existing businesses in high-purity caustic soda, caustic potash, hydrochloric acid, high-grade ferric chloride and other chemicals, while enhancing the potential of EL sulfuric acid and developing new etching agents.

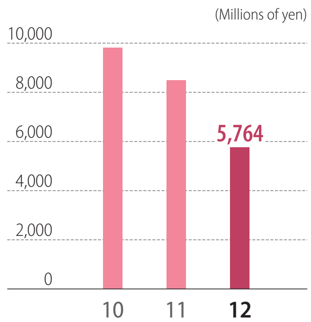
In the industrial gases business, we plan to become the most profitable industrial gas supplier in the Chubu (Nagoya) region by building a more efficient business model and stepping up marketing. We are also looking into upgrading that will enable us to build the state-of-the-art industrial gas facilities.

Acrylic Products

Sales



Segment income



Tatsumi Nonaka
Executive Officer, General Manager, Acrylic Products Department

Medium-term Management Plan

Acrylic Products Business: **Progress in Addressing Priority Issues**

Expanding business commensurate with upstream and downstream product profitability

- Construction of new acrylic acid production facilities with annual capacity of 80,000 tons scheduled for completion in January 2014
- In January 2013, operations commenced through the Company's Hirono Plant following integration of Nihon Junyaku Co., Ltd., a company engaged in the manufacture of high value-added acrylic polymers
- Focused on the development of new water-soluble polymers and emulsion manufacturing processes as a part of efforts to enhance competitiveness; investigating the introduction of new manufacturing processes to increase sales
- Promoting expansion of Singapore Plant water-soluble polymer production into the Southeast Asia market while further increasing the ratio of downstream products

Strengthening cost competitiveness utilizing innovative production technologies

- Taking steps to establish advanced, high-purity production techniques for the UV-curable resin *Aronix* and to differentiate products as a leading manufacturer

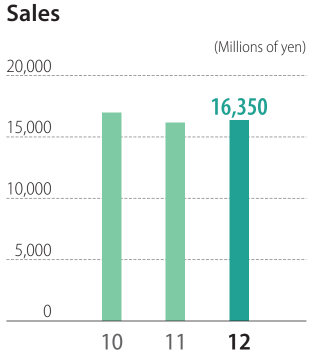
2012 Review — Second Year Achievements of Medium-term Management Plan

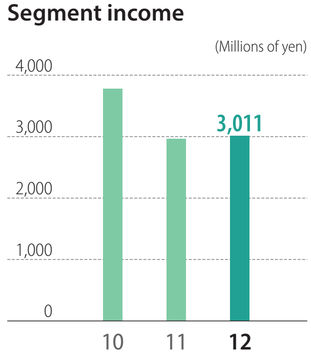
The acrylic products business is engaged in producing chemicals ranging from monomers, including acrylic acid — the starting point of the business — and acrylic ester, to downstream derivatives such as acrylic polymers and UV-curable resins (*Aronix*). In the monomer business, we continued to focus on the stable improvement of profits through the building of a new business model for production and sales. Further, to expand the entire acrylic products business from upstream to downstream as a profitable core business, in name and substance, Toagosei began increasing acrylic acid production capacity at Oita Chemical Co., Ltd. This extra capacity will boost annual production from 60,000 tons to 140,000 tons, with the work due for completion in January 2014. In the polymer business, we took active steps to raise productivity in order to boost profitability and increase market share. At our operations in Singapore, we worked to secure profits from monomer products and actively expanded sales of water-soluble polymers. In the *Aronix* business, sales of some products in the electronics materials field declined. However, we continued to roll out chemical products in grades tailored to local needs at our Nagoya Plant in Japan, at TOA-DIC Zhangjiagang Chemical Co., Ltd. in China and Toa-Jet Chemical Co., Ltd. in Taiwan. We also took steps to improve existing products and aggressively developed new products for advanced applications such as flat panel displays. Also, in order to expand demand for our acrylic products, we looked at new ways to strengthen our marketing infrastructure and examined the adoption of new technologies to boost profitability.

Challenges in 2013 and Our Responses

In the monomer business, we will seek to maintain our existing business model for production and sales as well as implement measures to boost profitability. We will also work to ensure our new acrylic acid production facilities are completed to schedule in January 2014. In the polymer business, Nihon Junyaku Co., Ltd. was merged into the Group in January 2013, with the company's Hirono Plant coming under the direct control of Toagosei. This move was aimed at integrating management resources and speeding up decision making. In order to maximize the increase in acrylic acid production capacity, we plan to further expand sales of polymer products and enhance our manufacturing technology capabilities while also actively investing in the business. In addition, we plan to develop competitive new products to boost profitability in the flocculant business at MT AquaPolymer, Inc. and in the water-soluble polymer business in Singapore. In the *Aronix* business, we will leverage the strengths of our three production bases in Asia, the Nagoya Plant (Japan), TOA-DIC Zhangjiagang Chemical Co., Ltd. (China) and Toa-Jet Chemical Co., Ltd. (Taiwan), focusing on developing chemical products in grades tailored to local needs. We will also work to expand sales by using innovative manufacturing technologies to develop other distinctive products. We will continue to develop new downstream products and manufacturing technologies and aggressively roll out new competitive product lines in Asia while leveraging the Group's acrylic chain to the fullest extent possible.

Specialty Chemicals





Functional Chemicals

2012 Review — Second Year Achievements of Medium-term Management Plan

In adhesives, we achieved the goals of the second-year plan through the launch of the new hit product, *Aron Alpha*, and by increasing sales of functional adhesives for electronics materials.

As part of our efforts to strengthen the *Aron Alpha* brand, we launched the new product *EXTRA GEL* in 2012.

EXTRA GEL, features superior performance, significantly improved bonding speed and strength, and a new type of functional container that is much easier to use. Consequently, sales of *EXTRA GEL* have been strong. Furthermore, our aggressive product promotion activities have enabled *Aron Alpha* to capture the highest-recorded share of the Japanese adhesives market.

Despite weakness in the global economy, our manufacturing sites in the United States and China have effectively promoted our products, keeping sales steady.

In functional adhesives, although hot melt adhesive sales were sluggish, the sales of reactive type adhesives for electronics grew significantly, leading to an increase in overall sales in 2012. In order to boost competitiveness, we have integrated the production operations of Aron Ever-Grip Ltd. with those of the Takaoka Plant.

As a result, sales and profits increased in domestic and foreign markets, which enabled us to achieve our goals for 2012.

In construction materials, sales of soil improvement agents and civil engineering repair materials increased, but sales of construction repair materials overall fell short of the plan's second-year targets due to a large drop in sales of construction repair materials, the core business.

In construction repair materials, our mainstay *Aron Wall NEO* and *Clear Wall* methods were increasingly used in the construction market, leading to an increase in sales year on year. However, the business fell significantly short of targets in the medium-term management plan due to the slow pace of construction projects. Going forward, we intend to work even harder to close the gap with the plan's targets. In contrast, sales of *Aron Coat SQ* registered record sales, in line with the target in the medium-term management plan.

Sales of soil improvement agents increased due to the adoption of *Aron Soil* for use in road construction.

Functional Chemicals: **Progress in Addressing Priority Issues**

Boost earnings by bolstering general-purpose instant adhesive brands

- Launched a new *EXTRA GEL* product which significantly improves bonding speed; in addition to introducing a newly improved tube, the Company is aggressively undertaking advertising and promotions
- Commenced steps to cultivate the China market by promoting the *Krazy Glue* brand; efforts to promote the product have centered on convenience store sales channels in Shanghai; taking steps to enhance awareness going forward

Expanding the industrial adhesive business

- Completed construction of the new Takaoka Plant manufacturing facility; channeling energies toward the development of new products
- Consolidating the operations of the two plants owned and operated by Aron Ever-Grip Ltd. into the Takaoka Plant; stream-lining operations and consolidating technologies as a part of efforts to strengthen manufacturing and operating platforms

Construction Materials

- Taking steps to promote urban condominium renovation and increased sales of construction material products

Challenges in 2013 and Our Responses

In adhesives, we will also deliver continued business growth by further strengthening the *Aron Alpha / Krazy Glue* brands, launching a new functional adhesive plant, expanding sales in the electronic materials and automotive sectors, and identifying new product themes to support future growth.

In instant adhesives, we plan to further increase sales of *EXTRA GEL*, which was launched in 2012, and roll out effective sales promotion to strengthen the *Aron Alpha* brand overall. In the United States, we aim to increase sales of industrial-use instant adhesives and other products by recruiting additional product development staff and effectively using our technical service center. In China, we will work to further expand sales of *Krazy Glue*, the leading brand of instant adhesive in the United States. *Krazy Glue* is now on sale in nearly all convenience stores in the Shanghai area and we plan to begin rolling out the product in other parts of China as well.

In functional adhesives, our primary focus will be on reactive, UV-curable, and hot melt products, and we aim to develop them further for the automotive and electronic materials sectors to drive sales. In addition, we plan to rapidly achieve high capacity utilization at the Takaoka Plant to boost the facility’s competitiveness, as well as broaden the scope and speed up the pace of product development by leveraging merger synergies with Aron Ever-Grip Ltd.

In construction materials, we will focus on expanding sales of *Aron Wall* (for exterior walls), *Aron Coat SQ* (for roofs), and *Clear Wall* (for tiles), offering these products as a total maintenance package that prolongs building life.

Leveraging our position as a supplier of total roof and exterior wall waterproofing solutions, we will step up marketing to Japan *Aron Coat • Aron Wall* Waterproofing Contractors Association, building design and management companies, as well as expand the market for waterproof acrylic rubber. We will also continue to work on raising public awareness of our waterproofing materials by displaying our products at the 19th Architecture + Construction Materials 2013 exhibition, advertising in *Bungei Shunju,* a popular monthly magazine, and running online sales promotions.

The exterior wall tile renovation market shows promise. Leveraging *Clear Wall*’s ability to prevent tile and mortar separation and to impart a beautiful finish, we will continue to promote understanding among customers about the importance of waterproofing exterior walls finished with tiles.

Specialty Chemicals

Advanced Chemicals

2012 Review — Second Year Achievements of Medium-term Management Plan

Completed steps to put in place an infrastructure that is capable of increasing the profitability of high value-added products

The amenity care materials group is working to expand its business by promoting the sale of highly functional amenity-application materials both in Japan and overseas including China and Korea. In specific terms, the group is upgrading its assessment system by fully utilizing the technical service center and undertaking proposal-type market development by providing technical guidance and support.

During the fiscal year under review, we upgraded our supply system by expanding production facilities for products based on zirconium phosphate compounds at the Tokushima Factory in order to meet growing demand and completed the construction of a mass-production line for *Cavinon*. In continuing to focus on our production capabilities, we will channel energies toward streamlining operations and increasing efficiency going forward. Moreover, we will pursue new product development by using a pilot plant that had previously been exclusively used for *Cavinon* production as a utility development facility for new products.

In the electronics materials group, we strengthened our cost competitiveness in high-purity hexachlorodisilane (*HCD*) deposition materials for semiconductor insulating films by streamlining operations. Thanks to this and other initiatives, we have maintained our position as the world's leading manufacturer of *HCD*.

In ethylene carbonate (EC), one of the main materials for electrolytes used in lithium-ion secondary batteries for electric cars, personal computers, cell phones, and related devices, Toagosei brought online an EC manufacturing facility within the Osaka plant of its joint-venture partner Mitsui Chemicals, Inc. As the leading manufacturer of EC, we put in place a supply system to cope with the forecast growth in demand. We also established a supply system for refined EC in Nagoya and began introducing it into electronics materials applications that leverage its high-purity characteristics.

Advanced Chemicals: **Progress in Addressing Priority Issues**

Amenity care materials / Electronics materials

- **Utilizing the technical service center to advance amenity care materials while promoting the shift toward customer-oriented proposal development**
- **Developing consumer products utilizing the Company's brands that employ deodorizing properties**
- **Production commenced at a new ethylene carbonate plant in April 2012; continued focus on the development of new applications other than as an LiB electrolyte solution**

Challenges in 2013 and Our Responses

Developing new products with the aim of increasing profitability

Issues facing the Company in 2013 and our responses are as follows.

In 2013, we will adopt a strategy of selection and focus in materials and in fields that have profit growth potential, drawing from among our newly developed products, and then move to the next stage of growth.

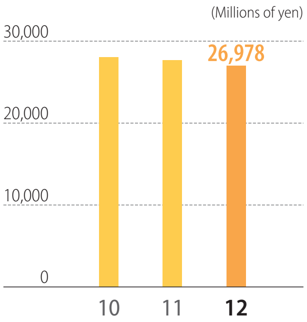
We will endeavor to expand the market by promoting the use of *IXEPLAS*, a highly functional *IXE* impurity ion-trapping agent for IC encapsulating material adhesives, in such new fields as advanced sealants and solar cell materials. In the antimicrobial field, we will work to expand awareness of the *Novaron* brand of silver-based inorganic antimicrobial agents used in textiles, daily items, and home electrical appliances while boosting sales in Asia. Sales of the inorganic deodorant *Kesmon* and the inorganic hybrid anti-fungal agent *Cavinon*, both used in daily items, home electrical appliances, and other interior goods, have increased substantially over recent years. This largely reflects the strong feelings of hygiene and cleanliness that these products engender in customers. Moving forward, we will continue to expand applications and sales for these products. In addition to further expanding the markets for the anti-allergen agent *AlleRemove* and the low-thermal expansion filler *ULTEA*, we will continue to increase sales of these products. At the same time, we will maintain our focus on studies and research for the development of major new products for the next generation. We will also place considerable emphasis on the development of consumer products that employ our functional materials in an effort to enhance our brand prowess within the market and to deliver high added value. As the first step in this endeavor, we are promoting the development of value-added masks by utilizing the inorganic deodorant *Kesmon*.

In the EC field, we will endeavor to ensure safe production while promoting stable quality. We will also pursue the development of new applications and strengthen the infrastructure required to expand business.

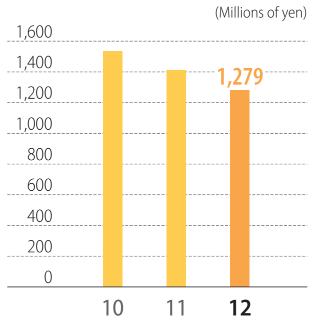
Furthermore, we are aggressively developing markets for the *SQ series* of silsesquioxane compounds, which are organic and inorganic hybrid materials, focusing mainly on hard coating as well as LED sealing materials that utilize its super-hard and transparent characteristics.

Plastics

Sales



Segment income



Medium-term Management Plan

Plastics Business: Progress in Addressing Priority Issues

Comprehensive reform of the piping business

- Entering the water supply field through the sale of various products including aluminum three-layer pipe
- Successful cutback expenses by consolidating products and streamlining distribution
- Focusing on regions and the sale of products in which the Company is able to maintain its competitive advantage

Expanding business by strengthening brand prowess in nursing care products and developing new products

- Launched a new furniture style portable toilet in December 2012; plans to release a succession of new products by strengthening the Company's development structure and systems
- Focusing on marketing the *Anjyu* brand to raise awareness among target generations

Expanding downstream businesses by combining the resources of Toagosei with the technologies of Aronkasei

- Established a new business development department within Aronkasei; promoting business development utilizing Toagosei Group products

2012 Review — Second Year Achievements of Medium-term Management Plan

Despite signs of a positive turnaround in the piping equipment business due to such factors as the increase in housing starts during the second half, sales and profits in fiscal 2012, the second year of our medium-term management plan, fell short of initial forecasts. This was largely attributable to delays in reconstruction activity following the earthquake disaster and the failure of demand to gather full momentum.

Trends in nursing care business sales and profits were also weak throughout the year due mainly to intense sales competition within the industry and the upswing in raw material prices. As a result, both businesses recorded a decrease in revenue and earnings year on year.

Looking at efforts aimed at returning Mikuni Plastics Co., Ltd. to profitability, an issue of considerable concern, control of the company's contract resin molding and rainwater-related businesses was transferred to Aronkasei Co., Ltd. Working diligently to optimize business operations within the Group, we were successful in securing a move back into the black.

From a policy perspective, our focus was directed toward implementing two core measures with the aim of "getting back to basics, reestablishing *monodukuri* (excellence in manufacturing) and marketing capabilities, and shifting to more dynamic production and personnel systems in order to build a framework capable of rapidly advancing Aronkasei to the next generation," the basic policy of our medium-term management plan. The first measure involved building and strengthening structures and systems at the Monodukuri Center, which was completed the year before last. In addition to the tangible effort of setting up the center, we adopted less tangible measures including the introduction of more flexible and efficient work styles that better match the specific attributes of operations such as a discretionary work system and flextime. In this manner, every effort is being made to promote a pleasant working environment that enables employees to make the most of their specialist expertise and unleash greater creativity. The second measure entailed the establishment of an order processing center. Historically, there had been no clear organizational distinction between order processing and sales operations. By separating these two functions and clearly defining roles and responsibilities, the sales department can now channel its energies toward specific duties that are inherently intrinsic to the sales department of a manufacturing company.

Challenges in 2013 and Our Responses

In fiscal 2013, the final year of the medium-term management plan, we will strengthen our *monodukuri* capabilities while streamlining and strengthening business operations.

In working to strengthen our *monodukuri* capabilities, we will take full advantage of our comprehensive strengths and the integration effects generated from establishing Monodukuri Center. In addition to promoting the development of new products, we will bolster our technology development structure and systems. Moreover, we will endeavor to reinforce our operating environment and to enhance the efficiency of production facilities based on the concept of a future plant.

In streamlining and strengthening business operations, we will strive to stabilize operations at the order processing center, launched during the previous year, at the earliest possible opportunity. At the same time, we will review sales and marketing activities with the aim of improving our Sales Department structure.

Building on the aforementioned initiatives, we will crystallize efforts designed to expand downstream operations, a key component of the medium-term management plan of the Toagosei Group. In communicating closely with Toagosei Group companies, we will strive to create new products and businesses that embody the technological know-how of the Group as a whole.

Finally, and as an underlying precondition of the measures outlined above, we recognize the critical need to maintain a sound and healthy position. To this end, we will strengthen our compliance structure and systems and promote measures aimed at ensuring optimal work-life balance as well as harmonious co-existence with society. Through these means, we will endeavor to become a company in which the community and households can take immense pride.

Changing the focus from providing facilities to reforming management

General Center of R&D

R&D is the starting point for Toagosei Group growth

In "All TOA 2013," our medium-term management plan beginning in 2011, we are taking initiatives in the area of R&D with the goal of continuously developing distinctive, highly functional products in our business domains of Commodity Chemicals, Acrylic Products, Specialty Chemicals, and Plastics, based on our technological strength. At the same time, our goal is to create new products and businesses to support continuous growth as a value-creating, highly profitable corporate group.

With the General Center of R&D and the Monodukuri Center at its hub, the R&D Department collaborates with all Toagosei departments and rapidly creates new high value-added products. Moreover, it is deepening its relationships with universities and other external resources, as well as with other companies that share its goals at the management level.

—Achieve steady progress in each R&D field—

We have separated research themes into development that feeds directly into new product creation, and research to establish necessary key technologies for all kinds of product development. The laboratories of each business department are in charge of development themes and the Base Technology Center of the corporate management division is in charge of research themes. At the General Center of R&D, established in 2011, R&D is pursued through the collaboration of the laboratories of each business department and the Base Technology Center. Meanwhile, at the Institute for Advanced Sciences, the Peptide-based Drug Creation Project is being carried out on an ongoing basis with the goal of creating new functional peptides.

Periodic discussions are held across all departments to promote further collaboration at each research lab regarding key challenges in promoting R&D.

Toagosei's General Center of R&D laboratory spaces have switched from an organization-specific to a function-specific layout to boost coordination and competitiveness.

To facilitate communication and enhance issue resolution outcomes, Toagosei has removed inter-departmental barriers and consolidated disparate executive offices into a single room.

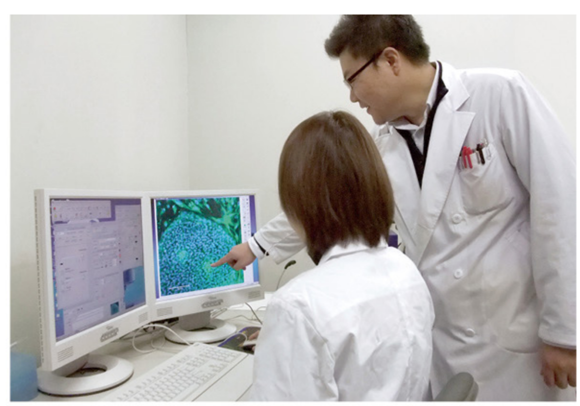
Forming an R&D group with multifaceted personnel from "collaborative expertise"

Individual researchers and departments systematically work to advance their expertise while constantly thinking about how they would like the company to be 10 years from now. We have established a 10-year plan for training and optimally deploying R&D talent in order to systematically develop personnel, while at the same time leveraging the individual qualities of each person. Not only will we develop personnel with advanced expertise, but also personnel who have a broad view of technology and R&D, who have business sense and a discerning eye, and who are familiar with technology management and can construct business models. We will form an R&D group staffed with multifaceted personnel who are capable of further advancing research and development.

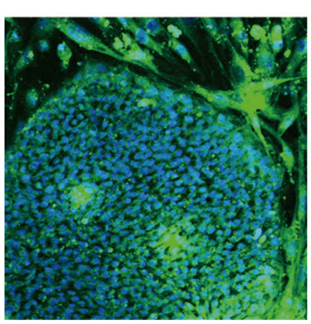
Researchers will share higher levels of individual expertise and their distinctive capabilities, and the laboratories of each business department and the research department of the Corporate Management Division, including related departments and individuals, will pursue research and development while closely collaborating with each other. In addition to this, we will aggressively pursue partnerships with outside institutions.

—Creation of new themes—

The starting point in new product development and in establishing new technologies begins with presenting them as new themes or challenges to work on. We reexamined the system for proposing new research themes, a system under which not only the R&D and planning departments, but business and sales departments can also propose themes. So that we do not overlook "seeds" and "opportunities," which lead to new themes, we constructed a framework for collaboration and cooperation that covers everything from the research to proposal stages.



In the laboratory



View through confocal laser microscope of a human iPS cell into which cell-penetrating peptide (under development) has been transduced

Corporate Social Responsibility

Toagosei aims to maintain the public's trust through the fulfillment of its social responsibilities as a chemical manufacturer, and achieve sustainable growth as a Group

The corporate ethical stance of the Toagosei Group is encapsulated in our slogan: "Sharing more happiness with more people through the chemical business." In line with the spirit of this slogan, we carry out CSR activities on a comprehensive Group-wide basis.

To comprehensively monitor the implementation status of CSR activities in each Group company and in each business, and to improve those activities, the Toagosei Group has established the Group CSR Committee, which rigorously promotes all Group CSR activities by conducting routine audits.

Management focused on the interests of stakeholders

At Toagosei, we pursue our business operations with a strong emphasis on relationships with our customers, shareholders, employees, the communities in which we operate, and all other stakeholders. In all aspects of business we aim to realize an optimal balance between profitability, social contribution, and protection of the environment.

Rigorous compliance

We have established an in-house system to ensure a continued focus on compliance, and are conducting compliance educational programs.

- The reviewing and revision of the Toagosei Group Code of Conduct and the Toagosei Group Manual of Behavioral Standards
- Monitoring by the Compliance Committee
- Installation of the whistleblower hotline systems for reporting suspected instances of illegal or unethical conduct
- Regular training of new employees, mid-career employees, and new managerial staff

Antimonopoly Act training session conducted by attorney

Systems for internal control and corporate governance

Toagosei has created effective systems for internal control and corporate governance to enable fast and precise response to dramatic changes in the business environment, and to ensure fair and transparent management. Measures taken thus far include the following.

- Introduction of executive officer system
- Participation in the management by outside directors
- Establishment of Internal Control Section
- Establishment of Corporate Auditor Section to assist corporate auditors

Risk management

The Toagosei Group, learned a lesson from the Great East Japan Earthquake of fiscal 2011, rebuilt its risk management system.

Establishment of Risk Management Committee

We established a Risk Management Committee as a mechanism for the routine identification and assessment of potential risks. Based upon this, risk countermeasures are formulated and the status of those countermeasures is checked.

Potential risks

- Natural disaster risk
- Environmental and safety risk
- Financial risk
- Legal risk
- Geopolitical risk
- Infectious disease risk
- Product risk
- Market risk
- Personnel and labor risk
- Other external environment-related risks

Response when facing a crisis situation

We reexamined our various rules and regulations that set forth the specific steps to take when faced with a crisis situation and introduced a system that verifies employee safety via mobile device.

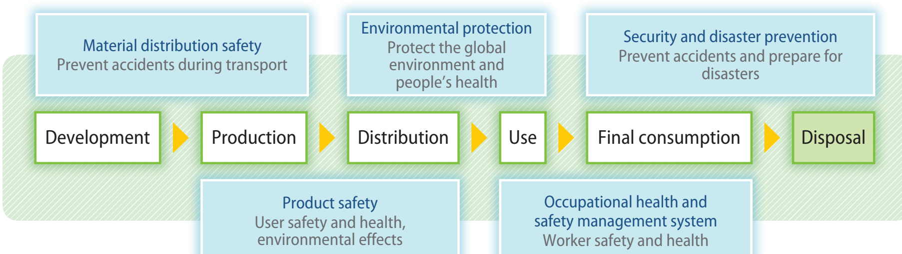
Comprehensive emergency-preparedness drill (Kawasaki plant)

Responsible Care (RC) activities

In order to steadily pursue initiatives to ensure safety and protect the environment as a chemical company, the Toagosei Group conducts Responsible Care (RC) activities under basic policies for RC.

Basic polices for RC

The Toagosei Group is committed to ensuring the safety of its products, as well as workforce safety and hygiene, and to reducing the impact on the environment of these products and their manufacturing processes at all stages from development through use to final disposal. By these means, the Group raises its reputation for trustworthiness among both its customers and society at large.



What is RC ?

Responsible Care is an activity wherein companies that handle chemical substances voluntarily communicate to society the results of their efforts and activities to ensure the protection of the environment, safety, and health at all stages of the product lifecycle, from development, production, and distribution, to use, final consumption, and disposal. RC activities are indispensable for the harmonious development of chemical companies with society.

Efforts to reduce our environmental impact

Prevention of global warming

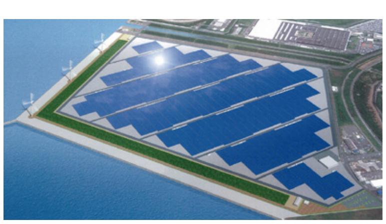
We are switching to low-emission fuels and installing energy-efficient equipment as we pursue our goal of reducing CO_2 emissions.

Reduction of industrial waste

We thoroughly separate and recycle waste at each of our operating locations, and are accordingly taking steps to recycle waste plastics toward achieving our zero-landfill goal for the entire Group.

Reduction of emissions of substances harmful to the environment

We are working to reduce volumes of emissions of substances subject to Pollutant Release and Transfer Register (PRTR) assessment by Japan Chemical Industry Association.



Toagosei is participating in the Tahara Solar-Wind Joint Project, slated to be Japan's largest photovoltaic and wind-power generation facility (conceptual rendering)

Tokushima Plant LNG equipment brings energy-efficiency and lower CO_2 emissions

Training and recruitment

The Toagosei Group ensures fairness in human rights in recruitment, job assignments, and the handling of personnel. In addition to conducting a variety of education and training programs to develop human resources, we have introduced an incentive system for personnel improvement.

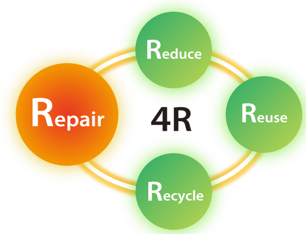
Major training activities
- New employee training
- Training in the second, third, and fourth years after entering the company
- Mid-career employee training
- Foreman training
- Management training (new managerial staff training)
- New sales staff training
- Skill improvement courses for production technology and engineering staff
- Skill improvement courses for R&D staff
- Quality engineering courses
- Intellectual property courses
- Other courses

Social contribution activities

—Development of earth and human-friendly technologies and products—

Human-friendly and environmentally-sound adhesives

Conventional solvent-based adhesives posed problems in terms of excessive energy consumption during manufacture and use as well as being hazardous to human health, environmentally unsound and potentially explosive and flammable. In response, Toagosei has developed various types of safe, easy-to-use solvent-free adhesives with high added value. These include *Aron Alpha*, which hardens instantly in reaction to atmospheric moisture; hot melt adhesives that melt with heat and harden when cooled; and light curable adhesives that harden instantly when exposed to light. Accordingly, we will work to reduce environmental loads by offering adhesives designed with human safety and the environment in mind.



The notion that limited resources should be used effectively has caused people to reassess the importance of repairing items for prolonged use. In this capacity, solvent-free adhesives provide a solution that is safe for humans and environmentally sound.

Anjyu brand nursing care products bring smiles to the elderly

As the population progressively ages, a growing number of elderly people are receiving nursing care at home. Accordingly, upgrading living environments to encourage healthy lifestyles that help people avoid becoming bedridden is gaining recognition. Responding to nursing care product users and retail outlets, the Toagosei Group has developed numerous products tailored to the physical conditions of the elderly and their living environments. In particular, we provide portable toilets that can be used at home and bath chair that reduce the burdens placed on care providers. We will continue manufacturing and selling useful nursing care products that support the lifestyles of the elderly.

Furniture-style portable toilets

Foldable Shower Chair

—Contributions to society—

In addition to systemic efforts to contribute to the welfare and happiness of the wider society of which we are part, the Company also works through the Social Contribution Committee, which draws its members from across all management and employees categories and collaborates with the labor unions.

Students accepted under internship program participate in hands-on work training at the Aron Kasei Kanto Plant

Plant tours for families at the Tokushima Plant

Environmental activities data

The material balances in the Toagosei Group's manufacturing activities are shown below. The figures shown cover companies involved in manufacturing over the one-year period from January 1 to December 31, 2012.

INPUT

Energy (Crude oil equivalent)

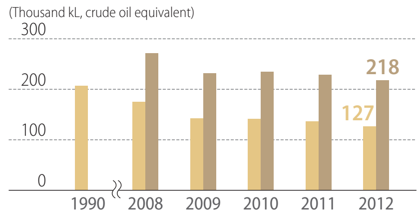
	Toagosei	Toagosei Group
Energy (Thousand kL)	127	218

Water

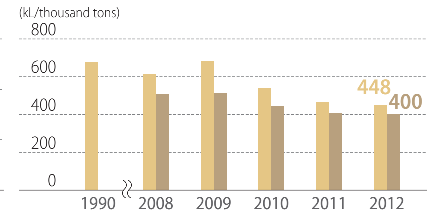
	Toagosei	Toagosei Group
Water consumption (Million m^3)	34	58

Toagosei Toagosei Group

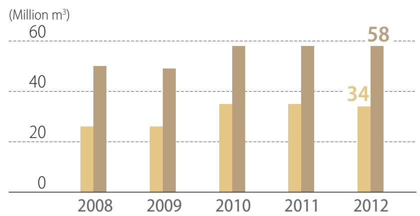
Energy



Energy consumption per base unit



Water consumption



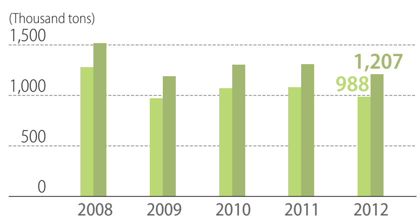
Production base

Production volume

	Toagosei	Toagosei Group
Production volume (Thousand tons)	988	1,207

Toagosei Toagosei Group

Production volume



OUTPUT

Air pollutant emissions

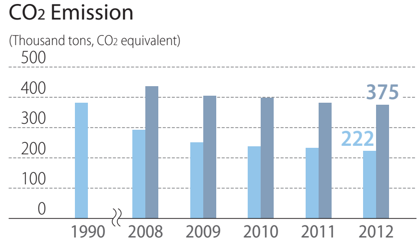
	Toagosei	Toagosei Group
CO_2 Emission (Thousand tons, CO_2 equivalent)	222	375
SOx Emission (Tons)	12	34
NOx Emission (Tons)	67	97
Soot and dust (Tons)	4	5

Effluent volume

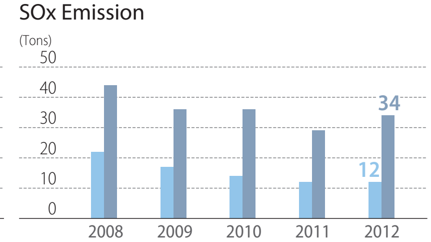
	Toagosei	Toagosei Group
Total effluent volume (Million m^3)	26	45
COD (Tons)	89	90
Total nitrogen (Tons)	21	21
Total phosphorus (Tons)	1.1	1.1

Toagosei Toagosei Group

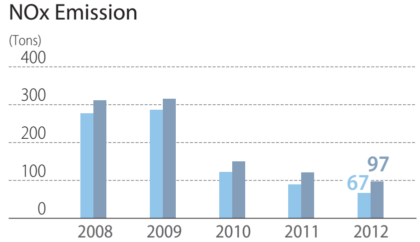
CO_2 Emission



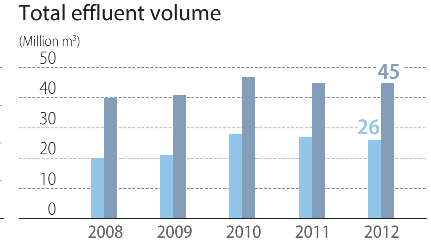
SOx Emission



NOx Emission



Total effluent volume



Board of Directors and Corporate Auditors

Eiichi Takizawa | Kazuaki Nakagawa | Ken Ozeki | Katsutoshi Yamada | Akihiko Yamadera | Futoshi Hashimoto | Souichi Nomura | Mikishi Takamura | Shinichi Sugiura

Chairman

Akihiko Yamadera

President

Futoshi Hashimoto

Directors

Katsutoshi Yamada
Souichi Nomura
Ken Ozeki
Mikishi Takamura
Kazuaki Nakagawa
Shinichi Sugiura
Eiichi Takizawa*

* Outside Director

Corporate Auditors

Kunio Sato (Standing)
Shou Sato**
Ryoji Miura**
Kazuo Hara**

** Outside Corporate Auditor

Senior Executive Officer

Shouji Kawamura

Executive Officers

Souji Hattori
Kazuo Kiyota
Akira Komine
Akira Kuriyama
Nobuhiro Ishikawa
Hideo Kato
Toshio Okuyama
Tatsumi Nonaka
Hidemi Nagano
Tomio Kanbayashi
Hisashi Hara
Moriyuki Kenjou
Akio Sato
Shin Takahashi

(As of April 1, 2013)

Financial Section

Five-Year Selected Data

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen (except per-share data)				
	2012	2011	2010	2009	2008
For the fiscal year:					
Net sales	**¥148,203**	¥153,007	¥153,779	¥140,033	¥162,615
Income before income taxes and minority interests	**14,518**	18,992	17,917	7,205	6,869
Net income	**9,699**	13,000	13,133	3,541	1,895
Per-share data:					
Per share of common stock:					
Net income	**36.79**	51.00	52.05	13.85	7.27
Cash dividends applicable to the year	**10.00**	10.00	9.00	6.00	8.00
At year-end:					
Total assets	**181,451**	171,046	173,847	161,609	172,464
Net worth (Note)	**132,074**	123,826	110,283	99,449	99,271
Number of employees	**2,509**	2,534	2,533	2,561	2,617

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

Overview of Fiscal 2012

During the reporting term (January 1 to December 31, 2012), operating conditions remained harsh amid a Japanese economy experiencing sagging overseas demand caused by prolonged economic stagnation in Europe along with a business slowdown in China and the rest of Asia. This was further compounded by lackluster demand for post-disaster reconstruction, the long-prevailing strength of the yen, and climbing electricity rates.

Under these conditions, the Toagosei Group sought to expand sales and new opportunities with high value-added products while slashing costs and adjusting product prices to keep up with rising raw material and fuel prices. Nevertheless, earnings remained under pressure as domestic and overseas markets languished amid softening demand and excess supply.

As a result, net sales in the reporting term decreased 3.1% year on year on a consolidated basis to ¥148,203 million ($1,711 million), operating income declined 15.9% to ¥14,583 million ($168 million) and net income dropped 25.4% to ¥9,699 million ($112 million).

Sales by Segment

Commodity Chemicals

Despite moves to raise product prices in response to rising raw material and fuel costs, sales volumes of caustic soda and inorganic chlorides were weak due to sluggish overall demand. High-purity products faced flagging demand in the key area of semiconductor applications, yet sales were firm for the year overall as exports prompted a partial rebound beginning in the second half. Despite price adjustments initiated at the end of fiscal 2011, sulfuric acid sales remained at previous-year levels owing to lower sales volumes amid a downturn in overall demand. Sales of industrial gases were poor due to dwindling sales volumes amid generally weak demand.

As a result of the foregoing, sales in this segment decreased 1.4% year on year to ¥47,435 million, and segment income slipped 1.6% to ¥4,413 million.

Acrylic Products

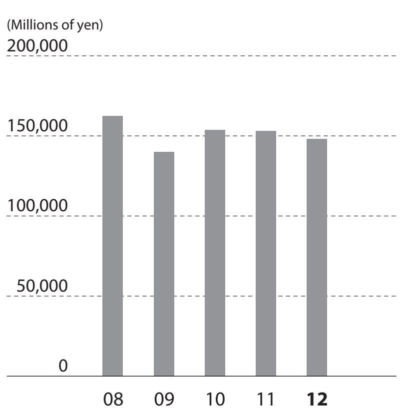
Sluggish markets for manufactured products in Asia caused a slowdown in sales of acrylic esters, despite a recovery in sales volumes largely fueled by domestic buyers as the year came to a close. Sales of acrylic polymers were strong thanks to brisk overall demand. Sales of polymer flocculants were poor amid slumping prices mainly due to waning public demand. Sales of *Aronix* UV-curable resins were weak due to soft demand for general-purpose resins coupled with lower sales volumes in the flat panel display business.

As a result of the foregoing, sales in this segment decreased 5.4% year on year to ¥54,354 million, and segment income slipped 32.1% to ¥5,764 million.

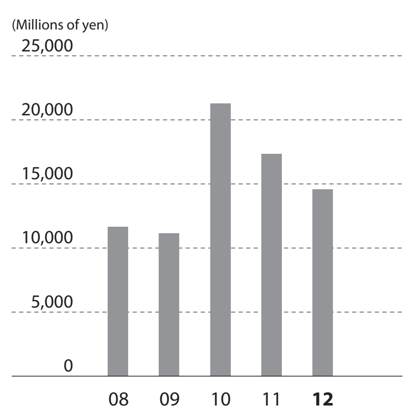
Specialty Chemicals

Adhesive sales were strong thanks to steady demand for consumer-use adhesives, as well as brisk demand, especially for industrial-use adhesives and adhesives used with mobile devices. Despite firm sales of construction repair materials, overall sales of products for construction and civil engineering

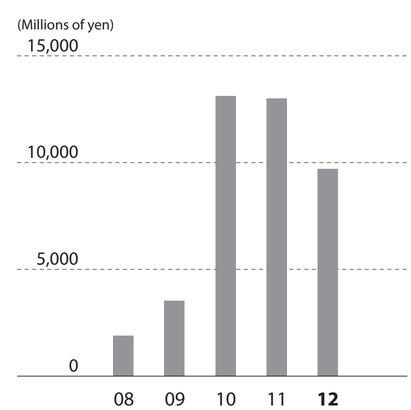
Net sales



Operating income



Net income



remained unchanged — year on year due to poor sales of soil improvement agents. Meanwhile, whereas deodorants and anti-fungal agents met with healthy demand, sales of amenity care materials fared poorly overall as a consequence of declining sales of antimicrobial agents and inorganic ion exchangers. Sales of electronics materials were lackluster due to slumping prices for high-purity silicon gases.

As a result of the foregoing, sales in this segment increased 1.2% year on year to ¥16,350 million, and segment income gained 1.6% to ¥3,011 million.

Plastics

Sales of piping equipment were soft overall after rebounding sales volumes in the second half were unable to compensate for downward momentum in the first half. Despite nursing care product sales remaining on par with previous-year levels, sales of lifestyle support products were weak overall due to a decline in the sales of daily items. Elastomer compounds performed poorly due to a downturn in sales volumes.

As a result of the foregoing, sales in this segment decreased 2.5% year on year to ¥26,978 million, and segment income slipped 9.4% to ¥1,279 million.

Other Businesses

Sales for this segment — which comprises new product development operations, the construction and repair of plants and production facilities, goods transportation services, and trading house operations — decreased 14.2% year on year to ¥3,084 million, and segment income came to ¥30 million.

Cash Flows

Net cash provided by operating activities increased by ¥5,465 million year on year to ¥23,293 million, due to a decrease in income taxes paid.

Net cash used in investing activities increased by ¥5,999 million to ¥15,041 million, due to increased purchases of property, plant and equipment.

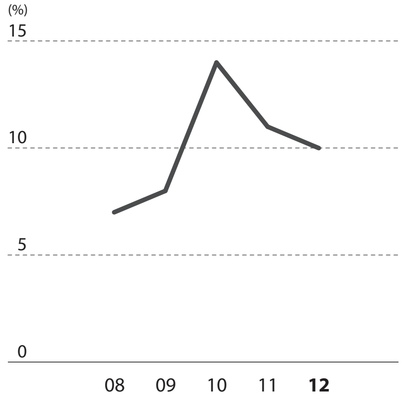
Net cash used in financing activities decreased by ¥3,942 million to ¥3,377 million, owing to decreased purchases of treasury stock.

As a result, cash and cash equivalents at end of the year stood at ¥29,529 million, an increase of ¥5,537 million from the previous term-end.

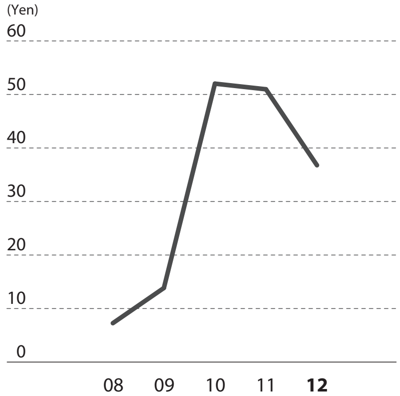
Business Performance Prospects for Fiscal 2013

For the current term, ending December 31, 2013, we forecast net sales of ¥150.0 billion, operating income of ¥15.0 billion, and net income of ¥10.0 billion.

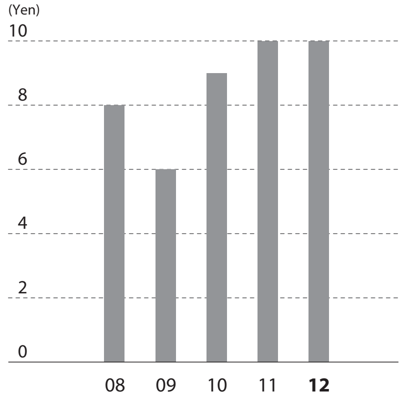
Operating income ratio



Net income per share



Cash dividends



Cash Flow Prospects for Fiscal 2013

Net cash provided by operating activities is expected to be ¥17.0 billion, despite an increase in income taxes paid.

Net cash used in investing activities is expected to total ¥10.0 billion due to increased purchases of property, plant and equipment.

Net cash used in financing activities is expected to total ¥3.0 billion mainly due to dividend payments.

Basic Policy on Shareholder Returns and Dividends for Fiscal 2012 and 2013

Our basic shareholder return policy is to pay stable dividends of ¥8 per share annually, taking into account the performance for the fiscal year in question, the future outlook, and forecast performance figures. However, we also place importance on ensuring a sufficient amount of retained earnings to maintain a sound financial position. We must secure sufficient funding to finance R&D activities and capital investment needed to prepare us for an expected increase in competition.

For fiscal 2012, ended December 31, 2012, we made a term-end dividend payment of ¥5 per share. We have already paid an interim dividend of ¥5 per share, bringing the total annual dividend to ¥10 per share.

For the current term, ending December 31, 2013, we are planning an interim dividend payment of ¥5 per share, and a term-end payment of the same sum, for an annual dividend of ¥10 per share.

Business Risks

(1) Cost competition

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

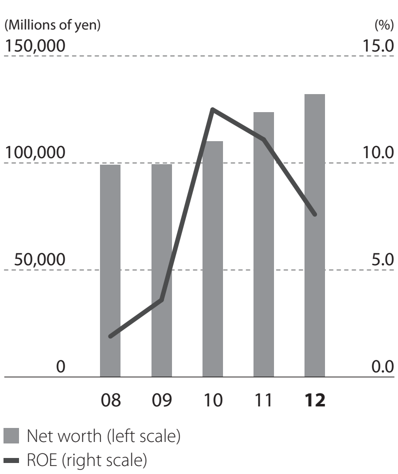
(2) Changes in the price of crude oil and naphtha

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

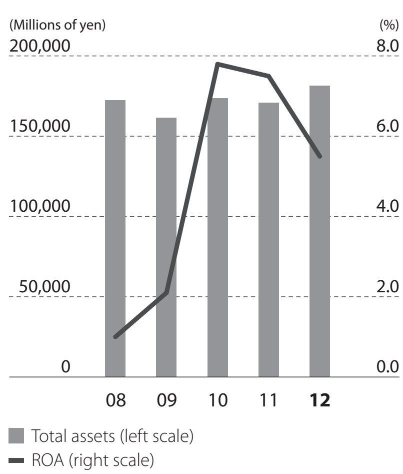
(3) Product liability

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

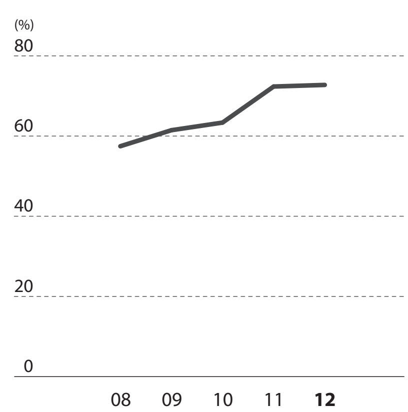
Net worth / ROE



Total assets / ROA



Net worth ratio



(4) Impact of natural disasters

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

(5) Major litigation

In the event of a major lawsuit being brought against the Group in the future, there is a possibility that this will adversely affect its business performance and financial position.

(6) Deferred tax assets

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

(7) Changes in foreign currency exchange rates

For the reporting period, overseas sales of the Group accounted for 15.3% of total sales. The Group includes seven overseas consolidated subsidiaries and one overseas affiliated company subject to the equity method. There is therefore a possibility of a change in exchange rates adversely affecting the business performance and financial position of the Group.

(8) Changes in interest rates

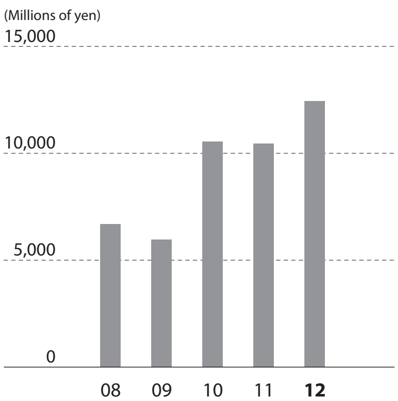
The Group is committed to further reducing interest-bearing debt, to improve the overall financial balance. However, there is a possibility that a change in interest rates will influence the business performance and financial position of the Group.

(9) Application of accounting for the impairment of fixed assets

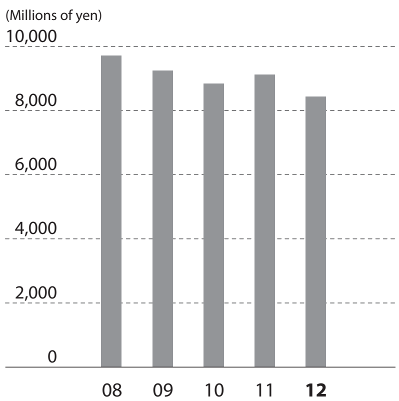
In line with accounting law in Japan, the Group has applied impairment accounting for fixed assets. As a result, in the event of a significant future decline in market prices of land, and/or a deterioration in the Group's operating environment, there is a possibility of the posting of a substantial impairment loss, which would adversely affect the Group's business performance and financial position. The Group is fully aware of the risks outlined above, and has measures in place to minimize their impact on operating results and financial position, at the Group and Group company level.

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.

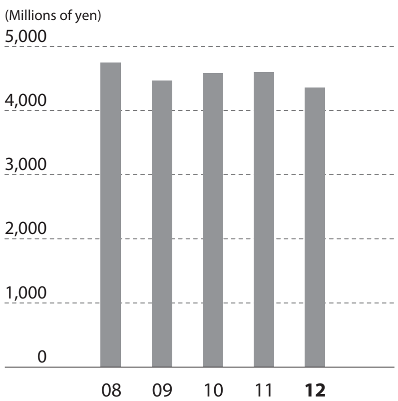
Capital investment



Depreciation and amortization expenditures



Research and development expense



Consolidated Balance Sheets

Toagosei Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 6)
December 31,	2012	2011	2012
Assets			
Current assets:			
Cash and deposits (Note 19)	¥ 17,096	¥ 14,467	$ 197,467
Notes and accounts receivable (Note 19)	43,434	42,182	501,667
Securities (Note 19)	14,000	10,000	161,700
Inventories (Note 7)	15,989	16,991	184,680
Deferred tax assets (Note 24)	1,094	708	12,644
Income taxes receivable	330	2,050	3,813
Other current assets	1,396	1,434	16,128
Allowance for doubtful receivables	(57)	(76)	(660)
Total current assets	93,284	87,756	1,077,441
Property, plant and equipment (Notes 15, 22 and 28):	236,740	229,801	2,734,351
Accumulated depreciation	(170,674)	(168,046)	(1,971,289)
Property, plant and equipment, net	66,065	61,754	763,062
Intangible fixed assets, net	902	1,081	10,419
Investments and other assets:			
Investment securities (Notes 19 and 20)	14,316	13,645	165,357
Deferred tax assets (Note 24)	2,735	3,014	31,591
Prepaid pension cost (Note 23)	2,764	2,515	31,929
Other assets	1,452	1,366	16,778
Allowance for doubtful receivables	(70)	(90)	(808)
Total investments and other assets	22,101	21,534	255,267
Total assets	¥181,451	¥171,046	$2,095,771

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2012	2011	2012
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable (Note 19)	¥ 14,878	¥ 14,983	$ 171,849
Short-term bank loans (Notes 18 and 22)	2,340	2,390	27,032
Current portion of long-term debt (Notes 19 and 22)	3,893	884	44,971
Accrued income taxes	4,064	1,736	46,944
Other current liabilities	8,612	9,184	99,468
Total current liabilities	33,789	29,179	390,267
Long-term liabilities:			
Long-term debt (Notes 19 and 22)	6,145	9,440	70,981
Deferred tax liabilities (Note 24)	164	52	1,900
Accrued retirement benefits for employees (Note 23)	454	534	5,252
Accrued retirement benefits for directors	29	32	340
Other long-term liabilities	4,627	4,030	53,444
Total long-term liabilities	11,421	14,090	131,920
Commitments and contingencies (Note 24)			
Net assets:			
Shareholders' equity (Notes 26, 29, 30 and 33):			
Common stock, without par value:			
Authorized – 550,000,000 shares			
Issued:			
2012 – 263,992,598 shares	20,886	—	241,238
2011 – 263,992,598 shares	—	20,886	—
Capital surplus	16,796	16,797	194,004
Retained earnings	93,821	86,758	1,083,634
Treasury stock	(120)	(103)	(1,390)
Total shareholders' equity	131,384	124,338	1,517,487
Accumulated other comprehensive income:			
Unrealized holding gain on available-for-sale securities	1,412	1,166	16,309
Translation adjustments	(722)	(1,678)	(8,340)
Total accumulated other comprehensive income	689	(511)	7,969
Minority interests	4,166	3,950	48,127
Total net assets	136,240	127,776	1,573,583
Total liabilities and net assets	¥181,451	¥171,046	$2,095,771

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Toagosei Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars (Note 6)
Years ended December 31,	2012	2011	2012
Net sales	¥148,203	¥153,007	$1,711,746
Cost of sales	108,246	107,663	1,250,246
Gross profit	39,956	45,344	461,500
Selling, general and administrative expenses (Notes 23 and 27)	25,372	28,006	293,054
Operating income	14,583	17,338	168,445
Other income (expenses):			
Interest and dividend income	452	465	5,221
Equity in earnings of affiliates	271	414	3,137
Interest on refund of income taxes and other	214	—	2,478
Interest expense	(142)	(213)	(1,640)
Environment readiness fee	(158)	(434)	(1,828)
Foreign currency exchange loss	—	(62)	—
Subsidy income	287	—	3,314
Compensation income (Note 11)	515	—	5,955
Gain on extinguishment of tie-in shares (Note 12)	87	—	1,009
Gain on negative goodwill	—	3,080	—
Gain on revision of retirement benefit plan	—	149	—
Loss on disposal of property, plant and equipment	(521)	(515)	(6,021)
Impairment loss on property, plant and equipment (Note 15)	(787)	(476)	(9,093)
Loss on valuation of investment securities	(313)	(441)	(3,624)
Loss on disaster (Note 16)	—	(462)	—
Other, net	28	150	332
Income before income taxes and minority interests	14,518	18,992	167,687
Income taxes (Note 24):			
Current	5,348	3,313	61,771
Prior years (Note 13)	(712)	—	(8,233)
Deferred	(168)	2,043	(1,947)
	4,466	5,357	51,590
Income before minority interests	10,051	13,635	116,096
Minority interests	352	635	4,065
Net income (Note 33)	¥ 9,699	¥ 13,000	$ 112,031

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (Note 6)
Years ended December 31,	2012	2011	2012
Income before minority interests	¥10,051	¥13,635	$116,096
Unrealized holding gain on available-for-sale securities	245	(337)	2,834
Translation adjustments	1,047	(331)	12,104
Total other comprehensive income	1,293	(668)	14,938
Comprehensive income (Note 17)	¥11,345	¥12,966	$131,035
Comprehensive income attributable to owners of the parent	¥10,901	¥12,351	$125,911
Comprehensive income attributable to minority interests	443	615	5,124

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Toagosei Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 6)
Years ended December 31,	2012	2011	2012
Shareholders' equity			
Common stock			
Balance at beginning of the year	¥ 20,886	¥ 20,886	$ 241,238
Changes during the year:			
Total changes during the year	—	—	—
Balance at end of the year	¥ 20,886	¥ 20,886	$ 241,238
Capital surplus			
Balance at beginning of the year	¥ 16,797	¥ 15,088	$ 194,006
Changes during the year:			
Gain on sales of treasury stock	(0)	1	(1)
Changes of share exchanges	—	1,706	—
Total changes during the year	(0)	1,708	(1)
Balance at end of the year	¥ 16,796	¥ 16,797	$ 194,004
Retained earnings			
Balance at beginning of the year	¥ 86,758	¥ 77,131	$1,002,056
Effect of changes in accounting policies applied to foreign equity method company	—	(765)	—
Changes during the year:			
Cash dividends	(2,636)	(2,608)	(30,453)
Net income	9,699	13,000	112,031
Total changes during the year	7,063	10,391	81,577
Balance at end of the year	¥ 93,821	¥ 86,758	$1,083,634
Treasury stock			
Balance at beginning of the year	¥ (103)	¥ (2,955)	$ (1,194)
Changes during the year:			
Purchase of treasury stock	(22)	(3,315)	(257)
Gain on sales of treasury stock	5	7	61
Changes of share exchanges	—	6,160	—
Total changes during the year	(16)	2,852	(196)
Balance at end of the year	¥ (120)	¥ (103)	$ (1,390)
Total shareholders' equity			
Balance at beginning of the year	¥124,338	¥110,151	$1,436,106
Effect of changes in accounting policies applied to foreign equity method company	—	(765)	—
Changes during the year:			
Cash dividends	(2,636)	(2,608)	(30,453)
Net income	9,699	13,000	112,031
Purchase of treasury stock	(22)	(3,315)	(257)
Gain on sales of treasury stock	5	9	59
Changes of share exchanges	—	7,866	—
Total changes during the year	7,045	14,951	81,380
Balance at end of the year	¥131,384	¥124,338	$1,517,487

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Toagosei Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 6)
Years ended December 31,	2012	2011	2012
Accumulated other comprehensive income			
Unrealized holding gain on available-for-sale securities			
Balance at beginning of the year	¥ 1,166	¥ 1,499	$ 13,473
Changes during the year:			
Net changes in items other than shareholders' equity	245	(332)	2,835
Total changes during the year	245	(332)	2,835
Balance at end of the year	¥ 1,412	¥ 1,166	$ 16,309
Translation adjustments			
Balance at beginning of the year	¥ (1,678)	¥ (1,367)	$ (19,385)
Changes during the year:			
Net changes in items other than shareholders' equity	956	(310)	11,044
Total changes during the year	956	(310)	11,044
Balance at end of the year	¥ (722)	¥ (1,678)	$ (8,340)
Total accumulated other comprehensive income			
Balance at beginning of the year	¥ (511)	¥ 131	$ (5,911)
Changes during the year:			
Net changes in items other than shareholders' equity	1,201	(643)	13,880
Total changes during the year	1,201	(643)	13,880
Balance at end of the year	¥ 689	¥ (511)	$ 7,969
Minority interests			
Balance at beginning of the year	¥ 3,950	¥ 14,743	$ 45,623
Changes during the year:			
Net changes in items other than shareholders' equity	216	(10,793)	2,504
Total changes during the year	216	(10,793)	2,504
Balance at end of the year	¥ 4,166	¥ 3,950	$ 48,127
Total net assets			
Balance at beginning of the year	¥127,776	¥125,027	$1,475,818
Effect of changes in accounting policies applied to foreign equity method company	—	(765)	—
Changes during the year:			
Cash dividends	(2,636)	(2,608)	(30,453)
Net income	9,699	13,000	112,031
Purchase of treasury stock	(22)	(3,315)	(257)
Gain on sales of treasury stock	5	9	59
Changes of share exchanges	—	7,866	—
Net changes in items other than shareholders' equity	1,418	(11,437)	16,384
Total changes during the year	8,464	3,514	97,764
Balance at end of the year	¥136,240	¥127,776	$1,573,583

Consolidated Statements of Cash Flows

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31,	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 6) 2012
Operating activities			
Income before income taxes and minority interests	¥14,518	¥18,992	$167,687
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	8,432	9,119	97,397
Impairment losses on property, plant and equipment	787	476	9,093
Gain on negative goodwill	—	(3,080)	—
Decrease in provision for doubtful receivables	(40)	(59)	(463)
Reversal of provision for retirement benefits	(328)	(533)	(3,795)
Decrease in other provisions	(12)	(38)	(149)
Interest and dividend income	(452)	(465)	(5,221)
Interest expense	142	213	1,640
Foreign currency exchange gain	(123)	(13)	(1,428)
Equity in earnings of affiliates	(271)	(414)	(3,137)
Compensation for transfer	—	(89)	—
Subsidy income	(287)	—	(3,314)
Compensation income	(515)	—	(5,955)
Loss on disposal of property, plant and equipment	521	515	6,021
Loss on valuation of investment securities	313	441	3,624
Loss on disaster	—	462	—
Decrease (increase) in receivables	(1,041)	2,244	(12,032)
Decrease (increase) in inventories	1,198	(1,373)	13,837
Increase (decrease) in payables	(327)	203	(3,779)
Other, net	(148)	(761)	(1,716)
Subtotal	22,364	25,837	258,306
Interest and dividends received	682	878	7,883
Interest paid	(144)	(234)	(1,668)
Compensation for transfer received	—	97	—
Subsidy income received	287	—	3,314
Compensation income received	515	—	5,955
Loss on disaster paid	—	(341)	—
Income taxes paid	(411)	(8,410)	(4,752)
Net cash provided by operating activities	23,293	17,828	269,038
Investing activities			
Increase in time deposits	(1,034)	(124)	(11,944)
Purchases of investment securities	(955)	(744)	(11,041)
Proceeds from redemption of investment securities	300	—	3,465
Purchases of property, plant and equipment	(12,827)	(10,352)	(148,158)
Proceeds from sales of property, plant and equipment	—	15	—
Decrease in overdue loans receivable	—	3,088	—
Collection of long-term loans receivable	21	21	247
Other, net	(544)	(945)	(6,293)
Net cash used in investing activities	(15,041)	(9,041)	(173,725)
Financing activities			
Decrease in short-term bank loans	(50)	(920)	(585)
Proceeds from long-term debt	450	4,100	5,197
Repayment of long-term debt	(790)	(4,091)	(9,135)
Proceeds from sales of treasury stock	5	9	59
Purchases of treasury stock	(22)	(3,315)	(257)
Repayment of lease obligations	(110)	(97)	(1,274)
Cash dividends to shareholders	(2,858)	(3,005)	(33,018)
Net cash used in financing activities	(3,377)	(7,320)	(39,013)
Effect of exchange rate changes on cash and cash equivalents	658	(163)	7,611
Net increase in cash and cash equivalents	5,533	1,303	63,910
Cash and cash equivalents at beginning of the year	23,992	22,689	277,113
Increase in cash and cash equivalents resulting from merger of subsidiaries	3	—	43
Cash and cash equivalents at end of the year (Note 18)	¥29,529	¥23,992	$341,067

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toagosei Co., Ltd. and Consolidated Subsidiaries
December 31, 2012

1. Basis of Preparation

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

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

As permitted by the Financial Instruments and Exchange Act 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 (collectively, the "Group") controlled directly or indirectly by the Company. Affiliated companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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

(b) Foreign currency translation

Receivables and payables in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date.

Assets and liabilities of the foreign consolidated subsidiaries are translated at the same exchange rates. Revenue and expense accounts of the foreign consolidated subsidiaries are translated at periodical average rates during the year.

(c) Cash deposits

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

(d) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined by the moving average method. (The balance sheet amounts are written down if there is any decrease in profitability.)

(e) Property, plant and equipment and depreciation (excluding leased assets)

Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is calculated by the straight-line method based on the estimated useful lives of the respective assets and their residual value.

(f) Intangible fixed assets (excluding leased assets)

Amortization of intangible fixed assets, primarily consisting of software, is calculated by the straight-line method based on the estimated useful lives of the respective assets in this category (5 years for software).

(g) Securities and investment securities

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

(h) Income taxes

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

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

The revised accounting standards require that all finance lease transactions shall be capitalized by recognizing leased assets and corresponding lease obligations in the balance sheet. Depreciation of leased assets shall be calculated based on the assumption that the useful lives equal the lease term and the residual value is zero.

Lease transactions contracted that do not transfer ownership, before January 1, 2009, continue to be accounted for as operating leases.

k) Allowance for doubtful receivables

The allowance for bad debts and doubtful receivables in respect of individual bad debts is provided in an amount sufficient to cover credit losses based on the collectability of individual receivables. The allowance for receivables other than those described above is based on past credit loss experience.

(l) Retirement benefits for employees and directors

Accrued retirement benefits for employees are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for the unrecognized net retirement benefit obligation at transition and unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. When pension plan assets are less than the retirement benefit obligation as adjusted for the unrecognized actuarial gain or loss, the amount is booked as accrued retirement benefits and when pension plan assets are more than retirement benefit obligation as adjusted for the unrecognized actuarial gain or loss, the amount is booked as prepaid pension cost. Actuarial gain or loss of the Company is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the average remaining years of service of the eligible employees (13 to 15 years). Actuarial gain or 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 of the Company and one consolidated subsidiary 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 October 1, 2010, one consolidated subsidiary changed its rules for tax-qualified pension plans and lump-sum payment plans. As a result, an 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 (15 years) which is shorter than the average remaining years of service of the eligible employees.

(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 interest rates. Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to income, unless when those which meet certain hedging criteria for special accounting treatment under which any differences paid or received on the interest rate swaps are recognized as adjustments to interest expense over the life of such swaps, thereby adjusting the effective interest rate on the hedged items, which are the underlying borrowings.

(n) Appropriation of retained earnings

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

3. Changes in Accounting Policy

Six consolidated subsidiaries previously applied the declining-balance method for depreciation of property, plant and equipment depreciation (except for leased assets). Effective from the beginning of the fiscal year, January 1, 2012, the consolidated companies adopted the straight-line method.

The consolidated companies changed the depreciation method in order to standardize cost management between parent and subsidiaries after the Company merged the sales departments of the consolidated subsidiaries and changed to manufacturing subsidiaries and in order to reflect appropriate periodic profit and loss by matching long-term and stable revenues with depreciation of property, plant and equipment allocated based on the straight-line method over their useful lives.

As a result, depreciation for the fiscal year ended December 31, 2012 decreased by ¥439 million (U.S.$5,077 thousand) and operating income and income before income taxes and minority interests increased by ¥423 million (U.S.$4,889 thousand) compared with the amounts that would have been recorded under the previous method.

4. Accounting Standards Issued but Not Yet Effective

Accounting standard for retirement benefits

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on May 17, 2012).

Under the revised accounting standard, actuarial gains and losses and unrecognized prior service costs that are yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset. The retirement benefit obligation can be attributed to each period by the benefit formula basis by the straight-line method and the calculation method for the discount rate shall be changed.

The Company expects to apply the revised accounting standard from the fiscal year ended December 31, 2014 and apply the revised calculation method for the projected benefit obligation and service cost from beginning of the fiscal year ended December 31, 2015. As of December 31, 2012, the Company is in the process of measuring the effects of applying the revised accounting standard on financial statements.

5. Additional Information

Effective January 1, 2012, the Company and its consolidated subsidiaries adopted the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009).

6. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is made at ¥86.58 = U.S.$1.00, the approximate exchange rate at December 31, 2012, and is 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.

7. Inventories

Inventories at December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Merchandise and finished products	¥10,981	¥11,878	$126,834
Work in process	414	437	4,790
Raw materials and supplies	4,593	4,675	53,055
	¥15,989	¥16,991	$184,680

8. Property, Plant and Equipment

Property, plant and equipment, net at December 31, 2012 and 2011 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Land	¥17,299	¥16,857	$199,809
Buildings and structures	20,096	19,897	232,115
Machinery, equipment and other	20,798	21,587	240,218
Construction in progress	7,637	3,217	88,214
Leased assets	234	193	2,704
	¥66,065	¥61,754	$763,062

9. Selling Expenses

The components of selling expenses for the years ended December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Transportation expenses	¥8,603	¥9,278	$99,372
Salaries	2,163	2,301	24,985
Bonuses	709	805	8,192
Depreciation and amortization	208	218	2,408
Retirement benefit expenses	198	208	2,293

10. General and Administrative Expenses

The components of general and administrative expenses for the years ended December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Salaries	¥2,262	¥2,413	$26,129
Bonuses	1,025	1,142	11,845
Depreciation and amortization	1,093	1,095	12,633
Retirement benefit expenses	333	317	3,851
Amortization of goodwill	9	242	114

11. Compensation Income

The Company recorded compensation income for the year ended December 31, 2012 on payments made to a consolidated subsidiary from the Tokyo Electric Power Company pertaining to the accident at the Fukushima Daiichi and Daini Nuclear Power Stations.

12. Gain on Extinguishment of Tie-in Shares

The Company recorded a gain for the year ended December 31, 2012 on extinguishment of tie-in shares of non-consolidated subsidiary, Tokaiunyuseikei Co., Ltd., by consolidated subsidiary, Aronkasei Co., Ltd., on April 1, 2012.

13. Income Taxes for Prior Years

The Company received an income tax refund during year ended December 31, 2012 for income taxes for prior years based on a mutual agreement reached between Japan and the United States on transfer pricing taxation.

14. Loss on Disposal of Property, Plant and Equipment

The components of loss on disposal of property, plant and equipment for the years ended December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Machinery, equipment and other	¥ 59	¥ 67	$ 682
Disposal costs	370	364	4,273
Buildings and structures, etc.	92	82	1,064

15. Impairment Loss on Property, Plant and Equipment

The Company and its consolidated subsidiaries have recognized impairment losses on the following classes of assets for the years ended December 31, 2012 and 2011:

2012

Location	Major use	Category	Millions of yen	Thousands of U.S. dollars
Minato-ku, Nagoya city	Facilities for manufacturing inorganic chloride	Buildings, structures and etc.	¥542	$6,260
Minato-ku, Nagoya city	Idle	Buildings and structures	245	2,832
Total			¥787	$9,093

2011

Location	Major use	Category	Millions of yen
Tokushima city, Tokushima	Equipment for supplying utilities	Buildings, machinery and equipment, etc.	¥355
Minato-ku, Nagoya city	Warehouse facilities etc.	Buildings, machinery and equipment, etc.	120
Total			¥476

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

When there is a decrease in profitability, no specific plan for future use, or the book value of such idle assets is less than their respective recoverable amounts, the book value of the assets is written down to its recoverable amount. The assets listed in the above tables were written down to their respective recoverable amounts and ¥787 million (U.S.$9,093 thousand) and ¥476 million of impairment losses were recognized in the statements of income for the years ended December 31, 2012 and 2011, respectively.

The impairment loss consisted of ¥184 million (U.S.$2,131 thousand) for buildings and structures, ¥0 million (U.S.$4 thousand) for other and ¥602 million (U.S.$6,957 thousand) for removal cost for the year ended December 31, 2012, and consisted of ¥80 million for buildings and structures, ¥142 million for machinery and equipment, ¥1 million for other and ¥251 million for removal cost for the year ended December 31, 2011.

The impairment loss for idle assets was measured based on the valuation of the assets using the valuation techniques of a real estate appraiser and the memorandum value of the idle assets.

16. Loss on Disaster

Loss on disaster due to the Great East Japan Earthquake was summarized as follows:

	Millions of yen
	2011
Disposal of certain property, plant and equipment and inventories	¥ 24
Recovery cost	203
Fixed costs during temporary suspension of operations	205
Others	29
	¥462

17. Comprehensive Income

Reclassification adjustment and tax effect of other comprehensive income were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized holding gain on available-for-sale securities		
Amount arising during the fiscal year	¥ 99	$ 1,149
Reclassification adjustment	278	3,221
Amount before tax effect	378	4,371
Tax effect	133	1,536
Unrealized holding gain on available-for-sale securities	245	2,834
Translation adjustments		
Amount arising during the fiscal year	1,047	12,104
Amount before tax effect	1,047	12,104
Tax effect	—	—
Translation adjustments	1,047	12,104
Total other comprehensive income	¥1,293	$14,938

18. Cash and Cash Equivalents

The components of cash and cash equivalents at December 31, 2012 and 2011 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and deposits	¥17,096	¥14,467	$197,467
Securities	14,000	10,000	161,700
Time deposits with terms in excess of 3 months	(1,567)	(474)	(18,100)
Sundry deposits	—	(0)	—
	¥29,529	¥23,992	$341,067

19. Financial Instruments

1. Matters related to the status of financial instruments

(1) Policies on financial instruments

When managing surplus funds, the Group limits the application of such funds to highly secure financial assets, mainly short-term bank deposits, and it procures funds mainly through bank borrowings. Derivative transactions are used to hedge interest fluctuation risk present in borrowings, but are not used for speculative or trading purposes.

(2) Description of financial instruments and associated risks

Notes and accounts receivable, which represent trade receivables, are exposed to client-based credit risk. Furthermore, foreign currency denominated trade receivables are also subject to exchange rate fluctuation risks. In order to counter such risk, foreign currency borrowings are used when necessary as a means of hedging the net position of foreign currency denominated trade payables. Securities and investment securities are primarily negotiable deposits, held-to-maturity securities and shares related to businesses, and are thus exposed to risk stemming from fluctuations in market value.

Notes and accounts payable, which represent trade payables, are due within one year. A portion of these are foreign currency denominated items related to payment for raw material imports, which are subject to exchange rate fluctuation risk. These are constantly maintained within the balance of receivables denominated in the same foreign currencies. Borrowings are used to procure funds necessary for operational transactions and capital expenditures. A portion of these borrowings bearing variable interest rates are exposed to interest rate fluctuation risk. Derivative transactions (interest rate swap transactions) are used as a means of hedging.

The interest rate swap transactions are entered into in order to hedge against risk associated with fluctuations in interest rates on borrowings. Information on hedge accounting-related matters such as hedging instruments, hedged items, hedging policies and methods of assessing the effectiveness of hedging can be found in Note 2 (l).

(3) Risk management systems related to financial instruments

(a) Management of credit risk (risk associated with non-performance of a contract by a business partner etc.)

The departments in charge of Company operations regularly monitor the trade receivable status of all business partners in accordance with the Regulations on Selling in order to identify business partner-based credit risk associated with the deterioration of financial circumstances or other causes at an early stage and reduce it. In case of the consolidated subsidiaries, their divisions or accounting departments also manage the financial and credit status of their business partners pursuant to their own regulations.

As held-to-maturity securities consist only of those with a high credit rating, the credit risk of such securities is very small.

Derivative transactions are entered into only with highly rated financial institutions.

The maximum credit risk value as of the date of closing of consolidated accounts for the current term is expressed by the value of financial assets in the consolidated balance sheet which are subject to credit risk.

(b) Management of market risk (risk associated with exchange rate and interest rate fluctuations)

When necessary, the Company uses borrowings denominated in foreign currencies to hedge its foreign currency denominated trade receivables and trade payables. Interest rate swaps are used to reduce risk associated with fluctuations in interest expenses related to borrowings.

The Company regularly monitors the fair value of securities and investment securities, and the financial condition of the issuers (its business partners).

Derivative transactions are individually approved by the director of finance and accounting before being entered into by the finance and accounting department, and their position and profit/loss situation are managed regularly.

(c) Management of liquidity risk associated with procuring funds (the risk of being unable to execute a payment on the due date)

The Company and its consolidated subsidiaries have formulated cash flow management plans and manage liquidity risk by, for example, keeping a certain amount of cash reserves on hand. The conclusion of commitment line agreements with a total value of ¥10 billion also serves to reduce liquidity risk.

(4) Supplementary information regarding the fair value of financial instruments

The fair value of financial instruments consists of their market price-based value, and, if a market price is not available, their logically calculated value. Variable factors are incorporated into the calculations of the fair value, and different fair values are possible depending on the differing assumptions used.

2. Fair value of financial instruments

The fair value and carrying value of financial instruments and the difference between both values are shown below. Financial instruments whose fair value is extremely difficult to determine, are not included in the table below. (Please refer to Note 2.)

	Millions of yen		
December 31, 2012	Carrying value	Fair value	Difference
(1) Cash and deposits	¥17,096	¥17,096	—
(2) Notes and accounts receivable	43,434	43,434	—
(3) Securities and investment securities:			
(i) Held-to-maturity securities	100	100	¥ 0
(ii) Available-for-sale securities	24,977	24,977	—
Total assets	85,608	85,609	0
(1) Notes and accounts payable	14,878	14,878	—
(2) Short-term bank loans	6,234	6,234	—
(3) Long-term debt	5,986	6,031	44
Total liabilities	¥27,099	¥27,144	¥44
Total derivative transactions	—	—	—

	Thousands of U.S. dollars		
December 31, 2012	Carrying value	Fair value	Difference
(1) Cash and deposits	$197,467	$197,467	—
(2) Notes and accounts receivable	501,667	501,667	—
(3) Securities and investment securities:			
(i) Held-to-maturity securities	1,158	1,163	$ 4
(ii) Available-for-sale securities	288,487	288,487	—
Total assets	988,782	988,787	4
(1) Notes and accounts payable	171,849	171,849	—
(2) Short-term bank loans	72,004	72,004	—
(3) Long-term debt	69,146	69,664	518
Total liabilities	$312,999	$313,518	$518
Total derivative transactions	—	—	—

	Millions of yen		
December 31, 2011	Carrying value	Fair value	Difference
(1) Cash and deposits	¥14,467	¥14,467	—
(2) Notes and accounts receivable	42,182	42,182	—
(3) Securities and investment securities:			
(i) Held-to-maturity securities	101	101	¥ 0
(ii) Available-for-sale securities	19,733	19,733	—
Total assets	76,483	76,484	0
(1) Notes and accounts payable	14,983	14,983	—
(2) Short-term bank loans	3,274	3,274	—
(3) Long-term debt	9,323	9,405	81
Total liabilities	¥27,582	¥27,663	¥81
Total derivative transactions	—	—	—

(Note 1)

Valuation method of financial instruments and matters related to securities and derivative transactions.

Assets

(1) Cash and cash equivalents, and (2) Notes and accounts receivable

As all of these are settled within a short span of time, the fair value is virtually identical to the carrying value. Therefore, the carrying value is used.

(3) Securities and investment securities

In the case of the fair value of securities and investment securities, shares are stated at the exchange-listed price and securities are stated at the exchange-listed price or the price quoted by the correspondent financial institution. In the case of those available-for-sale securities which are settled within a short span of time, the fair value is virtually identical to the carrying value. Therefore, the carrying value is used.

Liabilities

(1) Notes and accounts payable, and (2) Short-term bank loans

As all of these are settled within a short span of time, the fair value is virtually identical to the carrying value. Therefore, the carrying value is used.

(3) Long-term debt

The fair value of long-term debt is calculated as the present value by discounting the total principal and interest on the borrowings by the interest rate which would be assumed if new, similar borrowings were made.

Derivative transactions

Please refer to Note 21.

(Note 2)

Financial instruments whose fair value is extremely difficult to determine.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Investments in unconsolidated subsidiaries and affiliates	¥2,281	¥2,345	$26,354
Available-for-sale securities:			
Unlisted securities	947	1,139	10,948
Other	9	325	108
Total	¥3,239	¥3,811	$37,411

It is extremely difficult to determine the fair value of these items, as they do not have market prices and future cash flow cannot be estimated. Therefore, they are not included in "Assets: (3) Securities and investment securities in the preceding table."

(Note 3)

The redemption schedule for monetary claims, held-to-maturity securities and available-for-sale securities with maturities subsequent to the consolidated balance sheet date.

	Millions of yen			
December 31, 2012	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash equivalents	¥17,088	—	—	—
Notes and accounts receivable	43,434	—	—	—
Securities and investment securities:				
Held-to-maturity securities	—	—	¥100	—
Available-for-sale securities with maturities	14,000	—	—	—
Total	¥74,523	—	¥100	—

December 31, 2012	Thousands of U.S. dollars 1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash equivalents	$197,374	—	—	—
Notes and accounts receivable	501,667	—	—	—
Securities and investment securities:				
Held-to-maturity securities	—	—	$1,155	—
Available-for-sale securities with maturities	161,700	—	—	—
Total	$860,742	—	$1,155	—

December 31, 2011	Millions of yen 1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash equivalents	¥14,458	—	—	—
Notes and accounts receivable	42,182	—	—	—
Securities and investment securities:				
Held-to-maturity securities	—	—	¥100	—
Available-for-sale securities with maturities	10,000	—	—	—
Total	¥66,640	—	¥100	—

(Note 4)

Please refer to Note 12 as to the redemption schedule for long-term debt subsequent to the consolidated balance sheet date.

20. Investment Securities

(a) At December 31, 2012 and 2011, held-to-maturity securities for which market prices were available were summarized as follows:

December 31, 2012	Millions of yen Carrying value	Fair value	Unrealized gain (loss)
Unrealized gain:			
Corporate bonds	¥100	¥100	¥0
Unrealized loss:			
Corporate bonds	—	—	—
Total	¥100	¥100	¥0

December 31, 2012	Thousands of U.S. dollars Carrying value	Fair value	Unrealized gain (loss)
Unrealized gain:			
Corporate bonds	$1,158	$1,163	$4
Unrealized loss:			
Corporate bonds	—	—	—
Total	$1,158	$1,163	$4

December 31, 2011	Millions of yen Carrying value	Fair value	Unrealized gain (loss)
Unrealized gain:			
Corporate bonds	¥101	¥101	¥0
Unrealized loss:			
Corporate bonds	—	—	—
Total	¥101	¥101	¥0

(b) Marketable securities classified as available-for-sale securities as of December 31, 2012 and 2011 were summarized as follows:

December 31, 2012	Millions of yen Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 3,836	¥ 6,738	¥2,902
Securities whose acquisition cost exceeds their carrying value:			
Stock	5,024	4,238	(786)
Other	14,000	14,000	—
Total	¥22,861	¥24,977	¥2,116

December 31, 2012	Thousands of U.S. dollars Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	$ 44,312	$ 77,831	$33,518
Securities whose acquisition cost exceeds their carrying value:			
Stock	58,034	48,955	(9,078)
Other	161,700	161,700	—
Total	$264,047	$288,487	$24,440

December 31, 2011	Millions of yen Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 3,327	¥ 5,841	¥2,514
Securities whose acquisition cost exceeds their carrying value:			
Stock	4,668	3,891	(776)
Other	10,000	10,000	—
Total	¥17,995	¥19,733	¥1,737

21. Derivative Transactions

Derivative transactions to which hedge accounting is applied.

Derivative transactions to which the deferred hedge accounting method is applied as of December 31, 2012 and 2011.

	Millions of yen 2012 Contract amount	Contract amount over one year	Fair value
Special treatment for interest rate swaps:			
Interest rate swaps			
(Hedged item: Long-term debt)			
Receive floating and pay fixed	¥3,664	¥541	(*)

	Thousands of U.S. dollars 2012 Contract amount	Contract amount over one year	Fair value
Special treatment for interest rate swaps:			
Interest rate swaps			
(Hedged item: Long-term debt)			
Receive floating and pay fixed	$42,324	$6,254	(*)

	Millions of yen		
	2011		
	Contract amount	Contract amount over one year	Fair value
Special treatment for interest rate swaps:			
Interest rate swaps			
(Hedged item: Long-term debt)			
Receive floating and pay fixed	¥3,319	¥3,203	(*)

(*) Because the interest rate swaps are accounted for with long-term debt as the hedged item, the fair value of the swaps is included in the fair value of the long-term debt.

22. 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 0.79% at December 31, 2012 and 2011.

Long-term debt at December 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Loans with collateral from banks, insurance companies and other, bearing annual interest rates of 1.31% and 0.93% for current portion of long-term debt and lease obligations, and long-term debt and lease obligations less current portion at December 31, 2012, respectively	¥10,039	¥10,324	$115,953
	10,039	10,324	115,953
Less: current portion	(3,893)	(884)	(44,971)
	¥ 6,145	¥ 9,440	$ 70,981

Assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Property, plant and equipment at net book value	¥17,557	¥18,239	$202,792

The aggregate annual maturities of long-term debt and lease obligations subsequent to December 31, 2013 were summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2014	¥4,909	$56,709
2015	579	6,693
2016	411	4,755
2017	52	609

23. Retirement Benefit Plans for Employees

The Company and its consolidated subsidiaries have a defined benefit plan consisting of a defined benefit corporate pension plan and a retirement lump-sum payment plan 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. Further, their defined contribution plan consists of a defined contribution pension plan. A retirement benefit trust has also been established.

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, 2012 and 2011 related to the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	¥(10,320)	¥(10,740)	$(119,203)
Plan assets at fair value	10,503	9,296	121,310
Funded status	182	(1,443)	2,107
Unrecognized actuarial gain	2,265	3,603	26,161
Unrecognized prior service cost	(137)	(178)	(1,592)
Prepaid pension cost	(2,764)	(2,515)	(31,929)
Accrued retirement benefits	¥ (454)	¥ (534)	$ (5,252)

The components of net periodic retirement benefit expenses for the years ended December 31, 2012 and 2011 were outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥ 492	¥ 502	$ 5,687
Interest cost	156	171	1,812
Expected return on plan assets	(80)	(86)	(924)
Amortization of actuarial loss	417	376	4,818
Amortization of unrecognized prior service cost	(19)	(20)	(222)
Other (*)	284	255	3,285
Total	¥1,251	¥1,198	$14,456

(*) Contribution to defined contribution plan

The assumptions used in accounting for the defined benefit plans for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Discount rate	Mainly 1.5%	Mainly 1.5%
Expected rate of return on plan assets	Mainly 1.0%	Mainly 1.0%

24. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on earnings, i.e. corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 40.5% for the years ended December 31, 2012 and 2011.

The effective tax rates reflected in the consolidated statements of income for the years ended December 31, 2012 and 2011 differ from the statutory tax rate for the following reasons:

	2012	2011
Statutory tax rate	40.5%	40.5%
Effect of:		
Permanent difference – entertainment expenses	0.6	0.4
Permanent difference – dividend income	(0.5)	(5.5)
Inhabitants' per capita taxes	0.5	0.4
Amortization of goodwill	0.0	0.5
Equity in earnings of affiliates	(0.8)	(0.9)
Valuation allowance	(2.7)	2.3
Different tax rates applied to income of foreign consolidated subsidiaries	(0.9)	(3.7)
Tax deduction of experiment and research expenses	(1.9)	(0.6)
Income taxes-prior years	(4.9)	—
Gain on negative goodwill	—	(6.6)
Other, net	0.8	1.3
Effective tax rates	30.7%	28.2%

Significant components of deferred tax assets and liabilities as of December 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Loss on valuation of investment securities	¥1,064	¥1,065	$12,293
Elimination of unrealized profit	2,413	2,737	27,875
Accrued retirement benefits	824	991	9,525
Accrued enterprise tax	336	31	3,890
Net operating loss carry forwards	89	197	1,030
Impairment loss on property, plant and equipment	1,304	1,663	15,070
Accrued costs of removing facilities	1,008	742	11,642
Other	1,087	1,007	12,558
Gross deferred tax assets	8,128	8,437	93,886
Valuation allowance	(2,616)	(3,017)	(30,215)
Total deferred tax assets	5,512	5,419	63,670
Deferred tax liabilities:			
Reserve under Special Taxation Measures Law	(323)	(344)	(3,741)
Undistributed earnings of overseas partnerships	(159)	(133)	(1,843)
Gain on contribution of securities to retirement benefit trust	(621)	(640)	(7,183)
Unrealized holding gain on available-for-sale securities	(684)	(549)	(7,901)
Other	(57)	(81)	(669)
Total deferred tax liabilities	(1,847)	(1,750)	(21,340)
Net deferred tax assets	¥3,664	¥3,669	$42,330

Following the promulgation of the "Act for Partial Amendment of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114, 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117, 2011), on December 2, 2011, the corporate income tax rate will be lowered and a special restoration surtax will be imposed from fiscal years beginning on April 1, 2012. As a result, the domestic statutory tax rates to calculate deferred tax assets and liabilities will be reduced from the current 40.54% to 37.87% for temporary difference expected to reverse from consolidated fiscal years beginning from January 1, 2013 through January 1, 2015, and 35.49% for temporary differences expected to reverse from fiscal years beginning on or after January 1, 2016. As a result of these changes in the tax rate, deferred tax assets (net of deferred tax liabilities) increased ¥39 million, unrealized holding gain on securities ¥77 million and deferred income taxes ¥37 million as of and for the year ended December 31, 2011 compared with the amounts that would have been recorded under the previous tax regulations.

25. Investment and Rental Property

Disclosures about the fair values of investment and rental property have not been presented as the total amount of the property is immaterial.

26. Capital Surplus and Retained Earnings

The Corporation Law of Japan 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 or the legal reserve 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.$46,084 thousand) and ¥3,990 million as of December 31, 2012 and 2011, respectively.

27. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended December 31, 2012 and 2011 were ¥4,360 million (U.S.$50,361 thousand) and ¥4,603 million, respectively.

28. Leases

The following amounts represent the acquisition cost, accumulated depreciation and net book value of finance lease transactions entered into on or before December 31, 2008, except for the lease agreements which stipulate the transfer of ownership of the leased assets to the lessee, as of December 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Acquisition cost:			
Machinery, equipment and other	¥172	¥270	$1,991
	¥172	¥270	$1,991
Accumulated depreciation:			
Machinery, equipment and other	¥165	¥233	$1,914
	¥165	¥233	$1,914
Net book value:			
Machinery, equipment and other	¥ 6	¥ 36	$ 76
	¥ 6	¥ 36	$ 76

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥19 million (U.S.$226 thousand) and ¥58 million, respectively, 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, 2012 and 2011.

Future minimum lease payments (including the interest portion thereon) subsequent to December 31, 2012 for non-cancelable operating leases and finance leases accounted for as operating leases were summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
Year ending December 31,	Operating leases	Finance leases	Operating leases	Finance leases
2013	¥47	¥3	$553	$43
2014 and thereafter	6	2	74	33
Total	¥54	¥6	$628	$76

29. Treasury Stock

Number of shares of treasury stock for the years ended December 31, 2012 and 2011 were as follows:

	Thousands of shares			
Year ended December 31, 2012	January 1, 2012	Increase during the year	Decrease during the year	December 31, 2012
Treasury stock:				
Common stock	317	67	16	368
Total	317	67	16	368

	Thousands of shares			
Year ended December 31, 2011	January 1, 2011	Increase during the year	Decrease during the year	December 31, 2011
Treasury stock:				
Common stock	11,725	8,086	19,494	317
Total	11,725	8,086	19,494	317

30. Cash Dividends

Dividends paid in the years ended December 31, 2012 and 2011 were as follows:

Year ended December 31, 2012

		Millions of yen	Thousands of U.S. dollars
Resolution	Type of shares	Gross amount	Gross amount
March 27, 2012 99th Annual Shareholders' Meeting	Common stock	¥1,318	$15,227
August 2, 2012 Board of Directors	Common stock	¥1,318	$15,225

Year ended December 31, 2012

	Yen	U.S. dollars		
Resolution	Per share	Per share	Record date	Effective date
March 27, 2012 99th Annual Shareholders' Meeting	¥5.00	$0.058	December 31, 2011	March 28, 2012
August 2, 2012 Board of Directors	¥5.00	$0.058	June 30, 2012	September 6, 2012

Year ended December 31, 2011

		Millions of yen
Resolution	Type of shares	Gross amount
March 30, 2011 98th Annual Shareholders' Meeting	Common stock	¥1,387
August 4, 2011 Board of Directors	Common stock	¥1,221

Year ended December 31, 2011

	Yen		
Resolution	Per share	Record date	Effective date
March 30, 2011 98th Annual Shareholders' Meeting	¥5.50	December 31, 2010	March 31, 2011
August 4, 2011 Board of Directors	¥5.00	June 30, 2011	September 6, 2011

Dividends whose record date was in the year ended December 31, 2012, but whose effective date is in the year ending December 31, 2013 were as follows:

Year ended December 31, 2012

		Millions of yen	Thousands of U.S. dollars	
Resolution	Type of shares	Gross amount	Gross amount	Resource
March 28, 2013 100th Annual Shareholders' Meeting	Common stock	¥1,318	$15,224	Retained earnings

Year ended December 31, 2012

	Yen	U.S. dollars		
Resolution	Per share	Per share	Record date	Effective date
March 28, 2013 100th Annual Shareholders' Meeting	¥5.00	$0.058	December 31, 2012	March 29, 2013

Dividends whose record date was in the year ended December 31, 2011 but whose effective date was in the year ending December 31, 2012 were as follows:

Year ended December 31, 2011

		Millions of yen	
Resolution	Type of shares	Gross amount	Resource
March 27, 2012 99th Annual Shareholders' Meeting	Common stock	¥1,318	Retained earnings

Year ended December 31, 2011

	Yen		
Resolution	Per share	Record date	Effective date
March 27, 2012 99th Annual Shareholders' Meeting	¥5.00	December 31, 2011	March 28, 2012

31. Commitments and Contingencies

Contingencies

At December 31, 2012 and 2011, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Guarantees of indebtedness	¥117	¥143	$1,359
	¥117	¥143	$1,359

Commitment line

The Company concluded an arrangement on June 28, 2011 for a committed line of credit up to ¥10,000 million with 13 banks in order to secure and obtain timely working capital.

At December 31, 2012 and 2011, the outstanding balance of the commitments was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Total committed line of credit	¥10,000	¥10,000	$115,500
Executed amount	¥ —	¥ —	$ —
Unexecuted amount	¥10,000	¥10,000	$115,500

32. Segment Information

Business Segments

1. Outline of reportable segments

The reportable segments of the Company and its consolidated subsidiaries are defined as operating segments for which discrete financial information is available and reviewed by the Board of Directors regularly in order to make decisions about resources to be allocated to individual segments and assess performance.

Group operating divisions are organized based on products and services and the operating divisions are responsible for comprehensive domestic and overseas comprehensive plans as to the products and services.

The four reportable segments of the Company are "Commodity Chemicals," "Acrylic Products," "Specialty Chemicals," and "Plastics" based on similarity of economic characteristics, and nature of products and services.

2. Method of calculating net sales, income and loss, assets, liabilities and others

The accounting method applied to the reportable segments is the same as described in "Summary of Significant Accounting Policies." Segment income of the reportable segments is based on operating income. Intersegment sales or transfer amounts are determined on the basis of market prices.

Business segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2012 and 2011 was summarized as follows:

	Reportable segments								
	Millions of yen								
Year ended December 31, 2012	Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Total	Others	Total	Adjustments	Consolidated
Sales:									
Sales to third parties	¥47,435	¥54,354	¥16,350	¥26,978	¥145,118	¥ 3,084	¥148,203	¥ —	¥148,203
Intersegment sales	86	71	435	16	610	7,939	8,549	(8,549)	—
Net sales	47,521	54,426	16,785	26,994	145,729	11,023	156,752	(8,549)	148,203
Segment income	4,413	5,764	3,011	1,279	14,468	30	14,498	85	14,583
Segment assets	¥37,442	¥53,276	¥17,500	¥35,970	¥144,189	¥ 2,059	¥146,248	¥35,203	¥181,451
Other items									
Depreciation	2,565	2,854	667	1,552	7,640	152	7,793	629	8,422
Amortization of goodwill	—	—	9	—	9	—	9	—	9
Investment in associates accounted for using equity method	700	—	119	—	820	—	820	—	820
Increase in tangible and intangible fixed assets	¥ 2,966	¥ 5,525	¥ 1,956	¥ 745	¥ 11,194	¥ 138	¥ 11,332	¥ 1,107	¥ 12,440

	Reportable segments								
	Thousands of U.S. dollars								
Year ended December 31, 2012	Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Total	Others	Total	Adjustments	Consolidated
Sales:									
Sales to third parties	$547,875	$627,799	$188,845	$311,604	$1,676,125	$ 35,621	$1,711,746	$ —	$1,711,746
Intersegment sales	1,002	830	5,028	184	7,046	91,705	98,752	(98,752)	—
Net sales	548,878	628,630	193,874	311,789	1,683,171	127,326	1,810,498	(98,752)	1,711,746
Segment income	50,974	66,578	34,778	14,778	167,110	349	167,460	985	168,445
Segment assets	$432,462	$615,340	$202,130	$415,460	$1,665,393	$ 23,782	$1,689,175	$406,595	$2,095,771
Other items									
Depreciation	29,634	32,968	7,712	17,934	88,249	1,761	90,010	7,272	97,282
Amortization of goodwill	—	—	114	—	114	—	114	—	114
Investment in associates accounted for using equity method	8,087	—	1,384	—	9,471	—	9,471	—	9,471
Increase in tangible and intangible fixed assets	$ 34,257	$ 63,823	$ 22,601	$ 8,609	$ 129,291	$ 1,604	$ 130,896	$ 12,789	$ 143,685

Year ended December 31, 2011	Reportable segments (Millions of yen) Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Total	Others	Total	Adjustments	Consolidated
Sales:									
Sales to third parties	¥48,112	¥57,466	¥16,152	¥27,682	¥149,412	¥ 3,594	¥153,007	—	¥153,007
Intersegment sales	103	30	375	88	597	7,659	8,256	¥ (8,256)	—
Net sales	48,215	57,496	16,527	27,770	150,010	11,254	161,264	(8,256)	153,007
Segment income	4,485	8,488	2,963	1,411	17,349	2	17,351	(13)	17,338
Segment assets	¥37,391	¥48,307	¥15,671	¥35,767	¥137,137	¥ 2,370	¥139,508	¥31,537	¥171,046
Other items									
Depreciation	3,175	2,632	562	1,724	8,095	203	8,298	577	8,876
Amortization of goodwill	—	241	0	—	242	—	242	—	242
Investment in associates accounted for using equity method	710	—	102	—	813	—	813	—	813
Increase in tangible and intangible fixed assets	¥ 2,687	¥ 3,501	¥ 1,186	¥ 2,384	¥ 9,760	¥ 133	¥ 9,893	¥ 555	¥ 10,449

Notes: 1. The "Others" segment includes business operations relative to research and development, construction and repairing equipment, transportation and trading firm business.

2. "Adjustments" for the fiscal years ended December 31, 2012 and 2011 were as follows:

(1) The adjustments to segment sales include intersegment eliminations.

(2) The adjustments to segment assets include corporate assets of ¥53,793 million (US$621,320 thousand) and ¥48,424 million for the years ended December 31, 2012 and 2011, respectively, that are not allocated to any reportable segments and intersegment eliminations.

(3) The adjustments to depreciation include mainly corporate expenses that are not allocated to any reportable segments.

(4) The adjustments to increase in tangible and intangible fixed assets include mainly capital investment in corporate assets that are not allocated to any reportable segments.

3. Segment income is reconciled with operating income on the consolidated statements of income.

4. Depreciation in the table above includes amortization of long term prepaid expense.

5. Six consolidated subsidiaries changed the depreciation method for property, plant and equipment (except for leased assets) from the declining-balance method to the straight-line method. As a result, segment income increased ¥343 million (US$3,972 thousand) in "Commodity Chemicals," ¥69 million (US$804 thousand) in "Acrylic Products," ¥9 million (US$108 thousand) in "Specialty Chemicals" and ¥0 million (US$3 thousand) in "Other" for the year ended December 31, 2012.

Related information

1. Information related to geographical information

(1) Net sales

Millions of yen — Year ended December 31, 2012: Japan	Asia	North America	Other	Total
¥125,571	¥18,285	¥2,378	¥1,967	¥148,203

Thousands of U.S. dollars — Year ended December 31, 2012: Japan	Asia	North America	Other	Total
$1,450,351	$211,192	$27,476	$22,726	$1,711,746

Millions of yen — Year ended December 31, 2011: Japan	Asia	North America	Other	Total
¥128,091	¥20,654	¥2,245	¥2,015	¥153,007

(2) Information related to property, plant and equipment

This information is not required to be disclosed because the amount of property, plant and equipment in Japan exceeded 90% of the amount on the consolidated balance sheet.

2. Information on major customers

This information is not required to be disclosed because net sales to any particular customer are less than 10% of the net sales on the consolidated statements of income.

Impairment loss on property, plant and equipment by reportable segments

Impairment loss on property, plant and equipment by reportable segments for the year ended December 31, 2012 and 2011 were summarized as follows:

Millions of yen — Year ended December 31, 2012: Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Other	Adjustment	Total
¥542	¥—	¥—	¥—	¥—	¥245	¥787

Thousands of U.S. dollars — Year ended December 31, 2012: Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Other	Adjustment	Total
$6,260	$—	$—	$—	$—	$2,832	$9,093

Millions of yen — Year ended December 31, 2011: Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Other	Adjustment	Total
¥476	¥—	¥—	¥—	¥—	¥—	¥476

Balance of goodwill by reportable segments

At December 31, 2012 and 2011, the outstanding balance of goodwill by reportable segments were summarized as follows:

Millions of yen						
Year ended December 31, 2012						
Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Other	Adjustment	Total
¥—	¥—	¥38	¥—	¥—	¥—	¥38

Thousands of U.S. dollars						
Year ended December 31, 2012						
Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Other	Adjustment	Total
$—	$—	$449	$—	$—	$—	$449

Millions of yen						
Year ended December 31, 2011						
Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Other	Adjustment	Total
¥—	¥—	¥48	¥—	¥—	¥—	¥48

Gain on negative goodwill by reportable segments

In the "Plastics" segment, the Company accounted for gain on negative goodwill of ¥3,080 million, as the Company made a consolidated subsidiary into a wholly-owned subsidiary through a share exchange for the fiscal year ended December 31, 2011.

33. Amounts per Share

The following table sets forth net income, cash dividends and net assets per share of common stock as of and for the years ended December 31, 2012 and 2011:

	Yen		U.S. dollars
	2012	2011	2012
Net income:			
Basic	¥ 36.79	¥ 51.00	$0.42
Cash dividends	10.00	10.00	0.12
Net assets	500.99	469.62	5.79

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.

34. Significant Subsequent Event

Merger of the Company and two consolidated subsidiaries

At the board of directors meeting held on August 27, 2012, a resolution was passed whereby Tsurumi Soda Co., Ltd. and Nihon Junyaku Co., Ltd., two wholly owned consolidated subsidiaries would merge with the Company. On that same date, a merger agreement was concluded with the two companies and the merger of Tsurumi Soda Co., Ltd. and Nihon Junyaku Co., Ltd. with the Company took effect on January 1, 2013.

1. Purpose of merger

After Tsurumi Soda Co., Ltd. transferred its sales and R&D operations to the Company in April 2011, it has been operating a business that specializes in production as a Toagosei Group manufacturing subsidiary in the chlor-alkali business. In addition, after Nihon Junyaku Co., Ltd. transferred its sales and R&D operations to the Company in January 2009, it has been operating a business that specializes in production as a Toagosei Group manufacturing subsidiary in the acrylic polymer business. The two companies have merged with the Company in order to further integrate business resources and speed up decision-making within the Group.

2. Merger date

January 1, 2013

3. Merger method

Absorption-type merger with the Company as the surviving company and Tsurumi Soda Co., Ltd. and Nihon Junyaku Co., Ltd. as the merged companies.

4. Stock issuance and allocation used in the merger

Because the Company owned all outstanding shares of Tsurumi Soda Co., Ltd. and Nihon Junyaku Co., Ltd., no new shares were issued due to this merger and no money or other assets were allocated as compensation for this merger.

5. Outline of accounting treatment

The merger was treated as a transaction under common control based on Accounting Standard for Business Combinations (ASBJ Statement No. 21, issued on December 26, 2008) and Guidance for Accounting Standard for Business Combinations and Business Divestitures (ASBJ Guidance No. 10, issued on December 26, 2008).

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197

Independent Auditor's Report

The Board of Directors
Toagosei Co., Ltd.

We have audited the accompanying consolidated financial statements of Toagosei Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toagosei Co., Ltd. and its consolidated subsidiaries as at December 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 34 "Significant Subsequent Event," the Company merged with Tsurumi Soda Co., Ltd. and Nihon Junyaku Co., Ltd. effective January 1, 2013. Our opinion is not qualified in respect of this matter.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

March 28, 2013

A member firm of Ernst & Young Global Limited

Corporate Data

Organization (As of April 1, 2013)

General Meeting of Shareholders

Board of Directors

Chairman

President

Corporate Management

Corporate Strategy Department
- Planning Group
- Secretariat Group

Technology Administrative Department
- Technology Administrative Group
- Quality Assurance, Environment & Safety Group
- Technical Training Center

Research & Development Administration Division
- R&D Planning Group
- Intellectual Property Group
- Institute for Advanced Sciences

General Center of R&D
- R&D Support Section
- Base Technology Center
- Productive Technology Center
- Silicon Group
- Technology & New Products Development Group

Administrative Division
- General Affairs & Legal Department
- Investor & Public Relations Section
- Human Resources Department
- Finance Department
- Information System Department

Supply Chain Management Division
- Purchasing Department
- Sales Administrative Department

Operations Management

Commodity Chemicals Department
- Chlorine & Alkali Products and Sulfuric Acid Group
- High Purity Inorganic Products Group
- Commodity Chemicals Research Laboratory

Acrylic Products Department
- Monomer & Oligomer Group
- Polymer & Photopolymer Group
- Macromolecular Material Research Laboratory

Functional Chemicals Department
- Adhesives Group
- Construction Products Group
- Functional Chemicals Laboratory

Advanced Chemicals Department
- Electronics & Amenity Care Materials Group
- Advanced Chemicals Research Laboratory

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

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

Nagoya Branch
- General Affairs Group
- Commodity Chemicals Group
- Acrylics & Functional Chemicals Group
- Electronic-related Chemicals Group

Nagoya Plant
- Administrative Department
- Office Management Department
- Productive Technology Department
- Manufacturing Department I
- Manufacturing Department II

Yokohama Plant
- Administrative Department
- Manufacturing Department

Takaoka Plant
- Administrative Department
- Manufacturing Department

Tokushima Plant
- Administrative Department
- Manufacturing Department

Sakaide Plant

Kawasaki Plant

Hirono Plant

Corporate Auditor Section

Internal Control Section

Directory

Domestic Network

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

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

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

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

Fukuoka Sales Office
2-8-30 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

Yokohama Plant
1-7 Suehirocho, Tsurumi-ku,
Yokohama 230-0045
Tel: 045-503-7300 Fax: 045-502-6960

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

Tokushima Plant
575-1 Nakashima, Kawauchicho,
Tokushima 771-0188
Tel: 088-665-2111 Fax: 088-665-6321

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

Kawasaki Plant
7-4 Ukishimacho, Kawasaki-ku,
Kawasaki 210-0862
Tel: 044-277-2211 Fax: 044-277-1920

Hirono Plant
1-16 Iwasawa, Kamikitasako, Hirono,
Fukushima 979-0401
Tel: 0240-28-0111 Fax: 0240-27-4371

General Center of R&D
8 Showacho, Minato-ku, Nagoya 455-0026
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 Limited
Room 607-9, 6/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, 11054
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: 1-614-718-3855 Fax: 1-614-718-3866

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.
66 Chanjiang Road, Jiangsu Yangtze River,
International, Chemical Industrial Park,
Zhangjiagang, Jiangsu Province, 215633, China
Tel: 86-512-5893-7320 Fax: 86-512-5893-7321

Toagosei (Zhuhai) Limited
1,2,3/F., No.2, Factory Bldg., Xiangzhou Ind.
Park of Science & Technology, No.2372 Meihua
West Road, Qianshan, Zhuhai, Guangdong,
519070, China
Tel: 86-756-850-8810 Fax: 86-756-850-8906

Principal Subsidiaries and Affiliates (As of April 1, 2013)

Name of Company	Lines of Business	Our Share (%)	Capital (¥ in millions)
Aronkasei Co., Ltd.	Manufacture & sale of synthetic resin molded products	100.0	¥4,220
Aron Ever-Grip Ltd.	Manufacture of adhesives	100.0	£223,000
Oita Chemical Co., Ltd.	Manufacture of chemical products	91.1	¥450
Toagosei America Inc.	Manufacture & sale of chemical products; technological research	100.0	US$6,100,000
TG Corporation	Sale of chemical products	100.0	¥174
Toa Logistics Co., Ltd.	Product distribution	100.0	¥16
TOA Engineering Co., Ltd.	Construction & repair of chemical facilities	100.0	¥50
Toa Techno-Gas Co., Ltd.	Manufacture & sale of industrial gases	100.0	¥400
Toa Business Associe Co., Ltd.	Real estate management, brokerage & other services	100.0	¥40
Toa-Jet Chemical Co., Ltd.	Manufacture & sale of chemical products	51.0	NT$15,000,000
Toa Kogyo Co., Ltd.	Product distribution	100.0	¥25
Taiwan Toagosei Co., Ltd.	Sale of chemical products	100.0	NT$5,000,000
Aron Packaging Co., Ltd.	Filling & 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 & sale of adhesives	100.0	HK$9,188,000
MT AquaPolymer, Inc.	Manufacture & sale of chemical products	51.0	¥460
Mikuni Plastics Co., Ltd.	Manufacture & sale of synthetic resin molded products	100.0	¥315
MT Ethylene Carbonate Co., Ltd.	Manufacture of chemical products	90.0	¥480
Chubu Liquid Oxygen Co., Ltd.	Manufacture of industrial gases	30.0	¥480
Elmer's & Toagosei Co.	Sale of adhesives	50.0	US$31,392,000

Investor Information

Established

March 1942

Common Stock

Authorized: 550,000,000 shares

Issued: 263,992,598 shares

Capital: ¥20,886 million

Number of shareholders: 23,930

Listings: Common stock listed on the first section of the Tokyo Stock Exchange

Transfer Agent for Common Stock

Sumitomo Mitsui Trust Bank, Limited

1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-8233

Certified Accountants

Ernst & Young ShinNihon LLC

Hibiya Kokusai Bldg., 2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-0011

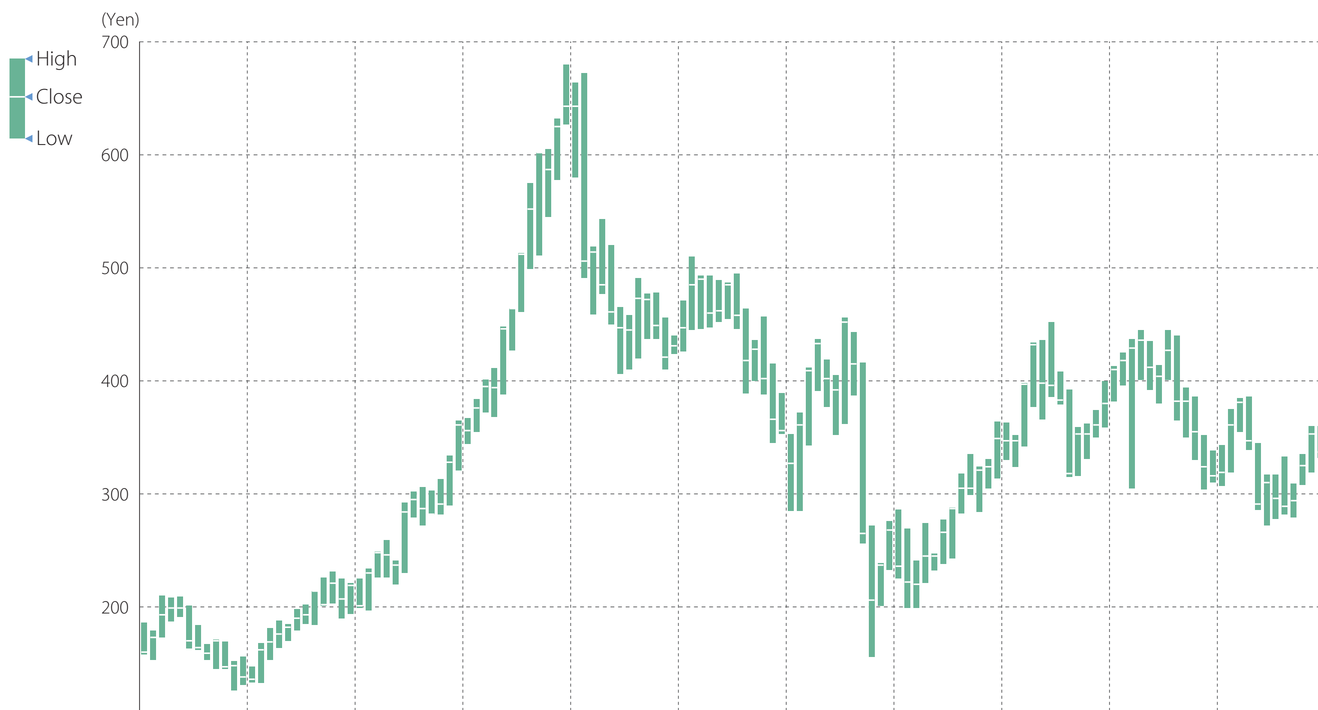
Major Shareholders

	(%)
Japan Trustee Services Bank, Ltd. (Trust account)	5.75
The Master Trust Bank of Japan, Ltd. (Trust account)	4.76
Sumitomo Mitsui Banking Corp.	4.41
Business Partner Shareholders' Committee	2.85
Employee Shareholders' Committee	2.38
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2.14
The Bank of New York, Treaty JASDAC Account	1.94
The Norinchukin Bank	1.50
Aioi Nissay Dowa Insurance Co., Ltd.	1.45
Mitsui Life Insurance Company Limited	1.40

(As of December 31, 2012)

Stock Price Range & Trading Volume

(Tokyo Stock Exchange)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
High (Yen)	¥210	¥231	¥365	¥680	¥672	¥510	¥456	¥364	¥452	¥445	¥386
Low (Yen)	¥121	¥133	¥197	¥344	¥406	¥345	¥156	¥199	¥315	¥304	¥272
Close (Yen)	¥138	¥219	¥361	¥643	¥431	¥356	¥268	¥349	¥380	¥316	¥337
Trading Volume (Thousands shares)	98,883	134,458	202,598	301,403	259,723	225,040	410,334	165,780	204,402	220,880	151,579

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/

MIX
Paper from responsible sources
FSC® C014473

VOC FREE

Printed in Japan on FSC®-approved paper using vegetable oil inks and waterless printing processes.