

Accelerating  
Growth

Annual Report 2008



# Financial Highlights

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31, 2008, 2007 and 2006					
	Millions of yen			Thousands of U.S. dollars (Note 1)	08/07 Change (%)
	2008	2007	2006	2008	
Net sales .....	¥162,615	¥162,729	¥155,804	\$1,786,395	(0.1)
Operating income .....	11,668	12,719	12,950	128,179	(8.3)
Income before income taxes and minority interests...	6,869	13,295	13,522	75,458	(48.3)
Net income .....	1,895	6,403	6,961	20,826	(70.4)
Total assets .....	172,464	182,681	195,607	1,894,587	(5.6)
Net worth (Note 2).....	99,271	105,339	103,870	1,090,539	(5.7)
Yen					
U.S. dollars (Note 1)					
Per share of common stock					
Net income .....	¥7.27	¥24.52	¥26.64	\$0.08	(70.4)
Cash dividends applicable to the year .....	8.00	8.00	7.50	0.09	0.0
%					
Ratio					
Return on equity (ROE) .....	1.9	6.1	6.8		(68.9)
Return on Total assets (ROA).....	1.1	3.4	3.6		(67.6)
Net worth.....	57.6	57.7	53.1		(0.2)

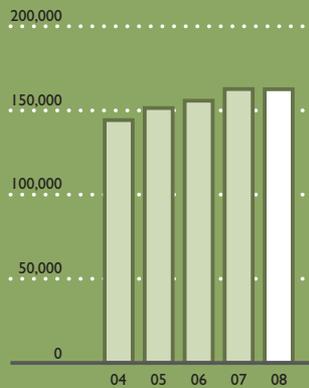
Notes 1: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥91.03 = \$1.00.

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

	Millions of yen			Thousands of U.S. dollars (Note 1)	08/07 Change (%)
	2008	2007	2006	2008	
Net sales					
Commodity Chemicals .....	¥55,165	¥53,470	¥52,789	\$606,015	3.2
Acrylic Products.....	51,057	48,674	43,346	560,887	4.9
Specialty Chemicals.....	24,380	26,667	25,737	267,830	(8.6)
Plastics .....	30,550	32,232	32,037	335,614	(5.2)
Other Businesses .....	1,460	1,684	1,892	16,046	(13.2)

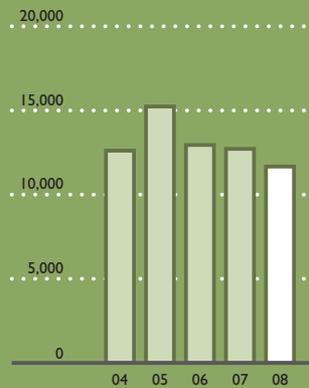
### Net sales

(Millions of yen)



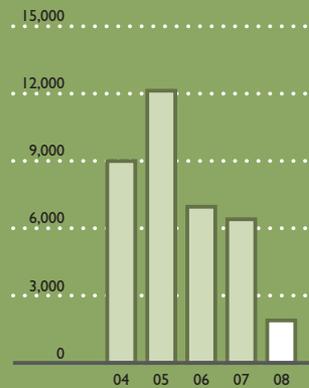
### Operating income

(Millions of yen)



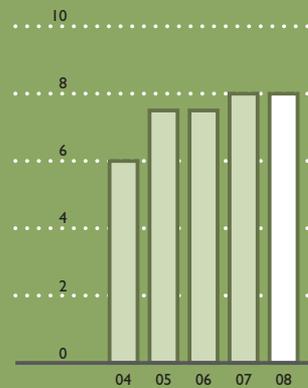
### Net income

(Millions of yen)



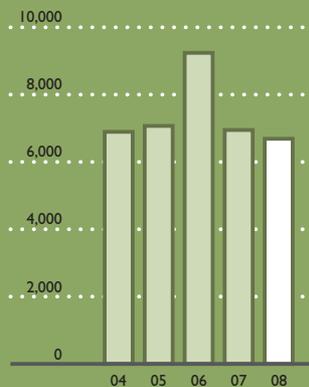
### Cash dividends

(Yen)



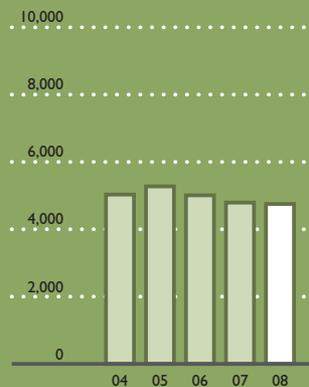
### Capital expenditure

(Millions of yen)



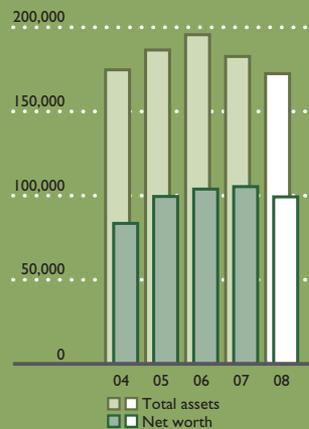
### R&D expenditures

(Millions of yen)



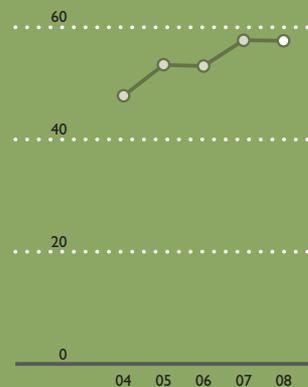
### Total assets and net worth

(Millions of yen)



### Net worth ratio

(%)



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

# Message from the President



President *Futoshi Hashimoto*

## Review of Fiscal 2008 and Performance Results

During the reporting term (January 1 to December 31, 2008) crude oil prices, which had continued to rise, fell suddenly in the autumn as the global economy was rocked by the fullscale financial sector crisis in the United States. As a result of these and other factors, by the end of the year it had become clear that the economy was entering a severe downturn.

For the chemical industry in which Toagosei operates, the year 2008 was divided sharply into two contrasting halves. Conditions deteriorated rapidly in the second half, particularly in the October-December quarter, when demand for our products dropped steeply.

In these circumstances, the Toagosei Group focused on cost-reduction initiatives while negotiating raises in selling prices to offset the high prices of fuel and raw materials. We also worked to expand sales of high value-added products, but despite our efforts, we were unable to avoid a decrease in earnings due to the difficulty in pushing through price hikes and the sharp decline in demand toward the end of the term.

## Basic Policy on Shareholder Return

Regarding shareholder return, in principle our policy is to pay dividends of 6 yen per share annually, taking into account the performance for the term in question, the future outlook, and forecast performance figures. However, we also place great

importance on the need to ensure a sufficient amount of retained earnings to maintain a sound financial position. We must secure sufficient funds to finance research and development activities to prepare for an anticipated intensification of competition, and for capital investment.

Consequently, we are planning to make a term-end dividend payment of 4 yen. We have already paid an interim dividend of 4 yen, bringing the total dividend payment for the full term to 8 yen per share.

For the current term, ending December 31, 2009, we are planning an interim dividend payment of 3 yen, and a term-end dividend payment of 3 yen, for an annual dividend payment of 6 yen per share.

## Outlook for Fiscal 2009

The Toagosei Group expects the business environment to remain difficult in the foreseeable future, amid concerns of demand remaining stagnant indefinitely as a result of the global economic recession. The lack of clarity in the outlook for prices of crude oil, naphtha and other raw materials poses a particular challenge for the Group.

We expect the economic recovery in Japan to take some time, and believe that a year-on-year decline in earnings is unavoidable. The Toagosei Group is currently implementing its "All TOA 2010" medium-term plan, ending in December 2010, and fiscal 2009 is the second year of this three-year plan. Under "All TOA 2010," we are accelerating the switchover to high value-added products and reinforcing our existing core businesses, while working to create new businesses. In response to recent

changes in the business environment, we must devise action plans that will allow individual staff to respond swiftly to changes as they arise, and to perform their duties flexibly as dictated by the situation. In this way, we will work to maintain profitability and achieve growth.

One specific plan we have scheduled for implementation is the reorganization of our research and development structure. Toagosei's Nagoya Research Institute will be reorganized as a common research facility for the entire Toagosei Group. The Institute's product evaluation function will be reinforced, and investment will be made in new equipment for chemical property analysis. We are confident that these steps will significantly accelerate the new product development process. In addition, the subsidiary Nihon Junyaku has become a dedicated manufacturer, with R&D and marketing functions being taken over by Toagosei for acrylic polymer chemicals. Subsidiary Tsurumi Soda has taken over R&D and marketing for high-purity inorganic chemicals from Toagosei. In this way, we will redesign the division of labor among the corporate members of the Toagosei Group to realize more efficient operations.

We will continue our efforts to fulfill the corporate social responsibility of the Toagosei Group, keeping in mind our responsibility to our stakeholders, by ensuring continued compliance with the law and corporate ethics, as well as effective internal controls, active social contributions, and adequate environmental preservation and safety activities.

We thank you for your understanding, and look forward to your continuing support.

# Toagosei's Business Domains

Sales by segment

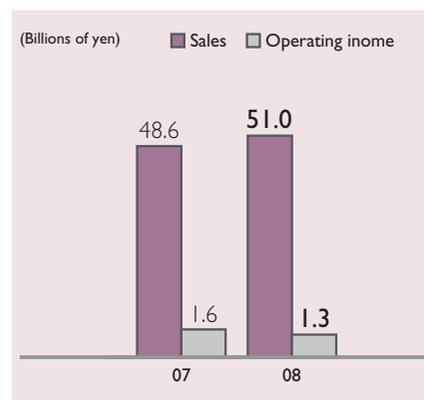
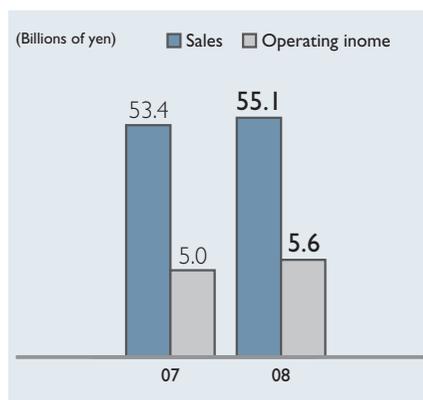


- Commodity Chemicals  
33.9%    ¥55.1 billion
- Acrylic Products  
31.4%    ¥51.0 billion
- Specialty Chemicals  
15.0%    ¥24.3 billion
- Plastics  
18.8%    ¥30.5 billion
- Other Businesses  
0.9%    ¥1.4 billion

## Business Segment



## Sales and Operating income



## Description

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

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

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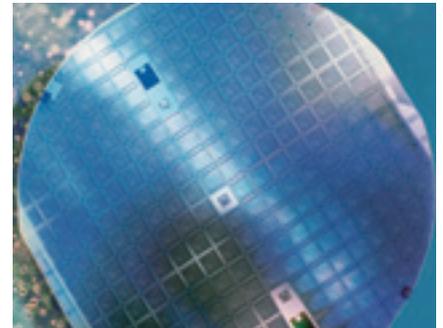
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Specialty Chemicals



Plastics

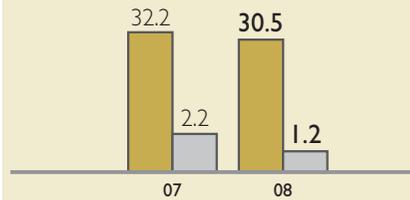


Other Businesses

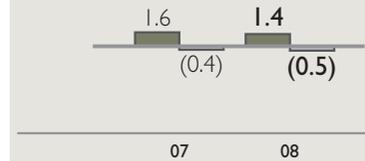
(Billions of yen) Sales Operating income



(Billions of yen) Sales Operating income



(Billions of yen) Sales Operating income



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

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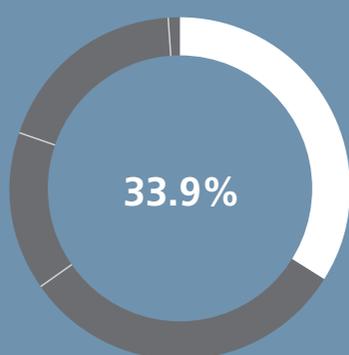
Our subsidiary, Aron Kasei is developing products in four principal areas: 1) pipes and couplings for water supply and for sewerage use, 2) protective casings for electric power and telecommunications lines, 3) garbage reduction and recycling systems to address environmental preservation needs, and 4)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

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

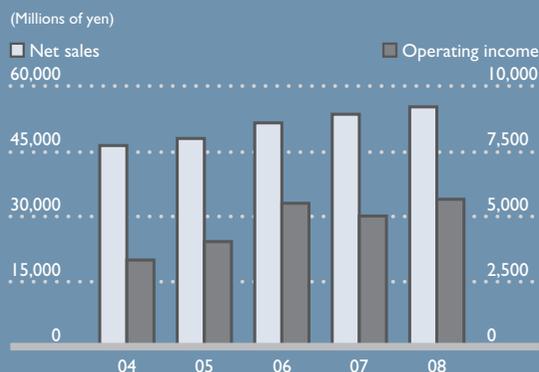
# Commodity Chemicals

Sales by segment



Net sales **¥55,165 million**  
 Operating income **¥5,650 million**

Net sales/Operating income



## From Restructuring to Growth — changing our business portfolio and bolstering our lineup of high-purity inorganic products to achieve higher profitability

### Increased sales thanks to higher selling prices

Fiscal 2008 (Jan. – Dec. 2008) saw a drop in demand for chlorinated organic solvents and liquid chlorine, and an accompanying decline in caustic soda production volume. In addition, the economic downturn in the fourth quarter affected the sales volume of our mainline products. On the other hand, caustic soda market prices rose, and we were able to push through price raises on caustic potash and sulfuric acid to compensate for higher raw materials prices. As a result of these factors, overall sales posted a year-on-year increase.

Sales of chemical compounds incorporating copper decreased in line with declines in copper market prices. In our industrial gas business, problems with gas production facilities at one of our equity-method affiliates caused sales to post a year-on-year decline.

As a result of the above factors, sales of commodity chemicals on a consolidated basis recorded a year-on-year rise of 3.2%, to ¥55.1 billion.

## Main Products and Application

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

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

**Sulfuric acid:** Fertilizers, synthetic fibers, and inorganic chemicals

**Hydrochloric acid:** Seasoning, dye, and pharmaceuticals

### Restructuring existing businesses to enhance capabilities and create efficient production structure

New hydrochloric acid synthesis facilities at our Nagoya Plant came on-stream during the reporting period, as a result of which we recorded an increase in the volume of chlorine used in-house. We also took steps to make more effective use of steam corresponding to an increase in production capacity of sodium sulfite, whose production volume increased as planned. We started the full-scale sale of low-bromate sodium hypochlorite produced at our Nagoya Plant while drastically reducing the volume of exports of organic chlorine solvents, which have been suffering from poor profitability.

In the area of high-purity inorganic chemicals, we improved cost-competitiveness by transferring high-purity ferric chloride production operations from the Takaoka Plant to the Tokushima Plant, which is closer to our main customers, and where the raw-material chlorine can be used in-house.

In view of projections that demand for organic chlorine solvents will decline further, we are examining our options for business restructuring as a priority matter.

### Aiming to expand operations in high-purity chemicals through closer intra-Group collaboration

We are reorganizing our electrolysis operations — carried out at our Nagoya and Tokushima plants as well as at Tsurumi Soda — with the goal of creating a stronger production base for electrolytic chemicals through tighter collaboration within the Toagosei Group.

In the field of high-purity inorganic chemicals, we are actively investing management resources in expanding our sales of anhydrous hydrogen chloride, high-purity chlorine, and high-purity ferric chloride, and also in the development of high-purity alkaline carbonates, caustic potash with low metallic content, and other products with high levels of value added.



Imports of salt



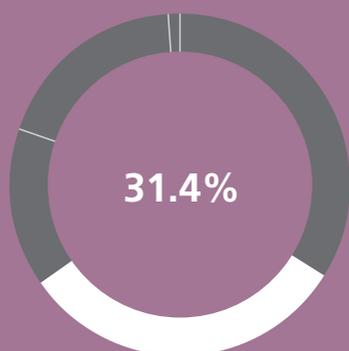
Our plant for manufacturing high-purity chemicals



Caustic soda is used in papermaking.

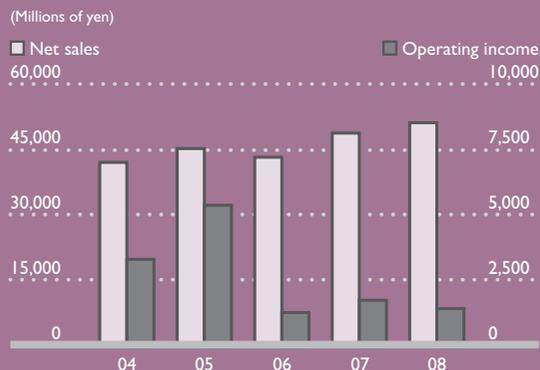
# Acrylic Products

Sales by segment



Net sales                      **¥51,057** million  
 Operating income            **¥1,379** million

Net sales/Operating income



## For the creation of a profitable value chain

### Year-on-year growth in earnings, although revenue declines

Shipments in Japan of acrylic esters in 2008 grew on a value basis as a result of an upward revision in selling prices to reflect surging raw materials prices. On a volume basis, however, sales declined slightly. Sales of value-added products such as the *Aron Powder* series (powder paints) and the *Arufon* series of non-solvent acrylic polymers were also brisk. We have also realized substantial growth in flocculant sales, achieved by MT AquaPolymer, Inc., a joint venture with Mitsui Chemicals Inc., through the leveraging of synergies afforded by this integration. In addition, we have expanded our production capability for specialty esters, and posted increased sales of acrylamide tertiary butyl sulfonic acid (*ATBS*), a specialty acrylic monomer, and *Aron Powder*, both of which roughly met our original targets.

With regard to our earnings performance, demand stagnated from October onward. Profitability of the acrylic esters operations deteriorated sharply, mainly due to the application of the lower of cost or market method for the valuation of inventories at term-end. Profitability of downstream derivatives operations showed a significant year-on-year decline, despite a substantial contribution to earnings by robust sales of downstream derivative *Arufon*. This decline was due in part to delays in the launch of new downstream polymer products with high earnings potential, as well as sluggish product sales toward the year-end. As a result, the acrylic products segment reported a year-on-year decline in operating income.

## Main Products and Application

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

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

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

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

### Reorganization

On January 1, 2009 the marketing division of our manufacturing affiliate Nihon Junyaku was integrated into Toagosei's operations, allowing Nihon Junyaku to concentrate its management resources on manufacturing. The integration, aimed at realizing closer collaboration in R&D and marketing, is expected to enhance the efficiency of our entire polymer operations.

### New product development for expansion of downstream operations

Under the current medium-term management plan launched last year, we aim to create a high-earning acrylic value chain by expanding the scale of operations in downstream derivative products. We have developed an action plan for our downstream derivatives, including acrylic polymers, flocculants, construction materials, and other chemical products. We focused on new product development and concerted efforts to increase sales of recently launched products, such as high-performance coating resins, high-performance dispersants, weather-resistant sealants, and UV-curable resins used for cataplasm applications. Sales for several products,

however, failed to reach the targeted levels. To achieve the targets of our medium-term management plan, it is crucial to steadily develop new products in line with development schedules.

### Priority Business Strategy: Expand the Scale of Downstream Operations

Fiscal 2009, the second year of the medium-term management plan, has been designated as an important period for returning to a growth track. Despite the current challenging business conditions, we are making steady progress in the development of new downstream products, and intend to make the capital investments required to expand sales. In addition, we will accelerate the restructuring of our monomer operations in Singapore, and we also plan to expand flocculant production at MT AquaPolymer, Inc. In this way, we aim to raise the competitiveness of our acrylics business as a whole.



Polymer flocculants, *Aronfloc*



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

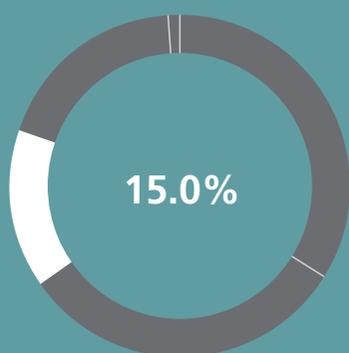


Acrylic ester is also used as a raw material in the manufacture of paints.

# Specialty Chemicals

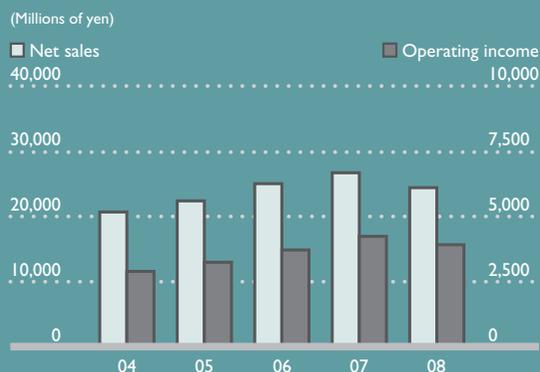
- ▶ Functional Materials
- ▶ New Materials Development

Sales by segment



Net sales                      **¥24,380** million  
 Operating income            **¥3,906** million

## Net sales/Operating income



## Functional Materials

**Toagosei's Functional Materials Group, formed in fiscal 2007 through an amalgamation of the former Adhesives Group and UV-Curable Resins Group, has successfully leveraged the technological expertise of those two groups to achieve faster product development, enabling the Company to meet customer needs without delay.**

### Overview of Fiscal 2008, and Topics

#### Adhesives

- TV commercial emphasizes advantages of instant-bonding, wide-application consumer-use adhesives
- Sales of industrial adhesives decline slightly year-on-year due to economic downturn in second half

To realize steady growth in adhesives, which is a priority business, we concentrated our marketing efforts on promising application fields. We also strengthened our product development capabilities with the aim of realizing improved business results at an early date.

On the Japanese market, we registered a slight increase in sales thanks to sales promotion efforts including a TV commercial for our consumer-use adhesives. In industrial applications, sales of hot-melt adhesives for the manufacture of smart cards were in line with our forecasts, while sales of reactive adhesives to makers of printed circuit boards were also favorable. Sales of industrial adhesives as a whole, however, achieved only

## Main Products and Application

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

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

**Hot melt adhesives:** For bonding plastics, metals, and textiles

For bonding difficult-to-bond plastics like polyethylene, polypropylene polyester, and nylon

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

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

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

a slight year-on-year increase owing to the impact of the economic downturn in the latter half of the term.

Overseas, we launched new consumer-use instant adhesives on the U.S. market to further reinforce the *Krazy Glue* brand, but overall sales declined slightly due to the global economic slowdown.

As a result of the above, both sales and earnings edged down from the previous year's level.

### UV-Curable Resins

- Efforts focus on FPD applications, but sales decline owing to economic downturn

We continued to focus our marketing of *Aronix* on applications to plastic coatings and the flat panel display market. Sales were steady as predicted up to the holding of the Beijing Olympics, both in Japan and overseas, particularly in China and Taiwan. Thereafter, the economic downturn took hold, and sales on a consolidated basis recorded a year-on-year decline.

### Tasks and Prospects

- Adhesives marketing to focus on automotive and electronic applications

In the field of consumer-use adhesives for the domestic market, Toagosei will be launching new products and conducting promotional activities to raise the market profile of the *Aron Alpha* brand.

In industrial-use adhesives, the focus will be on UV-curable and reactive adhesives, and we will continue to make development efforts to widen these products' sphere of application in the automotive components and electronic materials sectors. Our marketing focus will be on top-priority products, areas of application, and customers, and we aim to speed up development by harnessing synergies between our adhesives and UV-curable resin operations.

We will make further progress in developing our adhesive processing operations, and hope to grow them into a profitable value-added business in the near future.



PES hot melt adhesives are used for smart cards.



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



Instant *Krazy Glue*

- Leveraging the advantages of UV-curable resin production in Japan, Taiwan, and China to achieve higher earnings

We made optimal use of our three production bases — the Nagoya Plant in Japan, our subsidiary TOA-DIC Zhangjiagang Chemical in China, and TOA-JET Chemical Co., Ltd. in Taiwan — to develop East Asian markets by optimizing product lineups that address the particular needs of customers in each market, and by ensuring stable supplies to all users. We are also taking initiatives to rationalize our production system and optimize raw materials procurement to further enhance our earnings capabilities.

We plan to maintain our prime focus on the electronic materials field, where the sphere of applications for our products is expected to continue expanding, with particular emphasis on FPDs. Toagosei enjoys the leading share in the East Asian market for UV-curable resins, and we are examining plans to increase our production capacity to meet a projected growth in demand.



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



*Aronix* is also used in the manufacture of DVDs.

## New Materials Development

**At the New Materials Development Department, we work to accelerate the development of new materials for growth markets — principally electronic devices and amenity goods — by focusing investment of management resources in the development of inorganic functional materials and electronic materials.**

### Inorganic Functional Materials

In inorganic functional materials, we continued to augment our line-up of inorganic ion-exchanger *IXE* products for electronic materials applications by launching further environmentally friendly models in the “*New IXE Series*.” Thanks to their reputation for superior performance, our *Novaron* series of silver-based antimicrobial agents achieved strong sales in Japan, the US and the EU. Steady sales growth was also realized by the inorganic deodorizer *Kesmon*, which is used in air-quality improvement agents — mainly for automobile filter and interior use — to eliminate unpleasant odors such as those produced by volatile organic compounds (VOCs) and aldehydes. We aim to achieve further sales growth through the development of new products in such fields as anti-allergen agents and low heat-expansion fillers for use in unleaded glass, thereby entering new market niches in the fields of electronic materials and amenity-application materials.



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

### Silicon Materials

In the electronic materials field, we recorded growth in sales to manufacturers of semiconductors and LCDs throughout most of 2008, in spite of weakening demand toward the end of the year. Sales of triethoxysilane (*TRIES*), used as a raw material for silicon oxide film in semiconductor production, were roughly on a par with the previous year. Sales of hexachlorodisilane (*HCD*), a raw material for silicon nitride films used in semiconductors, posted another sharp increase following an excellent year in 2007 after the material had been adopted by leading electronic device manufacturers. Steady sales of other newly developed products were also seen, thanks to a favorable reception by component manufacturers.

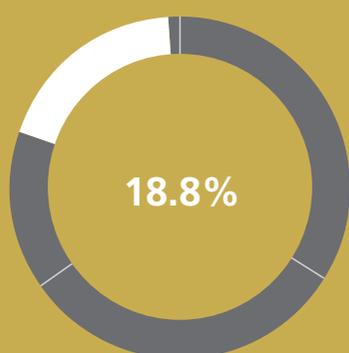
We will continue working on the development of new materials for the electronics sector, doing our utmost to meet customer requirements in cutting-edge technological applications.



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

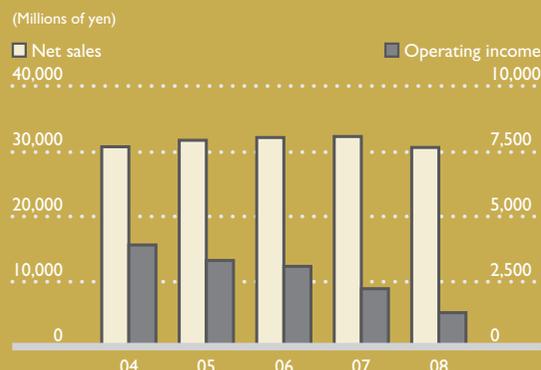
# Plastics

Sales by segment



Net sales                      **¥30,550** million  
 Operating income            **¥1,299** million

Net sales/Operating income



## Started new in-house project to enhance capabilities in product and technology development

### Aiming at higher corporate profile in four priority product fields

#### Business Performance

Raw materials prices turned downward toward the end of the reporting business term, but Aron Kasei's plastics processing business faced a severe operating environment owing to the accumulated high costs of petroleum products caused by the prolonged high price level from fiscal 2007, as well as a decline in public demand.

Mikuni Plastics Co., Ltd. was included in the scope of consolidation in October 2008. Despite this, the Company posted sales for the plastics segment on a consolidated basis of ¥30,550 million for the business year ended December 31, 2008, representing a year-on-year decline of 5.2%. Operating income, meanwhile, fell 41.4% from the previous year. Although we saw an end to the delays in construction starts that had occurred after the revisions of the Buildings Standards Law, sales of our mainstay pipes and couplings posted a year-on-year decline owing to weakening demand due to the economic downturn. The market for nursing care products, however, remained firm, contributing increased revenues. Sales of elastomer compounds registered a decrease due to slack demand overseas.

Sales volumes were lower for pipes and couplings, as well as elastomer compounds, and harsh market conditions prevented the Company from raising selling prices to compensate for higher raw materials costs. These factors led to a year-on-year decline in operating income.

## Main Products and Application

**Pipes & Couplings:** Rigid PVC pipes

**Environmental Products:** Trash receptacles

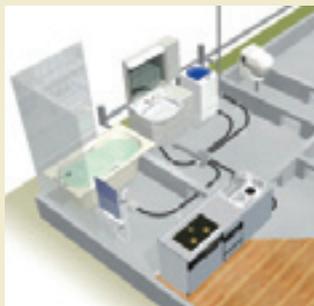
**Nursing Care Products:** Portable toilets, nursing care bath products and others

## Current Medium-Term Management Plan

Developments are on target under current medium-term management plan, which commenced in January 2008.

Our four priority product fields are: 1) products for use in water supply systems and sewer systems, 2) nursing care products, 3) elastomers, and 4) products for use in environmental preservation systems. We are aiming to expand our business operations in all four fields. In the water supply and sewer systems field, sewer-use products have been our main-earner category hitherto, but we are now focusing efforts on marketing products for the residential water supply and drainage systems markets. In the growing field of nursing care products, we are expanding our lineup with the goal of becoming a comprehensive maker of care-related products. Regarding elastomers, we are working to develop wider applications, and are planning to open up opportunities for the sale of high-performance elastomer products to makers of medical equipment, IT equipment, and motor vehicles.

New business ventures we are looking at include the greenery business, in which we are investing actively with the aim of early commercialization. Also, in the fields of water supply and sewer systems, and environmental preservation, Aron Kasei aims to achieve further expansion by leveraging synergy with the operations of Mikuni Plastics.



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

## Future Business Developments

At Aron Kasei, we are placing priority on the following four initiatives as part of measures under the current medium-term management plan, as well as a special project aimed at reinforcing our strengths as a manufacturing enterprise.

The first initiative is to raise our product quality levels. To achieve this, we are focusing on improving our levels of technological expertise, our intellectual property management, and our quality assurance systems. We are investing aggressively in the hiring of promising new employees, as well as in the acquisition of new technologies.

The second initiative is to raise efficiency within all units of the company, and to simultaneously cut costs to produce a more profitable business structure.

The third initiative is to realize synergy between the operations of Aron Kasei and those of our new subsidiary Mikuni Plastics, as well as to investigate promising opportunities for collaboration with other corporations outside the Toagosei Group.

Finally, the fourth initiative is to put greater stress on internal control and compliance, and to raise employee awareness of the need to realize an adequate level of customer satisfaction.

We will uncompromisingly address these issues to realize corporate growth with a firm emphasis on profitability.



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

# Research & Development

## Nurturing New Business Seeds

Effective R&D is crucial to the development of the Toagosei Group. We are currently making utmost efforts to achieve the goals under its three-year medium-term management plan "All Toa 2010," which commenced last year. We are also engaging in basic research from the long-term perspective to develop new businesses.

### R&D involved in current businesses

Our top-priority high-value-added products include downstream acrylic products, UV-curable resins, adhesives, and inorganic functional products. R&D into these products is assisted by the Corporate Research and Development Department's Base Technology Center and the Research Support Group, and collaboration is received from Toagosei Group companies.

For acrylic products, the Macromolecular Material Research Laboratory conducts development of new products in our *Arufon* series of non-solvent acrylic polymers, which incorporate our uniform functional oligomer technology, as well as products created by graft polymerization. The laboratory also conducts development of construction materials, dispersants, adhesives, and mono-disperse particles. MT AquaPolymer, Inc., a joint venture with Mitsui Chemicals Inc., conducts R&D into flocculants for water treatment.

For the UV-curable resin *Aronix* and adhesives such as *Aron Alpha*, R&D is carried out at the Functional Materials Laboratory, to realize synergy between two lines. *Aronix* is used in coatings for cell phones, DVDs and so on. *Aron Alpha* is a consumer-use instant adhesive, and is sold under the name *Krazy Glue* in

the United States. Toagosei is also a member of the Technology Research Association for Advanced Display Materials (TRADIM), and is in charge of developing adhesives for use with next-generation mobile terminal displays. The research conducted in collaboration with other companies under this project is progressing smoothly. Our subsidiary Aron Ever-Grip Ltd. undertakes part of our overall R&D efforts in the field of adhesives.

The development of inorganic functional products has hitherto been undertaken by the Commodity Chemicals Laboratory, the New Materials Laboratory, and subsidiary Tsurumi Soda Co., Ltd. In the near future, we plan to consolidate development activities to Tsurumi Soda's Research Division to reinforce the Group's development capabilities in high-purity inorganic material products.

The Commodity Chemicals Laboratory has been in charge of tests on gas diffusion electrodes for chlor-alkali electrolysis, which have been jointly carried out with the New Energy and Industrial Technology Development Organization (NEDO) and Kaneka Corporation. The tests have shown that this method can reduce power consumption by one-third compared with the conventional ion-exchange membrane method. We expect the new method to be widely adopted.

The staff of the New Materials Laboratory are currently engaged in the development of ion exchangers, antibacterial agents, deodorants, and materials used in electronics. In August 2008, we launched a new anti-allergy agent *AlleRemove ZTP-170*, which is an organic / inorganic-hybrid compound.

Toagosei's major subsidiary Aron Kasei Co., Ltd. engages in the development of plastic piping products employing the Company's high-level expertise in plastics processing. The company also develops plastic



Toagosei's Advanced Science Research Laboratory at Tsukuba.



products for nursing care, other welfare situations, and daily household use. It has also developed plastic molding technologies for new types of synthetic resins such as elastomers.

### Focus on silicon-based materials

Solar cells are at the focus of attention these days for their potential to meet the world's energy needs while helping protect the natural environment. In line with this social trend, and also to open the way to operations by the Company in a wider range of electronics-related fields, we are focusing considerable research efforts on silicon-based materials.

We are pinning our hopes for the electronic materials business on *TRIES* (triethoxysilane) and *HCD* (hexachlorodisilane), used in making semiconductors, as well as our *SQ* series of silsesquioxane compounds, which are new silicon-based organic / inorganic hybrid materials. Development is proceeding smoothly on the *Q8* series of nano-hybrid silicon-based materials. This development work commenced in February 2007 under an agreement with the US company Mayaterials Inc. Both the *SQ* and *Q8* series are expected to give rise to products with excellent transparency as well as superior heat resistance and scratch resistance. We are looking forward to growing demand for new optical / electronic applications.

Going forward, we intend to expand our lineup of special silicon-based materials for the semiconductor industry, and will be investing even more to strengthen our development capabilities in organic / inorganic hybrid materials with high-level special functions. We are planning to develop this lineup of novel silicon compounds into a profitable new business.

### Basic Research on Bioinformatics

In June 2007, in a joint initiative with a team of researchers at the Department of Molecular Biology, School of Medicine of Keio University, headed by Associate Professor Jun Kudo, we participate in the "GSP (Genome Super Power) Center" (a branch of the Keio Advanced Research Centers) at our Institute for Advanced Sciences in Tsukuba. Joint R&D with the GSP Center is focusing on the Peptide-based Drug Creation Project, aiming at developing peptides with new functions. In the future, we hope that the findings of this research project will fuse with our chemicals technologies and open up new fields of application. This project is also receiving assistance from Professor Emeritus Nobuyoshi Shimizu of Keio University.

In 2006, our research project into the role of certain peptides in inducing somatic stem cells to differentiate into neuron cells was chosen by the Japan Science and Technology Agency for its Research Program in Innovative Technology Development. Work is still ongoing in this project, whose goal is to develop cures for intractable nerve diseases such as Parkinson's disease, retinal degeneration and nerve conditions caused by injury to the spinal cord. The plan is to investigate technologies for differentiating a patient's own somatic stem cells (skin or bone marrow stem cells) to form nerve cells, which can then be transplanted into the patient to replace damaged nerve tissue. It is hoped that this research, in which we are employing human iPS cells donated by Kyoto University, will make a valuable contribution to progress in regenerative medicine.

# Corporate Social Responsibility

## Toagosei aims to pursuit public trust through the fulfillment of its social responsibilities as a chemical manufacturer

The Toagosei Group's CSR goals are encapsulated in our motto: "share more happiness with more people through the chemical business." In line with the spirit of this motto, we carry out CSR activities on a comprehensive Group-wide basis.

The Group CSR Committee, consisting of representatives of all members of the Toagosei Group, acts as the central body for the promotion and supervision of CSR activities throughout the Group.

### Management focused on the interests of stakeholders

At Toagosei, we pursue our business operations with a strong emphasis on relationships with our customers, shareholders and employees, with the communities in which we operate, and with 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 accomplishment of 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
- Reviewing and revision of whistleblower hotline systems for reporting suspected instances of illegal or unethical conduct
- Drawing up guidelines for the protection of confidential personal information

### 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 of outside directors
- Dedicated section for internal controls

### Responsible Care Activities

- We undertake continuous improvement activities toward our primary goal of preventing accidents

We take measures to eliminate accidents resulting from human error, and we have contingency plans in place to minimize injury and damage in the event of an accident. Disaster management training are carried out on a regular basis.

As a central element in its Responsible Care policies, the Toagosei Group is committed to working to ensure the safety of its products, as well as workforce safety and hygiene, and to reducing the impact on the environment of these products and their manufacturing processes at all stages from development through use to final disposal. By these means, the Group aims to maintain its reputation for trustworthiness among both its customers and society at large.



Rescue operations using a fire truck with an extendable ladder



A Toagosei firefighting team conducts a drill

## Gradual lowering of environmental burden

### ● Energy conservation

We are taking steps, including the installation of new energy-efficient equipment, in pursuit of our goal of reducing energy intensity (both through direct consumption of fossil fuels and indirect consumption via electric power) by 1% on a year-on-year comparison.

### ● Reduction of industrial waste

We have set targets for the “3Rs” (reduce, reuse, and recycle) waste management strategy. We are working toward achieving zero emissions of industrial waste across the Toagosei Group.

### ● Reduction of emissions of substances harmful to the environment

We are working to reduce emissions into the atmosphere of greenhouse gases, notably CO<sub>2</sub>, pollutants such as SO<sub>x</sub>, NO<sub>x</sub> and ashes / soot, and the release into the water table of contaminants, including organic COD substances and nitrogen/phosphorous compounds.



Waste liquid and exhaust gas incineration equipment at our Takaoka Plant



Desulfurization facilities attached to boilers at our Tokushima Plant

## Social Contribution Activities

Development of environmentally friendly technologies and products

### ● Development of new electrolysis method using gas diffusion electrodes

In a joint development with other parties in the caustic soda industry, we are developing a new method of producing caustic soda that reduces one-third electric power.

### ● Aron Alpha instant adhesive

Toagosei has received the Eco Mark certification for Aron Alpha in recognition of the low environmental burden imposed by its production.

### ● Aronix UV-curable resin

It requires no solvents for processing into paints, inks, and electronic materials, has received high praise thanks to the energy efficiency of made possible in the production of these final products.



The Eco Mark



Negative electrode used in gas diffusion process

## Contributions to Society

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



The cleanup campaign along the upper reaches of the Shimanto River



Afforestation activities at Mt. Takamaruyama in Tokushima Prefecture (owned and managed by the prefecture)

# Board of Directors and Corporate Auditors

## Chairman

Akihiko Yamadera

## President

Futoshi Hashimoto

## Directors

Bunshiro Fukuzawa  
(Senior Advisor)

Akio Arisawa  
Katsutoshi Yamada  
Kiyoshi Miyazaki  
Shoji Kawamura  
Kazuo Kiyota  
Souichi Nomura  
Shigehisa Hibino

## Senior Executive Officers

Hisanori Abe  
Yasutaro Yasuda  
Shinichiro Otani  
Souji Hattori

## Executive Officers

Shigeo Suzuki  
Kazuaki Nakagawa  
Akira Komine  
Takao Takemoto  
Akira Kuriyama  
Noriyuki Masuda  
Nobuhiro Ishikawa  
Shinichi Sugiura  
Hideo Kato

## Corporate Auditors

Hiroo Taki  
(Standing)  
Shou Sato  
Fumihito Hanada  
Nobuo Hataya  
Eiichi Takizawa

(As of March 27, 2009)



Souichi  
Nomura

Shoji  
Kawamura

Katsutoshi  
Yamada

Bunshiro  
Fukuzawa

Akihiko  
Yamadera

Futoshi  
Hashimoto

Akio  
Arisawa

Kiyoshi  
Miyazaki

Kazuo  
Kiyota

Shigehisa  
Hibino

# Financial Section

## Five-Year Selected Data

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen (except per-share data)				
	2008	2007	2006	2005	2004
<b>For the fiscal year:</b>					
Net sales .....	¥162,615	¥162,729	¥155,804	¥151,443	¥144,283
Income before income taxes and minority interests.....	6,869	13,295	13,522	16,846	10,321
Net income .....	1,895	6,403	6,961	12,131	8,996
<b>Per-share data:</b>					
Per share of common stock:					
Net income .....	7.27	24.52	26.64	46.31	34.38
Cash dividends applicable to the year.....	8.00	8.00	7.50	7.50	6.00
<b>At year-end:</b>					
Total assets .....	172,464	182,681	195,607	186,521	174,766
Net worth (Note) .....	99,271	105,339	103,870	99,501	83,513
Number of employees .....	2,617	2,552	2,573	2,523	2,597

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

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# Management's Discussion & Analysis

## Overview of Fiscal 2008

During the reporting term (January 1 to December 31, 2008), the Japanese economy decelerated in response to the global economic slowdown triggered by the U.S. subprime mortgage loan crisis. The domestic economy showed clear signs of a recession, as evidenced by a decline in plant and equipment investment and sluggish consumer spending.

Business conditions in the chemical industry became severe against a backdrop of large fluctuations in fuel and raw material prices, as well as a substantial plunge in demand toward the end of the year.

The Group responded to these developments by cutting costs and raising product prices to reflect higher raw material prices, while simultaneously working to expand sales of high-value added products. However, a decrease in earnings was unavoidable, due to the difficulty in pushing through price hikes and the sharp decline in demand toward the end of the term.

The Company recorded sales of ¥162,615 million (US\$1,786 million) on a consolidated basis, down 0.1% from the previous fiscal year. Operating income came to ¥11,668 million (US\$128 million), down 8.3% year-on-year. However, net income fell 70.4% to ¥1,895 million (US\$20 million) due to the registration of a provision to the reserve for doubtful accounts, as well as a loss on valuation of investment securities. In addition, the Company reported a substantial loss on foreign currency exchange translation owing to the yen's sharp appreciation.

## Sales by Segment

### Commodity Chemicals

The volume of caustic soda shipments decreased due to production cutbacks, but sales rose thanks to progress in pushing through higher selling prices.

Demand for caustic potash remained firm, and we achieved some success in raising selling prices to offset the effect of higher raw materials prices. As a result, sales posted a substantial year-on-year increase.

In the field of inorganic chlorides, sales of iron chloride solution declined owing to the closure of Tsurumi Soda's Mihara Plant during the previous year, while sales of liquid chlorine also fell due to weaker demand.

Sales of chlorinated organic solvents were down year-on-year as a result of a decrease in demand in the Japanese market, as well as cutbacks in exports in reaction to worsening profitability. Demand for sulfuric acid was steady, and progress was made in pushing through price raises: sales thus posted growth.

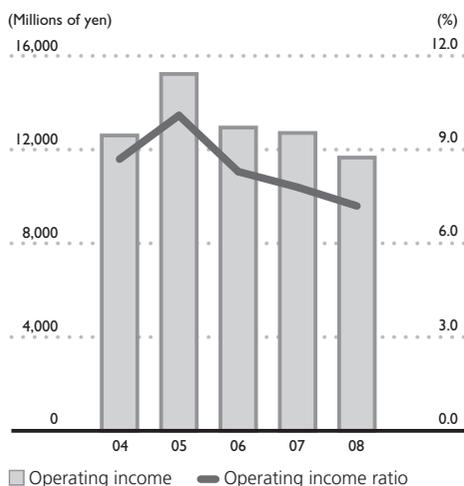
Sales of liquefied hydrogen chloride recorded a year-on-year drop owing to a sharp fall in demand in the latter half of the year.

Sales of industrial gases registered a decline for the full term owing to a drop in sales in the first half caused by equipment malfunction at one of our equity-method affiliates.

Sales of chemical compounds incorporating copper were down slightly from the previous term, owing to lower market prices and weakening demand toward the end of the year.

Total sales for the Commodity Chemical segment came to ¥55,165 million, for a year-on-year increase of 3.2%. Segment operating income was ¥5,650 million, up 12.9% year-on-year.

## Operating income & ratio as a percentage of net sales



## Net income per share



### Acrylic Products

Despite progress in raising the selling prices of acrylic esters to compensate for the high price of naphtha, shipments from our Singapore subsidiary to Asian markets declined, and demand in the Japanese market fell sharply toward the end of the year. Total sales declined on a year-on-year comparison.

Sales of acrylic polymers posted a year-on-year decline despite increased sales of value-added items and the implementation of selling price raises, owing to our withdrawal from certain unprofitable products and an overall weakening of demand toward the end of the reporting term.

Sales of products for use in building construction and civil engineering posted an increase thanks to a larger volume of orders.

Polymer flocculants recorded a sharp increase in sales on the back of brisk shipments to users in Japan and overseas, as well as the successful renegotiation of selling prices.

Total sales for the Acrylic Products segment rose 4.9% year-on-year, to ¥51,057 million. Operating income, however, declined by 18.8% to ¥1,379 million.

### Specialty Chemicals

Sales of industrial adhesives to manufacturers of smart cards, flexible plastic substrates, and so on were favorable, but sales in the United States of products for general consumer use were weak, and total sales of this category declined year-on-year.

Sales of the UV-curable resin *Aronix* registered a year-on-year decrease, despite renegotiated selling prices, owing to a lower

shipment volume to certain large-lot users.

In the category of products developed in-house, despite a decline in demand toward the year-end, the Company enjoyed brisk shipments of high-purity industrial silicon gases, and total sales of this category rose over the previous year.

Total sales for the Specialty Chemicals segment came to ¥24,380 million, for a year-on-year decline of 8.6%, while operating income for the segment was down 7.6% year-on-year, at ¥3,906 million.

### Plastics

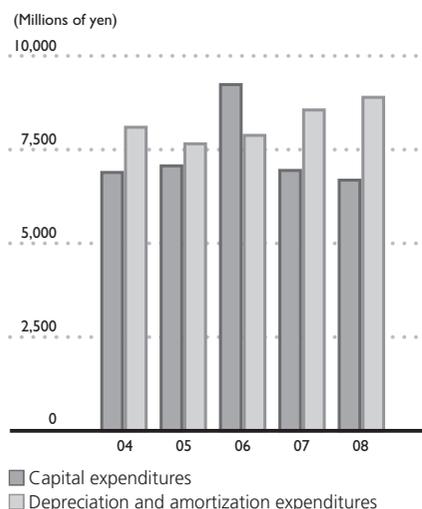
Although the reporting term largely saw an end to the delays in housing construction starts — caused by the amended building standard law — that had been seen in the previous term, the worsening of the economic downturn led to a major decline in sales.

Sales of plastic products for day-to-day household use and for use in nursing care posted a year-on-year increase thanks to growth in demand from the nursing care field.

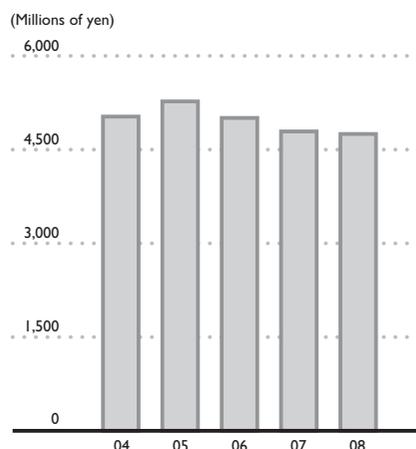
Sales of raw material compounds and other molding materials recorded a year-on-year decline in spite of higher selling prices and the development of new applications. This was due to lower shipments of elastomer compounds as a result of user production cutbacks.

Total sales for the Plastics segment came to ¥30,550 million for a year-on-year fall of 5.2%, while operating income was down sharply, by 41.4% to ¥1,299 million.

## Capital expenditures & depreciation and amortization expenditures



## R&D expenditures



### Other Businesses

Sales for this segment, which comprises new product development operations, the construction and repair of plants and production facilities, and goods transportation services, posted a year-on-year decline of 13.3% to ¥1,460 million. An operating loss of ¥462 million was registered.

### Cash Flows

Despite a decrease in trade receivables, net cash provided by operating activities fell by ¥2,371 million from the previous year, to ¥13,280 million, largely as a result of a decline in income before income taxes.

Net cash used in investing activities posted an increase of ¥4,566 million to ¥8,776 million as a result of increased expenditure on the acquisition of securities for investment purposes, as well as a decline revenues in proceeds from the sale of investment securities from the previous year.

Net cash used in financing activities came to ¥4,057 million, down from ¥15,894 million for the previous term. This is primarily attributable to a decline in the repayment of long-term loans. The net cash outflow consisted largely of the repayment of interest-bearing debt and the payment of dividends.

As a result of the above, cash and cash equivalents at the reporting term-end stood at ¥9,826 million, for an increase of ¥115 million over the previous term-end.

### Business Performance Prospects for Fiscal 2009

For the current term, ending December 31, 2009, we forecast sales of ¥135,000 million, operating income of ¥6,400 million, recurring profit of ¥6,600 million, and net income of ¥2,000 million.

### Cash Flow Prospects for Fiscal 2009

Due to an expected decline in sales, net cash provided by operating activities is likely to be in the region of ¥11,000 million.

Net cash used in investing activities is forecast at ¥9,000 million, mainly due to the acquisition of property, plant and equipment.

Net cash used in financing activities is forecast at ¥2,000 million as a result of the Company's acquisition of its own shares and measures taken to reduce its interest-bearing debt burden.

### Business Risks

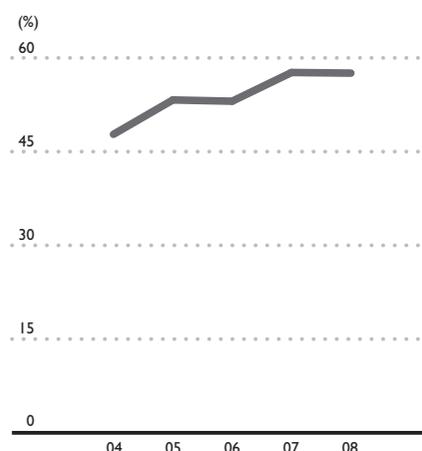
#### (1) Cost competition

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.

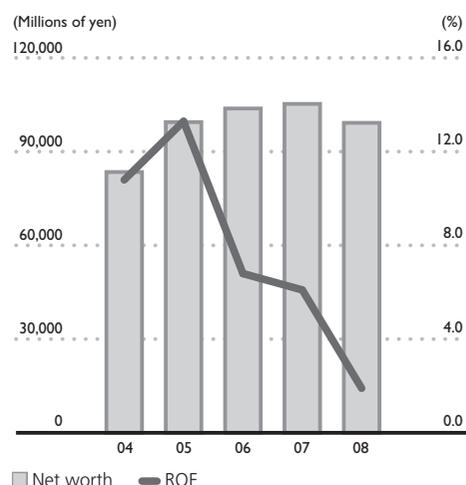
#### (2) Changes in the price of crude oil and naphtha

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.

### Net worth ratio



### Net worth & ROE



### (3) Product liability

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

### (4) Impact of natural disasters

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

### (5) Major litigation

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

### (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 12.4% of total sales. The Group includes seven overseas consolidated subsidiaries and one overseas affiliated company subject to the equity method. There is therefore a possibility of a change in exchange rates adversely affecting the business performance and financial position of the Group.

### (8) Changes in interest rates

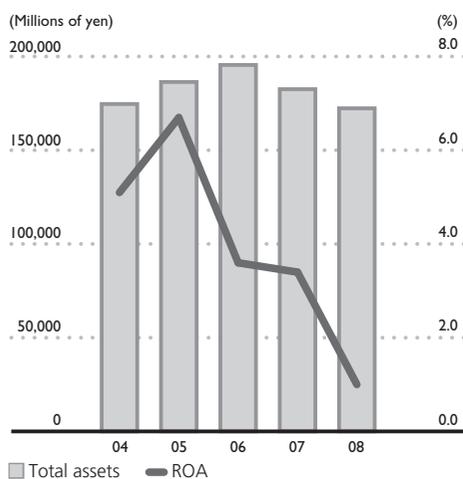
The Group committed to reducing the interest-bearing debt, and to improving the overall financial balance. However, there is a possibility that a change in interest rates will influence the business performance and financial position of the Group.

### (9) Application of accounting for the impairment of long-lived assets

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

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

## Total assets & ROA



# Consolidated Balance Sheets

Toagosei Co., Ltd. and Consolidated Subsidiaries

December 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
<b>Assets</b>			
Current assets:			
Cash and cash equivalents.....	¥ 9,826	¥ 9,710	\$ 107,943
Notes and accounts receivable.....	49,058	51,061	538,922
Inventories (Note 5).....	19,352	17,379	212,593
Deferred tax assets (Note 10).....	663	732	7,284
Other current assets.....	2,009	1,613	22,072
Allowance for doubtful receivables.....	(141)	(198)	(1,549)
Total current assets.....	80,767	80,298	887,267
Property, plant and equipment (Note 8):.....	236,997	244,159	2,603,508
Accumulated depreciation.....	(171,810)	(175,422)	(1,887,409)
Property, plant and equipment, net (Note 6).....	65,186	68,736	716,099
Investments and other assets:			
Investment securities (Note 4).....	13,434	21,293	147,579
Long-term loans receivable.....	100	154	1,102
Intangible fixed assets, net.....	1,915	2,294	21,044
Deferred tax assets (Note 10).....	2,676	336	29,403
Overdue loans receivable.....	9,110	8,562	100,076
Prepaid pension cost (Note 9).....	1,219	476	13,399
Other assets.....	3,407	3,910	37,429
Allowance for doubtful receivables.....	(5,353)	(3,381)	(58,814)
Total investments and other assets.....	26,509	33,645	291,221
<b>Total assets.....</b>	<b>¥172,464</b>	<b>¥182,681</b>	<b>\$1,894,587</b>

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
<b>Liabilities and net assets</b>			
Current liabilities:			
Notes and accounts payable .....	¥ 20,467	¥ 21,530	\$ 224,840
Short-term bank loans (Note 8) .....	9,712	4,877	106,698
Current portion of long-term debt (Note 8) .....	1,858	3,725	20,418
Commercial paper .....	6,000	11,000	65,912
Deferred tax liabilities (Note 10) .....	1	—	21
Accrued income taxes .....	1,106	3,522	12,150
Other current liabilities .....	7,529	7,413	82,712
Total current liabilities .....	46,676	52,068	512,754
Long-term liabilities:			
Long-term debt (Note 8) .....	7,997	6,867	87,859
Deferred tax liabilities (Note 10) .....	1,167	1,320	12,825
Accrued retirement benefits for employees (Note 9) .....	655	723	7,204
Accrued retirement benefits for directors .....	122	148	1,347
Other long-term liabilities .....	2,795	2,614	30,711
Total long-term liabilities .....	12,739	11,673	139,948
Commitments and contingencies (Note 17)			
Net assets:			
Shareholders' equity (Notes 11, 16 and 19):			
Common stock, without par value:			
Authorized – 550,000,000 shares			
Issued:			
2008 – 263,992,598 shares .....	20,886	—	229,445
2007 – 263,992,598 shares .....	—	20,886	—
Capital surplus .....	15,085	15,073	165,722
Retained earnings .....	63,904	64,096	702,017
Treasury stock (Note 15) .....	(877)	(725)	(9,638)
Total shareholders' equity .....	98,999	99,331	1,087,547
Valuation and translation adjustments:			
Unrealized holding gain on securities .....	1,047	5,841	11,504
Unrealized gain on hedging derivatives .....	0	2	5
Translation adjustments .....	(775)	163	(8,517)
Total valuation and translation adjustments .....	272	6,007	2,992
Minority interests .....	13,776	13,599	151,345
Total net assets .....	113,048	118,939	1,241,884
<b>Total liabilities and net assets .....</b>	<b>¥172,464</b>	<b>¥182,681</b>	<b>\$1,894,587</b>

# Consolidated Statements of Income

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Net sales .....	¥162,615	¥162,729	\$1,786,395
Cost of sales .....	121,309	118,643	1,332,631
Gross profit.....	41,306	44,086	453,763
Selling, general and administrative expenses (Notes 9 and 12).....	29,637	31,367	325,583
Operating income .....	11,668	12,719	128,179
Other income (expenses):			
Interest and dividend income.....	607	208	6,673
Interest expense .....	(313)	(442)	(3,439)
Equity in earnings of affiliates.....	265	523	2,911
Impairment loss on property, plant and equipment.....	(674)	(2,394)	(7,410)
Gain on sales and disposal of property, plant and equipment .....	15	30	168
Gain on sales of investment securities.....	36	2,568	402
Loss on disposal of property, plant and equipment .....	(837)	(636)	(9,195)
Provision for doubtful receivables .....	(2,006)	(194)	(22,042)
Loss on valuation of investment in securities.....	(777)	(64)	(8,545)
Foreign currency exchange loss .....	(914)	—	(10,040)
Other, net .....	(200)	978	(2,202)
Income before income taxes and minority interests .....	6,869	13,295	75,458
Income taxes (Note 10):			
Current .....	3,469	5,307	38,118
Prior year.....	—	920	—
Deferred.....	814	(247)	8,943
	4,284	5,980	47,061
Minority interests .....	689	(911)	7,570
Net income (Note 19).....	¥ 1,895	¥ 6,403	\$ 20,826

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Changes in Net Assets

Toagosei Co., Ltd. and Consolidated Subsidiaries

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Year ended December 31, 2008					
Balance at December 31, 2007 .....	¥20,886	¥15,073	¥64,096	¥(725)	¥99,331
Cash dividends .....			(2,088)		(2,088)
Net income .....			1,895		1,895
Purchases of treasury stock.....				(202)	(202)
Gain on sales of treasury stock .....		12		50	62
Net changes in items other than shareholders' equity...					
Balance at December 31, 2008 .....	¥20,886	¥15,085	¥63,904	¥(877)	¥98,999

	Millions of yen					
	Valuation and translation adjustments					
	Unrealized holding gain on securities	Unrealized gain on hedging derivatives	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Year ended December 31, 2008						
Balance at December 31, 2007 .....	¥5,841	¥2	¥ 163	¥6,007	¥13,599	¥118,939
Cash dividends .....						(2,088)
Net income .....						1,895
Purchases of treasury stock.....						(202)
Gain on sales of treasury stock .....						62
Net changes in items other than shareholders' equity...	(4,794)	(2)	(938)	(5,735)	177	(5,558)
Balance at December 31, 2008 .....	¥1,047	¥0	¥(775)	¥ 272	¥13,776	¥113,048

	Thousands of U.S. dollars (Note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Year ended December 31, 2008					
Balance at December 31, 2007 .....	\$229,445	\$165,586	\$704,129	\$(7,965)	\$1,091,197
Cash dividends .....			(22,938)		(22,938)
Net income .....			20,826		20,826
Purchases of treasury stock.....				(2,227)	(2,227)
Gain on sales of treasury stock .....		135		554	690
Net changes in items other than shareholders' equity...					
Balance at December 31, 2008 .....	\$229,445	\$165,722	\$702,017	\$(9,638)	\$1,087,547

	Thousands of U.S. dollars (Note 3)					
	Valuation and translation adjustments					
	Unrealized holding gain on securities	Unrealized gain on hedging derivatives	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Year ended December 31, 2008						
Balance at December 31, 2007 .....	\$64,173	\$32	\$ 1,791	\$65,996	\$149,398	\$1,306,592
Cash dividends .....						(22,938)
Net income .....						20,826
Purchases of treasury stock.....						(2,227)
Gain on sales of treasury stock .....						690
Net changes in items other than shareholders' equity...	(52,668)	(26)	(10,308)	(63,004)	1,946	(61,057)
Balance at December 31, 2008 .....	\$11,504	\$ 5	\$(8,517)	\$ 2,992	\$151,345	\$1,241,884

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Changes in Net Assets

Toagosei Co., Ltd. and Consolidated Subsidiaries

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

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

# Consolidated Statements of Cash Flows

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
<b>Operating activities</b>			
Income before income taxes and minority interests .....	¥ 6,869	¥13,295	\$ 75,458
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization.....	9,713	9,002	106,706
Impairment losses on property, plant and equipment.....	674	2,394	7,410
Increase in provision for doubtful receivables.....	1,917	309	21,059
Reversal of provision for retirement benefits .....	(861)	(904)	(9,460)
Decrease in other provisions .....	(30)	(72)	(332)
Interest and dividend income.....	(607)	(743)	(6,673)
Interest expense .....	313	442	3,439
Foreign currency exchange loss (gain).....	312	(63)	3,436
Equity in earnings of affiliates.....	(265)	(523)	(2,911)
Gain from disposition of manufacturing license .....	—	(226)	—
Gain on sales of property, plant and equipment .....	(15)	(30)	(168)
Gain on sales of investments in securities.....	(36)	(2,568)	(402)
Subsidy income .....	—	(298)	—
Loss on disposal of property, plant and equipment .....	837	636	9,195
Loss on valuation of investment in securities.....	777	64	8,545
Decrease (increase) in receivables.....	2,367	(1,934)	26,004
Increase in inventories .....	(1,986)	(102)	(21,827)
(Decrease) increase in payables.....	(1,175)	397	(12,910)
Other, net .....	(467)	(69)	(5,137)
<b>Subtotal</b> .....	<b>18,336</b>	<b>19,005</b>	<b>201,431</b>
Interest and dividends received .....	1,064	1,623	11,697
Interest paid.....	(268)	(438)	(2,946)
Income taxes paid.....	(5,852)	(4,538)	(64,291)
Net cash provided by operating activities.....	<b>13,280</b>	<b>15,651</b>	<b>145,890</b>
<b>Investing activities</b>			
Purchases of investments in securities .....	(1,068)	(158)	(11,743)
Proceeds from sales of investments in securities .....	205	3,407	2,256
Purchases of property, plant and equipment .....	(6,494)	(7,559)	(71,345)
Proceeds from sales of property, plant and equipment.....	189	48	2,082
Proceeds from disposition of manufacturing license .....	—	226	—
Proceeds from subsidy income .....	—	298	—
Increase (decrease) in short-term loans receivable.....	(60)	605	(659)
Increase in overdue loans receivable.....	(548)	—	(6,019)
Collection of long-term loans receivable.....	72	79	798
Payment for purchase of a newly consolidated subsidiary.....	(382)	—	(4,199)
Payment for investment in consolidated subsidiaries.....	—	(80)	—
Other, net.....	(690)	(1,076)	(7,583)
Net cash used in investing activities.....	<b>(8,776)</b>	<b>(4,209)</b>	<b>(96,412)</b>
<b>Financing activities</b>			
Increase in short-term bank loans.....	4,291	87	47,147
Decrease in commercial paper.....	(5,000)	(4,000)	(54,926)
Proceeds from long-term debt .....	3,000	—	32,956
Repayment of long-term debt.....	(3,708)	(9,623)	(40,737)
Proceeds from sales of treasury stock .....	62	9	690
Purchases of treasury stock .....	(202)	(105)	(2,227)
Repayment of lease obligations.....	(9)	(1)	(100)
Cash dividends to shareholders.....	(2,492)	(2,260)	(27,379)
Net cash used in financing activities .....	<b>(4,057)</b>	<b>(15,894)</b>	<b>(44,578)</b>
Effect of exchange rate changes on cash and cash equivalents .....	(330)	(23)	(3,625)
Net increase (decrease) in cash and cash equivalents.....	115	(4,476)	1,274
Cash and cash equivalents at beginning of the year .....	9,710	14,186	106,669
Cash and cash equivalents at end of the year .....	<b>¥ 9,826</b>	<b>¥ 9,710</b>	<b>\$107,943</b>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Toagosei Co., Ltd. and Consolidated Subsidiaries  
December 31, 2008

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

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

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

### (b) Foreign currency translation

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

### (c) Cash equivalents

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

### (d) Securities and investment securities

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

classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

### (e) Inventories

Inventories are stated at cost determined by the moving average method with certain exceptions as mentioned below.

Effective for the year ended December 31, 2008, two consolidated subsidiaries, whose fiscal year ends at the end of March have adopted new accounting standards, "Accounting Standard for Valuation of inventory" (Accounting Standards Board of Japan Statement No.9, July 5, 2006).

In applying the accounting standard, the inventories held for the selling purpose are stated at the lower of cost or net salable value, cost being determined by the average method in the period.

The adoption of the new accounting standards results in the decrease of operating income and income before income taxes and minority interests by ¥3 million (U.S.\$32 thousand), as compared with the corresponding amounts which would have been recorded under the previous method.

### (f) Property, plant and equipment and depreciation (except for lease assets)

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

Pursuant to the amendment to the Corporate Tax Law, the remaining balances of tangible fixed assets acquired on and before March 31, 2007 and being fully depreciated up to the maximum amount of depreciation are further depreciated from this fiscal year by the Company and domestic consolidated subsidiaries using a straight-line method over 5 years. As a result, operating income and income before income taxes and minority interests decreased ¥1,135 million (U.S.\$12,469 thousand), for the year ended December 31, 2008, compared with the corresponding amounts which would have been recorded under the previous method.

### (g) Intangible fixed assets (except for lease assets)

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

### (h) Income taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements determined with respect to the differences between financial reporting and the tax bases of assets and liabilities and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

### (i) Research and development costs

Research and development costs are charged to income when incurred.

### (j) Leases

Non-cancelable lease transactions are primarily accounted for as operating leases (regardless of whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases in the Company and consolidated subsidiaries with some exceptions as mentioned in below.

Effective for the year ended December 31, 2008, two consolidated

subsidiaries, whose fiscal year ends at the end of March have adopted new accounting standards, "Accounting Standards for Lease Transactions" (Accounting Standards Board of Japan Statement No.13, June 17, 1993, Revised March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions," (Accounting Standards Board of Japan Guidance No.16, January 18, 1994, Revised March 30, 2007).

Under the existing accounting standard, finance leases that stipulate the transfer of ownership of the leased assets to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and corresponding lease obligations in the balance sheet.

The depreciation of leased assets shall be calculated based on the assumption that the useful life equals the lease term and the residual value is zero. The adoption of new standard had no material impact on the consolidated financial statements.

#### (k) Retirement benefits

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

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

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

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

#### (l) Derivative financial instruments

The Company has entered into various contracts of derivative financial

instruments in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates. Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to income, 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. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the rates of the corresponding foreign exchange contracts.

#### (m) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations. See Notes 19 and 20.

#### (n) Provision for products recall

One of consolidated subsidiaries of the Company provides an accrual for estimated costs to exchange or repair products subject to recall.

As a result, operating income and income before income taxes and minority interests decreased ¥10 million (U.S.\$109 thousand).

### 3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is made at ¥91.03 = U.S.\$1.00, the approximate exchange rate at December 31, 2008, and included solely for convenience. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

### 4. Securities and Investment Securities

(a) At December 31, 2008 and 2007, held-to-maturity securities for which market prices were available were summarized as follows:

December 31, 2008	Millions of yen		
	Carrying value	Market value	Unrecognized gain
Unrecognized gain:			
Corporate bonds .....	¥ —	¥ —	¥—
Unrecognized loss:			
Corporate bonds .....	103	100	(2)
Total .....	¥103	¥100	¥(2)

December 31, 2008	Thousands of U.S. dollars		
	Carrying value	Market value	Unrecognized gain
Unrecognized gain:			
Corporate bonds .....	\$ —	\$ —	\$ —
Unrecognized loss:			
Corporate bonds .....	1,132	1,100	(31)
Total .....	\$1,132	\$1,100	\$(31)

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

(b) Marketable securities classified as other securities as of December 31, 2008 and 2007 were summarized as follows:

	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
<b>December 31, 2008</b>			
Securities whose carrying value exceeds their acquisition cost:			
Stock .....	¥3,314	¥5,933	¥2,618
Securities whose acquisition cost exceeds their carrying value:			
Stock .....	4,530	3,460	(1,070)
<b>Total .....</b>	<b>¥7,845</b>	<b>¥9,393</b>	<b>¥1,548</b>

	Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)
<b>December 31, 2008</b>			
Securities whose carrying value exceeds their acquisition cost:			
Stock .....	\$36,413	\$ 65,180	\$28,767
Securities whose acquisition cost exceeds their carrying value:			
Stock .....	49,773	38,014	(11,758)
<b>Total .....</b>	<b>\$86,186</b>	<b>\$103,195</b>	<b>\$17,008</b>

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

(c) Sales of securities classified as other securities amounted to ¥205 million (U.S.\$2,256 thousand) with a gain of ¥36 million (U.S.\$402 thousand) for the year ended December 31, 2008 and ¥3,407 million with a gain of ¥2,568 million for the year ended December 31, 2007.

(d) Other securities without market value as of December 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Investments in unconsolidated subsidiaries and affiliates.....	¥2,348	¥2,315	\$25,798
Other securities:			
Unlisted securities .....	1,142	1,153	12,551
Other.....	446	526	4,903

## 5. Inventories

Inventories at December 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Merchandise and finished products...	¥12,116	¥10,816	\$133,102
Semi-finished goods.....	1,850	1,824	20,326
Work in process.....	578	455	6,351
Raw materials and supplies.....	4,807	4,283	52,812
<b>Total .....</b>	<b>¥19,352</b>	<b>¥17,379</b>	<b>\$212,593</b>

## 6. Property, Plant and Equipment

Property, plant and equipment at December 31, 2008 and 2007 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Land .....	¥18,006	¥18,180	\$197,806
Buildings and structures.....	19,345	20,857	212,517
Machinery, equipment and other...	25,550	28,148	280,681
Construction in progress.....	2,223	1,549	24,427
Lease assets .....	60	—	665
<b>Total .....</b>	<b>¥65,186</b>	<b>¥68,736</b>	<b>\$716,099</b>

## 7. Impairment Loss on Property, Plant and Equipment

The Company and its consolidated subsidiaries have recognized impairment losses on the following classes of assets for the years ended December 31, 2008 and 2007:

December 31, 2008				
Location	Major use	Category	Millions of yen	Thousands of U.S. dollars
Minato ward, Nagoya city	Idle	Buildings, machinery and equipment	¥269	\$2,959
Takaoka city, Toyama	Acrylic polymer production facility	Buildings, machinery and equipment	267	2,939
Mihara city, Hiroshima	Idle	Land and buildings	107	1,184
Singapore	Acrylic acid ethyl ester production facility	Machinery and equipment	29	326
<b>Total</b>			<b>¥674</b>	<b>\$7,410</b>

December 31, 2007				
Location	Major use	Category	Millions of yen	
Takaoka city, Toyama	Idle	Buildings	¥1,073	
Mihara city, Hiroshima	Idle	Land and buildings	700	
Singapore	Acrylic acid ethyl ester production facility	Machinery and equipment	620	
<b>Total</b>			<b>¥2,394</b>	

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 profitability decrease, no specific plan for future use or the book value of such idle assets is less than their respective recoverable amounts, the book value of assets is written down to its recoverable amount. The assets listed in the above tables were written down to their respective recoverable amounts and ¥674 million (U.S.\$7,410 thousand) and ¥2,394 million of impairment loss were recognized in the statements of income for the years ended December 31, 2008 and 2007, respectively. These losses were reported as other expenses.

The impairment loss consisted of ¥311 million (U.S.\$3,426 thousand) for buildings, ¥176 million (U.S.\$1,935 thousand) for machinery and equipment, ¥78 million (U.S.\$864 thousand) for other, ¥123 million (U.S.\$1,361 thousand) for gain on sales of land, ¥121 million (U.S.\$1,329 thousand) for loss on disposal of buildings, ¥110 million (U.S.\$1,217 thousand) for removal cost for the year ended December 31, 2008 and consisted of ¥1,162 million for buildings, ¥386 million for structures,

¥474 million for machinery, ¥253 million for land, ¥117 million for other for the year ended December 31, 2007.

The impairment loss for idle assets was measured based on the sealing prices and the nominal value of the idle assets.

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

Short-term bank loans, principally unsecured, consisted of notes payable to banks bearing annual interest rates of 1.20% and 1.74% at December 31, 2008 and 2007, respectively.

Long-term debt at December 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Loans with collateral from banks, insurance companies and other, bearing annual interest rates of 1.44% and 1.58% for current portion of long-term debt and lease obligations and long-term debt and lease obligations less current portion at December 31, 2008, respectively .....	¥9,856	¥10,592	\$108,277
	9,856	10,592	108,277
Less: current portion.....	(1,858)	(3,725)	(20,418)
	¥7,997	¥ 6,867	\$ 87,859

Assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Property, plant and equipment at net book value.....	¥23,975	¥25,566	\$263,376

The aggregate annual maturities of long-term debt and lease obligations subsequent to December 31, 2009 were summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2009.....	¥1,858	\$ 20,418
2010.....	357	3,930
2011.....	3,655	40,160
2012.....	353	3,886
2013.....	3,344	36,740
2014 and thereafter.....	285	3,141
	¥9,856	\$108,277

## 9. Retirement Benefit Plans for Employees

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

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of December 31, 2008 and 2007 related to the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation .....	¥(16,157)	¥(17,098)	\$(177,493)
Plan assets at fair value .....	11,464	16,228	125,937
Funded status .....	(4,693)	(870)	(51,556)
Unrecognized actuarial gain.....	5,460	852	59,987
Unrecognized prior service cost...	(203)	(229)	(2,236)
Prepaid pension cost.....	1,219	476	13,399
Accrued retirement benefits.....	¥ (655)	¥ (723)	\$ (7,204)

The components of net periodic retirement benefit expenses for the years ended December 31, 2008 and 2007 were outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost.....	¥780	¥ 834	\$ 8,571
Interest cost.....	317	332	3,492
Expected return on plan assets....	(191)	(116)	(2,106)
Amortization of actuarial (gain) loss...	87	(19)	962
Amortization of unrecognized prior service cost.....	(25)	(25)	(283)
Total.....	¥968	¥1,004	\$10,636

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

December 31,	2008	2007
Discount rate .....	Mainly 2.0%	Mainly 2.0%
Expected rate of return on plan assets.....	Mainly 2.0%	Mainly 0.75%

## 10. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on earnings, i.e. corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 40.5 per cent for the years ended December 31, 2008 and 2007.

The effective tax rates reflected in the consolidated statements of income for the years ended December 31, 2008 and 2007 differ from the statutory tax rate for the following reasons:

	2008	2007
Statutory tax rate .....	40.5%	40.5%
Effect of:		
Permanent difference – entertainment expenses ...	2.0	0.7
Permanent difference – dividend income.....	(1.4)	(2.8)
Inhabitants' taxes per capital.....	1.2	0.6
Amortization of goodwill .....	1.9	(0.0)
Equity in gain of affiliates.....	(1.6)	(1.6)
Valuation allowance .....	23.5	(0.3)
Different tax rates applied to income of foreign consolidated subsidiaries.....	2.1	1.3
Tax deduction of experiment and research expenses...	(4.5)	(3.5)
Prior year income taxes .....	—	6.9
Other, net.....	(1.4)	3.2
Effective tax rates.....	62.4%	45.0%

Significant components of the deferred tax assets and liabilities held as of December 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
<b>Deferred tax assets:</b>			
Valuation loss on securities .....	¥ 1,344	¥ 1,030	\$ 14,775
Elimination of unrealized profit...	1,448	1,437	15,909
Accrued retirement benefits....	1,604	1,966	17,624
Accrued enterprise tax.....	112	296	1,233
Allowance for doubtful receivables...	2,336	1,396	25,672
Accrued bonuses .....	68	75	750
Net operating loss carry forwards...	1,599	1,880	17,572
Impairment loss on property, plant and equipment .....	1,288	1,251	14,151
Other.....	737	1,086	7,885
Gross deferred tax assets .....	10,520	10,420	115,574
Valuation allowance .....	(6,118)	(5,166)	(67,211)
Total deferred tax assets .....	4,402	5,253	48,363
<b>Deferred tax liabilities:</b>			
Reserve under Special Taxation Measures Law.....	(444)	(478)	(4,887)
Undistributed earnings of overseas partnerships.....	(509)	(616)	(5,598)
Gain on contribution of securities to retirement benefit trust.....	(805)	(822)	(8,853)
Valuation difference on other securities .....	(469)	(3,586)	(5,155)
Other.....	(2)	(2)	(27)
Total deferred tax liabilities .....	(2,232)	(5,505)	(24,523)
Net deferred tax assets.....	¥ 2,170	¥ 252	\$ 23,840

## 11. Capital Surplus and Retained Earnings

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met. The legal reserve amounted to ¥3,990 million (U.S.\$43,831 thousand) and ¥3,990 million as of December 31, 2008 and 2007, respectively.

## 12. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended December 31, 2008 and 2007 were ¥4,753 million (U.S.\$52,217 thousand) and ¥4,794 million, respectively.

## 13. Leases

The following *pro forma* amounts represent the acquisition cost, accumulated depreciation and net book value of leased property as of December 31, 2008 and 2007, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
<b>Acquisition cost:</b>			
Buildings and structures.....	¥ 38	¥ —	\$ 422
Machinery and equipment .....	842	898	9,257
Other intangible fixed assets ...	22	1	244
	¥903	¥900	\$9,924
<b>Accumulated depreciation:</b>			
Buildings and structures.....	¥ 23	¥ —	\$ 257
Machinery and equipment .....	541	456	5,952
Other intangible fixed assets ...	3	0	39
	¥569	¥456	\$6,251
<b>Net book value:</b>			
Buildings and structures.....	¥ 14	¥ —	\$ 162
Machinery and equipment .....	300	441	3,305
Other intangible fixed assets ...	18	1	205
	¥334	¥443	\$3,673

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥185 million (U.S.\$2,033 thousand) and ¥159 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms, for the years ended December 31, 2008 and 2007, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to December 31, 2008 for non-cancelable operating leases and finance lease transactions accounted for as operating leases are summarized as follows:

Year ending December 31,	Millions of yen		Thousands of U.S. dollars	
	Operating leases	Finance leases	Operating leases	Finance leases
2009.....	¥114	¥154	\$1,259	\$1,700
2010 and thereafter....	152	179	1,671	1,972
Total.....	¥266	¥334	\$2,930	\$3,673

## 14. Derivative Transactions

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

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

There was no disclosure of fair value information for derivatives as of December 31, 2007 since all the derivatives as of that date have been accounted for as hedges.

The outstanding derivatives as of December 31, 2008 were as follows:

	Millions of Yen			
	2008			
	Notional principal amount		Market value	Valuation gain/(loss)
Total	Over 1 year			
Nonmarket transactions				
Forward exchange contracts				
Sell				
U.S. Dollar .....	¥271	—	¥272	¥(1)
	¥271	—	¥272	¥(1)

	Thousands of U.S. dollars			
	2008			
	Notional principal amount		Market value	Valuation gain/(loss)
Total	Over 1 year			
Nonmarket transactions				
Forward exchange contracts				
Sell				
U.S. Dollar .....	\$2,980	—	\$2,994	\$13
	\$2,980	—	\$2,994	\$13

## 15. Treasury Stock

Number of shares of treasury stock for the year ended December 31, 2008 and 2007 was as follows:

Year ended December 31, 2008	Thousand of shares			
	As of December 31, 2007	Increase during the year	Decrease during the year	As of December 31, 2008
Treasury stock:				
Common stock .....	2,935	683	198	3,419
Total .....	2,935	683	198	3,419

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

## 16. Cash Dividends

Dividends paid in the year ended December 31, 2008 and 2007 were as follows:

Year ended December 31, 2008			
Resolution	Type of shares	Millions of yen	Thousands of U.S. dollars
		Gross amount	Gross amount
March 28, 2008 95th Annual Shareholders' Meeting	Common stock	¥1,044	\$11,471
August 7, 2008 Board of Directors	Common stock	¥1,043	\$11,467

Year ended December 31, 2008				
Resolution	Yen		Record date	Effective date
	Per share	Per share		
March 28, 2008 95th Annual Shareholders' Meeting	¥4.00	\$0.044	December 31, 2007	March 31, 2008
August 7, 2008 Board of Directors	¥4.00	\$0.044	June 30, 2008	September 6, 2008

Year ended December 31, 2007		
Resolution	Type of shares	Millions of yen
		Gross amount
March 29, 2007 94th Annual Shareholders' Meeting	Common stock	¥ 979
August 7, 2007 Board of Directors	Common stock	¥1,044

Year ended December 31, 2007			
Resolution	Yen		Effective date
	Per share	Record date	
March 29, 2007 94th Annual Shareholders' Meeting	¥3.75	December 31, 2006	March 31, 2007
August 7, 2007 Board of Directors	¥4.00	June 30, 2007	September 6, 2007

Dividends whose record date was in the year ended December 31, 2008 but whose effective date was in the year ending December 31, 2009 were as follows:

Year ended December 31, 2008				
Resolution	Type of shares	Millions of yen	Thousands of U.S. dollars	Resource
		Gross amount	Gross amount	
March 27, 2009 96th Annual Shareholders' Meeting	Common stock	¥1,042	\$11,449	Retained earnings

Year ended December 31, 2008				
Resolution	Yen		Record date	Effective date
	Per share	Per share		
March 27, 2009 96th Annual Shareholders' Meeting	¥4.00	\$0.044	December 31, 2008	March 31, 2009

Dividends whose record date was in the year ended December 31, 2007 but whose effective date was in the year ending December 31, 2008 were as follows:

Year ended December 31, 2007			
Resolution	Type of shares	Millions of yen	Resource
		Gross amount	
March 28, 2008 95th Annual Shareholders' Meeting	Common stock	¥1,044	Retained earnings

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

## 17. Commitments and Contingencies

### Contingencies

At December 31, 2008 and 2007, the Company and its consolidated subsidiaries had the following contingent liabilities:

Guarantees of indebtedness.....	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	¥296	¥421	\$3,261
	¥296	¥421	\$3,261

### Commitment line

The Company concluded an arrangement of committed line up to ¥10,000 million (U.S.\$109,853 thousand) of credit with 13 banks in order to secure and obtain timely working capital on June 30, 2008.

At December 31, 2008, the outstanding balance of the commitments was as follows:

	Thousands of U.S. dollars	
	Millions of yen 2008	2008
Total committed line of credit .....	¥10,000	\$109,853
Executed amount .....	¥ 5,000	\$ 54,926
Unexecuted amount .....	¥ 5,000	\$ 54,926

## 18. Segment Information

### Business Segments

The Company and its consolidated subsidiaries changed business segment from "Chemical Industry" and "Other Businesses" to "Commodity Chemicals", "Acrylic Products", "Specialty Chemicals", "Plastics" and "Other Businesses" in order to disclose substance of the business segment based on the specific characteristics of the business activities in each segment and management system to enhance future growth in each business segment and to accelerate restructuring of the business portfolio. Business segment information for the year ended December 31, 2007 has been reclassified to conform to the business segment in the current year.

Business segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2008 and 2007 were summarized as follows:

Year ended December 31, 2008	Millions of yen			
	Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics
Sales:				
Sales to third parties...	¥55,165	¥51,057	¥24,380	¥30,550
Intersegment sales .....	245	491	503	46
Net sales .....	55,411	51,548	24,884	30,597
Operating costs and expenses .....	49,760	50,169	20,977	29,298
Operating income (loss)...	¥ 5,650	¥ 1,379	¥ 3,906	¥ 1,299
Total assets .....	46,695	37,384	24,087	36,177
Depreciation .....	3,576	2,172	1,077	1,703
Impairment losses .....	185	220	86	—
Capital expenditures .....	¥ 3,151	¥ 1,277	¥ 544	¥ 1,200

Year ended December 31, 2008	Millions of yen			
	Other Businesses	Total	Eliminations or corporate	Consolidated
Sales:				
Sales to third parties...	¥1,460	¥162,615	¥ —	¥162,615
Intersegment sales .....	7,200	8,488	(8,488)	—
Net sales .....	8,661	171,103	(8,488)	162,615
Operating costs and expenses .....	9,123	159,328	(8,381)	150,947
Operating income (loss)...	¥ (462)	¥ 11,774	¥ (106)	¥ 11,668
Total assets .....	5,078	149,422	23,041	172,464
Depreciation .....	260	8,790	590	9,381
Impairment losses .....	—	491	182	674
Capital expenditures .....	¥ 185	¥ 6,360	¥ 304	¥ 6,665

Year ended December 31, 2008	Thousands of U.S. dollars			
	Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics
Sales:				
Sales to third parties...	\$606,015	\$560,887	\$267,830	\$335,614
Intersegment sales .....	2,701	5,397	5,531	514
Net sales .....	608,717	566,285	273,361	336,128
Operating costs and expenses .....	546,643	551,126	230,443	321,852
Operating income (loss)...	\$ 62,074	\$ 15,159	\$ 42,917	\$ 14,275
Total assets .....	512,968	410,686	264,605	397,419
Depreciation .....	39,293	23,867	11,835	18,709
Impairment losses .....	2,032	2,418	950	—
Capital expenditures .....	\$ 34,623	\$ 14,038	\$ 5,984	\$ 13,189

Year ended December 31, 2008	Thousands of U.S. dollars			
	Other Businesses	Total	Eliminations or corporate	Consolidated
Sales:				
Sales to third parties...	\$ 16,046	\$1,786,395	\$ —	\$1,786,395
Intersegment sales .....	79,100	93,245	(93,245)	—
Net sales .....	95,147	1,879,641	(93,245)	1,786,395
Operating costs and expenses .....	100,224	1,750,290	(92,074)	1,658,215
Operating income (loss)...	\$ (5,076)	\$ 129,350	\$ (1,171)	\$ 128,179
Total assets .....	55,790	1,641,469	\$253,118	1,894,587
Depreciation .....	2,864	96,571	6,492	103,063
Impairment losses .....	—	5,401	2,009	7,410
Capital expenditures .....	\$ 2,041	\$ 69,877	\$ 3,346	\$ 73,224

Year ended December 31, 2007	Millions of yen			
	Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics
Sales:				
Sales to third parties...	¥53,470	¥48,674	¥26,667	¥32,232
Intersegment sales .....	268	1,069	550	12
Net sales .....	53,738	49,743	27,218	32,245
Operating costs and expenses .....	48,731	48,043	22,990	30,026
Operating income (loss)...	¥ 5,006	¥ 1,699	¥ 4,227	¥ 2,218
Total assets .....	44,345	38,033	26,959	35,803
Depreciation .....	3,168	2,208	981	1,828
Impairment losses .....	700	620	—	—
Capital expenditures .....	¥ 2,058	¥ 1,508	¥ 1,338	¥ 1,891

Year ended December 31, 2007	Millions of yen			
	Other Businesses	Total	Eliminations or corporate	Consolidated
Sales:				
Sales to third parties...	¥1,684	¥162,729	¥ —	¥162,729
Intersegment sales .....	7,328	9,228	(9,228)	—
Net sales .....	9,012	171,958	(9,228)	162,729
Operating costs and expenses .....	9,741	159,533	(9,523)	150,010
Operating income (loss)...	¥ (728)	¥ 12,424	¥ 294	¥ 12,719
Total assets .....	5,260	150,402	32,278	182,681
Depreciation .....	273	8,461	488	8,950
Impairment losses .....	—	1,321	1,073	2,394
Capital expenditures .....	¥ 193	¥ 6,990	¥ 258	¥ 7,249

### Geographical Segments

Geographical segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2008 and 2007 were summarized as follows:

Year ended December 31, 2008	Millions of yen			Consolidated
	Japan	Other countries	Eliminations or corporate	
Sales:				
Sales to third parties...	¥152,869	¥ 9,745	¥ —	¥162,615
Intersegment sales.....	1,849	3,937	(5,787)	—
Net sales.....	154,719	13,683	(5,787)	162,615
Operating costs and expenses.....	142,565	14,063	(5,681)	150,947
Operating income (loss)...	¥ 12,153	¥ (379)	¥ (105)	¥ 11,668
Total assets.....	¥168,434	¥ 7,814	¥(3,784)	¥172,464

Year ended December 31, 2008	Thousands of U.S. dollars			Consolidated
	Japan	Other countries	Eliminations or corporate	
Sales:				
Sales to third parties...	\$1,679,331	\$107,063	\$ —	\$1,786,395
Intersegment sales.....	20,320	43,257	(63,577)	—
Net sales.....	1,699,652	150,320	(63,577)	1,786,395
Operating costs and expenses.....	1,566,141	154,491	(62,417)	1,658,215
Operating income (loss)...	\$ 133,510	\$ (4,170)	\$ (1,160)	\$ 128,179
Total assets.....	\$1,850,323	\$ 85,843	\$(41,579)	\$1,894,587

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

### Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the years ended December 31, 2008 and 2007 were summarized as follows:

Year ended December 31, 2008	Millions of yen				Total
	Asia	North America	Europe	Other	
Overseas sales.....	¥14,729	¥2,570	¥2,252	¥679	¥ 20,231
Consolidated net sales.....					162,615
Percentage of overseas sales to consolidated net sales.....	9.0%	1.6%	1.4%	0.4%	12.4%

Year ended December 31, 2008	Thousands of U.S. dollars				Total
	Asia	North America	Europe	Other	
Overseas sales.....	\$161,805	\$28,243	\$24,741	\$7,460	\$ 222,251
Consolidated net sales.....					1,786,395
Percentage of overseas sales to consolidated net sales.....	9.0%	1.6%	1.4%	0.4%	12.4%

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

### 19. Amounts Per Share

The following table sets forth net income, cash dividends and net assets per share of common stock for the years ended December 31, 2008 and 2007:

Year ended December 31,	Yen		U.S. dollars
	2008	2007	2008
Net income:			
Basic.....	¥ 7.27	¥ 24.52	\$0.08
Cash dividends.....	8.00	8.00	0.09
Net assets.....	380.98	403.51	4.19

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.

### 20. Subsequent Event

#### Cash dividends

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2008, was approved at a shareholders' meeting held on March 27, 2009:

	Millions of yen	Thousands of U.S. dollars
Cash dividends – ¥4.00 (U.S.\$0.044) per share...	¥1,042	\$11,449

#### Purchase of Treasury Stock

At the meeting of the Board of Directors held on February 5, 2009, it was resolved to purchase up to 10,000,000 shares of the Company's common stock with an aggregate amount of ¥2,000 million (U.S.\$21,970 thousand) in the period from February 6, 2009 to December 18, 2009.

# Report of Independent Auditors

The Board of Directors  
Toagosei Co., Ltd.

We have audited the accompanying consolidated balance sheets of Toagosei Co., Ltd. and consolidated subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toagosei Co., Ltd. and consolidated subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

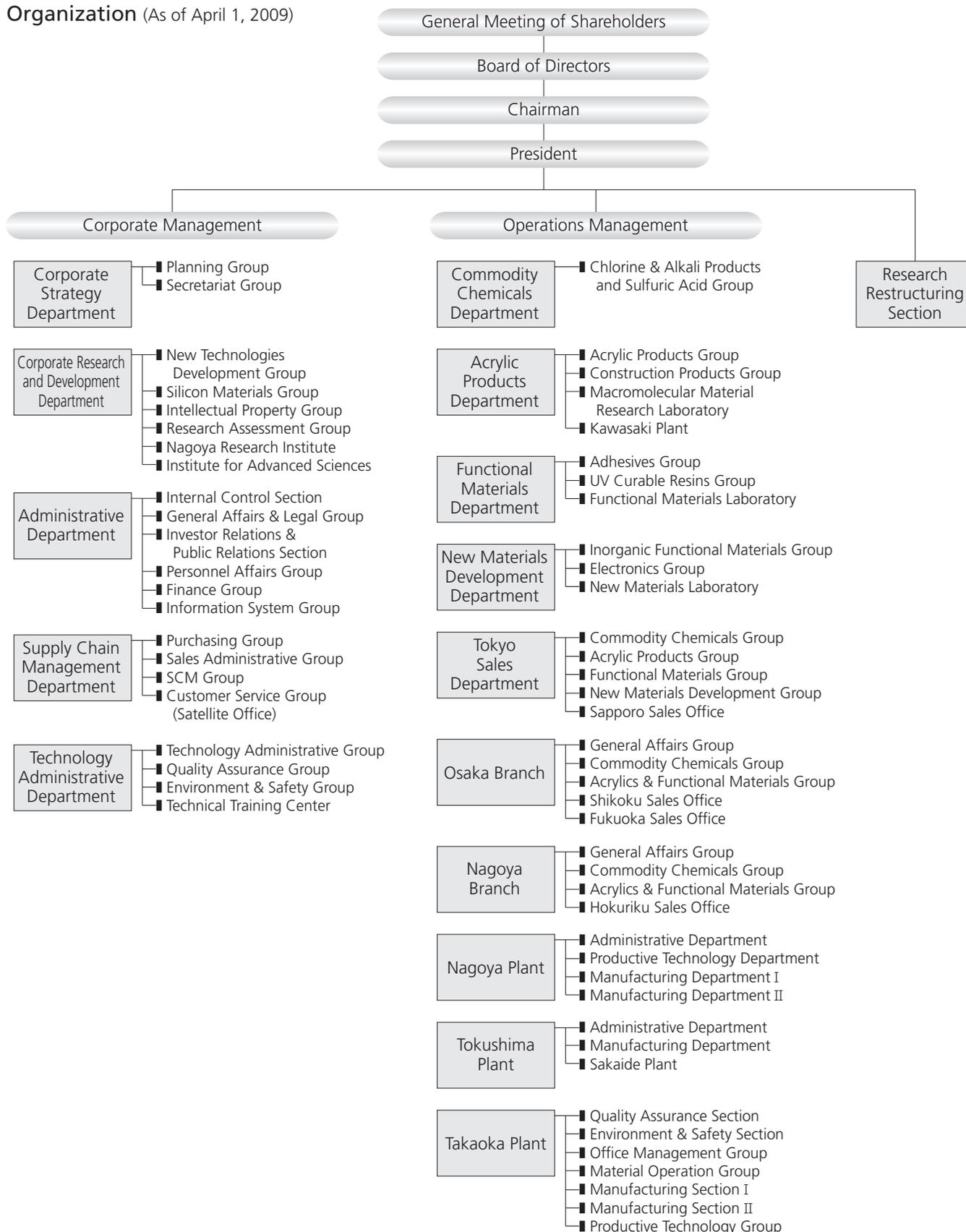
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

*Ernst & Young ShinNihon LLC*

March 26, 2009

# Corporate Data

Organization (As of April 1, 2009)



# Directory

## Domestic Network

### Head Office

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

### Osaka Branch

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

### Nagoya Branch

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

### Hokuriku Sales Office

500 Futagamiinnai, Takaoka,  
Toyama 933-0981  
Tel: 0766-44-7451 Fax: 0766-44-7453

### Shikoku Sales Office

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

### Fukuoka Sales Office

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

### Nagoya Plant

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

### Tokushima Plant

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

### Takaoka Plant

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

### Sakaide Plant

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

### Nagoya Research & Development Institute

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

### Institute for Advanced Sciences

2 Okubo, Tsukuba, Ibaraki 300-2611  
Tel: 029-865-2600 Fax: 029-865-2610

## Principal Overseas Subsidiaries

### Toagosei Hong Kong Ltd.

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

### Taiwan Toagosei Co., Ltd.

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

### Toagosei America Inc.

1450 West Main St., West Jefferson,  
Ohio 43162, U.S.A.  
Tel: 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.

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

### Toagosei (Zhuhai) Limited

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

## Principal Subsidiaries and Affiliates (As of December 31, 2008)

Name of Company	Lines of Business	Our Share (%)	Capital (¥ in millions)
Aron Kasei Co., Ltd.	Manufacture & sale of synthetic resin molded products	61.1	¥4,220
Tsurumi Soda Co., Ltd.	Manufacture & sale of chemical products	100.0	¥2,080
Aron Ever-Grip Ltd.	Manufacture & sale of adhesives	100.0	£223,000
Oita Chemical Co., Ltd.	Manufacture of chemical products	90.0	¥450
Toagosei America Inc.	Manufacture & sale of chemical products; technological research	100.0	US\$6,100,000
Nihon Junyaku Co., Ltd.	Manufacture of chemical products	100.0	¥351
TG Corporation	Sale of chemical products	100.0	¥174
Toa Logistics Co., Ltd.	Product distribution	100.0	¥16
TOA Engineering Co., Ltd.	Construction & repair of chemical facilities	100.0	¥50
Toa Techno-Gas Co., Ltd.	Manufacture & sale of industrial gases	100.0	¥400
Toa Business Associe Co., Ltd.	Real estate management, brokerage & other services	100.0	¥40
Toa-Jet Chemical Co., Ltd.	Manufacture & sale of chemical products	51.0	NT\$15,000,000
Toa Kogyo Co., Ltd.	Product distribution	100.0	¥25
Taiwan Toagosei Co., Ltd.	Sale of chemical products	100.0	NT\$5,000,000
Aron Packaging Co., Ltd.	Filling and packaging of adhesives	100.0	¥10
Toagosei Singapore Pte Ltd.	Manufacture & sale of chemical products	100.0	S\$60,571,000
Hokuriku Toa Logistics Co., Ltd.	Product distribution	90.0	¥10
Shikoku Toa Logistics Co., Ltd.	Product distribution	70.0	¥10
TOA-DIC Zhangjiagang Chemical Co., Ltd.	Manufacture & sale of chemical products	60.0	US\$5,600,000
Toagosei Hong Kong Limited	Sale of chemical products	100.0	HK\$10,988,000
Toagosei (Zhuhai) Limited	Manufacture of adhesives	100.0	HK\$9,188,000
MT AquaPolymer, Inc.	Manufacture & sale of chemical products	51.0	¥460
Mikuni Plastics Co., Ltd.	Manufacture & sale of synthetic resin molded products	61.1	¥315
Chubu Liquid Oxygen Co., Ltd. (Note)	Manufacture of industrial gases	30.0	¥480
Elmer's & Toagosei Co. (Note)	Sale of adhesives	50.0	US\$33,845,000

Note: Equity-method affiliates

# Investor Information

## Established

March 1942

## Common Stock

Authorized: 550,000,000 shares

Issued: 263,992,598 shares

Capital: ¥20,886 million

Number of shareholders: 25,750

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

## Transfer Agent for Common Stock

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

## Certified Accountants

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

## Major Shareholders

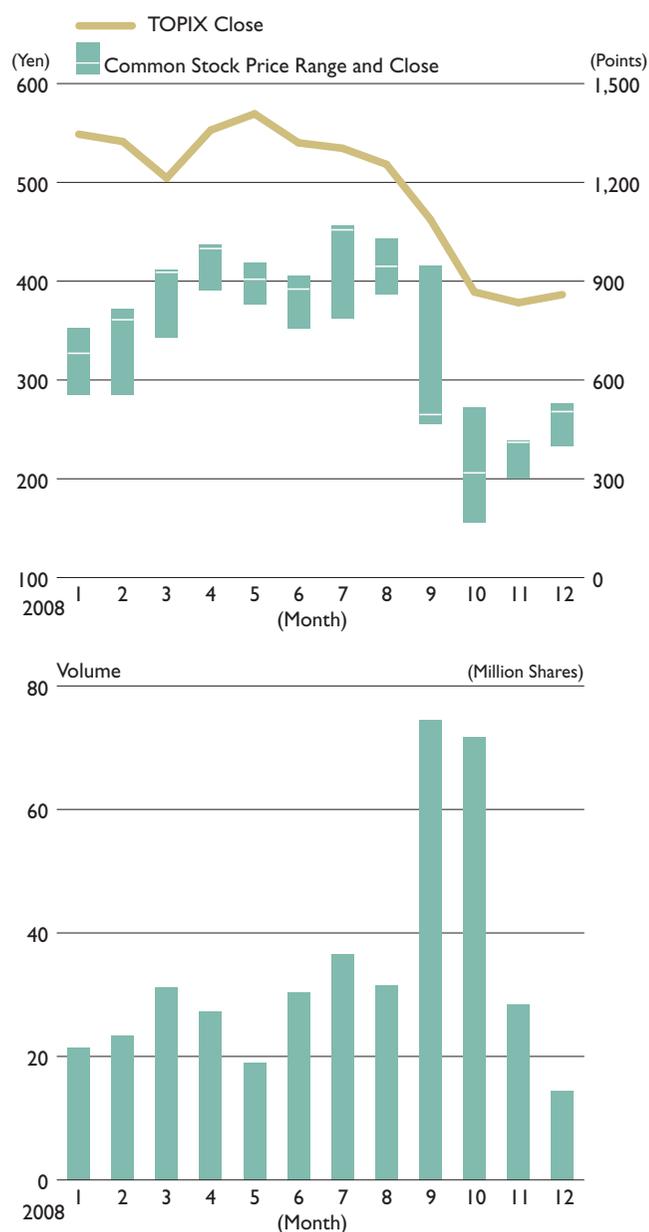
	(%)
Japan Trustee Services Bank, Ltd. (Trust account)	6.22
Japan Trustee Services Bank, Ltd. (Trust account 4G)	5.58
Sumitomo Mitsui Banking Corp.	4.47
The Master Trust Bank of Japan, Ltd. (Trust account)	4.32
Business Partner Shareholders' Committee	2.31
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2.17
Employee Shareholders' Committee	2.08
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2.03
Aioi Insurance Co., Ltd.	1.92
The Norinchukin Bank	1.51

(As of December 31, 2008)

## Stock Price Range & Trading Volume

(Tokyo Stock Exchange)

	2004	2005	2006	2007	2008
High	¥365	¥680	¥672	¥510	¥456
Low	¥197	¥344	¥406	¥345	¥156
TOPIX Close (Year-end)	1,149	1,649	1,681	1,475	859





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