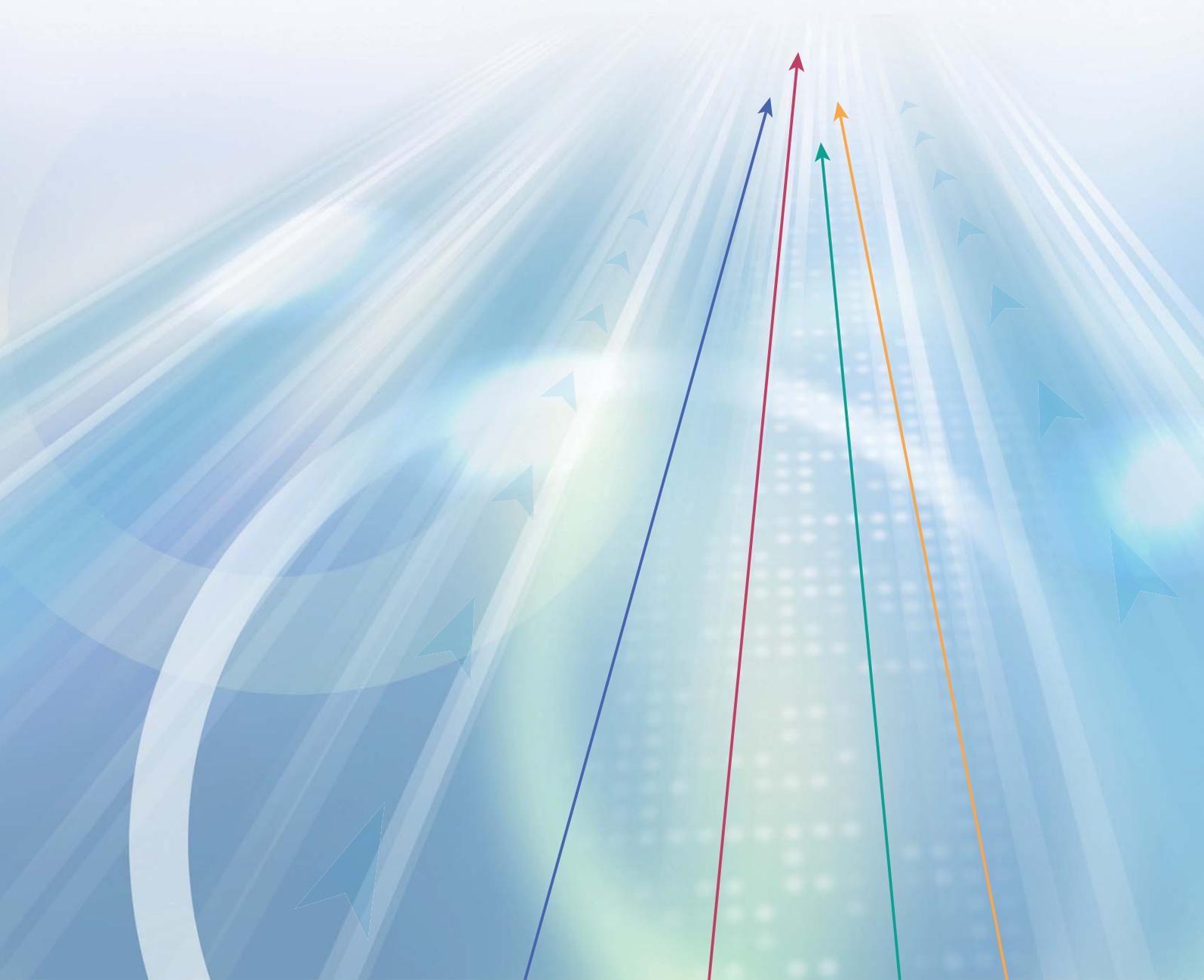


Further growth through collaborative expertise



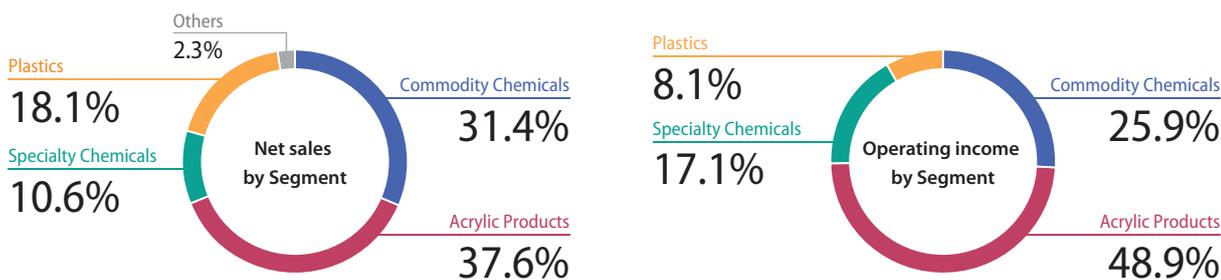
Profile

Since its establishment on March 31, 1942, Toagosei Co., Ltd. has continued to grow along with the whole chemical sector in Japan. Including the parent, Toagosei, the Group comprises 40 companies, engaged in four principal business domains, Commodity Chemicals, Acrylic Products, Specialty Chemicals and Plastics, each of which leverages its unique strengths to push out the frontiers in technological and product development.

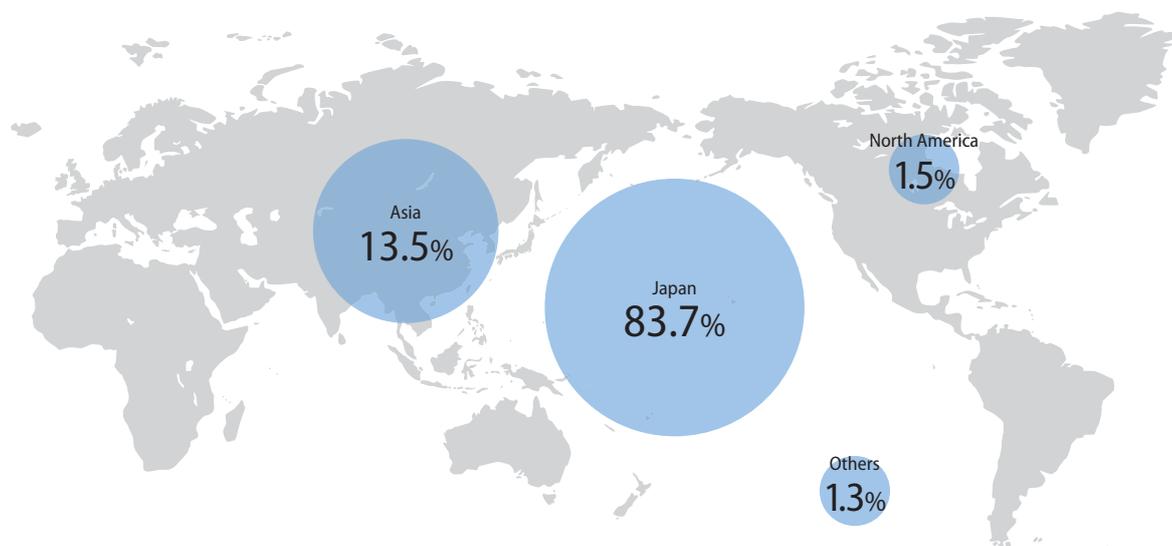
As of December 2011, the Group's sales came to ¥153 billion and its workforce totaled 2,534, both on a consolidated basis.

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

Net sales & Operating income by Segment



Net sales by Region



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Our Business Segments

Commodity Chemicals

Essential raw materials that underpin the daily life of the community

Commodity chemicals form the oldest of the businesses operated by Toagosei Group. This division helps create a better life for everybody by supplying products used in a wide range of industries, including caustic soda, various chlorides, sulfuric acid and industrial gases. Another development focus is high value-added products such as inorganic high-purity chemicals.

Acrylic Products

Expansion of integrated acrylic chain business from monomers to its derivatives

Acrylic products are one of the core businesses of Toagosei Group. Starting with acrylic acid and acrylic ester, we have developed wide ranges of highly functional acrylic polymer products. Likewise, we have world-beating technologies in the field of UV-curable resins, and are developing this business globally based on three production bases, in Japan, China, and Taiwan.

Specialty Chemicals

Highly functional adhesives and construction materials and products that ensure longer building life

In addition to *Aron Alpha*, a byword for household-use instant adhesives in Japan, our broad lineup of industrial adhesives meets a wide range of customer needs. Other popular products include construction materials and products that protect and prolong the lives of buildings, inorganic functional materials for the amenity market, and highly functional electronics materials.

Plastics

Four priority fields: Water supply and sewer systems, nursing care products, elastomers, and products for use in environmental preservation systems

Our plastics business, based on our plastics processing technologies, supplies water and sanitation products, electrical power and communication equipment, and portable toilets for the nursing care market. For the environmental preservation sector we provide garbage sorting boxes. In addition, we are focusing development efforts on elastomer compounds.

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

Eleven-Year Summary

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31	2001	2002	2003	2004	2005
Income					
Net sales.....	¥135,583	¥131,092	¥132,455	¥144,283	¥151,443
Operating income.....	5,663	5,584	7,951	12,611	15,236
Income before income taxes and minority interests.....	(3,540)	1,198	6,125	10,321	16,846
Net income.....	(3,384)	(2,195)	1,719	8,996	12,131
Capital investment.....	7,671	5,379	7,138	6,895	7,071
Research and development expense.....	5,371	5,327	5,259	5,032	5,275
Cash flows					
Cash flows from operating activities.....	11,384	13,091	11,911	14,912	18,380
Cash flows from investing activities.....	(7,653)	(7,332)	(7,711)	(9,469)	(6,889)
Free cash flow.....	3,731	5,759	4,200	5,443	11,491
Cash flows from financing activities.....	(4,448)	(7,194)	(5,422)	(2,316)	(10,711)
Balance sheet					
Total assets.....	177,148	165,839	166,005	174,766	186,521
Net worth (Note 2).....	75,175	71,648	74,476	83,513	99,501
Per share of stock					
Earnings per share (Yen/U.S. dollars).....	(12.7)	(8.4)	6.6	34.4	46.3
Book value per share (Yen/U.S. dollars).....	283.0	273.2	285.1	319.7	380.6
Cash dividends applicable to the year (Yen/U.S. dollars)...	6.0	3.0	3.0	6.0	7.5
Ratio					
Return on equity (ROE) (%).....	(4.5)	(3.1)	2.3	10.8	13.3
Return on total assets (ROA) (%).....	(1.9)	(1.3)	1.0	5.1	6.7

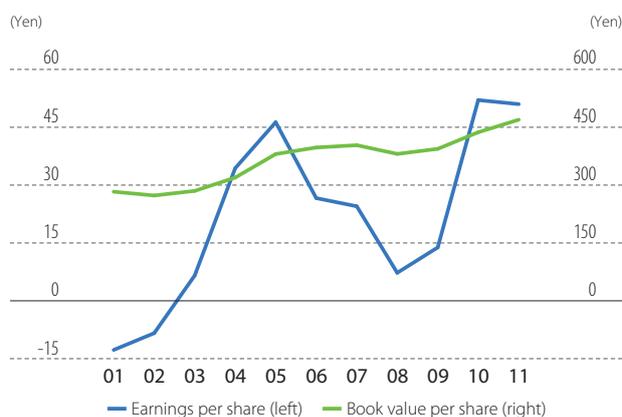
Notes 1: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥77.74 = \$1.00.

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

Net sales / Operating income

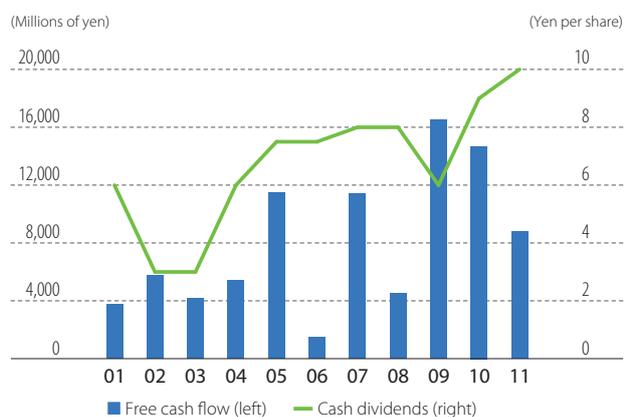


Earnings per share / Book value per share

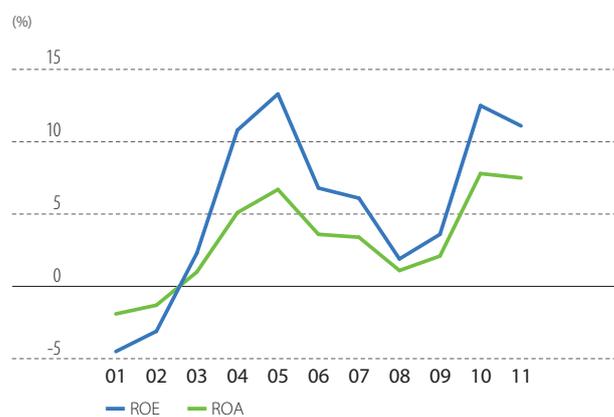


2006	2007	2008	2009	2010	Millions of yen 2011	Change (%) 11/10	Thousands of U.S. dollars (Note 1) 2011
¥155,804	¥162,729	¥162,615	¥140,033	¥153,779	¥153,007	(0.5)	\$1,968,192
12,950	12,719	11,668	11,158	21,271	17,338	(18.5)	223,025
13,522	13,295	6,869	7,205	17,917	18,992	6.0	244,310
6,961	6,403	1,895	3,541	13,133	13,000	(1.0)	167,226
9,241	6,949	6,689	5,971	10,555	10,449	(1.0)	134,409
5,010	4,794	4,753	4,472	4,582	4,603	0.4	59,214
11,600	15,651	13,280	22,701	24,843	17,828	(28.2)	229,329
(10,093)	(4,209)	(8,776)	(6,174)	(10,155)	(9,041)	(11.0)	(116,304)
1,507	11,442	4,504	16,527	14,688	8,787	(40.2)	113,031
583	(15,894)	(4,057)	(13,992)	(4,117)	(7,320)	(77.8)	(94,161)
195,607	182,681	172,464	161,609	173,847	171,046	(1.6)	2,200,233
103,870	105,339	99,271	99,449	110,283	123,826	12.3	1,592,822
26.6	24.5	7.3	13.9	52.1	51.0	(2.1)	0.65
397.6	403.5	381.0	394.0	437.1	469.6	7.4	6.04
7.5	8.0	8.0	6.0	9.0	10.0	11.1	0.12
6.8	6.1	1.9	3.6	12.5	11.1	—	—
3.6	3.4	1.1	2.1	7.8	7.5	—	—

Free cash flow / Cash dividends



ROE / ROA



Interview with the President



Question 1 Could you describe the market environment and your business performance in fiscal 2011?

Answer

In fiscal 2011, ended December 31, 2011 although performance was favorable in the first half, especially for acrylic products buoyed by robust demand from emerging countries in Asia, demand slackened in the second half, especially in the electronics materials field following the global economic slowdown triggered by Europe. In addition, Japanese economic activity was temporarily paralyzed by the Great East Japan Earthquake that struck on March 11, 2011, resulting in weak earnings for commodity chemicals, an area of wide-ranging demand.

Nevertheless, amid this harsh business environment, the Toagosei Group adjusted its prices in response to rising raw material and fuel prices and secured earnings by streamlining through the integration of Group company operations, and other measures. As a result, operating income came to ¥17.3 billion, down compared with fiscal 2010, when we recorded our highest-ever earnings, but still our second highest-ever level.

Medium-Term
Management Plan

“ALL TOA 2013” (2011–2013)

Slogan: Further growth through collaborative expertise

To realize our targets under “ALL TOA 2013,” we will mobilize the collective expertise of all Group employees, and strengthen fruitful collaboration both among Group members and with external partners.

Growth Strategies

- Expanding earnings from core products
- Accelerating growth in scale of high value-added products
- Creating new products and new businesses

Management Policies

- Nurturing and utilizing human resources
- Strengthening collaboration
- Increasing CSR efforts

Question

2

You are now in the second year of your medium-term management plan. What challenges do you face in fiscal 2012?

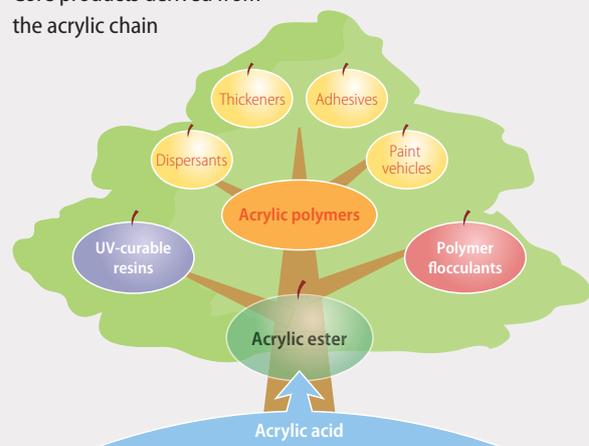
Answer

In “ALL TOA 2013,” the Toagosei Group’s medium-term management plan, products capable of generating operating income of ¥1.0 billion or more are positioned as core products. We will continue to increase earnings while aggressively investing business resources in core products. At the same time, we have made the accelerated growth of high value-added products and the creation of new products and businesses our basic growth strategy policy. To achieve our growth strategy, in September 2011, the Toagosei Group decided to beef up the acrylic acid production capacity of its subsidiary, Oita Chemical Co., Ltd.

Having acrylic acid as its base material, the acrylic chain, from which various derivative products are produced and sold including acrylic esters (the raw material for paints and adhesives), polymers, and UV-curable resins, is one of the Toagosei Group’s core businesses. Core products derived from the acrylic chain, including everything from upstream

commodity products to downstream high value-added products, have market growing potential against the backdrop of Asian growth. In order to respond to this growth, we consider it vital that we enhance our production capacity for acrylic acid, the starting point of the chain.

Core products derived from the acrylic chain



The capacity expansion is scheduled for completion in May 2013, and will increase Oita Chemical's annual production capacity from 60,000 tons to 140,000 tons. While we will ensure that this large investment project, in which we will invest a total of ¥10.0 billion, is successful, one of our

biggest challenges in 2012 will be to add high value to each derivative and speed up development for the launch of new grades and strengthen our business base with an eye on expanding the entire acrylic chain.

Question 3 What about corporate governance and corporate social responsibility at the Toagosei Group?

Answer

The Group has set CSR policies and has established the Group CSR Committee as its highest decision-making body in this area. At the same time, the Committee provides routine audits and checks the status of the Group's corporate governance and social contribution activity efforts. However, after experiencing the Great East Japan Earthquake that struck in March 2011, and the disruption to our supply chain that followed, we strongly reaffirmed the importance of maintaining a stable product supply, even during such an unprecedented disaster.

The Group produces many products that are essential for maintaining lifelines for which there is strong societal demand for stable supply, such as sodium hypochlorite, which is used for water purification. During the earthquake disaster, we fully leveraged the Group's network and were able to maintain an uninterrupted product supply, but after this experience we will reexamine our business continuity plan (BCP) and further strengthen our emergency response procedures.

Question 4 What is your basic policy on dividends and shareholder returns?

Answer

Toagosei's basic policy is to pay stable dividends to shareholders. When deciding the amount of dividend to pay, although we take into account the importance of maintaining a sound financial position, we also consider our earnings performance over the last few years, future capital investment plans, R&D costs, and other factors. Taking into account these factors, in principle, our policy is to pay a dividend of ¥8 per share annually.

However, while earnings were down compared with the previous fiscal year, profits were higher than those of the last few years. As a result, we paid an interim dividend and term-end dividend of ¥5 per share each, for an annual dividend of ¥10 per share.





Question 5 What kind of group do you see yourself becoming in the years ahead?

Answer

As outlined in "ALL TOA 2013," our medium-term management plan, we have set out to become "a value-creating, highly profitable corporate group" by the year 2020. In other words, we will become a group that continuously grows by producing distinctive highly-functional products in each business domain based on our technological strength, and by creating new products and businesses.

To become such a corporate group, we must grow into a high-profile chemical group (with sales of over ¥300.0 billion and operating income of over ¥40.0 billion per year) with at least 20 core products each of which generates operating income of at least ¥1.0 billion. Further, several of

these products should be flagship products that generate operating income of at least ¥2.0 billion each. Moreover, we must launch highly competitive products in the global marketplace and secure a stable business base while possessing abundant technically competent and business-minded personnel, who can support such business growth.

Our medium-term management plan "ALL TOA 2013," which runs from fiscal 2011 through fiscal 2013, is viewed as the first stage on the road to achieving this Group goal. We will lay the foundation for our next leap forward by executing the growth strategies, management policies contained in the plan.

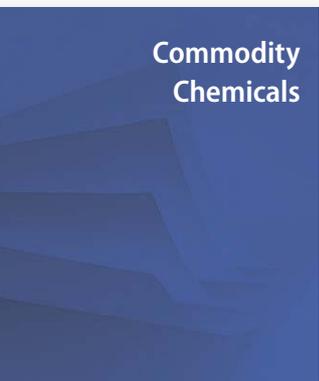
Core products in 2020

Basic products	High value-added products
<ul style="list-style-type: none"> • Caustic soda • Caustic potash • Sodium hypochlorite • Sulfuric acid • Industrial gases • Acrylic acid and Acrylic ester • Rigid PVC pipes and couplings 	<ul style="list-style-type: none"> • Inorganic high-purity chemicals • Copper oxide • Acrylic polymers • Flocculants • UV-curable resins • Functional adhesives • High-purity silicon gases
	Consumer products <ul style="list-style-type: none"> • Household use instant adhesive <i>Aron Alpha</i> • Construction materials <i>Aron Wall</i> and <i>Clear Wall</i> • Nursing care product <i>Anju</i>

Performance targets

	2010 Results (consolidated)	2011 Results (consolidated)	2013 Targets (consolidated)
Net sales	¥153.7 billion	¥153.0 billion	¥200.0 billion
Operating income	¥21.2 billion	¥17.3 billion	¥25.0 billion
Operating income margin	13.8%	11.3%	12.5%
Net income	¥13.1 billion	¥13.0 billion	¥15.0 billion
EPS (Earnings per share)	¥52	¥51	¥60
Financial indicators	2010 Results (consolidated)	2011 Results (consolidated)	2013 Targets (consolidated)
Ordinary income margin (Ordinary income as % of Total assets)	12.5%	10.2%	12% or more
R&D expense ratio (R&D expense as % of Net sales)	3.0%	3.0%	Around 4%

Business Overview



Commodity Chemicals

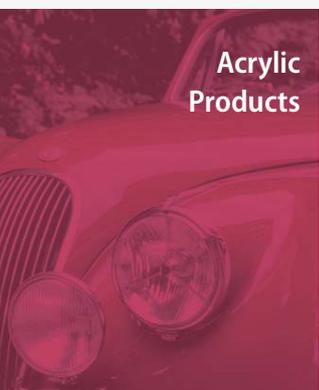
Principal consolidated subsidiaries

- Tsurumi Soda Co., Ltd. (Tsurumi-ku, Kanagawa, Japan)**
Manufacture of inorganic chemical products
- Toa Techno-Gas Co., Ltd. (Nagoya City, Aichi, Japan)**
Manufacture & sale of industrial gases
- Toagosei Korea Co., Ltd. (Seoul, Korea)**
Sale of chemical products



Major products

Caustic soda, caustic potash, inorganic chlorides such as liquid chlorine and hydrochloric acid, as well as inorganic high-purity products, sulfuric acid, industrial gases, etc.



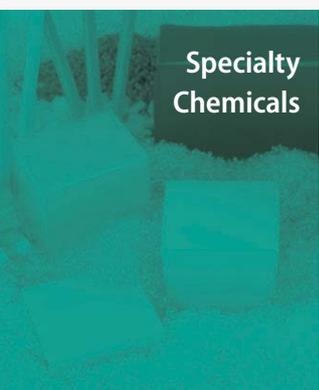
Acrylic Products

- MT AquaPolymer, Inc. (Chuo-ku, Tokyo, Japan)**
Manufacture & sale of polymer flocculants
- Oita Chemical Co., Ltd. (Oita City, Oita, Japan)**
Manufacture of acrylic acid



- Nihon Junyaku Co., Ltd. (Minato-ku, Tokyo, Japan)**
Manufacture of acrylic products
- TOA-DIC Zhangjiagang Chemical Co., Ltd. (Zhangjiagang, Jiangsu, China)**
Manufacture & sale of UV curable resin
- Toa-Jet Chemical Co., Ltd.**
Manufacture & sale of UV curable resin
- Taiwan Toagosei Co., Ltd. (Taipei, Taiwan)**
Sale of acrylic monomers and oligomers
- Toagosei Singapore Pte Ltd. (Singapore)**
Manufacture & sale of acrylic products

Acrylic acids, acrylic esters, acrylic polymers, polymer flocculants, UV-curable resins, etc.



Specialty Chemicals

- MT Ethylene Carbonate Co., Ltd. (Minato-ku, Tokyo, Japan)**
Manufacture of ethylene carbonate
- Toagosei America Inc. (Ohio, U.S.A.)**
Manufacture & sale of adhesives



- Toagosei (Zhuhai) Limited (Zhuhai, Guangdong, China)**
Manufacture & sale of adhesives
- Toagosei Hong Kong Limited (Kowloon, Hong Kong)**
Sale of adhesives

Adhesives, products for construction and civil engineering, inorganic functional materials, electronics materials, etc.



Plastics

- Aronkasei Co., Ltd. (Minato-ku, Tokyo, Japan)**
Manufacture & sale of synthetic resin molded products
- Mikuni Plastics Co., Ltd. (Minato-ku, Tokyo, Japan)**
Manufacture & sale of synthetic resin molded products



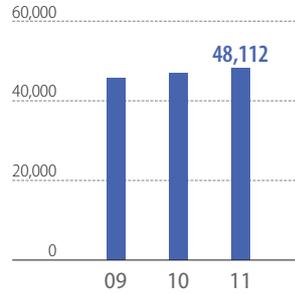
Pipes and couplings, nursing care products, resin molding materials-related products, environmental business-related products

In fiscal 2010, the Company carried out organizational changes and reorganized the major products of each business segment. Business segment information for the fiscal year ended December 31, 2009 has been reclassified to conform to the business segments in the fiscal year ended December 31, 2010 and after.

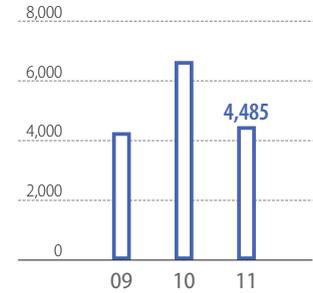
Major factors for change in Net sales

- Contract production of PVC in April 2011 contributed to higher earnings
- Sales volumes of general purpose materials including caustic soda, hydrochloric acid, and industrial gases, were down due to an overall weak domestic economy

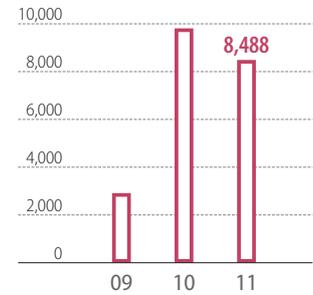
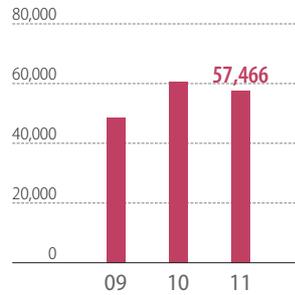
Net sales (Millions of yen)



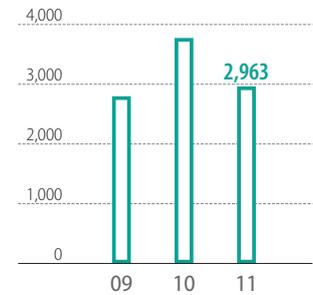
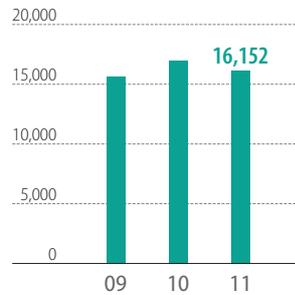
Operating income (Millions of yen)



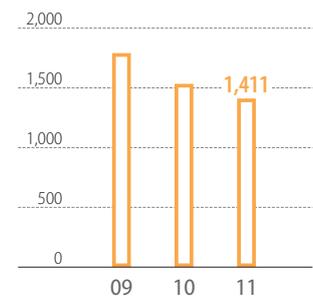
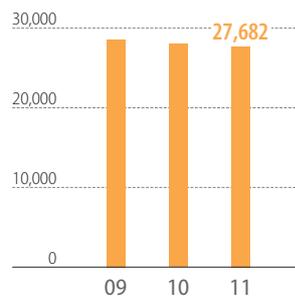
- Sales of acrylic esters were strong in the first half, rising sharply in Asia, but were soft in the second half due to the global economic slowdown
- Sales volumes of UV-curable resins decreased following weak demand for electronic materials including LCDs



- In adhesives, demand was brisk for functional adhesives used in the manufacturing process of mobile devices
- Sales volumes of high-purity industrial silicon gases declined due to sluggish semiconductor demand



- Sales volumes of pipes and couplings such as PVC pipes for use as housing materials were steady, but demand for use in sewer systems was slack



Overview by Business Segment

Caustic soda is used in papermaking

Commodity Chemicals

Shinichi Sugiura

Executive Officer, General Manager, Commodity Chemicals Department



2011 Review — First Year Achievements of Medium-term Management Plan

Though Tsurumi Soda Co., Ltd. was integrated in 2011, sales and profit were down due to a difficult business environment

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

In April 2011, Tsurumi Soda Co., Ltd., a wholly owned subsidiary, became one of the Toagosei Group's production

companies and its management was integrated with Toagosei. The purpose of the integration was to expand Toagosei's presence and increase profitability in the chlor-alkali industry by optimizing production and streamlining business operations and sales activities at its three plants in Nagoya, Tokushima and Tsurumi.

However, faced with unprecedented economic conditions in 2011, including the Great East Japan Earthquake, an appreciating yen, and the EU financial crisis, sales and profits at the commodity chemicals business were substantially below those of its initial targets. This was attributable to a drop in production and shipments due to overall sluggish demand, as well as a sharp decline in demand for high-purity products used in the key electronics materials field that includes semiconductors and LCDs.

Challenges in 2012 and Our Responses

Increase business profitability through aggressive strategic business promotion and enhanced competitiveness of core businesses

To achieve the targets of our medium-term management plan, in 2012, we will prioritize expansion of the high-purity products business, a strategic business, and aggressively develop strategic products in the chlor-alkali business.

In the high-purity products business, we will improve productivity through regular capital investments in order to make high-purity liquefied hydrogen chloride, a mainstay product, into a future core product of Toagosei, and by establishing a streamlined production, packing, and shipping system. At the same time, we will shift to a profit-focused sales policy in light of the emergence of competitors in Asia and North America. As for high-purity agents, in addition to our existing high-purity caustic soda, caustic potash, hydrochloric acid, and other agents, we will increase the field of demand by expanding our product mix. We will do this by launching new high-purity agents modified by

chelating agents for removing trace heavy metals, as well as electronic grade sulfuric acid for semiconductors, and by expanding demand for agents used in pharmaceutical and agricultural chemical intermediates.

Meanwhile, in the chlor-alkali business, we will invest in our production base in order to achieve stable business profits. Specifically, we will increase our production capacity at Tsurumi, and build a new facility in Nagoya, for special-grade water purification chemicals in order to solidify our position as the top supplier of sodium hypochlorite for use in water. Moreover, we will introduce gas-diffusion electrolysis cells to reduce electric power costs, which is the basis of the chlor-alkali business, and expand our production capacity of easily soluble copper oxide for PCB plating, which has been positioned as a strategic product.

We aim to become the most profitable industrial gas supplier in the Chubu (Nagoya) region, by creating a more efficient business model and stepping up marketing. Looking ahead, we are also considering further upgrading our state-of-the-art industrial gas production facilities.

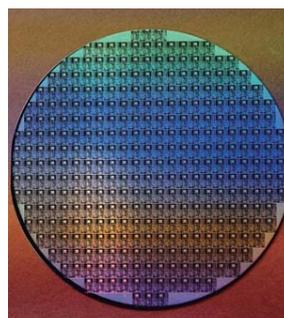
Main products

High-purity products

High-purity and highly functional inorganic products are essential to the cutting-edge semiconductor, pharmaceutical, and electronics materials industries that are drawing so much attention. Among these products, high-purity liquefied hydrogen chloride is produced by only one company in Japan, Tsurumi Soda Co., Ltd., a Toagosei Group company, and demand for its use in semiconductors, washing silicon wafers, and wafer etching is growing.

Sodium hypochlorite

In the wake of consumer demand for a safe and secure water supply, high-quality grade sodium hypochlorite (used as a bactericidal agent in water supply), which substantially reduces such impurities as bromic acid and chloric acid, has been sought after. The high-quality sodium hypochlorite supplied by the Toagosei Group is used in applications where greater safety is required, such as tap water and pools, and has gained customer trust.



High-purity products



Sodium hypochlorite



Acrylic ester is one of the raw materials used in the manufacture of paints



Acrylic Products

Tatsumi Nonaka

Executive Officer, General Manager, Acrylic Products Department

2011 Review — First Year Achievements of Medium-term Management Plan

To expand the acrylic products business as a core business, we more than doubled our production capacity of acrylic acid

The Acrylic Products Department is engaged in everything from monomers including acrylic acid — the starting point — and acrylic ester, to downstream derivatives such as acrylic polymers and UV-curable resins (*Aronix*). In the monomer business, our focus was on the stable improvement of profits through the building of a new business model for production and sales. Further, to expand the entire acrylic products business from upstream to downstream as a profitable core business, in name and substance, Toagosei decided to increase the production capacity of acrylic acid at Oita Chemical Co., Ltd. With this added capacity, annual production will increase from 60,000 tons to 140,000 tons.

In the polymer business, alternate production for the Hirono Plant of Nihon Junyaku Co., Ltd., which was

affected by the earthquake disaster and the subsequent nuclear power plant accident, was carried out at the Nagoya and Takaoka plants in an effort to minimize the disaster's effects on customers. We also raised the productivity and profitability of the polymer business, and expanded sales of water-soluble polymers in Singapore.

In the *Aronix* business, although sales of some products in the electronics materials field declined, we rolled out chemical products in grades tailored to local needs at our Nagoya Plant in Japan, at TOA-DIC Zhangjiagang Chemical Co., Ltd. in China, and Toa-Jet Chemical Co., Ltd. in Taiwan. We also aggressively developed new products in the flat panel display business. We also considered the expansion of core marketing networks using new approaches, and adoption of new technologies that will boost profitability in light of steadily growing demand for acrylic products in China and other Asian countries.

Challenges in 2012 and Our Responses

We will aggressively develop business in Asian markets with competitive products

In the monomer business, we will seek to sustain our business model constructed in 2011 for production and sales, and complete production capacity expansion for acrylic acid next year on schedule. In the polymer business, we will raise productivity at the Nagoya Plant and Nihon Junyaku Co., Ltd., while expanding the flocculant business at MT AquaPolymer, Inc. Also, we will expand sales of water-soluble polymers in Singapore and fully develop our competitive polymer products business in Asia.

In the *Aronix* business, we will leverage the strengths of our three production bases in Asia, the Nagoya Plant (Japan), TOA-DIC Zhangjiagang Chemical Co., Ltd. (China) and Toa-Jet Chemical Co., Ltd. (Taiwan), and focus on developing chemical products in grades tailored to local needs. We will continue to develop new downstream products and manufacturing technologies and aggressively roll out new competitive product lines in Asia, while leveraging the Group's acrylic chain to the fullest extent possible.



Acrylic ester



Aronix



Polymer flocculants, *Aronfloc*

Main products

Acrylic ester

Toagosei was the first company in Japan to successfully commercialize acrylic ester. Acrylic ester is superior in terms of flexibility, weather resistance, transparency, adhesion, and other characteristics, and is used in a wide range of acrylic polymers, and also as a raw material for textiles, paints, and adhesives.

Aronix UV-curable resins

Aronix is a resin with the unique ability to harden in a short period of time by exposure to light, including ultraviolet light. Because it can also be used in materials that are heat-sensitive, it is used in a wide-range of applications including coatings and adhesives for LCD TVs and other products and in inks and paints, and its sphere of demand is still growing. We are accelerating research and development of these resins and expanding business into new applications.

Polymer flocculants

MT AquaPolymer, Inc. produces and sells a variety of polymer flocculants that are capable of purifying polluted water, wastewater, and sludge based on polymer technology accumulated over many years. In recent years, the playing field has widened not only in Japan, but throughout Asia in the fast-growing field of aquatic environment preservation.



Specialty Chemicals

Functional Chemicals

Hidemi Nagano

Executive Officer, General Manager, Functional Chemicals Department

2011 Review — First Year Achievements of Medium-term Management Plan

In adhesives, we achieved first year plan targets thanks to increased sales from strengthened instant adhesives brand and a sharp increase in adhesives for electronics materials such as mobile devices

On the 40th anniversary of the launch of household-use instant adhesive *Aron Alpha*, we enhanced promotional activities to raise the brand image. As a result, our market share in Japan for this product set a new record high, and sales were strong. Sales were strong overseas as well, thanks to sales efforts that effectively leveraged our production bases in the United States and China, and sales promotions. Notably, in China, we successfully rolled out *Krazy Glue*, a leading instant adhesive in the United States, through convenience stores in the Shanghai area.

In functional adhesives, despite slack sales of hot melt adhesives, a sharp increase in reactive adhesive sales for use with mobile devices provided the engine for overall growth.

As a result, domestic and overseas sales increased and we achieved our 2011 plan targets.

In construction materials, although sales of soil improvement agents greatly exceeded their targets, construction repair materials, our main business, were substantially affected by the suspension and postponement of construction following the earthquake disaster of March 2011. As a result, sales of construction materials overall were below their first year plan target

In construction repair materials, with the April launch of *Aron Wall NEO*, a new waterproof exterior wall coating, our track record in the building renovation market steadily grew. Although we have only just begun marketing this new product, as our goal is to expand the waterproof acrylic rubber market, we believe the new coating method has a promising future. With *Clear Wall*, a method for waterproofing exterior walls finished with tiles, we focused on expanding sales, especially for condominium-related sales, but as general awareness about waterproofing exterior walls finished with tiles is still low, sales were weak.

Sales of soil improvement agents increased sharply thanks to the use of *Aron Soil* for the soil cement diagram wall method employed in new road construction.

Challenges in 2012 and Our Responses

In adhesives, we will focus on further strengthening the *Aron Alpha/Krazy Glue* brand and developing high value-added products, especially in the automotive and electronics material sectors

In household-use instant adhesives, we plan to launch a new and greatly improved version of *Aron Alpha GEL* called *EXTRA GEL*, which together with effective sales promotion, will strengthen the *Aron Alpha* brand.

We are examining the possible launch of new products in overseas markets that have sold successfully in Japan, including *EXTRA GEL*. In the United States, we will try to increase sales of industrial-use instant adhesives through the recruitment of additional development staff and the establishment of a technical service center. In China, we will increase sales of *Krazy Glue* to Shanghai convenience stores, which began selling in August 2011, and expand sales to other regions.

In functional adhesives, our primary focus will be on reactive, UV-curable, and hot melt products, and we will promote their development in the automotive and electronics material sectors. At the Takaoka Plant, we will reorganize the production system to boost our competitive edge. We will broaden the scope and speed up the pace of product development by leveraging synergies following

the conversion of Aron Ever-Grip Ltd. into a wholly owned production subsidiary. We will further develop our adhesive processing operations with the aim of turning them into high value-added businesses.

In construction materials, we will prolong building life through integrated maintenance and focus on expanding sales of *Aron Wall* (for exterior walls), *Aron Coat SQ* (for roofs), and *Clear Wall* (for tiles)

We will make the simplified and eco-friendly *Aron Wall NEO* method our central focus and increase adoption by design companies by leveraging our strength in total roof and exterior wall waterproofing solutions. At the same time, our goal is to expand the market for waterproof acrylic rubber. We will continue to disseminate our waterproofing materials far and wide by exhibiting at the 18th Architecture + Construction Materials 2012 exhibition, advertising in *Bungei Shunju*, a popular monthly magazine, and other means.

We will use *Clear Wall's* ability to prevent tile and mortar separation and to impart a beautiful finish to our sales advantage, while continuing to educate customers about the importance of waterproofing exterior walls finished with tiles. We will focus specifically on the area of condominium renovation.

Main products

Adhesives

Aron Alpha, which commemorated the 40th anniversary of its launch in 2011, is a name that is synonymous for instant adhesive and is widely used in Japan. Instant adhesives are actively growing overseas as well, and our *Krazy Glue* brand boasts a leading share of the United States market. The Toagosei Group offers other products as well including a wide variety of industrial adhesives that meet the needs of our customers. Recently, our adhesives have been successfully used with mobile phones and other devices in the electronics materials field.

Aron Wall acrylic rubber and waterproof exterior wall coating

Aron Wall is a waterproof exterior wall coating that prevents exterior wall leakage and deterioration and prolongs the service life of building structures. Coating an exterior wall with *Aron Wall* produces a flexible membrane that can prevent rainwater penetration into concrete for a long period, even when cracks form in the exterior wall.



Waterproof exterior wall coating, *Aron Wall*



Instant
Krazy Glue

Specialty Chemicals

Advanced Chemicals

Kiyoshi Miyazaki

Executive Officer, General Manager, Advanced Chemicals Department



2011 Review — First Year Achievements of Medium-term Management Plan

Developed infrastructure to increase profitability of high value-added products

To expand the amenity-application materials business under the concept of “providing people with a more comfortable living space,” the amenity care materials group has established a technical service center, upgraded its assessment system, and developed a customer-focused new product development system.

IXEPLAS, a new finer grained, highly functional *IXE* ion-trapping agent for adhesives for IC encapsulating material and flexible printed boards, was developed. With *IXEPLAS*, we expanded the market for advanced sealants, which until now could not be used from a functional standpoint. In the antimicrobial field, we spread the *Novaron* brand of silver-based inorganic antimicrobial agents used in textiles, daily items, and home electrical appliances, and expanded sales in China, South Korea, and Taiwan. Sales of the inorganic deodorant *Kesmon* and the inorganic hybrid anti-fungal agent *Cavinon*, both used in daily items, home electrical appliances, and other interior goods, and which are suited for customers who care about hygiene and cleanliness, sharply increased. We will continue to expand applications and sales for these products. Another focus was to expand sales of the special powdered paint *Aron Powder* to auto-makers for use in windshield wipers. We firmly established the anti-allergen agent *AlleRemove* and the low-thermal expansion filler *ULTEA* and other new products in their

respective markets and boosted sales growth so that they become major products. At the same time, we continued research for the development of major new products for the next generation.

In the electronics materials group, we strengthened our cost competitiveness in high-purity hexachlorodisilane (*HCD*) deposition materials for semiconductor insulating films by adopting a production system adjusted to demand, which has fluctuated wildly over the years. We have broadened our line-up of *HCD* and derivatives and have remained the world's leading manufacturer of *HCD*.

In ethylene carbonate (*EC*), one of the main materials for electrolytes used in lithium-ion secondary batteries for electric cars, personal computers, and cell phones, Toagosei set up a joint-venture with Mitsui Chemicals, Inc., and built an *EC* manufacturing facility in Osaka. As the leading manufacturer of *EC*, we developed a supply system to cope with the sharp growth in demand. We also developed a supply system for refined *EC* in Nagoya and began introducing it into electronics materials applications that leverage its high-purity characteristics.

To increase the number of high value-added products, we have developed a supply system for the *SQ series* of silsesquioxane compounds, which are organic and inorganic hybrid materials, and we are aggressively developing this market, especially for hard coating materials that utilize its super-hard and transparent characteristics.

Challenges in 2012 and Our Responses

Increasing production capacity and improving quality to meet rising demand

Issues facing the Company in 2012 and our responses are as follows.

In 2012, from among our newly developed products, we will adopt a strategy of selection and focus in materials and in fields that have profit growth potential and then move to the next stage of growth.

First, we will stabilize new production equipment and quality in response to sharply rising demand for EC and strengthen our foundation for business growth.

In addition, in our *SQ series* of silsesquioxane compounds, we will build a track record of success in

applications that leverage the compounds' features and develop them as high value-added products.

Demand for products based on zirconium phosphate compounds, such as *IXE*, *Kesmon*, and *AlleRemove*, is increasing. Therefore, due to production capacity shortages, we will expand capacity in fiscal 2012. Instead of simply adding new capacity, we will also increase efficiency and streamline production. Moreover, we will build a new mass-production line for *Cavinon* and upgrade our supply system. Trial production was scheduled to begin in April. We will pursue new product development by using test equipment that had previously been exclusively used for *Cavinon* production as equipment for developing new products.



IXEPLAS



Ethylene carbonate plant

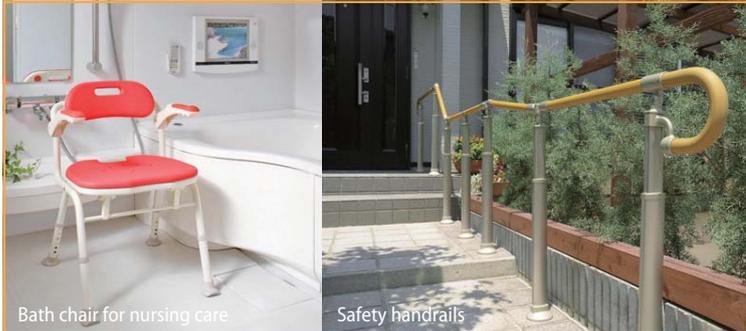
Main products

IXEPLAS highly functional inorganic ion-trapping agent

IXEPLAS, a new product, is an enhanced version of *IXE* ion-trapping agent with finer granules, better performance, and the dramatically improved ion-trapping capability of copper ions, chlorine ions and other ions. The addition of *IXEPLAS* to semiconductor sealing material plays a role in trapping impurity ions, enhancing the reliability and durability of electronic components. Its use is expected to expand into advanced applications including as a sealant for power devices and as a liquid sealant.

Ethylene carbonate

Ethylene carbonate (EC), which offers superior solvency, is used as a key raw material for electrolytes used in lithium-ion secondary batteries. Demand for EC is expected to increase globally along with the spread of personal computers, mobile phones and electric automobiles. Moreover, utilizing its solvency and increasingly high levels of purity, EC shows potential for use in the electronics materials field.



Bath chair for nursing care

Safety handrails

Plastics



Akira Yada

President, Aronkasei Co., Ltd.

2011 Review — First Year Achievements of Medium-term Management Plan

Sales and profits increased in the first half, but were down for the year due to volatile speculative demand triggered by the earthquake disaster

In fiscal 2011, Aronkasei Co., Ltd. got off to a good start; however, the Great East Japan Earthquake changed everything. Immediately after the earthquake disaster, demand, especially for piping equipment for use in reconstruction, skyrocketed. Although sales and profits increased in the first half, in the second half, demand was weak on the back of slack demand in reaction to speculative demand and growth was sluggish owing to intense price competition for nursing care and other goods. As a result, sales and profits were down on the year. Furthermore, despite taking additional measures, such as relocating production sites, reducing the size of facilities, and reallocating staff, Aronkasei will not be able to achieve its most important business target of returning Mikuni Plastics Co., Ltd. to profitability until next fiscal year.

On the other hand, the various measures that it had planned are largely proceeding on schedule. It has formulated a medium-term management plan that has as its basic

policy “Getting back to basics, reestablishing *monozukuri* (excellence in manufacturing) and marketing capabilities, and shifting to more dynamic production and personnel systems in order to build a framework capable of rapidly advancing Aronkasei to the next generation.” It has also initiated various action plans. In September, Aronkasei began operating its long-planned *Monozukuri* Center to strengthen its *monozukuri* capabilities, which are being deployed throughout the Company. To enhance Group capabilities, it took advantage of its new status as a wholly owned subsidiary of Toagosei in July to steadily promote cooperation in each field, but producing tangible results will still take time. To streamline and strengthen business operations, Aronkasei decided to establish an order processing center and set up an office in preparation for its launch. Moreover, to streamline operations, Aronkasei consolidated its head office on to a single floor and relocated to an area in the vicinity of Toagosei. Seeking to become a company that the community and households can take pride in, it took steps to improve its employees’ work-life balance by introducing a “No Overtime Day” and instituting a “Family Day.”

Challenges in 2012 and Our Responses

Aiming to achieve its targets with stronger *monozukuri* and business operation reforms

Last year, Aronkasei opened the *Monozukuri* Center, which integrates development functions for the entire company. This year, its first goal is to strengthen its *monozukuri* capabilities with the *Monozukuri* Center as its core. In addition to its more tangible efforts, such as setting up the *Monozukuri* Center, on the less tangible side, it seeks to increase synergy by sharing across all departments the knowledge and know-how possessed by each business segment and to develop and provide new products based on “outside-the-box” thinking. With respect to employees’ working environment, it is considering the introduction of a discretionary work system to promote a better working environment that would enable employees to unleash greater creativity.

Aronkasei’s second challenge is to reform its business operations. In order to consolidate and streamline order processing, which has thus far been carried out by each office, in one location, it is establishing an order processing

center. In January 2012, it set up an office to prepare for the center’s launch and is now examining the ideal form for the organization. Until now, business operations had no clear division of roles, but by establishing an order processing center and clearly defining roles and responsibilities, the sales department will be able to focus on product promotion, channel development and market research, which are functions that should really be performed by the sales department of a manufacturing company. At the same time, an order department could increase efficiency by specializing in order processing.

The third challenge is the creation of new businesses. The Environmental Business Department of Aronkasei has developed products that are eco-friendly, such as those that use recycled plastic bottles. This year, it would also like to commercialize the Toagosei Group’s seed technologies and create new business opportunities.

Aronkasei will steadily implement these measures with the goal of achieving the targets of its medium-term management plan.

Main products

Pipes & Couplings

In sewer systems, including PVC pipes, couplings and manhole covers, we have accumulated an extensive track record covering half a century. With the addition of water supply products to our core wastewater and sewage-related products, we seek to expand this business domain into both water supply and sewer systems.

Nursing care products

Aronkasei always provides nursing care products that feature safety, comfort, and a wide variety of functions under the concept of “people friendly.” These include such nursing care products as the portable toilet and bath chair, and home repair products such as hand rails, not to mention products that help people to walk and move, such as walkers and canes.



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



Nursing care products

Research & Development

Changing the focus from providing facilities to reforming management

R&D is the starting point for Toagosei Group growth

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

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

—Achieve steady progress in each R&D field—

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

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



Monozukuri (craftsmanship) Center

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

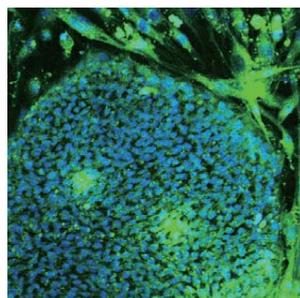
Individual researchers and departments systematically work to advance their expertise while constantly thinking about how they would like the company to be 10 years from now. We have established a 10-year plan for training and optimally deploying R&D talent in order to systematically develop personnel,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

Researchers will share higher levels of individual expertise and their distinctive capabilities, and the laboratories of each business department and the research department

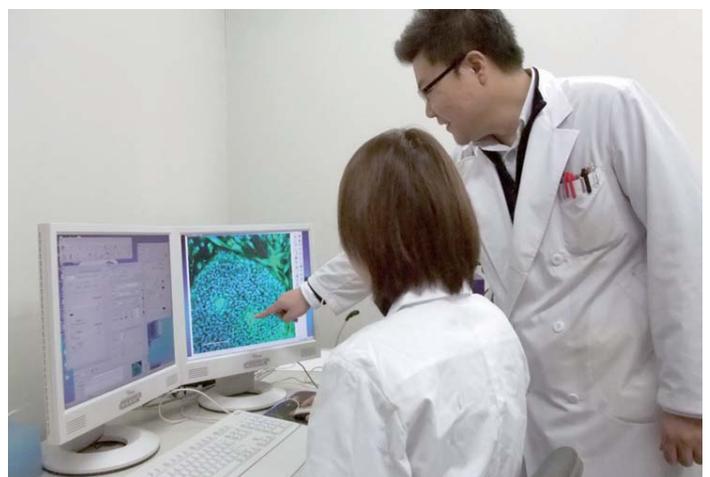
of the Corporate Management Division, including related departments and individuals, will pursue research and development while closely collaborating with each other. In addition to this, we will aggressively pursue partnerships with outside institutions.

—Creation of new themes—

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



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



In the laboratory

Corporate Social Responsibility

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

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

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

Management focused on the interests of stakeholders

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

Rigorous compliance

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

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



Training session

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

Risk management

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

Establishment of Risk Management Committee

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

Potential risks

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

Response when facing a crisis situation

We reexamined our various rules and regulations that set forth the specific steps to take when faced with a crisis situation and



introduced a system that verifies employee safety via mobile device.

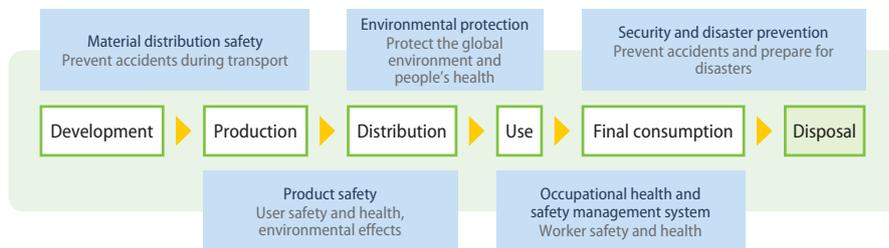
Emergency drill

Responsible Care (RC) activities

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

Basic policies for RC

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



What is RC?

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

Efforts to reduce our environmental impact

Prevention of global warming

We are switching to low-emission fuels and installing energy-efficient equipment as we pursue our goal of reducing CO₂ emissions.

Reduction of industrial waste

We have set targets for the "3Rs" (reduce, reuse and recycle) waste management strategy. Our goal is zero landfill for the whole Group.

Reduction of emissions of substances harmful to the environment

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



Waste liquid and exhaust gas incineration equipment at our Takaoka Plant



Desulfurization facilities attached to boilers at our Tokushima Plant

Training and recruitment

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

Major training activities

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> • New employee training • Training in the second, third, and fourth years after entering the company • Mid-career employee training | <ul style="list-style-type: none"> • Foreman training • Management training (new managerial staff training) • New sales staff training • Skill improvement courses for production | <ul style="list-style-type: none"> technology and engineering staff • Skill improvement courses for R&D staff • Quality engineering courses • Intellectual property courses • Other courses |
|---|---|--|

Social contribution activities

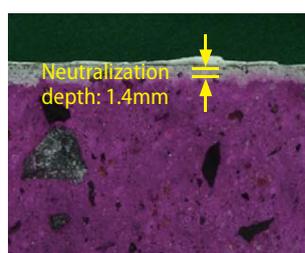
—Development of earth and human-friendly technologies and products—

Acrycept coating method that prolongs the life of reinforced concrete buildings

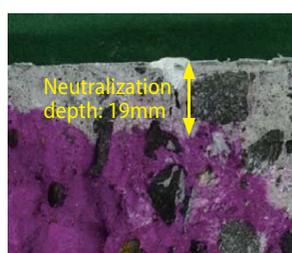
The Acrycept method blocks out the seepage of airborne carbon dioxide into concrete and prevents corrosion of reinforcing steel by inhibiting the neutralization of concrete, thus helping to prolong building life.

Figure

Accelerated neutralization test results



Acrycept method



Conventional methods

*Neutralization of Reinforced Concrete

Reinforced concrete remains in a healthy state when it maintains an alkaline property, but it loses its alkaline property with the gradual seepage of airborne carbon dioxide within the concrete. This phenomenon is called "neutralization." When neutralization advances, the reinforcing steel in concrete more easily corrodes and the building may as a result lose its structural integrity.

Development of electrolytic cell using gas diffusion electrodes

We have developed a technology that reduces electrical power consumption by one-third over conventional methods.

Sodium hypochlorite with low sodium chloride content (low bromate type) *Aron Clean* LB10

We have developed a sodium hypochlorite with a substantially reduced bromic acid content, thereby contributing to the supply of safer and cleaner tap water.

—Contributions to society—

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



Presenting donation to a care-giving facility that uses *Anju* brand nursing care products



Conducting a chemical experiment with children

Environmental activities data

The material balances in the Toagosei Group's manufacturing activities are shown below. The figures shown cover companies involved in manufacturing over the one-year period from January 1 to December 31, 2011.

INPUT

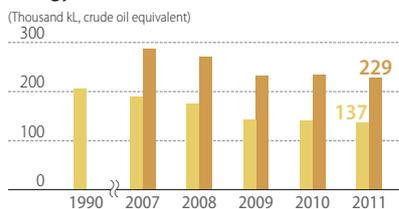
Energy (Crude oil equivalent)

	Toagosei	Toagosei Group
Energy (Thousand kL)	137	229

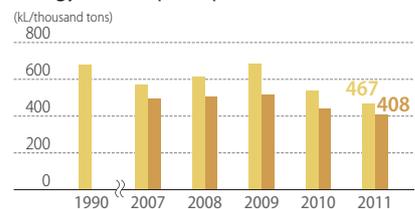
Water

	Toagosei	Toagosei Group
Water consumption (Million m ³)	35	58

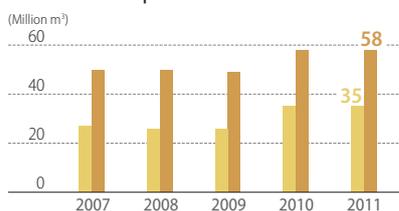
Energy



Energy consumption per base unit



Water consumption

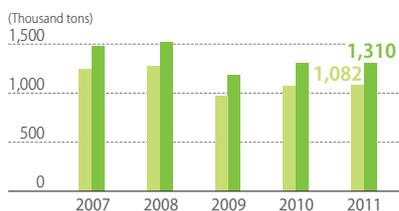


Production base

Production volume

	Toagosei	Toagosei Group
Production volume (Thousand tons)	1,082	1,310

Production volume

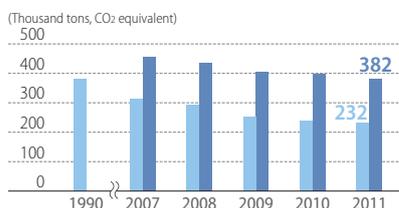


OUTPUT

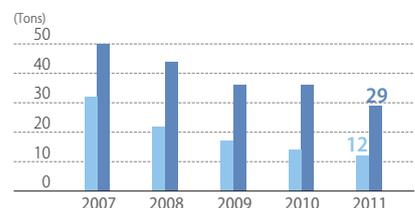
Air pollutant emissions

	Toagosei	Toagosei Group
CO ₂ Emission (Thousand tons, CO ₂ equivalent)	232	382
SO _x Emission (Tons)	12	29
NO _x Emission (Tons)	89	121
Soot and dust (Tons)	8	9

CO₂ Emission



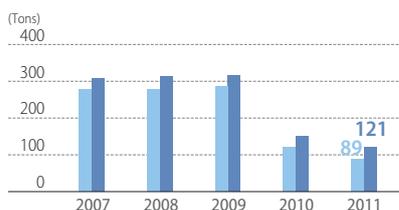
SO_x Emission



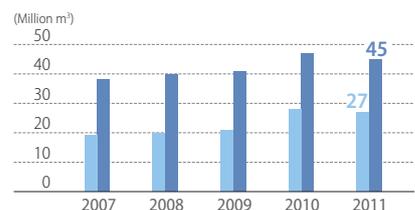
Effluent volume

	Toagosei	Toagosei Group
Total effluent volume (Million m ³)	27	45
COD (Tons)	94	94
Total nitrogen (Tons)	25	25
Total phosphorus (Tons)	1.1	1.1

NO_x Emission



Total effluent volume



Board of Directors and Corporate Auditors



Eiichi
Takizawa

Mikishi
Takamura

Souichi
Nomura

Akio
Arisawa

Akihiko
Yamadera

Futoshi
Hashimoto

Katsutoshi
Yamada

Ken
Ozeki

Kazuaki
Nakagawa

Chairman

Akihiko Yamadera

President

Futoshi Hashimoto

Directors

Akio Arisawa
Katsutoshi Yamada
Souichi Nomura
Ken Ozeki
Mikishi Takamura
Kazuaki Nakagawa
Eiichi Takizawa*

* Outside Director

Corporate Auditors

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

** Outside Corporate Auditor

Senior Executive Officer

Souji Hattori

Executive Officers

Kiyoshi Miyazaki
Shouji Kawamura
Kazuo Kiyota
Akira Komine
Takao Takemoto
Akira Kuriyama
Nobuhiro Ishikawa
Shinichi Sugiura
Hideo Kato
Toshio Okuyama
Tatsumi Nonaka
Hidemi Nagano
Tomio Kanbayashi
Hisashi Hara
Moriyuki Kenjou
Akio Sato

(As of April 1, 2012)

Financial Section

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Management's Discussion & Analysis

Overview of Fiscal 2011

During the reporting term (January 1 to December 31, 2011), despite battling back from the serious damage inflicted by the Great East Japan Earthquake disaster, the Japanese economy was unable to achieve a full-scale demand recovery. The economy remained under harsh operating conditions that included a global economic slowdown triggered by the European financial crisis and the ongoing rapid appreciation of the yen.

In the chemical industry, earnings continued to come under pressure due to rising raw material and fuel prices including crude oil and naphtha prices, as well as declining demand for electronics materials, especially LCDs, and semiconductors. In addition, market conditions for petrochemical products in Asia took a negative turn in the second half.

Under these conditions, the Toagosei Group adjusted product prices to keep up with rising raw material and fuel prices and ensured profitability through the expansion of sales in Asia and continuing cost reductions. To consolidate the Group's business resources and speed up the decision-making process, steps were taken to create a stronger business structure with the aim of more deeply integrating Group management. To that end, Tsurumi Soda was integrated with the sales and development departments in April, and Aronkasei, a listed subsidiary, was made a wholly owned subsidiary by means of a share exchange in July.

As a result, sales in the reporting term decreased 0.5% year on year on a consolidated basis, to ¥153,007 million, and operating income declined 18.5%, to ¥17,338 million.

In addition, net income came to ¥13,000 million, a year-on-year decrease of 1.0%, due to the posting of gain on negative

goodwill in association with the making of Aronkasei a wholly owned subsidiary by means of a share exchange.

Sales by Segment

Commodity Chemicals

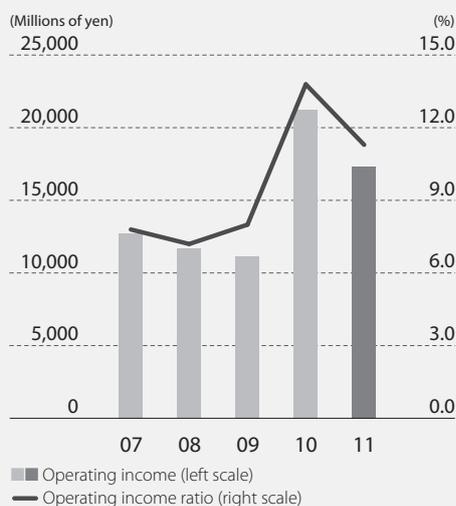
Sales of caustic soda and inorganic chlorides were weak owing to continued flagging demand caused by the effects of the earthquake disaster and a downturn in sales prices. Sales of inorganic high-purity chemicals were also weak on the back of declining demand, mainly in the semiconductor field. Sulfuric acid sales were strong thanks to brisk demand. Sales of industrial gases were poor due to a slow recovery of already depressed demand following the earthquake disaster. In April 2011, Toagosei accepted the transfer of PVC resin production equipment from V-Tech Corporation and began contract production of PVC resins. This transfer contributed to sales increase.

As a result of the foregoing, sales in this segment increased 5.4% year on year, to ¥48,112 million, and operating income tumbled 31.8%, to ¥4,485 million.

Acrylic Products

Sales of acrylic esters were brisk in the first half thanks to favorable product market conditions in Asia, but declined in the second half due to slumping market conditions and declining sales volumes, mainly to emerging markets. Sales of acrylic polymers fared well thanks to improved profitability on the back of product price adjustments. Sales of polymer flocculants, on the other hand, were poor due to weak private- and public-sector demand following the earthquake disaster, as well as slumping

Operating income / Operating income ratio as a percentage of net sales



Net income per share



exports caused by the rapidly appreciating yen. Sales of Aronix UV-curable resins were weak owing to a substantial decline in sales volume, mainly in the LCD field.

As a result of the foregoing, sales in this segment decreased 4.7% year on year, to ¥57,466 million, and operating income dropped 12.5%, to ¥8,488 million.

Specialty Chemicals

Adhesive sales were favorable thanks to stable demand for consumer use, as well as vigorous demand, especially in the area of electronics materials such as mobile devices for industrial use. Sales of products for construction and civil engineering were sluggish owing to lackluster growth in sales for building reinforcement works. Despite brisk sales of some environmental and amenity products such as deodorants, sales of inorganic functional materials fared poorly on falling demand for antimicrobial agents and inorganic ion exchangers. Sales of electronics materials were sluggish on sharply falling demand for high-purity silicon gases due to the slumping semiconductor field.

As a result of the foregoing, sales in this segment decreased 3.2% year on year, to ¥16,152 million, and operating income dropped 16.2%, to ¥2,963 million.

Plastics

Despite steady demand for housing materials, sales of pipes and couplings were weak on declining demand for sewer systems. As for life style support products, although demand for nursing care products was strong, demand for everyday goods was weak. Sales of resin-molded products were solid thanks to increasing shipments of elastomer compounds.

As a result of the foregoing, sales in this segment decreased 1.2% year on year, to ¥27,682 million, and operating income slipped 5.0%, to ¥1,411 million.

Other Businesses

Sales for this segment, which comprises new product development operations, the construction and repair of plants and production facilities, goods transportation services, and trading house operations, increased 13.7% year on year, to ¥3,594 million, and operating income came to ¥2 million.

Cash Flows

Net cash provided by operating activities decreased by ¥7,015 million year on year, to ¥17,828 million, due to an increase in income taxes paid.

Net cash used in investing activities declined by ¥1,114 million, to ¥9,041 million due to a decrease in overdue loans receivable.

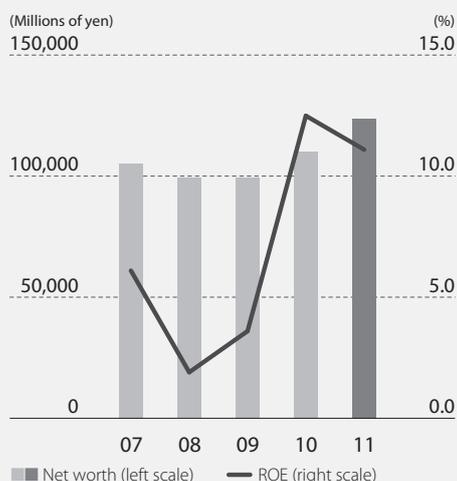
Net cash used in financing activities increased by ¥3,202 million, to ¥7,320 million, owing to increased purchases of treasury stock.

As a result, cash and cash equivalents at end of the year stood at ¥23,992 million, an increase of ¥1,303 million from the previous term-end.

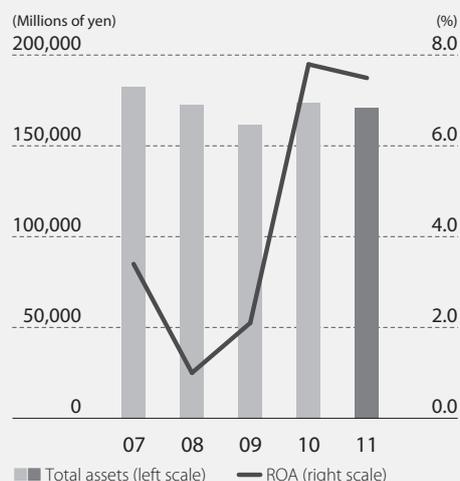
Business Performance Prospects for Fiscal 2012

For the current term, ending December 31, 2012, we forecast net sales of ¥157.0 billion, operating income of ¥17.0 billion, and net income of ¥10.0 billion.

Net worth / ROE



Total assets / ROA



Cash Flow Prospects for Fiscal 2012

Net cash provided by operating activities is likely to be in the region of ¥23.0 billion, due to a decrease in income taxes paid.

Net cash used in investing activities is expected to total ¥15.0 billion, due to increased purchases of property, plant and equipment.

Net cash used in financing activities is expected to total ¥4.0 billion.

Basic Policy on Shareholder Returns and Dividends for Fiscal 2011 and 2012

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

For fiscal 2011, ended December 31, 2011, we made a term-end dividend payment of ¥5. We have already paid an interim dividend of ¥5, bringing the total payment for the full term to ¥10 per share.

For the current term, ending December 31, 2012, we are planning an interim dividend payment of ¥5, and a term-end payment of the same sum, for an annual dividend of ¥10 per share.

Business Risks

(1) Cost competition

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

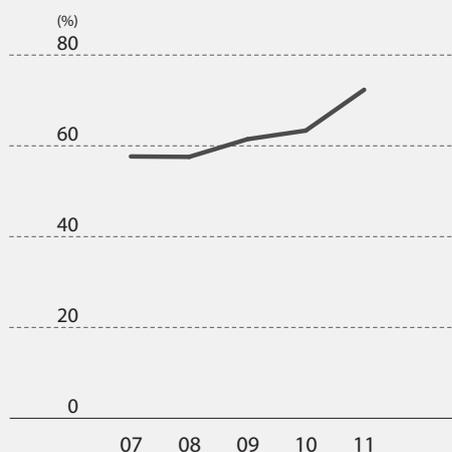
(2) Changes in the price of crude oil and naphtha

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

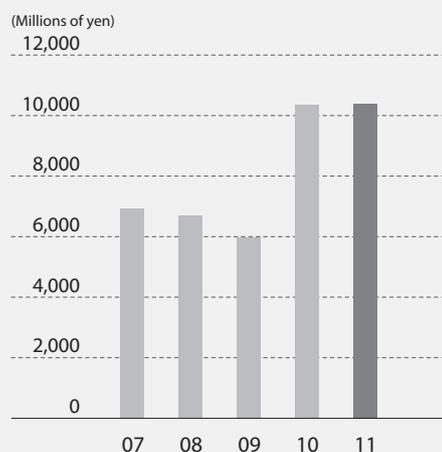
(3) Product liability

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

Net worth ratio



Capital investment



(4) Impact of natural disasters

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

(5) Major litigation

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

(6) Deferred tax assets

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

(7) Changes in foreign currency exchange rates

For the reporting period, overseas sales of the Group accounted for 16.3% of total sales. The Group includes seven overseas consolidated subsidiaries and one overseas affiliated company subject to the equity method. There is therefore a possibility of a change in exchange rates adversely affecting the business performance and financial position of the Group.

(8) Changes in interest rates

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

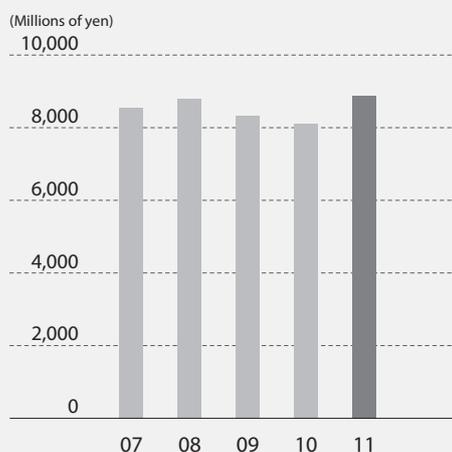
(9) Application of accounting for the impairment of fixed assets

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

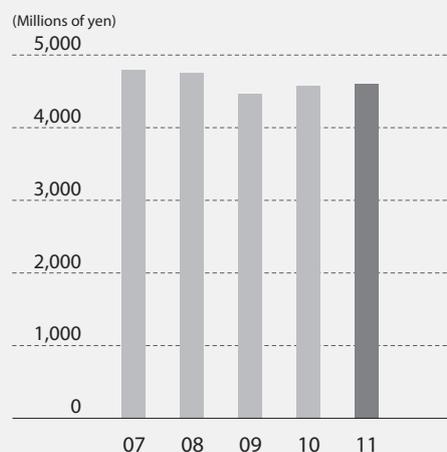
The Group is fully aware of the risks outlined above, and has measures in place to minimize their impact on operating results and financial position, at the Group and Group company level.

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

Depreciation and amortization expenditures



Research and development expense



Consolidated Balance Sheets

Toagosei Co., Ltd. and Consolidated Subsidiaries

December 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2010	2011
Assets			
Current assets:			
Cash and cash equivalents (Note 9)	¥ 23,992	¥ 22,689	\$ 308,624
Notes and accounts receivable (Note 9)	42,182	44,495	542,604
Inventories (Note 4)	16,991	15,710	218,568
Deferred tax assets (Note 14)	708	1,031	9,110
Income taxes receivable	2,050	—	26,372
Other current assets	1,434	1,253	18,457
Allowance for doubtful receivables	(76)	(108)	(981)
Total current assets	87,283	85,071	1,122,756
Property, plant and equipment (Notes 5, 6, 12 and 18):	229,801	225,286	2,956,020
Accumulated depreciation	(168,046)	(164,755)	(2,161,653)
Property, plant and equipment, net (Note 5)	61,754	60,530	794,366
Investments and other assets:			
Investment securities (Notes 9 and 10)	13,645	13,889	175,532
Intangible fixed assets, net	1,081	1,294	13,917
Deferred tax assets (Note 14)	3,014	4,948	38,775
Overdue loans receivable (Note 9)	—	8,753	—
Prepaid pension cost (Note 13)	2,515	1,987	32,362
Other assets	1,841	3,155	23,682
Allowance for doubtful receivables	(90)	(5,782)	(1,160)
Total investments and other assets	22,008	28,244	283,110
Total assets	¥171,046	¥173,847	\$2,200,233

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2010	2011
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable (Note 9).....	¥ 14,983	¥ 14,828	\$ 192,740
Short-term bank loans (Notes 9 and 12).....	2,390	3,298	30,749
Current portion of long-term debt (Notes 9 and 12).....	884	4,182	11,377
Accrued income taxes.....	1,736	5,012	22,337
Other current liabilities.....	9,184	9,645	118,144
Total current liabilities.....	29,179	36,968	375,349
Long-term liabilities:			
Long-term debt (Notes 9 and 12).....	9,440	6,201	121,430
Deferred tax liabilities (Note 14).....	52	976	679
Accrued retirement benefits for employees (Note 13).....	534	540	6,879
Accrued retirement benefits for directors.....	32	32	413
Other long-term liabilities.....	4,030	4,101	51,842
Total long-term liabilities.....	14,090	11,851	181,246
Commitments and contingencies (Note 21)			
Net assets:			
Shareholders' equity (Notes 16, 19, 20 and 22):			
Common stock, without par value:			
Authorized – 550,000,000 shares			
Issued:			
2011 – 263,992,598 shares.....	20,886	—	268,670
2010 – 263,992,598 shares.....	—	20,886	—
Capital surplus.....	16,797	15,088	216,067
Retained earnings.....	86,758	77,131	1,116,002
Treasury stock.....	(103)	(2,955)	(1,330)
Total shareholders' equity.....	124,338	110,151	1,599,409
Accumulated other comprehensive income:			
Unrealized holding gain on available-for-sale securities.....	1,166	1,499	15,006
Translation adjustments.....	(1,678)	(1,367)	(21,589)
Total accumulated other comprehensive income.....	(511)	131	(6,583)
Minority interests.....	3,950	14,743	50,811
Total net assets.....	127,776	125,027	1,643,637
Total liabilities and net assets.....	¥171,046	¥173,847	\$2,200,233

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Toagosei Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income

Years ended December 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2010	2011
Net sales	¥153,007	¥153,779	\$1,968,192
Cost of sales	107,663	103,491	1,384,911
Gross profit	45,344	50,288	583,280
Selling, general and administrative expenses (Notes 13 and 17).....	28,006	29,016	360,255
Operating income.....	17,338	21,271	223,025
Other income (expenses):			
Interest and dividend income	465	429	5,993
Interest expense.....	(213)	(246)	(2,745)
Equity in earnings of affiliates.....	414	342	5,335
Impairment loss on property, plant and equipment (Note 6).....	(476)	(2,419)	(6,125)
Loss on disposal of property, plant and equipment.....	(515)	(538)	(6,626)
Provision for doubtful receivables.....	—	(236)	—
Foreign currency exchange loss.....	(62)	(251)	(804)
Environment readiness fee	(434)	(398)	(5,588)
Laboratory transfer expenses	—	(189)	—
Gain on revision of retirement benefit plan.....	149	240	1,922
Gain on negative goodwill (Note 22)	3,080	—	39,620
Loss on valuation of investment securities.....	(441)	—	(5,676)
Loss on disaster (Note 7).....	(462)	—	(5,950)
Other, net	150	(86)	1,930
Income before income taxes and minority interests.....	18,992	17,917	244,310
Income taxes (Note 14):			
Current.....	3,313	6,583	42,625
Deferred	2,043	(2,575)	26,283
	5,357	4,008	68,909
Income before minority interests.....	13,635	—	175,401
Minority interests.....	635	775	8,174
Net income (Note 24)	¥ 13,000	¥ 13,133	\$ 167,226

Consolidated Statements of Comprehensive Income

Years ended December 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2010	2011
Income before minority interests.....	¥13,635	—	\$175,401
Valuation difference on available-for-sale securities.....	(337)	—	(4,342)
Translation adjustments.....	(331)	—	(4,259)
Total other comprehensive income.....	(668)	—	(8,601)
Comprehensive income (Note 8).....	¥12,966	—	\$166,799
Comprehensive income attributable to owners of the parent.....	¥12,351	—	\$158,886
Comprehensive income attributable to minority interests.....	615	—	7,912

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2010	2011
Shareholders' equity			
Common stock			
Balance at previous year-end	¥ 20,886	¥ 20,886	\$ 268,670
Changes during year:			
Total changes during year	—	—	—
Balance at end of year	¥ 20,886	¥ 20,886	\$ 268,670
Capital surplus			
Balance at previous year-end	¥ 15,088	¥ 15,086	\$ 194,095
Changes during year:			
Gain on sales of treasury stock	1	2	21
Changes of share exchanges	1,706	—	21,950
Total changes during year	1,708	2	21,971
Balance at end of year	¥ 16,797	¥ 15,088	\$ 216,067
Retained earnings			
Balance at previous year-end	¥ 77,131	¥ 65,638	\$ 992,173
Effect of changes in accounting policies applied to foreign equity method company...	(765)	—	(9,841)
Changes during year:			
Cash dividends	(2,608)	(1,640)	(33,555)
Net income	13,000	13,133	167,226
Total changes during year	10,391	11,492	133,670
Balance at end of year	¥ 86,758	¥ 77,131	\$ 1,116,002
Treasury stock			
Balance at previous year-end	¥ (2,955)	¥ (2,907)	\$ (38,018)
Changes during year:			
Purchase of treasury stock	(3,315)	(53)	(42,654)
Gain on sales of treasury stock	7	5	102
Changes of share exchanges	6,160	—	79,239
Total changes during year	2,852	(48)	36,688
Balance at end of year	¥ (103)	¥ (2,955)	\$ (1,330)
Total shareholders' equity			
Balance at previous year-end	¥110,151	¥ 98,704	\$1,416,920
Effect of changes in accounting policies applied to foreign equity method company...	(765)	—	(9,841)
Changes during year:			
Cash dividends	(2,608)	(1,640)	(33,555)
Net income	13,000	13,133	167,226
Purchase of treasury stock	(3,315)	(53)	(42,654)
Gain on sales of treasury stock	9	7	123
Changes of share exchanges	7,866	—	101,190
Total changes during year	14,951	11,446	192,330
Balance at end of year	¥124,338	¥110,151	\$1,599,409

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2010	2011
Accumulated other comprehensive income			
Unrealized holding gain on available-for-sale securities			
Balance at previous year-end.....	¥ 1,499	¥ 1,469	\$ 19,284
Changes during year:			
Net changes in items other than shareholders' equity.....	(332)	29	(4,278)
Total changes during year.....	(332)	29	(4,278)
Balance at end of year.....	¥ 1,166	¥ 1,499	\$ 15,006
Translation adjustments			
Balance at previous year-end.....	¥ (1,367)	¥ (725)	\$ (17,591)
Changes during year:			
Net changes in items other than shareholders' equity.....	(310)	(642)	(3,998)
Total changes during year.....	(310)	(642)	(3,998)
Balance at end of year.....	¥ (1,678)	¥ (1,367)	\$ (21,589)
Total accumulated other comprehensive income			
Balance at previous year-end.....	¥ 131	¥ 744	\$ 1,693
Changes during year:			
Net changes in items other than shareholders' equity.....	(643)	(613)	(8,276)
Total changes during year.....	(643)	(613)	(8,276)
Balance at end of year.....	¥ (511)	¥ 131	\$ (6,583)
Minority interests			
Balance at previous year-end.....	¥ 14,743	¥ 14,250	\$ 189,657
Changes during year:			
Net changes in items other than shareholders' equity.....	(10,793)	493	(138,846)
Total changes during year.....	(10,793)	493	(138,846)
Balance at end of year.....	¥ 3,950	¥ 14,743	\$ 50,811
Total net assets			
Balance at previous year-end.....	¥125,027	¥113,700	\$1,608,271
Effect of changes in accounting policies applied to foreign equity method company.....	(765)	—	(9,841)
Changes during year:			
Cash dividends.....	(2,608)	(1,640)	(33,555)
Net income.....	13,000	13,133	167,226
Purchase of treasury stock.....	(3,315)	(53)	(42,654)
Gain on sales of treasury stock.....	9	7	123
Changes of share exchanges.....	7,866	—	101,190
Net changes in items other than shareholders' equity.....	(11,437)	(119)	(147,123)
Total changes during year.....	3,514	11,326	45,207
Balance at end of year.....	¥127,776	¥125,027	\$1,643,637

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31,	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2010	2011
Operating activities			
Income before income taxes and minority interests.....	¥18,992	¥17,917	\$244,310
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization.....	9,119	8,847	117,301
Impairment losses on property, plant and equipment.....	476	2,419	6,125
Gain on negative goodwill.....	(3,080)	—	(39,620)
Increase (decrease) in provision for doubtful receivables.....	(59)	224	(768)
Reversal of provision for retirement benefits.....	(533)	(409)	(6,864)
Decrease in other provisions.....	(38)	(157)	(496)
Interest and dividend income.....	(465)	(429)	(5,993)
Interest expense.....	213	246	2,745
Foreign currency exchange loss (gain).....	(13)	60	(168)
Equity in earnings of affiliates.....	(414)	(342)	(5,335)
Compensation for transfer.....	(89)	—	(1,146)
Gain on sales of property, plant and equipment.....	—	(10)	—
Gain on sales of investments in securities.....	—	(12)	—
Loss on disposal of property, plant and equipment.....	515	538	6,626
Loss on valuation of investment in securities.....	441	103	5,676
Valuation loss on investments in affiliated companies.....	—	6	—
Loss on disaster.....	462	—	5,950
Decrease (increase) in receivables.....	2,244	(709)	28,870
Increase in inventories.....	(1,373)	(128)	(17,662)
Increase (decrease) in payables.....	203	(1,819)	2,613
Other, net.....	(761)	1,132	(9,801)
Subtotal.....	25,837	27,477	332,363
Interest and dividends received.....	878	786	11,302
Interest paid.....	(234)	(250)	(3,012)
Compensation for transfer received.....	97	—	1,257
Loss on disaster paid.....	(341)	—	(4,392)
Income taxes paid.....	(8,410)	(3,169)	(108,189)
Net cash provided by operating activities.....	17,828	24,843	229,329
Investing activities			
Increase in time deposits.....	(124)	(18)	(1,598)
Purchases of investments in securities.....	(744)	(20)	(9,574)
Proceeds from sales of investment securities.....	—	108	—
Purchases of property, plant and equipment.....	(10,352)	(9,689)	(133,169)
Proceeds from sales of property, plant and equipment.....	15	28	199
Decrease in short-term loans receivable.....	—	40	—
Decrease (increase) in overdue loans receivable.....	3,088	(42)	39,725
Collection of long-term loans receivable.....	21	44	281
Other, net.....	(945)	(605)	(12,168)
Net cash used in investing activities.....	(9,041)	(10,155)	(116,304)
Financing activities			
Decrease in short-term bank loans.....	(920)	(1,304)	(11,834)
Proceeds from long-term debt.....	4,100	—	52,739
Repayment of long-term debt.....	(4,091)	(797)	(52,628)
Proceeds from sales of treasury stock.....	9	7	124
Purchases of treasury stock.....	(3,315)	(53)	(42,645)
Repayment of lease obligations.....	(97)	(83)	(1,254)
Cash dividends to shareholders.....	(3,005)	(1,933)	(38,662)
Proceeds from contributions paid by minority stockholders.....	—	48	—
Net cash used in financing activities.....	(7,320)	(4,117)	(94,161)
Effect of exchange rate changes on cash and cash equivalents.....	(163)	(268)	(2,097)
Net increase in cash and cash equivalents.....	1,303	10,301	16,765
Cash and cash equivalents at beginning of the year.....	22,689	12,387	291,858
Cash and cash equivalents at end of the year.....	¥23,992	¥22,689	\$308,624

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toagosei Co., Ltd. and Consolidated Subsidiaries
December 31, 2011

1. Basis of Preparation

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

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

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

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

2. Summary of Significant Accounting Policies

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

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

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

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

(b) Foreign currency translation

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

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

(c) Cash equivalents

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

(d) Inventories

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

(e) Property, plant and equipment and depreciation (except for leased 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.

(f) Intangible fixed assets (except for leased assets)

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

(g) Securities and investment securities

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity and 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.

(h) Income taxes

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

(i) Research and development costs

Research and development costs are charged to income when incurred.

(j) Leases

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

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

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

(k) Retirement benefits for employees and directors

Accrued retirement benefits for employees are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for the unrecognized net retirement benefit obligation at transition and unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. When pension plan assets are less than 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 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.

On July 1, 2010, the Company transferred its tax-qualified pension plans to a defined benefit plan and a defined contribution plan. As a result, a gain of ¥240 million was recognized in other income for the year ended December 31, 2010.

On October 1, 2010, one consolidated subsidiary changed its rules for tax-qualified pension plans and lump-sum payment plans. As a result, an unrecognized prior year service cost to reduce the retirement benefit obligation was incurred. The unrecognized prior year service cost is being amortized by the straight-line method over a period (15 years) which is shorter than the average remaining years of service of the eligible employees.

On July 1, 2011, two consolidated subsidiaries transferred their tax-qualified pension plans to a defined benefit plan and a defined contribution plan. On September 16, 2011, a consolidated subsidiary was permitted to withdraw from an employee pension plan and on December 1, 2011, transferred to a defined benefit plan and a defined contribution plan. As a result, a gain of ¥149 million (U.S.\$1,922 thousand) was recognized in other income for the year ended December 31, 2011.

(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 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.

(m) Appropriation of retained earnings

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

(n) Accounting standard for asset retirement obligations

Effective January 1, 2011, the Company and its domestic subsidiaries adopted the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008). This change had no impact on net income for the year ended December 31, 2011.

(o) Accounting standard for equity method of accounting for investments
Effective January 1, 2011, the Company adopted the "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, issued on March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ Practical Issues Task Force No. 24, issued on March 10, 2008). As a result, retained earnings at the beginning of the fiscal year, ended December 31, 2011 decreased by ¥765 million (U.S.\$9,841 thousand).

(p) Accounting standard for presentation of comprehensive income

Effective January 1, 2011, the Company adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued June 30, 2010), and "Valuation and transaction adjustments" and "Total valuation and transaction adjustments" as of and for the fiscal year ended December 31, 2010 as "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" respectively, as of and for the fiscal year ended December 31, 2011.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is made at ¥77.74 = U.S.\$1.00, the approximate exchange rate at December 31, 2011, 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. Inventories

Inventories at December 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Merchandise and finished products...	¥11,878	¥10,380	\$152,799
Work in process	437	461	5,626
Raw materials and supplies.....	4,675	4,869	60,143
	¥16,991	¥15,710	\$218,568

5. Property, Plant and Equipment

Property, plant and equipment at December 31, 2011 and 2010 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Land	¥16,857	¥16,859	\$216,849
Buildings and structures.....	19,897	19,230	255,954
Machinery, equipment and other....	21,587	19,933	277,684
Construction in progress	3,217	4,259	41,387
Leased assets.....	193	248	2,490
	¥61,754	¥60,530	\$794,366

6. 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, 2011 and 2010:

2011				
Location	Major use	Category	Millions of yen	Thousands of U.S. dollars
Tokushima city, Tokushima	Equipment for supplying utilities	Buildings, machinery and equipment	¥355	\$4,577
Minato-ku, Nagoya city	Warehouse facilities etc.	Buildings, machinery and equipment	120	1,547
Total			¥476	\$6,125

2010				
Location	Major use	Category	Millions of yen	
Ryugasaki city, Ibaraki	Company housing	Land and Buildings	¥ 776	
Tsukuba city, Ibaraki	Facilities for manufacturing adhesion bond	Land and Buildings	731	
Tokushima city, Tokushima	Facilities for manufacturing caustic soda and inorganic chloride	Buildings, machinery and equipment	622	
Minato-ku, Nagoya city	Laboratory	Buildings, machinery and equipment	155	
Takatsuki city, Osaka	Idle	Buildings, machinery and equipment	132	
Total			¥2,419	

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

When there is a decrease in profitability, no specific plan for future use or the book value of such idle assets is less than their respective recoverable amounts, the book value of the assets is written down to its recoverable amount. The assets listed in the above tables were written down to their respective recoverable amounts and ¥476 million (U.S.\$6,125 thousand) and ¥2,419 million of impairment losses were recognized in the statements of income for the years ended December 31, 2011 and 2010, respectively.

The impairment loss consisted of ¥80 million (U.S.\$1,036 thousand) for buildings and structures, ¥142 million (U.S.\$1,835 thousand) for machinery and equipment, ¥1 million (U.S.\$22 thousand) for other and ¥251 million (U.S.\$3,231 thousand) for removal cost for the year ended December 31, 2011 and consisted of ¥680 million for buildings and structures, ¥389 million for machinery and equipment, ¥1,186 million for land, ¥4 million for other and ¥158 million for removal cost for the year ended December 31, 2010.

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

7. Loss on Disaster

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

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Disposal of certain property, plant and equipment and inventories	¥ 24	\$ 312
Recovery cost	203	2,618
Fixed costs during temporary suspension of operations	205	2,643
Others	29	375
Total	¥462	\$5,950

8. Comprehensive Income

Comprehensive income for the year ended December 31, 2010 was summarized as follows:

	Millions of yen
	2010
Comprehensive income attributable to owners of the parent	¥12,520
Comprehensive income attributable to minority interests	737
Total	¥13,258

Other comprehensive income for the year ended December 31, 2010 was summarized as follows:

	Millions of yen
	2010
Unrealized holding gain on available-for-sale securities	¥ 28
Translation adjustments	(679)
Total other comprehensive income	¥(650)

9. Financial Instruments

1. Matters related to the status of financial instruments

(1) Policies on financial instruments

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

(2) Description of financial instruments and associated risks

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

Notes and accounts payable, which represent trade payables, are due within one year. A portion of these are foreign currency denominated items related to payment for raw material imports, which are subject to exchange rate fluctuation risk. These are constantly maintained within the balance of

receivables denominated in the same foreign currencies. Borrowings are used to procure funds necessary for operational transactions and capital expenditures. A portion of these bearing variable interest rates are exposed to interest rate fluctuation risk. Derivative transactions (interest rate swap transactions) are used as a means of hedging.

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

(3) Risk management systems related to financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Fair value of financial instruments

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

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

December 31, 2011	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents.....	\$186,097	\$186,097	—
(2) Notes and accounts receivable.....	542,604	542,604	—
(3) Securities and investment securities:			
(i) Held-to-maturity securities.....	1,299	1,311	\$ 12
(ii) Other securities.....	253,839	253,839	—
Total assets.....	983,840	983,852	12
(1) Notes and accounts payable.....	192,740	192,740	—
(2) Short-term bank loans.....	42,127	42,127	—
(3) Long-term debt.....	119,930	120,983	1,052
Total liabilities.....	\$354,798	\$355,851	\$1,052
Total derivative transactions.....	—	—	—

December 31, 2010	Millions of yen		
	Carrying value	Fair value	Difference
(1) Cash and cash equivalents.....	¥14,055	¥14,055	—
(2) Notes and accounts receivable.....	44,495	44,495	—
(3) Securities and investment securities:			
(i) Held-to-maturity securities.....	101	103	¥ 1
(ii) Other securities.....	19,026	19,026	—
(4) Overdue loans receivable.....	8,753		
Allowance for doubtful receivables (*)...	(5,688)		
	3,065	3,065	—
Total assets.....	80,745	80,746	1
(1) Notes and accounts payable.....	14,828	14,828	—
(2) Short-term bank loans.....	7,481	7,481	—
(3) Long-term debt.....	6,020	6,067	47
Total liabilities.....	¥28,330	¥28,377	¥47
Total derivative transactions.....	—	—	—

(*) Excludes the estimated unrecoverable amount of overdue loans receivable.

Notes to Consolidated Financial Statements

(Note 1)

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

Assets

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

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

(3) Securities and investment securities

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

(4) Overdue loans receivable

In the case of overdue loans receivable, the estimated unrecoverable amount is calculated based on the amount expected to be recovered, which is determined based on the financial condition of the borrower. Therefore, the fair value is approximately equal to the amount stated in the balance sheet as of the date of closing of consolidated accounts, less the estimated unrecoverable amount, and this value is stated as the fair value.

Liabilities

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

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

(3) Long-term debt

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

Derivative transactions

Please refer to No.11

(Note 2)

Financial instruments whose fair value is extremely difficult to determine.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Investments in unconsolidated subsidiaries and affiliates.....	¥2,345	¥2,260	\$30,173
Other securities:			
Unlisted securities.....	1,139	1,142	14,662
Other.....	325	357	4,192
Total.....	¥3,811	¥3,760	\$49,028

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

(Note 3)

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

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

December 31, 2011	Thousands of U.S. dollars			
	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash equivalents.....	\$185,990	—	—	—
Notes and accounts receivable.....	542,604	—	—	—
Securities and investment securities:				
Held-to-maturity securities.....	—	—	\$1,286	—
Other securities with maturities.....	128,633	—	—	—
Total.....	\$857,228	—	\$1,286	—

December 31, 2010	Millions of yen			
	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash equivalents.....	¥14,049	—	—	—
Notes and accounts receivable.....	44,495	—	—	—
Securities and investment securities:				
Held-to-maturity securities.....	—	—	¥100	—
Other securities with maturities.....	9,000	—	—	—
Total.....	¥67,544	—	¥100	—

Overdue loans receivable whose timing of collection is uncertain are not included in the table above.

(Note 4)

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

10. Investment Securities

(a) At December 31, 2011 and 2010, held-to-maturity securities for which market prices were available were summarized as follows:

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

December 31, 2011	Thousands of U.S. dollars		
	Carrying value	Fair value	Unrealized gain (loss)
Unrealized gain:			
Corporate bonds.....	\$1,299	\$1,311	\$12
Unrealized loss:			
Corporate bonds.....	—	—	—
Total.....	\$1,299	\$1,311	\$12

December 31, 2010	Millions of yen		
	Carrying value	Fair value	Unrealized gain (loss)
Unrealized gain:			
Corporate bonds.....	¥101	¥103	¥1
Unrealized loss:			
Corporate bonds.....	—	—	—
Total.....	¥101	¥103	¥1

(b) Marketable securities classified as other securities as of December 31, 2011 and 2010 were summarized as follows:

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

December 31, 2011	Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock.....	\$ 42,800	\$ 75,142	\$32,341
Securities whose acquisition cost exceeds their carrying value:			
Stock.....	60,053	50,063	(9,990)
Other.....	128,633	128,633	—
Total.....	\$231,487	\$253,839	\$22,351

December 31, 2010	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock.....	¥ 3,795	¥ 6,967	¥3,171
Securities whose acquisition cost exceeds their carrying value:			
Stock.....	3,902	3,059	(842)
Other.....	9,000	9,000	—
Total.....	¥16,697	¥19,026	¥2,328

(c) Sales of securities classified as other securities amounted to ¥108 million with a gain of ¥12 million for the year ended December 31, 2010.

11. Derivative Transactions

(1) Derivative transactions to which hedge accounting is not applied. Not applicable.

(2) Derivative transactions to which hedge accounting is applied.

Derivative transactions to which the deferred hedge accounting method is applied as of December 31, 2011 and 2010.

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

	Thousands of U.S. dollars		
	2011		Fair value
	Contract amount	Contract amount over one year	
Special treatment for interest rate swaps:			
Interest rate swaps			
(Hedged item: Long-term debt)			
Receive floating and pay fixed...	\$42,701	\$41,211	(*)

	Millions of yen		
	2010		Fair value
	Contract amount	Contract amount over one year	
Special treatment for interest rate swaps:			
Interest rate swaps			
(Hedged item: Long-term debt)			
Receive floating and pay fixed...	¥5,445	¥3,326	(*)

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

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

Short-term bank loans, principally unsecured, consisted of notes payable to banks bearing annual interest rates of 0.79% and 0.78% at December 31, 2011 and 2010, respectively.

Long-term debt at December 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Loans with collateral from banks, insurance companies and other, bearing annual interest rates of 1.73% and 1.06% for current portion of long-term debt and lease obligations, and long-term debt and lease obligations less current portion at December 31, 2011, respectively	¥10,324	¥10,384	\$132,808
	10,324	10,384	132,808
Less: current portion	(884)	(4,182)	(11,377)
	¥ 9,440	¥ 6,201	\$121,430

Assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Property, plant and equipment at net book value	¥18,239	¥19,968	\$234,619

The aggregate annual maturities of long-term debt and lease obligations subsequent to December 31, 2012 were summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2013	¥3,858	\$49,637
2014	4,878	62,750
2015	473	6,086
2016	229	2,957

13. Retirement Benefit Plans for Employees

The Company and its consolidated subsidiaries have a defined benefit plan consisting of a defined benefit corporate pension plan and a retirement lump-sum payment plan covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service and the conditions under which termination occurs. Further, their defined contribution plan consists of a defined contribution pension plan. A retirement benefit trust has also been established.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of December 31, 2011 and 2010 related to the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥(10,740)	¥(12,356)	\$(138,162)
Plan assets at fair value	9,296	10,704	119,589
Funded status	(1,443)	(1,652)	(18,572)
Unrecognized actuarial gain	3,603	3,305	46,352
Unrecognized prior service cost	(178)	(205)	(2,297)
Prepaid pension cost	2,515	1,987	32,362
Accrued retirement benefits	¥ (534)	¥ (540)	\$ (6,879)

The components of net periodic retirement benefit expenses for the years ended December 31, 2011 and 2010 were outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥ 502	¥ 641	\$ 6,459
Interest cost	171	251	2,208
Expected return on plan assets	(86)	(161)	(1,112)
Amortization of actuarial loss	376	411	4,837
Amortization of unrecognized prior service cost	(20)	(20)	(260)
Other (*)	255	108	3,285
Total	¥1,198	¥1,232	\$15,418

(*) Contribution to defined contribution plan

The assumptions used in accounting for the defined benefit plans for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Discount rate	Mainly 1.5%	Mainly 1.5%
Expected rate of return on plan assets	Mainly 1.0%	Mainly 2.0%

14. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on earnings, i.e. corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 40.5% for the years ended December 31, 2011 and 2010.

The effective tax rates reflected in the consolidated statements of income for the years ended December 31, 2011 and 2010 differ from the statutory tax rate for the following reasons:

	2011	2010
Statutory tax rate	40.5%	40.5%
Effect of:		
Permanent difference – entertainment expenses	0.4	0.5
Permanent difference – dividend income	(5.5)	(0.3)
Inhabitants' per capita taxes	0.4	0.4
Amortization of goodwill	0.5	0.7
Equity in earnings of affiliates	(0.9)	(0.8)
Valuation allowance	2.3	(13.2)
Different tax rates applied to income of foreign consolidated subsidiaries	(3.7)	(4.9)
Tax deduction of experiment and research expenses	(0.6)	(1.5)
Gain on negative goodwill	(6.6)	—
Other, net	1.3	0.8
Effective tax rates	28.2%	22.4%

Significant components of the deferred tax assets and liabilities as of December 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Loss on valuation of investment securities.....	¥1,065	¥ 943	\$13,711
Elimination of unrealized profit....	2,737	1,509	35,219
Accrued retirement benefits.....	991	1,206	12,759
Accrued enterprise tax	31	403	404
Allowance for doubtful receivables...	38	2,357	495
Net operating loss carry forwards...	197	714	2,541
Impairment loss on property, plant and equipment.....	1,663	2,123	21,393
Other.....	1,710	1,297	22,007
Gross deferred tax assets.....	8,437	10,556	108,533
Valuation allowance.....	(3,017)	(3,101)	(38,819)
Total deferred tax assets.....	5,419	7,454	69,713
Deferred tax liabilities:			
Reserve under Special Taxation Measures Law	(344)	(398)	(4,433)
Undistributed earnings of overseas partnerships.....	(133)	(467)	(1,718)
Gain on contribution of securities to retirement benefit trust.....	(640)	(754)	(8,244)
Unrealized holding gain on available-for-sale securities...	(549)	(809)	(7,067)
Other.....	(81)	(21)	(1,048)
Total deferred tax liabilities.....	(1,750)	(2,451)	(22,512)
Net deferred tax assets.....	¥3,669	¥ 5,003	\$47,201

Following the promulgation of the "Act for Partial Amendment of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114, 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117, 2011) on December 2, 2011, the corporate income tax rate will be lowered and a special restoration surtax will be imposed from fiscal years beginning on April 1, 2012. As a result, the domestic statutory tax rates to calculate deferred tax assets and liabilities will be reduced from current 40.54% to 37.87% for temporary difference expected to reverse from consolidated fiscal years beginning from January 1, 2013 through January 1, 2015, and 35.49% for temporary differences expected to reverse from fiscal years beginning on or after January 1, 2016. As a result of these changes in the tax rate, deferred tax assets (net of deferred tax liabilities) increased ¥39 million (U.S.\$508 thousand), unrealized holding gain on securities ¥77 million (U.S.\$992 thousand) and deferred income taxes ¥37 million (U.S.\$484 thousand) as of and for the year ended December 31, 2011 compared with the amounts that would have been recorded under the previous tax regulations.

15. Investment and Rental Property

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

16. Capital Surplus and Retained Earnings

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve or the legal reserve until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met. The legal reserve amounted to ¥3,990 million (U.S.\$51,324 thousand) and ¥3,990 million as of December 31, 2011 and 2010, respectively.

17. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended December 31, 2011 and 2010 were ¥4,603 million (U.S.\$59,214 thousand) and ¥4,582 million, respectively.

18. Leases

The following amounts represent the acquisition cost, accumulated depreciation and net book value of finance lease transactions entered into on or before December 31, 2010, except for the lease agreements which stipulate the transfer of ownership of the leased assets to the lessee, as of December 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Acquisition cost:			
Machinery and equipment.....	¥270	¥475	\$3,478
	¥270	¥475	\$3,478
Accumulated depreciation:			
Machinery and equipment.....	¥233	¥393	\$3,008
	¥233	¥393	\$3,008
Net book value:			
Machinery and equipment.....	¥ 36	¥ 81	\$ 470
	¥ 36	¥ 81	\$ 470

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥58 million (U.S.\$754 thousand) and ¥107 million, respectively, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms, for the years ended December 31, 2011 and 2010, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to December 31, 2011 for non-cancelable operating leases and finance leases accounted for as operating leases were summarized as follows:

Year ending December 31,	Millions of yen		Thousands of U.S. dollars	
	Operating leases	Finance leases	Operating leases	Finance leases
2012	¥30	¥21	\$390	\$276
2013 and thereafter.....	10	15	139	193
Total	¥41	¥36	\$530	\$470

19. Treasury Stock

Number of shares of treasury stock for the years ended December 31, 2011 and 2010 was as follows:

Year ended December 31, 2011	Thousands of shares			
	December 31, 2010	Increase during the year	Decrease during the year	December 31, 2011
Treasury stock:				
Common stock.....	11,725	8,086	19,494	317
Total.....	11,725	8,086	19,494	317

Year ended December 31, 2010	Thousands of shares			
	December 31, 2009	Increase during the year	Decrease during the year	December 31, 2010
Treasury stock:				
Common stock.....	11,603	142	20	11,725
Total.....	11,603	142	20	11,725

20. Cash Dividends

Dividends paid in the years ended December 31, 2011 and 2010 were as follows:

Year ended December 31, 2011				
Resolution	Type of shares	Millions of yen		Thousands of U.S. dollars
		Gross amount	Gross amount	Gross amount
March 30, 2011 98th Annual Shareholders' Meeting	Common stock	¥1,387		\$17,847
August 4, 2011 Board of Directors	Common stock	¥1,221		\$15,708

Year ended December 31, 2011				
Resolution	Yen		Record date	Effective date
	Per share	Per share		
March 30, 2011 98th Annual Shareholders' Meeting	¥5.50	\$0.071	December 31, 2010	March 31, 2011
August 4, 2011 Board of Directors	¥5.00	\$0.064	June 30, 2011	September 6, 2011

Year ended December 31, 2010			
Resolution	Type of shares	Millions of yen	
		Gross amount	Gross amount
March 30, 2010 97th Annual Shareholders' Meeting	Common stock		¥757
August 5, 2010 Board of Directors	Common stock		¥883

Year ended December 31, 2010			
Resolution	Yen		Effective date
	Per share	Record date	
March 30, 2010 97th Annual Shareholders' Meeting	¥3.00	December 31, 2009	March 31, 2010
August 5, 2010 Board of Directors	¥3.50	June 30, 2010	September 6, 2010

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

Year ended December 31, 2011				
Resolution	Type of shares	Millions of yen	Thousands of U.S. dollars	Resource
		Gross amount	Gross amount	
March 27, 2012 99th Annual Shareholders' Meeting	Common stock	¥1,318	\$16,958	Retained earnings

Year ended December 31, 2011				
Resolution	Type of shares	Yen	U.S. dollars	Effective date
		Per share	Per share	
March 27, 2012 99th Annual Shareholders' Meeting	Common stock	¥5.00	\$0.064	December 31, 2011 March 28, 2012

Dividends whose record date was in the year ended December 31, 2010 but whose effective date was in the year ended December 31, 2011 were as follows:

Year ended December 31, 2010			
Resolution	Type of shares	Millions of yen	Resource
		Gross amount	
March 30, 2011 98th Annual Shareholders' Meeting	Common stock	¥1,387	Retained earnings

Year ended December 31, 2010			
Resolution	Type of shares	Yen	Effective date
		Per share	
March 30, 2011 98th Annual Shareholders' Meeting	Common stock	¥5.50	December 31, 2010 March 31, 2011

21. Commitments and Contingencies

Contingencies

At December 31, 2011 and 2010, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Guarantees of indebtedness.....	¥143	¥174	\$1,851
	¥143	¥174	\$1,851

Commitment line

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

At December 31, 2011 and 2010, the outstanding balance of the commitments was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Total committed line of credit.....	¥10,000	¥10,000	\$128,633
Executed amount.....	¥ —	¥ —	\$ —
Unexecuted amount.....	¥10,000	¥10,000	\$128,633

22. Business Combination

Transaction under common control

Execution of share exchange agreement

The Company and Aronkasei Co., Ltd. ("Aronkasei") passed a resolution to make Aronkasei a wholly-owned subsidiary of the Company through a share exchange at the boards of directors's meetings of both companies on February 10, 2011 and a share exchange agreement was subsequently entered into.

The Company became the wholly owning parent company in a share exchange with Aronkasei, and Aronkasei became a wholly-owned subsidiary. The Company implemented the share exchange without obtaining the approval at a shareholders' meeting using a simplified share exchange procedure under Article 796, paragraph 3 of the Companies Act. Aronkasei obtained approval of the share exchange agreement at its ordinary shareholders' meeting on March 25, 2011.

As the effective exchange date of the share exchange was July 1, 2011, the Company became the wholly owning parent company and Aronkasei was delisted on June 28, 2011.

1. Outline of business combination

(1) Name of companies and description of business

Name of wholly owning parent company: Toagosei Co., Ltd.

Description of business: Manufacturing and sales of commodity chemicals, acrylic products and specialty chemicals

Name of wholly-owned subsidiary: Aronkasei

Description of business: Process and sales of plastics

(2) Date of business combination

July 1, 2011

(3) Legal form of business combination

Share exchange

(4) Main reason and outline of business combination

The Company considers that the conversion of Aronkasei into a wholly-owned subsidiary would enable prompt management decision-making and efficient business operations. In addition, through sharing information with the Company in terms of research and technology development, sales development, manufacturing technology and management systems and closer cooperation with management resources, expansion of business and more efficient operations would be realized.

2. Outline of accounting treatment

It is accounted for as a transaction under common control based on "Accounting for business combinations."

3. Additional acquisition of shares of subsidiary

(1) Acquisition cost and details

Consideration of acquisition (The Company's common shares) ¥7,866 million (U.S.\$101,190 thousand)

Direct acquisition cost ¥59 million (U.S.\$762 thousand)

Total: ¥7,925 million (U.S.\$101,953 thousand)

(2) Share exchange ratio according to stock type, its computation basis and granted stocks

i. Share exchange ratio

Common shares of The Company 1: Aronkasei 1.25

ii. Computation basis

The valuation was conducted by Daiwa Securities Capital Markets Co., Ltd. on behalf of the Company and conducted by PricewaterhouseCoopers Co., Ltd. on behalf of Aronkasei as independent sources for determining the share exchange. Daiwa Securities Capital Markets Co., Ltd. provided a valuation for the Company and Aronkasei using stock market prices and discounted cash flow method and PricewaterhouseCoopers Co., Ltd. provided a valuation for the Company and Aronkasei using benchmark stock market prices and the discounted cash flow method. The share exchange ratio was determined based on the valuation reports from both parties.

iii. Exchanged shares

Common share 19,471,665 shares (treasury shares 19,471,665 shares)

(3) Amount of negative goodwill and reason

i. Amount of negative goodwill: ¥3,080 million (U.S.\$39,620 thousand)

ii. Reason: The Company recorded negative goodwill due to the difference between the additional acquisition cost of Aronkasei and the decreasing amount of minority interests

23. Segment Information

Business Segments

1. Outline of reportable segments

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

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

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

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

The accounting method applied to the reportable segments is the same as described in "Summary of Significant Accounting Policies."

Segment income of the reportable segments is based on operating income.

Intersegment sales or transfer amounts are determined on the basis of market prices.

Notes to Consolidated Financial Statements

Business segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2011 and 2010 was summarized as follows:

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

Year ended December 31, 2011	Reportable segments							Adjustments	Consolidated
	Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Total	Others	Total		
Thousands of U.S. dollars									
Sales:									
Sales to third parties.....	\$618,884	\$739,212	\$207,769	\$356,091	\$1,921,957	\$ 46,234	\$1,968,192	—	\$1,968,192
Intersegment sales.....	1,327	388	4,830	1,133	7,680	98,532	106,212	\$(106,212)	—
Net sales.....	620,212	739,600	212,600	357,225	1,929,637	144,766	2,074,404	(106,212)	1,968,192
Segment income (loss).....	57,699	109,191	38,120	18,158	223,169	31	223,201	(176)	223,025
Segment assets.....	\$480,986	\$621,392	\$201,588	\$460,091	\$1,764,058	\$ 30,494	\$1,794,553	\$ 405,680	\$2,200,233
Other items.....									
Depreciation.....	40,848	33,865	7,232	22,186	104,132	2,620	106,752	7,428	114,181
Amortization of goodwill.....	—	3,109	10	—	3,120	—	3,120	—	3,120
Investment in associates accounted for using equity method.....	9,136	—	1,323	—	10,459	—	10,459	—	10,459
Increase in tangible and intangible fixed assets.....	\$ 34,573	\$ 45,042	\$ 15,260	\$ 30,676	\$ 125,552	\$ 1,713	\$ 127,265	\$ 7,150	\$ 134,416

Year ended December 31, 2010	Reportable segments							Adjustments	Consolidated
	Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Total	Others	Total		
Millions of yen									
Sales:									
Sales to third parties.....	¥45,643	¥60,271	¥16,688	¥28,015	¥150,619	¥3,160	¥153,779	—	¥153,779
Intersegment sales.....	158	24	359	24	567	5,910	6,478	¥ (6,478)	—
Net sales.....	45,802	60,296	17,048	28,039	151,186	9,071	160,257	(6,478)	153,779
Segment income (loss).....	6,580	9,696	3,536	1,485	21,298	(48)	21,250	21	21,271
Segment assets.....	¥37,836	¥46,651	¥15,080	¥35,391	¥134,960	¥2,117	¥137,078	¥36,769	¥173,847
Other items.....									
Depreciation.....	3,101	2,346	535	1,704	7,688	205	7,894	629	8,524
Amortization of goodwill.....	—	323	—	—	323	—	323	—	323
Investment in associates accounted for using equity method.....	624	—	1,326	—	1,951	—	1,951	—	1,951
Increase in tangible and intangible fixed assets.....	¥ 3,149	¥ 5,161	¥ 447	¥ 1,429	¥ 10,187	¥ 121	¥ 10,309	¥ 246	¥ 10,555

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

2. Adjustments for the fiscal years ended December 31, 2011 and 2010 were as follows:

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

(2) The adjustments to segment assets include corporate assets of ¥48,424 million (US\$622,903 thousand) and ¥49,819 million for the years ended December 31, 2011 and 2010, respectively, that are not allocated to any reportable segment, respectively, and intersegment eliminations.

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

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

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

Related information

1. Information related to geographical information

(1) Net sales

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

Thousands of U.S. dollars				
Year ended December 31, 2011				
Japan	Asia	North America	Other	Total
\$1,647,685	\$265,690	\$28,889	\$25,927	\$1,968,192

(2) Information related to property, plant and equipment

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

2. Information on major customer

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

Impairment loss on property, plant and equipment by reportable segment

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

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

Thousands of U.S. dollars						
Year ended December 31, 2011						
Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Other	Adjustment	Total
\$6,125	\$—	\$—	\$—	\$—	\$—	\$6,125

Balance of goodwill by reportable segment

At December 31, 2011, the outstanding balance of goodwill by reportable segment was summarized as follows:

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

Thousands of U.S. dollars						
Year ended December 31, 2011						
Commodity Chemicals	Acrylic Products	Specialty Chemicals	Plastics	Other	Adjustment	Total
\$—	\$—	\$628	\$—	\$—	\$—	\$628

Gain on negative goodwill by reportable segment

In the Plastics segment, the Company accounted for gain on negative goodwill ¥3,080 million (U.S.\$39,620 thousand), as the Company made a consolidated subsidiary into a wholly-owned subsidiary through a share exchange.

Additional information

The Company has applied "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, issued on March 27, 2009) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008) from the fiscal year ended December 31, 2011.

24. Amounts per Share

The following table sets forth net income, cash dividends and net assets per share of common stock as of and for the years ended December 31, 2011 and 2010:

	Yen		U.S. dollars
	2011	2010	2011
Net income:			
Basic.....	¥ 51.00	¥ 52.05	\$0.66
Cash dividends.....	10.00	9.00	0.13
Net assets	469.62	437.17	6.04

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 as described in Note 2 (m).

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, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended December 31, 2011, 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, 2011 and 2010, 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.

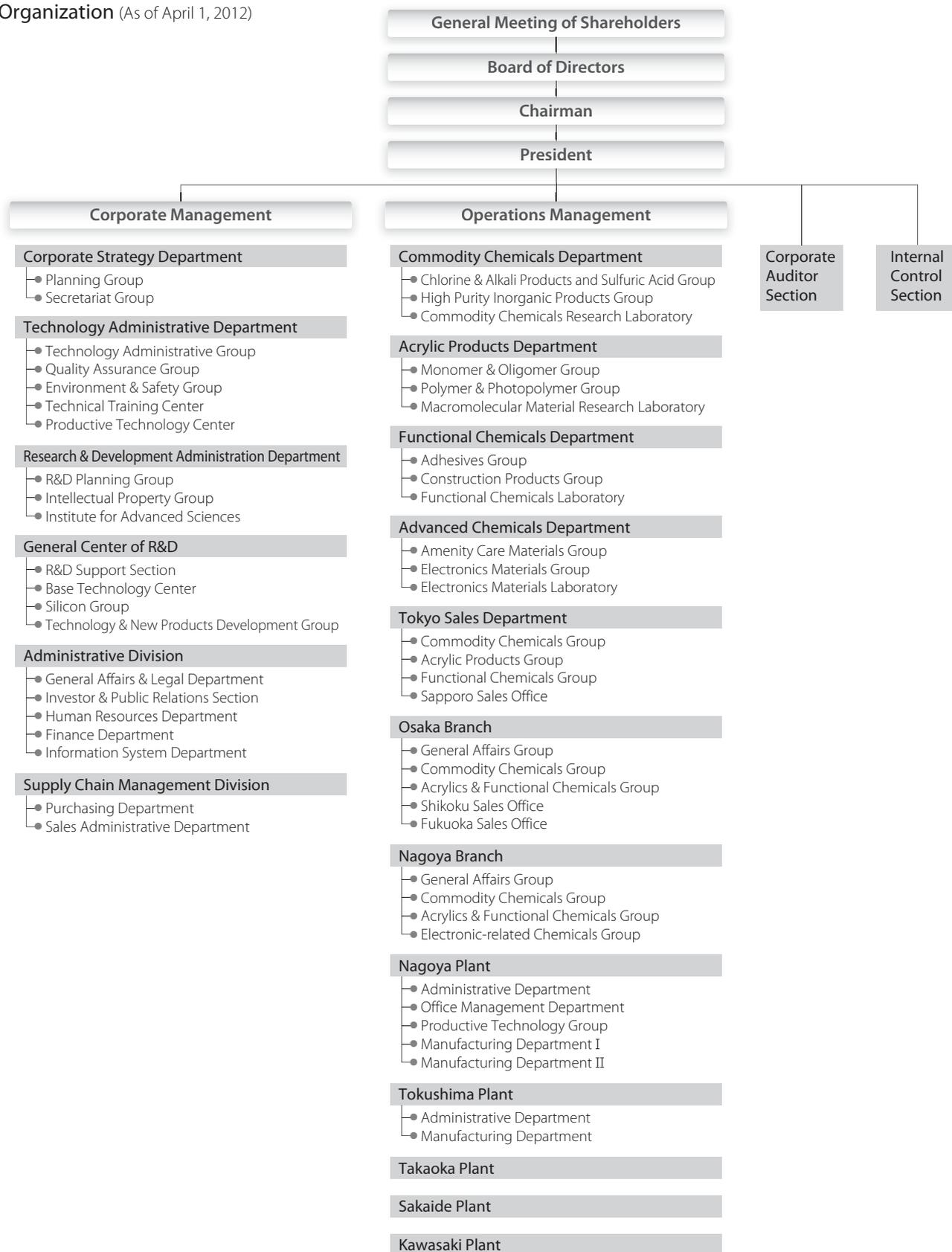
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young Shin Nihon LLC

March 27, 2012

Corporate Data

Organization (As of April 1, 2012)



Directory

Domestic Network		Principal Overseas Subsidiaries	
Head Office 1-14-1 Nishi-Shimbashi, Minato-ku, Tokyo 105-8419 Tel: 03-3597-7215 Fax: 03-3597-7217		Nagoya Plant 17-23 Showacho, Minato-ku, Nagoya 455-0026 Tel: 052-611-9804 Fax: 052-612-5733	
Osaka Branch Nakanoshima Mitsui Bldg. 11F, 3-3-3 Nakanoshima, Kita-ku, Osaka 530-0005 Tel: 06-6446-6551 Fax: 06-6446-6571		Tokushima Plant 575-1 Nakashima, Kawauchicho, Tokushima 771-0188 Tel: 088-665-2111 Fax: 088-665-6321	
Nagoya Branch Mitsui Life Nagoya Bldg. 6F, 1-4-6 Nishiki, Naka-ku, Nagoya 460-0003 Tel: 052-209-8591 Fax: 052-209-8671		Takaoka Plant 2-1-3 Fushiki, Takaoka, Toyama 933-0195 Tel: 0766-44-7401 Fax: 0766-44-7410	
Shikoku Sales Office 2-4-1 Showacho, Sakaide, Kagawa 762-0004 Tel: 0877-46-3300 Fax: 0877-46-3200		Sakaide Plant 2-4-1 Showacho, Sakaide, Kagawa 762-0004 Tel: 0877-46-3161 Fax: 0877-45-4727	
Fukuoka Sales Office 2-14-2 Tenjin, Chuo-ku, Fukuoka 810-0001 Tel: 092-721-1902 Fax: 092-721-1914		Kawasaki Plant 7-4 Ukishimacho, Kawasaki-ku, Kawasaki 210-0862 Tel: 044-277-2211 Fax: 044-277-1920	
		General Center of R&D 8 Showacho, Minato-ku, Nagoya 455-0026 Tel: 052-611-9901 Fax: 052-611-1693	
		Institute for Advanced Sciences 2 Okubo, Tsukuba, Ibaraki 300-2611 Tel: 029-865-2600 Fax: 029-865-2610	
		Toagosei Hong Kong Limited Room 607-9, 6/F., No.1 Hung To Road, Kwun Tong, Kowloon, Hong Kong Tel: 852-2763-1086 Fax: 852-2763-1798	
		Taiwan Toagosei Co., Ltd. 10F-1, No.189, Keelung Rd., Sec2, Taipei, 11054 Taiwan, R.O.C. Tel: 886-2-8732-3677 Fax: 886-2-2378-9036	
		Toagosei America Inc. 1450 West Main St., West Jefferson, Ohio 43162, U.S.A. Tel: 1-614-718-3855 Fax: 1-614-718-3866	
		Toagosei Singapore Pte Ltd. 460 Alexandra Road PSA Building #22-04 Singapore, 119963 Tel: 65-6273-0800 Fax: 65-6273-0500	
		TOA-DIC Zhangjiagang Chemical Co., Ltd. 66 Chanjiang Road, Jiangsu Yangtze River, International, Chemical Industrial Park, Zhangjiagang, Jiangsu Province, 215635 China Tel: 86-512-5893-7320 Fax: 86-512-5893-7321	
		Toagosei (Zhuhai) Limited 1,2,3/F., No.2, Factory Bldg., Xiangzhou Ind. Park of Science & Technology, 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, 2011)

Name of Company	Lines of Business	Our Share (%)	Capital (¥ in millions)
Aronkasei Co., Ltd.	Manufacture & sale of synthetic resin molded products	100.0	¥4,220
Tsurumi Soda Co., Ltd.	Manufacture of chemical products	100.0	¥480
Aron Ever-Grip Ltd.	Manufacture 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 & packaging of adhesives	100.0	¥10
Toagosei Singapore Pte Ltd.	Manufacture & sale of chemical products	100.0	S\$60,571,000
Hokuriku Toa Logistics Co., Ltd.	Product distribution	90.0	¥10
Shikoku Toa Logistics Co., Ltd.	Product distribution	70.0	¥10
TOA-DIC Zhangjiagang Chemical Co., Ltd.	Manufacture & sale of chemical products	60.0	US\$5,600,000
Toagosei Hong Kong Limited	Sale of chemical products	100.0	HK\$10,988,000
Toagosei (Zhuhai) Limited	Manufacture & sale of adhesives	100.0	HK\$9,188,000
MT AquaPolymer, Inc.	Manufacture & sale of chemical products	51.0	¥460
Mikuni Plastics Co., Ltd.	Manufacture & sale of synthetic resin molded products	100.0	¥315
MT Ethylene Carbonate Co., Ltd.	Manufacture of chemical products	90.0	¥480
Chubu Liquid Oxygen Co., Ltd. (Note)	Manufacture of industrial gases	30.0	¥480
Elmer's & Toagosei Co. (Note)	Sale of adhesives	50.0	US\$31,392,000

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: 24,567

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

Transfer Agent for Common Stock

Sumitomo Mitsui Trust Bank, Limited

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

Certified Accountants

Ernst & Young ShinNihon LLC

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

Major Shareholders

	(%)
Japan Trustee Services Bank, Ltd. (Trust account)	5.32
Sumitomo Mitsui Banking Corp.	4.41
The Master Trust Bank of Japan, Ltd. (Trust account)	3.70
Business Partner Shareholders' Committee	2.69
Employee Shareholders' Committee	2.39
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2.14
Aioi Nissay Dowa Insurance Co., Ltd.	1.90
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	1.59
The Norinchukin Bank	1.50
Mellon Bank, N.A. As Agent For Its Client Mellon Omnibus US Pension	1.47

(As of December 31, 2011)

Stock Price Range & Trading Volume

(Tokyo Stock Exchange)





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