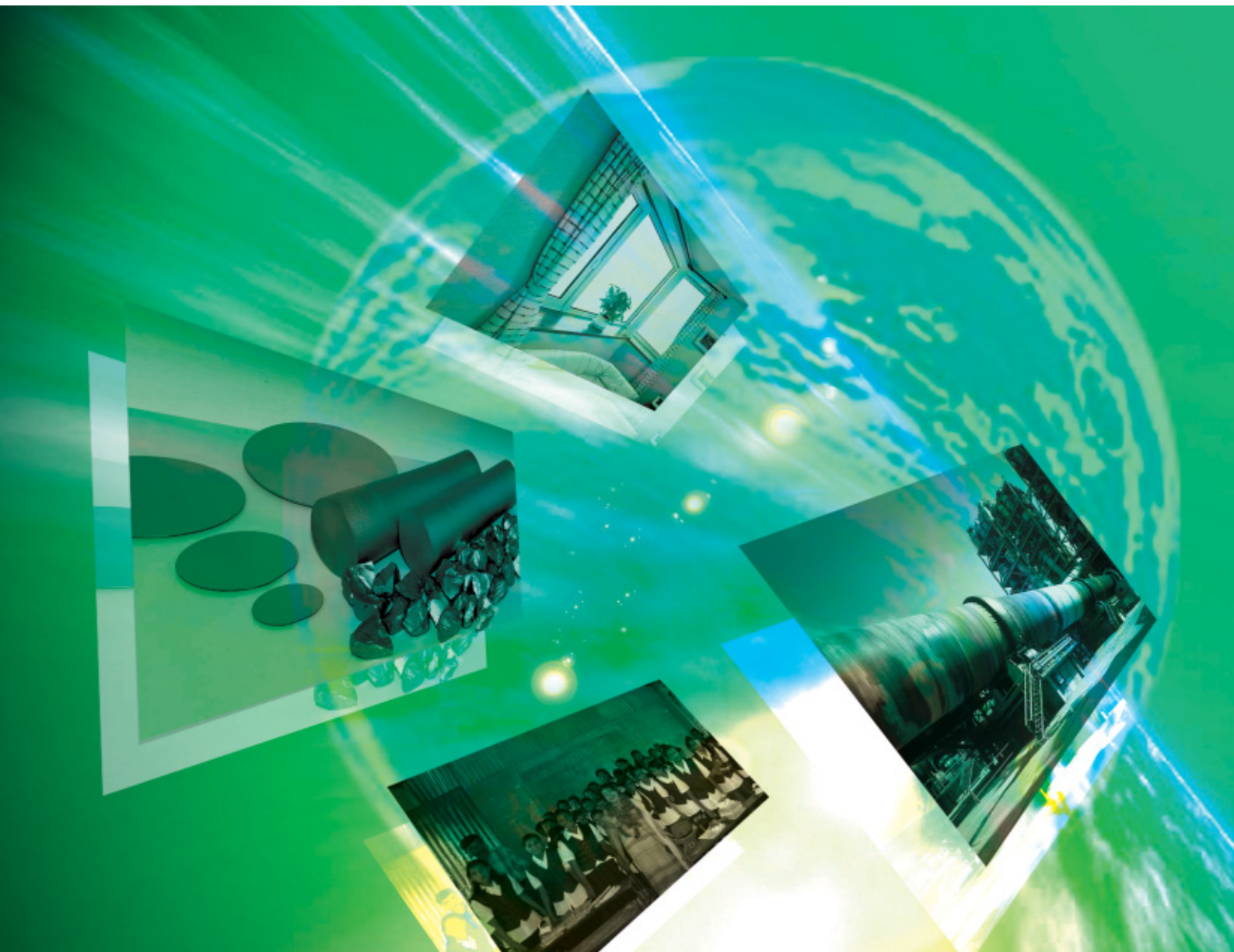


Tokuyama CSR Report 2007

In Harmony with People, Society, and the Environment



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Editorial Notes

- CSR Report 2007 was prepared with the aim of bringing Tokuyama's activities concerning Corporate Social Responsibility during fiscal 2006 to the attention of all concerned, including shareholders, investors, trading partners, employees and their families, people living near our production sites, and the public at large. This CSR Report 2007 contains even more information on our social contributions than our Responsible Care Report 2006.
- CSR Report 2007 is prepared based on the Environmental Reporting Guidelines (Fiscal 2003 Edition; Ministry of the Environment).
- CSR Report 2007 is also available on our website. <http://www.tokuyama.co.jp>

Scope of Report

- Period:** All performance data is for fiscal 2006 (from April 2006 to March 2007). Activities are for fiscal 2006 in general, with some for fiscal 2007.
- Companies:** Tokuyama Corporation (environmental performance data represents the total for Tokuyama Factory and Kashima Factory). Certain performance data representing the total for our eleven main production subsidiaries (see page 29) is also included.
- Region:** Activities in Japan

Date of issue: October, 2007
(Next issue: Scheduled for September 2008)

TOP MESSAGE



Shigeaki Nakahara
President

A handwritten signature in black ink that reads "S. Nakahara".

Tokuyama Group aims at becoming a “group that is consistently relied upon by customers” by promoting business operations in harmony with people, society, and the environment.

Based on Responsible Care (RC) Activities

Tokuyama Group's basic management policy is to realize a group that is highly evaluated by stakeholders, including shareholders, customers, employees, and local communities, and which is consistently the first choice of its customers. We intend to achieve this aim by improving our corporate value and by promoting business operations in harmony with people, society, and the environment.

By acting on the principle of Responsible Care (RC), as followed by chemical industries around the world, Tokuyama joined the Japan Responsible Care Council (JRCC) when it was founded in 1995. Since then, we have been conducting voluntary activities for more than a decade to protect people's health and the environment and to maintain safety throughout the entire life cycle of chemical products, from manufacturing, logistics, and use, to final consumption and disposal.

Positioning Environmental Management as the Core of Growth Strategies

We have positioned environmental management as one of our core strategies, and included the theme of “Environment and Energy” as one of the important growth strategies in our medium-term business plan. Environmental management is a business philosophy that places a priority on the environment. We aim at enhancing corporate value and achieving a sustainable society by transforming all our business activities into environmentally friendly ones.

In particular, we have concentrated our energy on recycling waste and by-products by utilizing our expertise in the manufacture of chemical products and cement. In fiscal 2006, we received waste and by-products totaling 1.9 million tons from the outside to manufacture cement. We are proud of the fact that Tokuyama Group is

contributing to the “creation of an environmentally friendly country” through the development of various eco-friendly products and environmental technologies.

Accelerating Corporate Social Responsibility (CSR) Activities

Based on the understanding of the importance of CSR activities, Tokuyama Group is enhancing efforts in environmental protection, energy saving, process safety, compliance, and social contributions.

In May 2006, we began activities to establish an internal control system to ensure that business operations are properly undertaken. Tokuyama Group named these activities as “Sunflower Activities,” through which we aim at becoming a group of companies that always fulfills its social responsibilities as a corporate citizen. Through these “Sunflower Activities,” we are establishing a system to ensure that business operations are conducted legally, effectively, and efficiently and are strengthening risk management. Corporate Social Responsibility Division, established in April 2007, will play a leading role in all our “Sunflower Activities.”

Nowadays, all enterprises have to be fully responsible for the impact that their business activities has on society and on the environment, and to improve their corporate value through responsible action. Tokuyama, as a chemical manufacturer boasting advanced technological expertise, will ensure that it realizes these requirements.

We sincerely hope that readers will be able to gain a deeper understanding of our activities and give us their frank opinions and comments.

July 2007

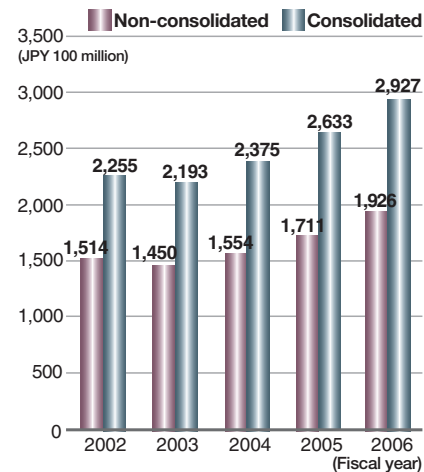
Summary of Business

◆ Company Outline

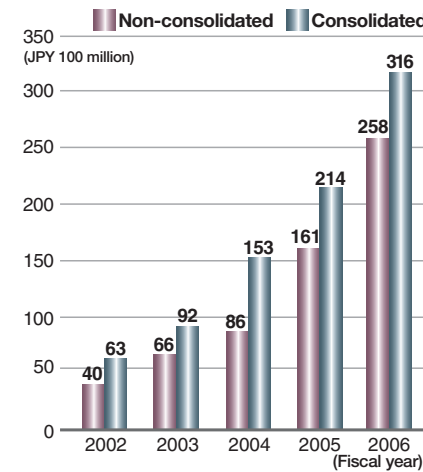
Corporate name: Tokuyama Corporation
Established: February 16, 1918
Capital: JPY 29,975 million (as of March 31, 2007)
Registered address: 1-1, Mikage-cho, Shunan City, Yamaguchi Prefecture
Headquarters: Shibuya Konno Bldg. 3-1, Shibuya 3-chome, Shibuya-ku, Tokyo 150-8383, Japan
Branches and offices: Sendai, Nagoya, Osaka, Takamatsu, Hiroshima and Fukuoka
Production and Research Sites: Tokuyama Factory, Kashima Factory, Tsukuba Research Laboratory

Group companies
 Shin Dai-ichi Vinyl Corporation/Sun Tox Co., Ltd./
 Shanon Corporation/Tokuyama Logistics Corporation/A&T Corporation/Shunan System Sangyo Co., Ltd./Tokuyama Mtech Corporation/Tokuyama Dental Corporation/Figaro Engineering Inc./Tokuyama Siam Silica Co., Ltd. and 84 other companies

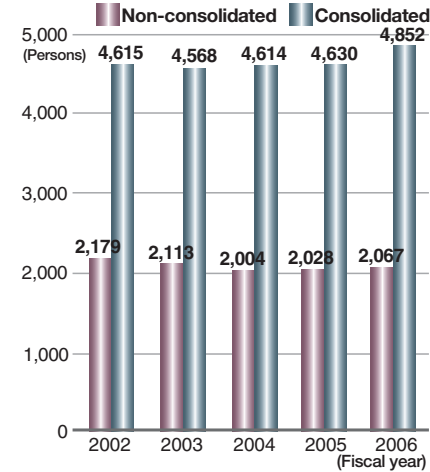
● Sales



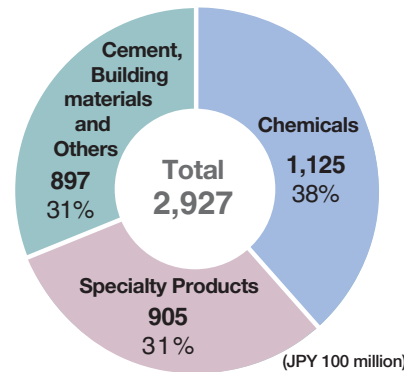
● Ordinary Income



● Number of Employees



● Segmental Sales Breakdown



● Business Segments and Main Products (including group companies)

Segment	Main Products
Chemicals	Caustic soda, soda ash, calcium chloride, sodium silicate, vinyl chloride monomer, polyvinyl chloride resin, propylene oxide, isopropyl alcohol, methylene chloride, biaxial-oriented polypropylene films, coextrusion multilayer film, cast polypropylene films, microporous films
Specialty products	Polycrystalline silicon, precipitated silica, fumed silica, aluminum nitride, dental materials/equipment, pharmaceutical and agricultural chemical bulks, plastic lens materials, ion-exchange membranes/systems, solvents for washing metals, high purity chemicals for electronics manufacturing, clinical equipment/systems, gas sensors, gas-leak alarms
Cement, Building materials, and Others	Ordinary Portland cement, high-early-strength Portland cement, Portland blast furnace slag cement, ready-mixed concrete, plastic window sashes, cement type stabilizer, waste treatment

◆ Tokuyama's Global Network

(Asia)

Hantok Chemicals Co., Ltd. [Korea]
 Tianjin Figaro Electronic Co., Ltd. [China]
 Tokuyama Trading (Shanghai) Co., Ltd. [China]
 Shanghai Tokuyama Plastics Co., Ltd. [China]
 Tokuyama Chemicals (Zhejiang) Co., Ltd. [China]
 Tokuyama Electronic Materials (Suzhou) Co., Ltd. [China]
 Taiwan Tokuyama Corporation [Taiwan]
 Southern Cross Cement Corporation [Philippines]
 Tokuyama Siam Silica Co., Ltd. [Thailand]
 Tokuyama Electronic Chemicals Pte. Ltd. [Singapore]
 Tokuyama Asia Pacific Pte. Ltd. [Singapore]

(Europe)

Tokuyama Europe GmbH [Germany]
 Eurodia Industrie S.A. [France]

(North America)

Tokuyama America Inc. [USA]
 Figaro USA, Inc. [USA]

Tokuyama's Products Used in Daily Lives

Tokuyama, as an expert in many types of chemicals, has developed revolutionary technologies. We meet the sophisticated needs of various industries and supply quality products that make our daily lives more comfortable by accumulating and integrating these technologies.

Cement Cement used in constructing bridges and dams, and ready-mixed concrete

Polypropylene films (Sun Tox) Food packaging for sandwiches and rice balls sold at convenience stores

Pharmaceutical and agricultural chemical bulks Pharmaceutical bulks and intermediates, and agricultural chemical bulks

Soda ash Raw materials for window glass, glass bottles, glass tableware, and detergents

Dental materials/equipment (Tokuyama Dental) Resin composite filling material, and ceramics for tooth crowns

Clinical analyzers/systems (A&T) Clinical information systems, laboratory automation systems, etc.

Polycrystalline silicon Key material for solar cells, solar panels, semiconductor substrates (IC chips), etc.

Vinyl chloride resin (Shin Dai-ichi Vinyl Corporation) Medical equipment such as IV bags, sewerage pipes, cable coatings, etc.

Plastic lens materials Plastic lenses for glasses and sun glasses, and hard coating liquid

Aluminum nitride Used for state-of-the-art devices, including car navigation systems, PCs, and optical communications

Plastic window sashes (Shanon) High performance sashes featuring airtightness, sound insulation, and condensation prevention

Microporous films Backing sheets for disposable diapers, and packaging for disposable pocket warmers

Precipitated silica Bulking agent for tires

Integrated Manufacturing Site Utilizing Resources to the Fullest Extent — Tokuyama Factory

Featuring highly integrated manufacturing processes, the factory is Tokuyama's largest manufacturing site, with one of the largest private power generation plants in Japan. Tokuyama Factory has realized a highly efficient manufacturing system, and achieved a zero emission rate of almost 100%. The factory is making every effort to realize a sustainable society, for example, through its cement production business in which waste from the outside is accepted as a raw material.



Ceaseless Efforts for "Greater Integration"

Excellent Infrastructure Supporting Our Largest Manufacturing Site

Tokuyama Factory is located in the Shunan Industrial Complex, situated in the south-eastern part of Yamaguchi Prefecture facing the Seto Inland Sea. This factory, which is one of the largest factories in Japan in terms of area (1.65 million m²), is Tokuyama's core manufacturing site. Tokuyama Factory consists of Tokuyama Plant (mainly manufacturing inorganic chemicals), Nanyo Plant (producing cement), and Higashi Plant (manufacturing polycrystalline silicon and organic chemicals.) These three plants are interconnected via our private undersea tunnel and a bridge. Tokuyama Factory features an excellent port infrastructure, including 22 private berths (water depth: max. 12 m) and one public pier (water depth: 14 m).

Revolutionary Integration

Since the commencement of operations in 1918, efforts have been made to develop Tokuyama Factory into a completely integrated factory where various business operations are firmly connected with each other in terms of energy, materials, and technologies. In this highly integrated infrastructure, an organic and inorganic chemicals manufacturing plant, a cement production plant, and an electronic materials manufacturing plant are all working side-by-side, and their raw materials, products, by-products, waste, and utilities are being effectively utilized.

Exhaustive efforts are being made to recycle the by-products and waste generated inside the factory. Tokuyama Factory achieved an excellent waste recycling rate of 94.4% and a zero emission rate of 99.9% in fiscal 2006.

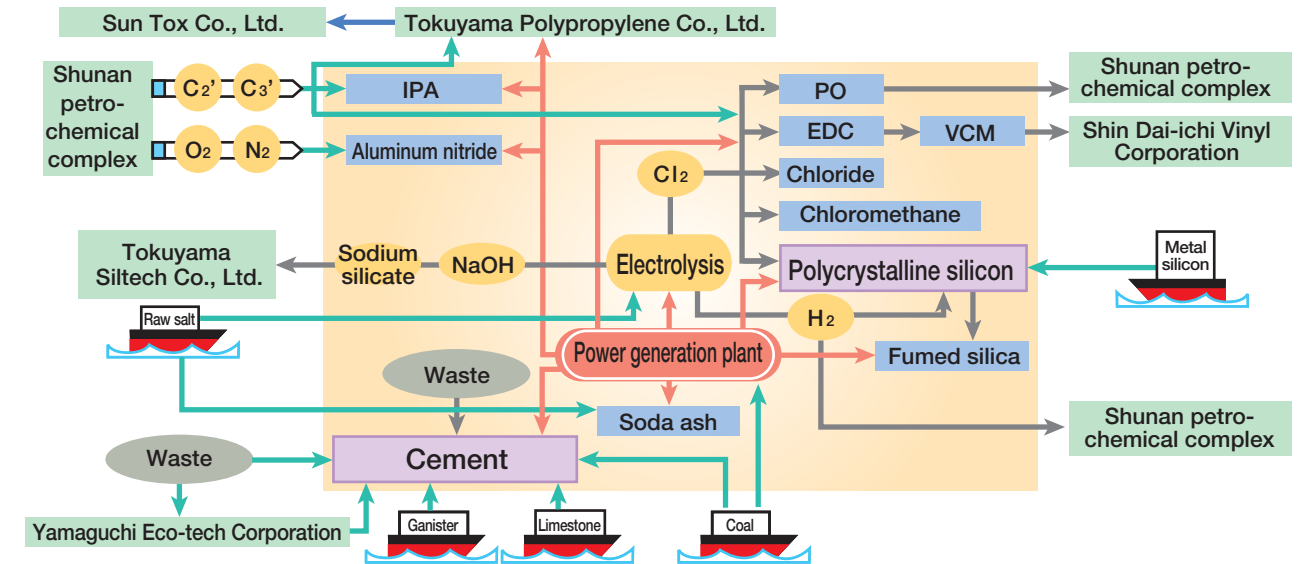
Highly Efficient Energy System Enabled by In-House Power Generation

Our private power generation plant—which has one of the largest generating capacities in Japan at 552,000 kW—plays a core role in the integrated operation of Tokuyama Factory. Power and steam generated here are supplied to various plants, including the chloralkali plant, via power transmission lines and piping. Tokuyama Factory realizes high energy efficiency by effectively utilizing not only electricity, but also steam.



Private power generation plant with one of the largest generating capacities in Japan

Integrated Operations at Tokuyama Factory



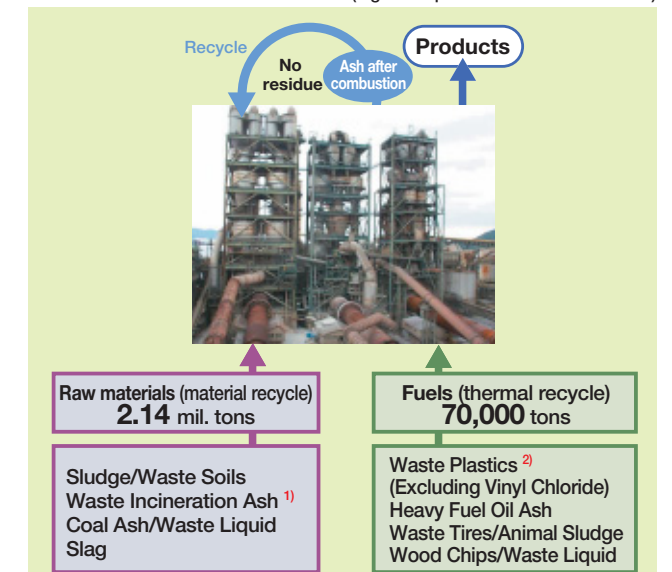
Recycling Outside Waste — Active Receipt of Outside Waste

The cement plant also plays a core role in the integrated operations of Tokuyama Factory. The plant effectively utilizes by-products from the soda ash plant and coal ash from the power generation plant as raw materials for making cement. The plant also accepts and recycles a large quantity of waste and by-products from the outside. Most waste and by-products contain the same elements as those contained in limestone, clay, silica, etc. that are used as raw materials for cement. Flammable waste can be used as an alternative fuel for coal. The internal temperature of the cement kiln* reaches as high as 1,000–1,800°C, high enough to allow complete combustion of any flammable materials. Another feature is that the ash remaining after combustion is also used as a constituent of cement, thereby leaving no incineration residue.

We have made R&D efforts aimed at increasing the quantity of outside waste and by-products that we could process. In fiscal 2006, in cooperation with the Japan Fiber Reinforced Cement Sidings Manufacturers Association we succeeded in developing a method to utilize acute-angled waste* without the need for pre-treatment for the first time in Japan (and began to accept acute-angled waste in April 2007.) The waste and by-products reutilized in our cement plant in fiscal 2006 amounted to 2.21 million tons, including 300,000 tons of waste from inside the company. To contribute to the creation of a recycling-oriented society, Tokuyama Factory constantly strives to transform itself into a more sophisticated production site.

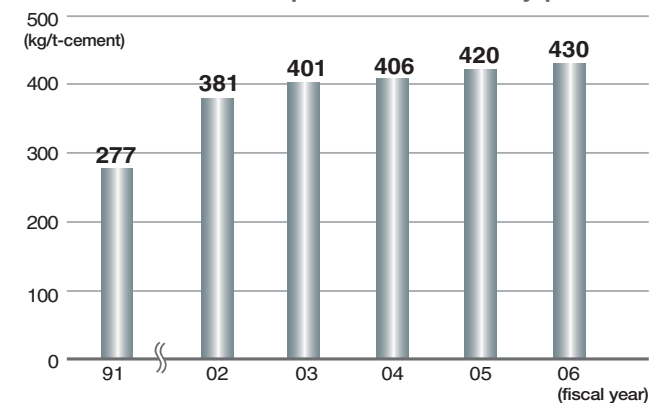
Flow Diagram of the Waste and By-products Recycling Process in Cement Manufacturing

(Figures represent those of fiscal 2006)

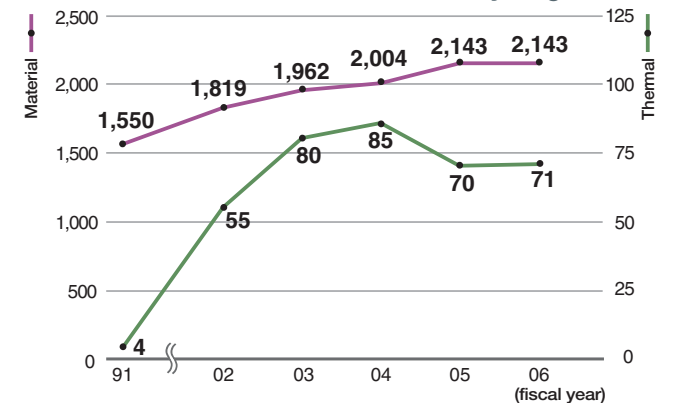


1) We recycle incineration ash generated from municipal waste incineration facilities in Yamaguchi Prefecture after the ash is pre-treated by Yamaguchi Eco-tech, a joint venture between Tokuyama and Ube Industries, Ltd.
2) We have developed a technology to inject quantities of crushed waste plastics into the top of the cement kiln in a stable manner. In response to increased requirements for this process, we have expanded our capacity to receive, crush, and incinerate such waste each year.

Trend of unit consumption of waste and by-products



Volume of Material and Thermal Recycling (1,000 tons)



* A cement kiln is a rotating furnace used to sinter the raw materials in the cement plant.
* Acute-angled waste means waste that becomes acute-angled when crushed, such as cement siding boards.

Tokuyama's CSR Activities

All officers and employees of Tokuyama practice CSR activities with a desire to make Tokuyama a company that can always fulfill its social responsibilities as a corporate citizen.

What are Tokuyama's CSR Activities?

Corporate Social Responsibility Division was established in April 2007. All divisions of Tokuyama are engaged in CSR activities to improve corporate value and conduct business operations in harmony with people, society, and the environment, and make Tokuyama a company that is consistently relied on by its customers.

Concept of CSR

Since 1995, Tokuyama Group has been steadily conducting Responsible Care (RC) activities to fully perform the social responsibilities of a corporate citizen and to win the confidence of our society. Based on the results of our RC activities, we have enhanced our CSR activities.

Our three-year business plan, which commenced in fiscal 2005, places a priority on the enhancement of environmental management, process safety, and energy saving as measures to prevent global warming, together with a focus on compliance. In May 2006, we began efforts to establish an internal control system.

In April 2007, we established Corporate Social Responsibility Division to further strengthen our CSR activities.

In accordance with the "Tokuyama Code of Behavior," we will establish favorable relations with all types of stakeholders, and make an effort to realize a Tokuyama Group that will be consistently relied on by customers and that can conduct its business operations in harmony with people, society, and the environment.

Responsible Care (RC) Activities

Responsible Care (RC) is a self-management activity by a company that either manufactures or handles chemical substances, to implement and improve measures for protecting the "Environment, Safety and Health" of society and staff throughout the chemical substance handling process—from inception in the research and development through manufacture, distribution and use, to final consumption and disposal. These activities also includes

public disclosure of company performance and social dialogue.

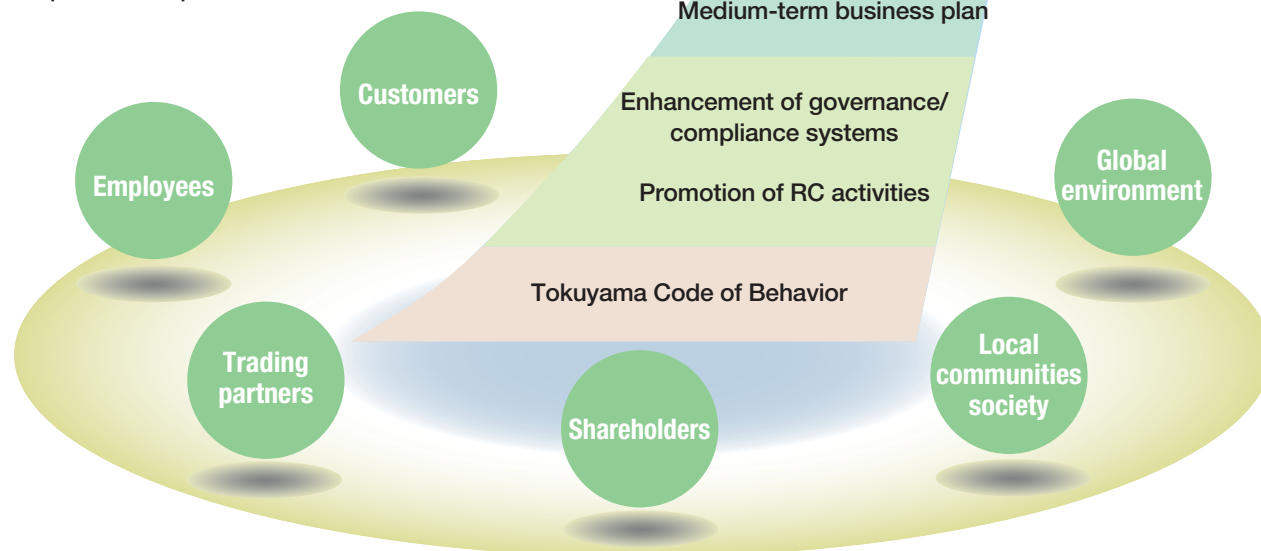
Born in Canada in 1985, Responsible Care has spread to 52 countries. The Japan Responsible Care Council (JRCC) was established in 1995 within the Japan Chemical Industry Association and has 103 companies registered as of April 2007.

We became a member of JRCC when it was founded. Since then, we have been energetically continuing RC activities as the bases of environmental management and CSR activities.

● Tokuyama's CSR Activities

Harmony with people, society, and the environment

Improvement of corporate value



Tokuyama Code of Behavior

1 Fair Business Operations

We will compete with rival companies in a fair, transparent and liberal manner. We will maintain sound and normal relationships with politicians and administrative organizations.

2 Compliance

We will comply with laws, regulations and rules. We will never succumb to antisocial groups that will threaten the order or security of civil society.

3 Responsible Care

- We will develop and manufacture socially useful products by paying attention to their safety and provide them to society in order to secure the confidence of our consumers and customers.
- We will be voluntarily and actively engaged in activities to help conserve the environment from broad viewpoints of the global environment, resource recycling, etc.

4 Communications

We will enhance communications with various stakeholders in society, including our shareholders, through proactive and fair disclosure of information.

5 Social Contributions

- As a "good corporate citizen," we will conduct social contributions in a positive manner.
- We will respect local cultures and customs in foreign countries and promote business operations that may contribute to the development of local communities.

6 Corporate Culture

We will make an effort to secure a safe, less inhibited and comfortable work environment in which our employees can realize spiritual and physical affluence and the personality and individuality of each employee are respected.

7 Roles of Top Management

Top management must understand that their role is to comply with the philosophy of this charter, take the initiative, make an effort to improve the internal system to collect internal and external opinions and ensure the strict observance of corporate ethics.

If a situation infringing any of the provisions of this charter takes place, top management must immediately disclose information to society in a proper manner and perform accountability. In this case, top management must investigate the causes of such a situation and take countermeasure to avoid repetition, as well as take disciplinary actions against persons involved, including themselves, after having identified responsible persons.

Basic Philosophy of Responsible Care

Basic Policy

As a member of the Japan Responsible Care Council, Tokuyama Corporation carries out Responsible Care activities that protect the environment and preserve safety and health throughout the entire chemical substance life cycle, from development and manufacturing, to distribution, use, final consumption and disposal.

Our social mission is to aggressively tackle and solve environmental issues in particular, which, in turn, will lead to sustainable corporate and social development. Based on this recognition, we are promoting "Environmental Management," a management policy that emphasizes the environment, in all of our business activities, including development, manufacturing and sales.

Action Objectives

1 Promote environmental protection.

- Implement ISO14001 based Environmental Management System and reduce environmental loads.

2 Observe laws and regulations.

- Observe international rules, local laws and regulations and industrial standards.
- Thoroughly practice internal export control rules.

3 Promote energy conservation and curb global warming.

- Achieve the lowest unit energy consumption in the industry for each of our products.

4 Promote resource recycling and work towards the reduction and proper management of waste materials.

- Promote material recycling and thermal recycling of resources.
- Work towards the paperless office.

5 Promote process safety, disaster prevention and occupational health and safety.

- Aim for zero accidents and disasters based on principles of safety self-management and self-responsibility.
- Secure comfortable work environment and protect people's safety and health.

6 Ensure strict product safety standards.

- Offer environmentally-oriented products that can be safely used.
- Provide clear information on how to use the product and what care to take.

7 Deepen trusting relationships with the society.

- Publicly disclose information on Company's activities concerning environmental protection, process safety, occupational health and safety and chemical product safety.
- Actively pursue dialogue with local communities.

Objective of CSR Activities – Reliable Company

As part of corporate social responsibility (CSR), our basic management policy places a priority on compliance. In fiscal 2006, we expanded the scope of users of the helpline to enhance the compliance system.

Improvement of the Compliance System

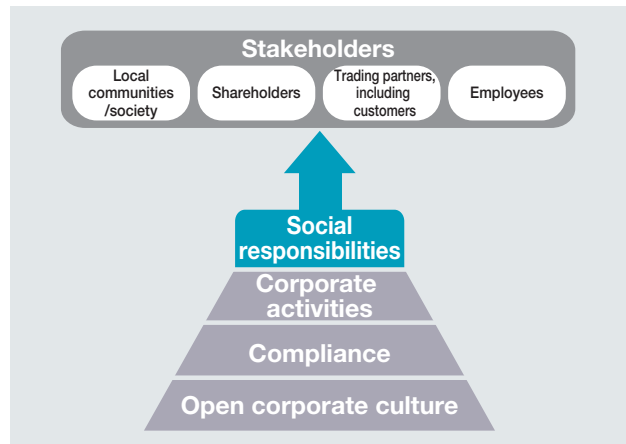
Basic Concept

As part of CSR activities, we continue efforts to establish an internal control system. Since compliance is a core element of our internal control system, we believe that it is indispensable in making our CSR activities and the internal control system truly effective.

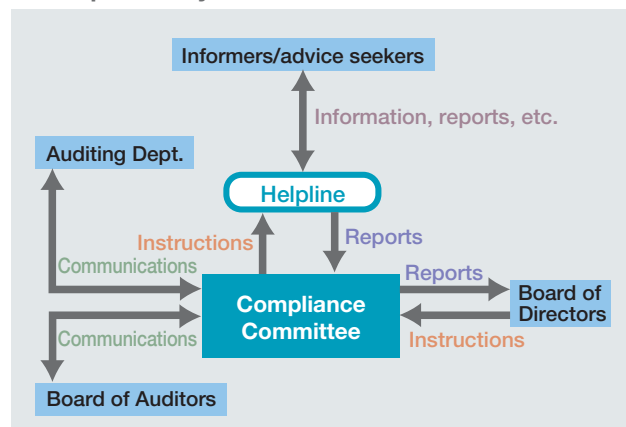
Promotion of Compliance

In July 2003, we revised the “Tokuyama Code of Behavior” (see page 8). Then, in March 2004, we established the “Tokuyama Behavioral Guidelines,” and distributed copies to all employees. With the aim of raising awareness of the importance of compliance, all employees are required to carry a card showing “Tokuyama’s Five Conscience Clauses,” as specified in the “Tokuyama Behavioral Guidelines.”

● Tokuyama’s Compliance Vision



● Compliance System



Compliance Promotion System

The Compliance Committee, headed by the President, has determined the basic concept and company-wide compliance policies, the overall compliance system, and its organization. The secretariat of the Compliance Committee leads our compliance promotion activities.

Creation and Enhancement of the Helpline

As one of our efforts to improve the compliance system, we established a helpline (consultation desk) in October 2003 to respond to reports or requests for consultation made by officers and employees of the Tokuyama Group.

In fiscal 2006, we expanded the scope of users of this helpline so that it may also respond to reports or requests for consultation made by trading partners. In fiscal 2007, the scope of users of the helpline has been further expanded to include the family members of our employees.

In addition to the conventional helpline, we also established an external consultation desk to further enhance our support system.

Tokuyama’s Five Conscience Clauses

- 1 Do my actions comply with laws, regulations, and the internal rules?
- 2 Do my actions comply with the “Tokuyama Code of Behavior” and the “Tokuyama Behavioral Guidelines?”
- 3 What will customers or trading partners think of my actions?
- 4 What will general consumers in society think of my actions?
- 5 Can I talk proudly to my family or colleagues about my actions?

“Tokuyama’s Five Conscience Clauses” printed on the back of the ID cards carried by all employees

Progress of Establishment of the Internal Control System

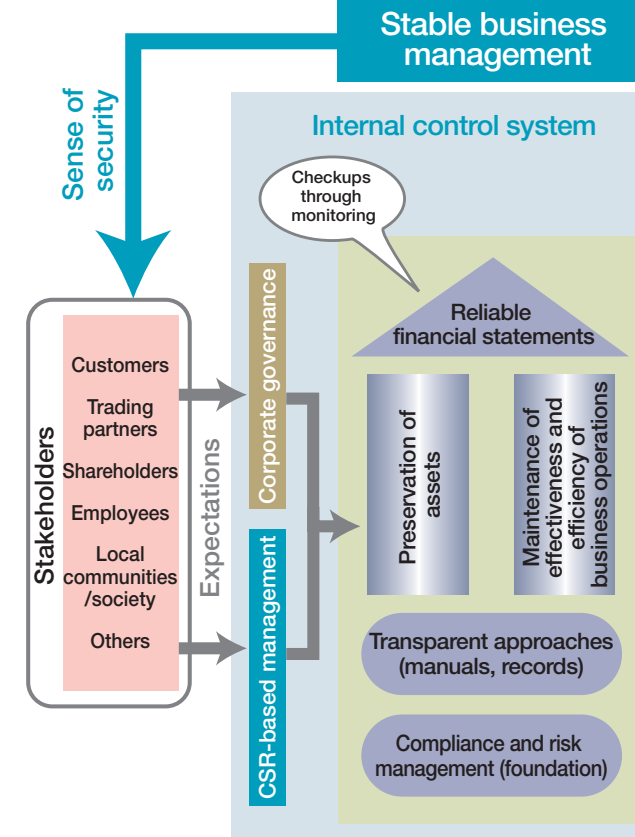
On May 8, 2006, the Board of Directors made a resolution on a “basic policy for the establishment of an internal control system.” Since then, efforts to establish a “system to ensure that business operations are properly undertaken” have been made. On May 7, 2007, the Board of Directors made a resolution on the “Fiscal 2007 Basic Policy for Establishment of the Internal Control System” based on the progress made over the past year.

Tokuyama Group formed a committee, headed by the President, in charge of the promotion of activities to establish and implement our internal control system. This committee has been given the nickname of the “Sunflower Committee.” This nickname was selected from among many proposals made by employees of group companies,

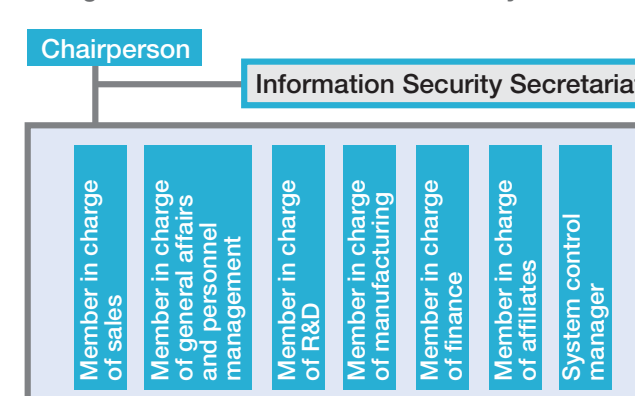
and represents Tokuyama Group’s commitment that all officers and employees will always carry out their business operations “in the full light of the sun.”

Tokuyama Group’s internal control system enables sound business operations that can meet the expectations of all kinds of stakeholders, through transparent approaches and monitoring, based on compliance and risk management. The objectives of our internal control system are to preserve corporate assets, maintain the effectiveness and efficiency of business operations, and prepare reliable financial statements, and to make Tokuyama a company that is relied upon by all its various stakeholders.

● Internal Control System



● Organization of the Information Security Committee



Maintenance and Improvement of Information Security

Promotion of Integrated Security Measures for Information Assets

Tokuyama is promoting activities to ensure that all group companies can effectively utilize our information assets, which are referred to as our “fourth management resource,” and that such information assets will never be used in an inappropriate manner nor be leaked. These activities are led by members of the Information Security Committee.

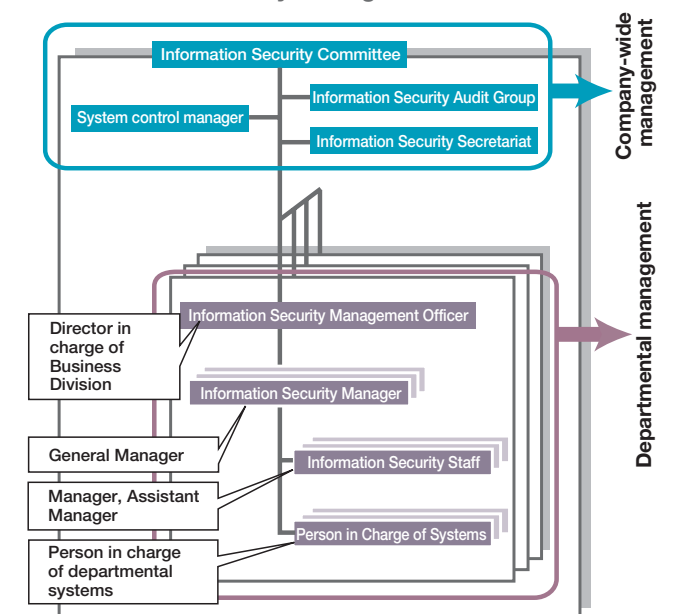
In January 2001, top management made a “Declaration on Implementation of Information Security Measures,” with the aim of enhancing our information infrastructure as the basis of corporate business reforms. Since then, we have undertaken activities to establish an effective information security system, and the Information Security Committee was formed. This Committee has established integrated security measures for information assets, and named these measures as our “Information Security Policies.” We are making efforts to strengthen awareness of the importance of information security among employees by periodically inspecting how each division follows security measures concerning information assets based on the “Information Security Policies,” and promoting active utilization of information assets.

With the purpose of improving the value of Tokuyama Group as a whole, Tokuyama encourages all group companies to adopt regulations, etc. that are the same as, or similar to, those of Tokuyama Corporation, depending on their actual conditions.

Personal Information Protection Promotion System

Simultaneously with the enactment of the Personal Information Protection Law in April 2005, we publicized our “Personal Information Protection Policy” on our website, and established a “Personal Information Protection Promotion System.” Then, we created an inquiry desk that responds to internal and external inquiries. All officers and employees are required to participate in an awareness building program, including an education program using the intranet, to ensure that they always conduct business operations based on an awareness of the importance of personal information. In addition, we periodically conduct monitoring, audits, and so forth.

● Information Security Management Structure



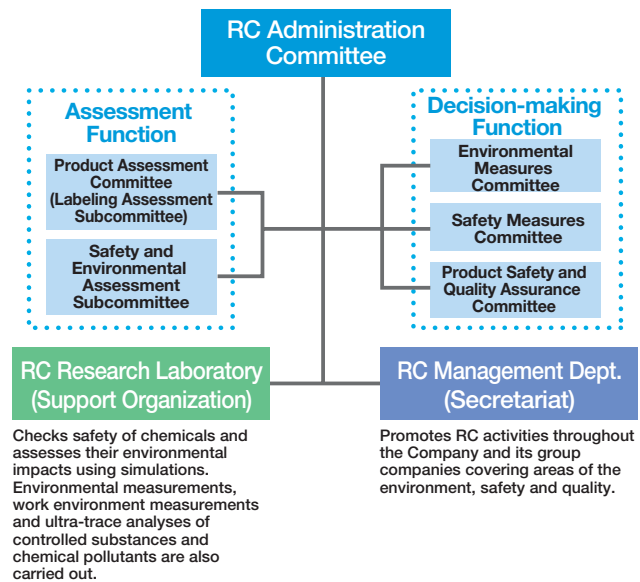
RC Promotion and Management Systems Operation

At Tokuyama, Responsible Care (RC) activities account for most of our CSR activities. To continuously improve environmental protection activities, process safety, and product safety and quality, we have established a company-wide promotion system and are steadily implementing each of these management systems.

RC Promotion System

Our RC Administration Committee, which draws up the highest-level policies on our RC activities, is chaired by the President and comprises board members. The committee discusses and approves company-wide RC policies and other environment, safety and quality-related measures. Under this committee are various subordinate organizations: the Environmental Measures Committee, the Safety Measures Committee, the Products Safety and Quality Assurance Committee and the Product Assessment Committee. These subordinate organizations are responsible for discussing specific action plans and assessing product safety. Each subcommittee is chaired by a director responsible for company-wide issues concerning the environment, safety, or quality. Heads of related company departments are appointed as subcommittee members.

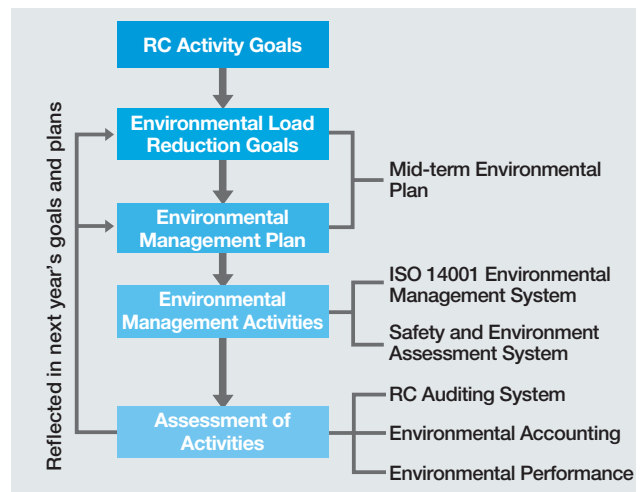
● RC Promotion System



Evaluation and Management System for RC Activities

We have made a three-year plan starting from fiscal 2005. To achieve the goals of this three-year plan, we set yearly policies and related goals, based on which, each department prepares a specific implementation plan. The activities undertaken are assessed at the fiscal year end and the results reflected in plans for the following year.

● Evaluation and Management System for RC Activities (Environmental Preservation)



Operation of Management Systems

ISO 14001 Environmental Management System

Tokuyama and Kashima Factories have already acquired ISO 14001 certification, an international standard for Environmental Management Systems.

In line with company-wide environmental policy, each factory sets itself an environmental policy and the specific goals to be achieved in areas covering lowering environmental loads, energy conservation, reducing waste material disposal and promoting resource recycling.

At the company headquarters, branch offices and research laboratories, activities are under way based on their respective policies and goals in the areas of energy conservation, reducing waste material disposal and resource recycling.

ISO 9001 Quality Management System

We have also acquired an ISO 9001 certification (Quality Management System) for our main products. All departments of our company, including sales and development departments, have implemented this system since fiscal 2002.

Health and Safety Management System

Based on the "JCIA—New Occupational Health and Safety Guidelines," of the Japan Chemical Industry Association (JCIA), each factory has implemented a Safety and Health Management System. In fiscal 2005, Tokuyama Factory upgraded this system to a Security Management System by adding a range of safety-related activities.

Assessment Systems

With the necessary assessment systems in place, we are working towards lowering environment- and safety-related risk levels.

Safety and Environmental Assessment

Before any facility is newly installed, expanded, or refurbished, we require a safety and environmental assessment to be carried out. This assessment is designed to check up the design safety of equipment, the safety of the materials being handled, compliance with laws and regulations, and impacts on the environment. This helps us in making our facilities safe and easy

to operate, easy to maintain and accident-free. The assessments are made in three stages: Basic Plan Assessment, Design Assessment, and Pre-Operational Assessment. These assessments are made to ensure that facilities are of a safe and environment-oriented design, built to the design specifications, and ready for operation.



Safety and Environmental Assessment (Tokuyama Factory, November 22, 2006)

Product Assessment and Labeling Assessment

To ensure product safety, our Product Assessment procedure is in operation at each stage, from initial R&D to the delivery of our products to the market. In this assessment, conformity with legal requirements is examined and risks are evaluated from a variety of aspects, including the safety of chemicals used, environmental impacts, effects on human health and so forth. Our Labeling Assessment helps us ensure that the labels that we carry on our products contain no defects in their instructions and/or warnings and that they contain sufficient and easy-to-understand information.

Auditing Systems

Our Auditing Systems are in place to verify that activities undertaken at each factory are in line with company-wide policies.

Safety and Environmental Auditing

We conduct this type of auditing on a yearly basis to verify the appropriateness of our accident/disaster prevention measures and management activities for environmental conservation. The auditing team is headed by a Director, who is either the Chairman

of the Environmental Measures Committee or of the Safety Measures Committee, and conducts an auditing for all factories and offices, authorized organizations subject to inspection under the High Pressure Gas Safety Law, logistics departments, and the Health Management Center. A report is compiled based on the auditing results, and distributed to all departments concerned and to the President.

Internal Auditing

Our internal auditing is carried out periodically in accordance with ISO 9001, ISO 14001, and the Safety and Health Management System procedure. The progress status of planned actions and the operational status are audited and nonconformities are identified for corrective action.

Third Party Auditing

We are regularly audited by certification and registration bodies regarding our ISO 9001 and ISO 14001 certification.



Renewal inspection for ISO 9001 (Tokuyama Factory, April 19, 2007)

Education and Training

Employee education and training on the Responsible Care activities are provided on a hierarchical group basis. For environmental management, safety management, occupational health and safety and quality management, "On-the-Job-Training" is provided so that employees can learn through actual management activities.

Fiscal 2006 RC Activities—Priority Issues and Performance

Segment	Priority Issues	Performance	Related pages
Management	<ul style="list-style-type: none"> Review by Senior Management 	<ul style="list-style-type: none"> RC Administration Committee Safety and Environmental Audit 	P. 11
Environmental preservation	<ul style="list-style-type: none"> Reduction in environmental burdens (air, water quality, etc.) Reduction in the emission of PRTR substances and hazardous air pollutants Decrease in unit energy consumption Promotion of zero-emission activities Promotion of green purchase 	<ul style="list-style-type: none"> Reduction in emissions of SOx, COD, phosphorus, and dioxins Reduction of EDC and VCM Promotion of energy conservation Utilization of waste as raw materials and fuel for producing cement Green Procurement of office supplies and lighting equipment Faithful implementation of the Environmental Management System 	P. 27 P. 27 P. 23 P. 5-6 P. 16 P. 11-12
Process safety	<ul style="list-style-type: none"> No accident Promotion of risk management Promotion of safety self-management 	<ul style="list-style-type: none"> Proper implementation of the safety management system Renewal of certification to operate boilers and Type-1 pressure vessels for the second year in succession Safety education and training for logistics companies and audit 	P. 19-20 P. 19-20 P. 14
Occupational health and safety	<ul style="list-style-type: none"> No disaster 	<ul style="list-style-type: none"> Further surpassing our zero-accident record Promotion of risk assessment 	P. 19-20
Chemical product safety	<ul style="list-style-type: none"> Ensured product safety 	<ul style="list-style-type: none"> Product assessment, labeling inspection Improvement of MSDS, and investigation of new raw materials 	P. 13-14
Trusting relationships with local communities and society at large	<ul style="list-style-type: none"> Participation in community activities Harmonious coexistence with local communities and society at large 	<ul style="list-style-type: none"> Participation in community's volunteer activities Dialogue meetings on RC activities with local communities (on a regional basis, or on a factory basis) Factory tours for stake holders 	P. 15-16
Promotion of RC program to group companies	<ul style="list-style-type: none"> Dissemination of RC activities 	<ul style="list-style-type: none"> Safety and environmental inspection Acquisition of ISO certification Sharing of RC-related information 	P. 29-30

Establishment of favorable relations with all stakeholders is indispensable for Tokuyama in improving our CSR activities. Tokuyama grows with society.

Relations with Customers

We adopt customer-focused quality assurance based on the ISO 9001 quality management system. As for chemical substances, we implement strict safety management at all stages, from R&D to disposal, including transportation.

Quality Assurance System Supports Satisfaction and Sense of Security

We aim at becoming an even more customer-focused company that is consistently relied upon by our customers. Therefore, we place a top priority on the provision of quality products and services that can offer satisfaction and a sense of security to our customers.

Our company implements company-wide quality management and quality assurance activities in accordance with the ISO 9001 quality management system. By including branches, sales departments, and the R&D division within the system, we can rapidly and appropriately respond to requests or grievances from our customers. Each division publicizes information on these requests and criticisms in their respective portals of our "groupware" intranet, so that division members are able to utilize this shared information.

Comprehensive Safety Management of Chemicals

Investigation of All Chemical Substances

We assess the safety of chemical substances by acquiring and analyzing safety-related data. In fiscal 2006, we established a system for investigating the hazards of newly used raw materials. As a result, in addition to conducting product assessment and waste investigation, we were able to establish systems for investigating the hazards of all chemical substances being newly used, manufactured and disposed.

Risk Assessment and Management of Chemicals

We are conducting activities to prevent environmental pollution by monitoring the concentration of chemicals in effluents and gas emissions. In addition, we simulate concentration distribution for chemicals and analyze their detailed behavior. Risks are characterized based on a combination of concentration data and safety data. Characterized results are reflected in the enhancement of our equipment safety measures and handling procedures, and in educating workers involved in handling products and waste. These efforts eventually assist us in improving our product safety and providing accurate information to our customers.

Participation in HPV Program

The High Production Volume Chemicals (HPV) Program is an international program to conduct safety assessments of chemicals that are manufactured in at least two countries with a volume of 1,000 tons or more and specified as priority chemicals (approximately 1,000 chemicals) from the list produced by the Organization for Economic Co-operation

and Development (OECD). We actively participate in the HPV Program with regard to 17 chemical substances and conduct safety assessments of these substances.

Since 2005, we have been promoting activities as a leader of the international consortium for Tetramethylammonium Hydroxide (TMAH) HPV. TMAH is used as liquid developer in the photolithography process for semiconductors and liquid crystal panels. In April 2006, we attended an international conference (SIAM22) held in France, where our TMAH-HPV Assessment Report was approved.

Adoption of GHS

GHS* is a system promoted by the United Nations that classifies chemicals depending on the types and degrees of their hazards in accordance with globally agreed rules, and indicates the hazards of chemicals using labels and safety data sheets.

In fiscal 2006, we included "Adoption of GHS" as part of our quality management policy, classified for products and prototypes containing chemical substances for which labeling is obligated by the Industrial Safety and Health Law, and prepared labels and MSDSs*.

Assessment of Products and Labeling

We appropriately assess the safety of both the chemicals and equipment units that we manufacture, in stages from research and development through commercialization. We made 41 assessments of this kind in fiscal 2006. We also carry out labeling assessments for our catalogues, MSDSs,* and other technical documents. The appropriateness and legality of representations on labeling and packaging of products, prototypes and sample products are assessed and inappropriate representations are corrected. In fiscal 2006, we conducted about 300 labeling assessments.

Assessment Flow Diagram for Ensuring Safety and Environmental Preservation

Assessment stages	Product assessment	Safety and Environmental assessment	Labeling assessment
Research commenced	Development group leaders (Primary assessment)		
Development commenced	R&D department heads (Secondary assessment)		Labeling Assessment Subcommittee (Prototypes)
Commercialization under study	Product assessment committee (Tertiary assessment)	Safety and Environment Assessment Subcommittee (Basic Plan)	Labeling Assessment Subcommittee (Products)
Product equipment being designed		Safety and Environment Assessment Subcommittee (Designing)	
Pre-marketing (pre-operation)		Safety and Environment Assessment Subcommittee (Pre-operation)	
Post-operation		Report on actual conditions (Environmental)	

*GHS: Globally Harmonized System of Classification and Labelling of Chemicals

MSDS is the abbreviation for Material Safety Data Sheet. It is a document that contains information such as the name of the chemical material, appropriate safety and emergency measures required, etc., related to that material and is intended to ensure safe handling by providing information about any hazards related with the specific material.

Provision of Information on Our Chemical Products

We provide our customers and logistics companies with MSDSs for all our products and prototypes. An MSDS is prepared for each of approximately 470 types of products. Of these, MSDSs for 33 types of products that are transported in large quantities and heavily used by our customers are publicized on the company's website for the convenience of customers.

Strict Safety Management of Waste Materials

Waste materials are handled in the same way as our products. We have prepared the necessary MSDSs for waste materials and distribute them to waste handling contractors and logistics companies to ensure the safe handling and transportation of such materials. Each driver is required to carry a "Yellow Card" prepared for high-risk waste materials in case of an accident during transportation. We have so far prepared 73 MSDSs and 41 Yellow Cards for waste materials.

Promoting Safety and Environmental Management in the Distribution Process

Providing Our Logistics Companies with Guidance and Education on Safety Management

We regularly hold local safety meetings with our nation-wide logistics companies whom we commission to provide transportation services. We conduct safety inspections to help these logistics companies to improve their safety management levels. At Tokuyama Factory, our safety specialists regularly make an inspection of loading terminals and worksites, visit cargo carriers mooring at the piers, and provide safety guidance as necessary, in cooperation with logistics companies.

We also have a range of emergency measures in place. For



Drill simulating a truck accident (Shunan district, November 21, 2006)

example, each truck driver is obligated to carry a Yellow Card and appropriate emergency tools so that they can take suitable and speedy action based on the emergency measures specified on the card if an accident occurs during land transportation.

An emergency network and related organizations also form part of our emergency measures. In addition, disaster drills are conducted to test the effectiveness of the emergency network and practice initial responses.

Risk Assessment

Before hazardous materials are transported, we conduct a risk assessment to verify the safety of the transportation means and trucking routes, and also the emergency measures to be taken in the event of an accident. If a certain risk is found to be high, we improve the transportation means, and so forth, as necessary. When a logistics facility is newly constructed or expanded inside or outside our factory, a facility safety assessment is always conducted. In addition, if a facility of a customer receiving products transported by tanker trucks is found to be unsuitable, we encourage the customer to make the necessary improvements.

Crisis Management System

To deal with potential crises in logistics operations, we have established emergency response criteria and disaster prevention equipment and materials are always ready for use. In the Shunan, Kanto, and Kansai districts, we have established a mutual disaster assistance system in cooperation with logistics companies.

We are encouraging each logistics company to introduce a Global Positioning System (GPS) for their trucks.

Environmental Preservation Measures and Energy Conservation Associated with Transportation

We urge trucking companies to introduce vehicles fully adapted to exhaust regulations, fuel-efficient vehicles, or eco-driving support devices (for example, digital tachographs). Following the revision of the Law concerning the Rational Use of Energy (or the "Energy Saving Law"), we have been actively implementing energy saving measures as a designated cargo owner.

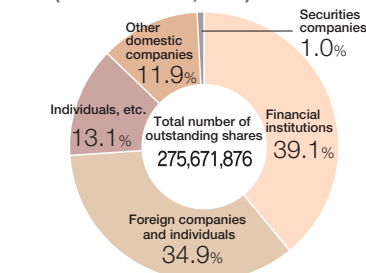
Relations with Shareholders

We aim to provide all relevant information properly and speedily to win the understanding and confidence of shareholders and investors.

In 2007, we reformed our Corporate Communications Dept. into the Corporate Communications & Investor Relations Dept., and transferred this group from the General & Personnel Affairs Division to the Corporate Planning Division in response to the increased importance of investor relations (IR) activities.

To provide our shareholders and investors with information, we have created an "IR" corner on our website where stock information, consolidated financial data, statements/reports (financial summaries, electronic public notices, financial statements, annual reports, financial briefings), and an IR calendar are available for our shareholders and investors.

Composition of Shareholders (as of March 31, 2007)



Financial briefing (May 14, 2007)

*The "Yellow Card" is the common name for a special information card prepared for emergency use. The card explains to the truck driver, relevant persons, fire fighters and police officers what to do in the event of an accident during the transportation of chemicals.

Relations with Local Communities and Society

We are making various social contributions, including assistance in the promotion of science and technology and the sound growth of children. We are also strengthening communications with local residents through "local RC dialogues."

Communications with Communities and Society

Tokuyama Science Foundation

This foundation was established in 1988 with the aim of creating a new field of science as part of the project for commemorating our company's 70th anniversary. Each year, the foundation grants subsidies to young researchers in the study of new materials and conducts various fostering projects, including "International Exchange Assistance," "International Symposium Assistance," and "Science and Technology Awareness Building Assistance." A total of 268 studies have been granted subsidies, with the total subsidies amounting to 520 million yen (as of March 2007.)

Donation of Previous Uniforms to Nepal

Since fiscal 2005, we have been donating no longer needed uniforms of female employees to Nepalese children who are living in rather harsh conditions. When their current uniforms were replaced with new ones, some female employees made a proposal of donating the old uniforms as a means of effectively utilizing limited resources.

In fiscal 2006, the short-sleeved blouses and waistcoats of female employees working at the headquarters and branches were donated to children of Shree Balwamiki Lower Secondary School in Bhaktapur in the eastern part of Kathmandu, Nepal.



Children of Shree Balwamiki Lower Secondary School (July 30, 2006)

Practical Training for High School Students – the Japanese Version of the Dual System

In July 2006, two pupils of Tokuyama Commercial High School received on-the-job training at our company for a period of 16 days. This program was conducted as part of the "Japanese Version of the Dual System," which is jointly promoted by the Ministry of Health, Labour and Welfare and the Ministry of Education, Culture, Sports, Science and Technology. The objective of this program is to help high school students to develop a sense of professionalism and an appropriate attitude towards work.

I Gained Valuable Experience that I Cannot Get at My School

Junka Sasai,
then Third Grade, General Business Course,
Tokuyama Commercial High School

I would like to take up a clerical job after graduation. As I could begin to understand what clerical work involves through my on-the-job training, I could gain a little more confidence. At the same time, I could really understand the weight of responsibilities of working persons because if I didn't do my job well, other persons may be affected. I'm sure that I can utilize what I experienced here in my future job.



Commemorative Event for the 30th Anniversary of the Mikage Library

As part of our CSR activities, we have been operating the Mikage Library (whereby book coupons are donated to elementary and junior high schools in Shunan City, Yamaguchi Prefecture, where our company is registered). The Mikage Library celebrated its 30th anniversary in February 2007. The total amount of donations over the past 30 years stands at 148,300,000 yen.

In April 2007, we organized the "Denjiro Yonemura Science Show" (at the Shunan City Culture Hall) as commemorative event for the 30th Anniversary. We hoped that many children would experience the "fun," "wonder," and "pleasure" of science, begin to take an interest in this subject, and perhaps even work in the chemical industry in the future. We invited elementary school children and their parents living in Shunan City (3,340 persons in total.)

At the "Denjiro Yonemura Science Show" (held twice a day with morning and afternoon sessions), a variety of experiments were conducted, including paper boomerangs and air guns made of large paper boxes with a hole in one side. The hall was filled with the loud cheering of the children.



Experiment using large air guns



Experiment using balloons

Exchanges with Local Communities

◆Each year, we actively participate in forest maintenance activities, called "Activities for Community-Forest-Water Interaction," organized to help preserve the forests in the community area. In fiscal 2006 (the tenth year of these activities), 133 persons participated in this event, mowing grass, thinning out the woodland, and trimming the branches of trees at Mt. Iinoyama in Shunan City.

We welcome factory tours. In fiscal 2006, Tokuyama Factory was again included as one of the tour sites for the "Factory and Sightseeing Tours" organized by the Chamber of Commerce and Industry in Shunan district. Thanks to this, approximately 3,400 visitors, including 144 school children, visited the cement plant where waste recycling facilities are in operation.

◆Kashima Factory designates May 30 as "Zero Refuse Day." On this day of every year, employees carry out coordinated cleaning work inside and outside the factory. As a member of the Hasaki District Companies Network, we undertook offensive odor patrols and coordinated cleaning work around the industrial complex.

◆In fiscal 2006, eight environmental complaints were raised against Tokuyama Factory. Of these cases, Tokuyama Factory was found to be responsible for three cases. Various countermeasures, including the improvement of related facilities, were taken after having undertaken investigations to determine the causes. There were also three complaints against Kashima Factory, although the factory was later found not to be responsible for any of these issues. The General Affairs Section responded to all these complaints on behalf of the company.



"Activities for Community-Forest-Water Interaction" (October 14, 2006)

Environmental Communications

Local RC Dialogues

Every year, we organize "local RC dialogues" where we explain to local residents about our RC activities. In fiscal 2006, our "Local RC Dialogue in the Eastern Part of Yamaguchi Prefecture" (Tokuyama Factory) and a "Local RC Dialogue in Kashima District" (Kashima Factory) were conducted in cooperation with other members of the JRCC. Since fiscal 2004, Tokuyama Factory has also held its own "Local RC Dialogue." In fiscal 2006, 40 women from local communities (community associations) participated in our RC dialogue, and exchanged opinions with respect to "Our Efforts in Environmental Conservation and Process Safety."



"Local RC Dialogue" held by Tokuyama Factory (August 21, 2006)

Responsible Care Report and Web Site

Every year since 1997, we have issued our "Responsible Care Report" (both Japanese and English editions) to communicate our stance on society, the environment and on safety and health issues and report on our activities during the previous year.

Our Web site includes pages with information on our efforts in making environmental and social contributions.

Exhibition at Environmental Events

◆SEMICON Japan 2006

We exhibited our products at "SEMICON Japan 2006," an international exhibition of semiconductor manufacturing equipment and materials, held in Makuhari Messe from December 6 to 8, 2006.

At our company's booth, polycrystalline silicon for solar cells, conductive fluid, negative resist for electron beam direct writing, mono-disperse spherical silica particles, etc. were demonstrated using panels. Many people visited our booth, and gave us valuable opinions or made inquiries.



Our company's booth at the "SEMICON Japan 2006"

◆Yamaguchi Iki-Iki Eco Fair

An environmental event titled the "Yamaguchi Iki-Iki Eco Fair" was organized by the Yamaguchi prefectural government (from October 15 to 16, 2006.) We opened a booth under the theme of "Eco Life with Tokuyama's Products." We introduced the fact that Tokuyama manufactures polycrystalline silicon used as raw material for solar cells to many prefectural residents. This is our contributions to help realize an energy-saving society and prevent global warming through the increased proliferation of solar cells.



Our booth under the theme of "Eco Life with Tokuyama's Products" at the Yamaguchi Iki-Iki Eco Fair

Relations with Trading Partners

We conduct CSR activities in the area of purchasing by establishing reliable relations with our trading partners based on fair transactions.

Through fair and favorable partnerships with our trading partners, we conduct purchasing activities in accordance with our "Basic Purchasing Policy," which has been established to help us provide our customers with good quality products supported by excellent technologies.

● Tokuyama's Basic Purchasing Policy

Appropriate Partners

Before commencing transactions, we select the most appropriate trading partners by conducting an integrated evaluation of a range of factors, including quality, pricing, delivery times, technological capability, reliability, safety, after-sales services, ease of maintenance or management, trouble shooting capability, compatibility with existing facilities, stability of business operations, and so on.

Partnerships

Our company and trading partners aim at achieving the common goal of developing and manufacturing superior products. To achieve this goal, our door is always open to potential trading partners who can offer unique proposals. Thus, we create an environment where new trading partners can find it easier to begin to do business with us.

* This "Basic Purchasing Policy" neither constitutes part of the conditions of a contract nor constitutes an offer of a contract.

Compliance with Laws and Regulations

In our purchasing activities, we comply with all relevant laws and regulations. We urge our trading partners to observe applicable laws and regulations, and select only those trading partners that can assure us of such compliance.

Promotion of Green Purchasing

We conduct environment-conscious purchasing activities while taking into consideration the 3 R's (Reduce, Reuse, and Recycle.)

Relations with Employees

We are making efforts to improve the working environment so that all employees will be able to fully utilize their abilities and enjoy their daily work. In fiscal 2006, efforts were made to develop "human resources" through the creation of a Skills Education & Training Center and improve the mental and physical soundness of our employees.

Efforts to Develop "Human Resources"

Creation of the Skills Education & Training Center

Amid the large-scale retirement of baby-boomers, it is increasingly important for our company, just as for many others, to transfer sophisticated skills to the younger generation at worksites. In April 2007, we established the Skills Education & Training Center with the objective of transferring advanced production skills to the younger generation and to educate new operators in a short period.

Today's chemical plants are often highly automated in order to achieve labor saving and safe operations. Therefore, opportunities for operators to actually use some types of equipment are gradually decreasing. Even at industrial high schools, opportunities for students to actually use equipment are also reducing as many industries are becoming increasingly IT-based.

At the Skills Education & Training Center, using a newly constructed training plant, new operators learn about operations to start or suspend machinery, assembly and disassembly of machines, how to handle dangerous situations such as becoming trapped, objects falling from above, or exposure to hazardous liquids. New operators learn basic operational skills and master risk avoidance measures through skills training and experience that they cannot get at a real automated chemical plant. In the first half of fiscal 2007, we are implementing an educational program not only for new operators but also for both



Training in progress at the Skills Education & Training Center



new technical employees and specially recruited employees (approximately 90 in total.)

In fiscal 2005, we resumed regular employment of high school graduates. At the same time, we began to implement a "Junior Coaching System" under which coaching is provided to younger employees. Junior coaches provide young people who have completed a technical education and training program and have been assigned to workplaces with advice and guidance on their working life. Coaches also function as mediators between young employees and their immediate superiors or senior colleagues.

Company Awarded the "Human Resource Development Excellent Firm Prize"

This prize was given for corporate effort, from senior management through to section managers.

In November 2006, our company was presented with an Encouragement Award at the "19th Human Resource Development Excellent Firm Prize" held by the Management Institute, Japan Management Association

The objective of this award is to "commend enterprises or offices with excellent business performance whose nature has been improved or strengthened due to intra-company capacity building efforts, and to accelerate capacity building activities in enterprises and industries." For applying enterprises, document screening and on-site examinations are conducted by 11 examiners over a period of two months in terms of five aspects: strategic importance, systematic importance, effectiveness, uniqueness, and cultural importance.

Our company's theme in the application for the prize was "How effectively does the HRD system bring Off-JD learning into OJD—to accelerate changes in persons and organization." At the commendation ceremony held in February 2007, the president of the board of examiners, Professor Mitsuyo Hanada of Keio University, commented: "Tokuyama's personnel development can really be appreciated in that a priority is placed strictly on the workplace to support individuals, coordination is made between different divisions, and the results of off-the-job development are tested and followed up at the workplace."



Staff of the Personnel Dept. at the commendation ceremony (February 6, 2007)

Reason for Award

The reason that the company was awarded this prize was that the company began to see human resources as "human capital" and commenced efforts for corporate reform by placing a top priority on "technology and human capital" through capacity building/development of employees" immediately after Mr. Shigeaki Nakahara assumed the office of President.

The Personnel Dept. places priority on education by rank, whereby employees, their supervisors, and the Personnel Dept. are all involved. A feedback system using a "review sheet" issued to each employee functions as a means to develop future leaders at the production site. The Personnel Dept. "passion" and "strong will" for the development of human capital were highly appreciated as an excellent role model for the staff of personnel management departments of general companies.

(From the website of the Japan Management Association)

Personnel Management System to Activate "Human Resources"

Revision of Retirement Allowance and Pension Systems

On April 1, 2007, the conventional retirement allowance system (whereby retirement allowance was dependent on the base figure for retirement allowance appraisal that applies to the retiring person) was changed to a point retirement allowance system (retirement allowance paid will be calculated based on the service contribution of the retiring person).

Simultaneously, the retirement pension system was also revised. Before the change, 65% of the retirement allowance was the corporate defined benefit pension. This portion was replaced with a cash balance plan (a corporate defined benefit pension plan with interest rates fluctuating in tandem with yields of long-term government bonds.) The amount accounting for the remaining 35% of the retirement allowance, which had been paid as a retirement lump sum, was changed to a defined contribution pension or an advance payment of retirement pension. At the same time, we will continue to enhance the education program that assists individual employees in properly managing their retirement allowances.

The revision of the conventional retirement pension system enables our company to maintain its long-term employment practice, to respond to the diversification of lifestyles and a raise in the age when eligible persons can begin to receive welfare pension, and to make the new retirement pension system sustainable in the future by stabilizing or reducing the amount of Projected Benefit Obligation (PBO).

Work-Life Balance

To help employees maintain a good work-life balance and contribute to the creation of an environment where children can grow up healthily, we have prepared an action plan (2005–2007) under the Law for Measures to Support the Development of the Next Generation. We are now promoting company-wide efforts.

Number of Female Employees Who Took Childcare Leave

FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
3	13	9	13	3

Diversified Work Styles

Employment of Physically-Challenged Individuals

The employment rate of physically-challenged persons at our company in fiscal 2005 reached the legal employment rate of 1.8%. Regrettably, the employment rate of physically-challenged persons at our company fell short of the legal employment rate in fiscal 2006. We are therefore continuing efforts to increase the number of physically-challenged employees.

Trend of Employment Rates of Physically-Challenged Individuals

FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
1.48	1.39	1.59	1.80	1.65

Retired Employees Reemployment Scheme

To respond to the gradual postponement of the pensionable age for welfare benefits for the elderly and to help transfer the skills of retiring baby boomers to younger generations, we created a retired employees reemployment scheme in fiscal 2001, ahead of many other companies in our industry. Although this scheme was temporarily suspended due to poor financial performance, we restarted it in fiscal 2005. In fiscal 2006, 41 persons applied and 36 persons were reemployed in various positions.

Promotion of Total Health Promotion Plan (THP)

Health Promotion under THP

Pursuant to the "Guidelines of the Total Health Promotion Plan (THP)" established by the Ministry of Health, Labour and Welfare, we created the THP Committee to carry out various health promotion activities. The THP Committee implements a variety of activities, including lifestyle-related disease prevention and mental health maintenance measures as priority activities.

Lifestyle-related disease prevention measures include individual guidance by an industrial physician or medical staff based on the results of periodic medical examinations, and a "mini health class," that is run by health management staff at employees' workplaces. This mini health class, which periodically changes its focus themes, has enjoyed great popularity since its establishment in fiscal 2005.

In the case of mental health maintenance measures, we announced a "Declaration for a Vivid Tokuyama" in October 2006 to publicize our determination to address the issue of mental health. We are positively promoting various activities to protect the mental health of employees as most important assets for Tokuyama.

Activities under the "Declaration for a Vivid Tokuyama"

1. Establishment of a Mental Health Consultation System
Creation of an in-house helpline, and conclusion of contracts with external expert physicians
2. Improvement of the Working Environment through the Implementation of Stress Self-Checkups and Work Environment Examinations
Implementation of a simple occupational stress examination
(Implementation at Tokuyama Factory on a trial basis in March 2007, and implementation at all sites and offices planned for fiscal 2008)
3. Establishment of a System to Support Employees' Return to Work
4. Education, Training, and Provision of Information
5. Support for the Improvement of Internal Communications
Promotion of, and support for, recreational activities by each workplace

Promotion of Internal Recreational Activities

We are promoting recreational activities to activate communications between employees, which tend to have been reduced through increased IT usage, and thereby create a "cheerful and lively workplace."

At Tokuyama Factory as a production site, recreational activities have been traditionally held during lunchtimes. These recreational activities are led by recreation staff at each workplace based on an annual plan. Tokyo headquarters, branches and offices also plan and implement their own activities.



As part of recreational activities, Tokuyama Factory organizes a relay road race among workplaces at the end of each fiscal year. There are legs by age-group, and legs for divisional managers and section managers. This race really heats up! (March 16, 2007)

Process Safety and Disaster Prevention/ Occupational Health and Safety

We aim at continuing operations without accidents or disasters based on the concepts that safe operations are a fundamental factor of business and that harmonious coexistence with local communities cannot be realized without the maintenance of safety. All manufacturing sites and offices are making efforts to maintain occupational health and safety and a comfortable work environment.

Commitment to Safety and Disaster Prevention

Comprehensive Safety and Disaster Prevention Activities

Tokuyama Factory, which is our main production site, is located in the vicinity of residential areas in Shunan City. Based on our determination that safe operations are an absolute requirement, we are making exhaustive efforts to secure the safety of all our facilities and operations. For example, we continue traditional activities, including safety patrols, hazard prediction activities, avoidance of dangerous carelessness, 5S activities,* and verbal safety checks (pointing at the item to be checked and voicing its name). Recently, we are actively "securing safety in advance" by identifying potential sources of danger and reducing and eliminating the risks involved.

In preparation for an emergency, in fiscal 2006 we enhanced disaster prevention equipment and materials, and introduced an emergency vehicle with surveillance cameras for gathering information, which can also be used to transport equipment and materials. To test whether various disaster prevention equipment and organizations can fully demonstrate their functions, our company's Self-Defense Disaster Prevention Unit conducts a range of drills. In addition, a comprehensive disaster drill is conducted in cooperation with group companies, neighboring enterprises, and related ministries and agencies based on a simulation of a large-scale accident or disaster.

These drills are open to, and observed by local residents so that they can better understand and be reassured about the extensive safety activities of Tokuyama Factory.



Annual ceremony and comprehensive disaster drill (Tokuyama Factory, January 19, 2007)



Emergency vehicle that acts as headquarters' command car in the event of an emergency (Tokuyama Factory)

Self-Administered Safety Management

For 12 facilities, Tokuyama Factory has obtained certifications of "Certified Safety Inspector" and "Certified Completion Inspector" in accordance with the High-Pressure Gas Safety Law and obtained licenses for continuous operation of boilers, etc. Tokuyama Factory is determined to comply with the conditions of these certifications (and laws, regulations, and guidance) and to prevent the occurrence of accidents or disasters by conducting the "PDCA" cycle and by further improving safety awareness of all persons engaged based on the principles of self-administered safety management and self-responsibility.

We are committed to stable plant operations by promoting the self-administered safety management of our operational management division and by reinforcing the specialized maintenance skills of our facilities management division.

Safety Audits

We conduct inspections of all our facilities to identify the status of Process Safety and Disaster Prevention/Occupational Health and Safety. If the audit identifies any incidents of nonconformance, these are pointed out and necessary guidance is given for corrective action. The results of audits are fed back to each division for improvements, and are reported to the Safety Measures Committee and reflected in the action policy for the following fiscal year.



Safety and environmental audit (Kashima Factory, November 13, 2006)



Safety and Environmental Assessment

Before any facility is newly installed, expanded or refurbished, the Chief in Charge of Safety assembles internal experts, and these experts conduct an assessment at each of the following stages: planning, design, and pre-operation. The safety of processes, facilities, and operations are ensured by these prior assessments of potential risks, thereby helping to prevent an accident or disaster.

*5S activities represent "tidiness," "orderliness," "cleaning," "cleanliness," and "making a habit of these actions."

New Zero-Accident Record

In 2005, Tokuyama Factory's total Zero-Accident hours set a new record of 12.4 million hours, exceeding the Ministry of Health, Labour and Welfare's record of 12.2 million Category III Zero-Accident hours. To our regret, a "disaster by which operations are suspended for one day or longer" has occurred since then. All employees of Tokuyama Factory have begun efforts to achieve a new record that exceeds the record of 12.4 million hours.

Kashima Factory has continued zero-accident and zero-disaster operations for the past 21 years since its start-up. Tsukuba Research Laboratory has also continued zero-disaster operations for the 17 years since its foundation.

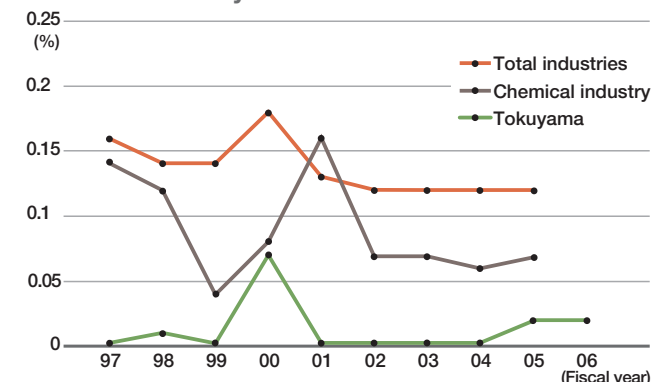
In fiscal 2006, we invested approximately 400 million yen on process safety, including disaster prevention equipment and materials.

Commitment to Occupational Health and Safety

Expansion of the Safety Management System

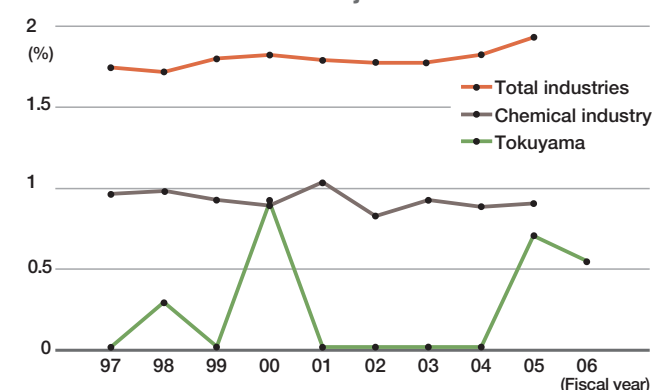
Each facility has been implementing its own Occupational Health and Safety Management System since fiscal 2003. In fiscal 2005, Tokuyama Factory expanded this system into a full Safety Management System by including process safety. Tokuyama Factory conducts risk assessment not only for work operations but also for processing and plant maintenance in a planned manner, and makes continuous improvements to this system. In fiscal 2006, we invested approximately 100 million yen in improving and enhancing occupational health and safety activities.

Accident Severity Rates



Accident Severity Rate refers to the number of work days lost in 1000 cumulative work hours and represents the severity of industrial accidents.

Rates of Lost Work Time Injuries



Rate of Lost Work Time Injuries refers to the number of workers away from work due to workplace injuries in 1 million cumulative work hours and represents the frequency of industrial accidents.

Source: "Survey on Industrial Accidents" of the Ministry of Health, Labour and Welfare

* Control Category I refers to a condition in which an atmospheric concentration of hazardous substances is below the control level in most part (over 95%) of the unit work area.

There are three classes of Control Category: Category I, II and III, of which I is the most desirable.

* An AED is a medical device used to give an electric shock to the heart of a person who has suffered ventricular fibrillation to help it to operate normally again.

Safety Education and Training in Close Coordination with Contractors

We are promoting activities to ensure "no-accident and no-disaster" operations in close coordination with contractors, such as safety meetings for information sharing attended by employees of Tokuyama and its contractors, management improvements through safety patrols, safety education and seminars for improvement of knowledge of various themes and drills for the improvement of skills.

Maintaining a Comfortable Work Environment

Aiming to prevent health hazards and create pleasant working conditions, we continue to monitor the workplace environment where specified chemicals, organic solvents etc. are handled and continue to improve the work procedures and equipment involved. Thanks to these efforts, all worksites of Tokuyama Factory are rated as Control Category I.* Tokuyama Factory has actually established even more stringent voluntary standards to improve safety.

Although our environmental measurement data reveal that asbestos-sprayed materials are not immediately dangerous to persons, asbestos removal work was completed in fiscal 2006.

5S Model Workplace Certification System

Tokuyama Factory has adopted a 5S Model Workplace Certification System since fiscal 1991. Under the system, each workplace files an application for certification. If a workplace satisfies certain conditions, the workplace will be certified as a "5S model workplace." Every year, between 10 and 20 workplaces file applications for certification. As of the end of March 2007, 202 workplaces have been certified as "5S model workplaces." Each of these workplaces has passed a renewal inspection. Through these 5S activities, we aim to maintain safe workplaces and enhance health and safety awareness among our employees.

Placement of Automated External Defibrillator (AED)

If the heart of an employee or anyone else stops beating for any reason inside one of our plants, emergency treatment must be provided as quickly as possible. In the past, our company has provided opportunities for practical training of cardio-pulmonary resuscitation (CPR). The use of AEDs* was limited to medical personnel. Recently, however, ordinary staff have been allowed to use AEDs. In fiscal 2006, we purchased six AEDs and placed them at relevant workplace locations. In preparation for an emergency, we provide employees with an opportunity to receive training in CPR and on the operation of AEDs.



Training in emergency treatment using an AED to enable many more employees to utilize the AED in emergency (Tokuyama Factory, January 19, 2007)

Joint use of CPR and AED is said to be most effective if the heart of an employee or other person stops beating for any reason.



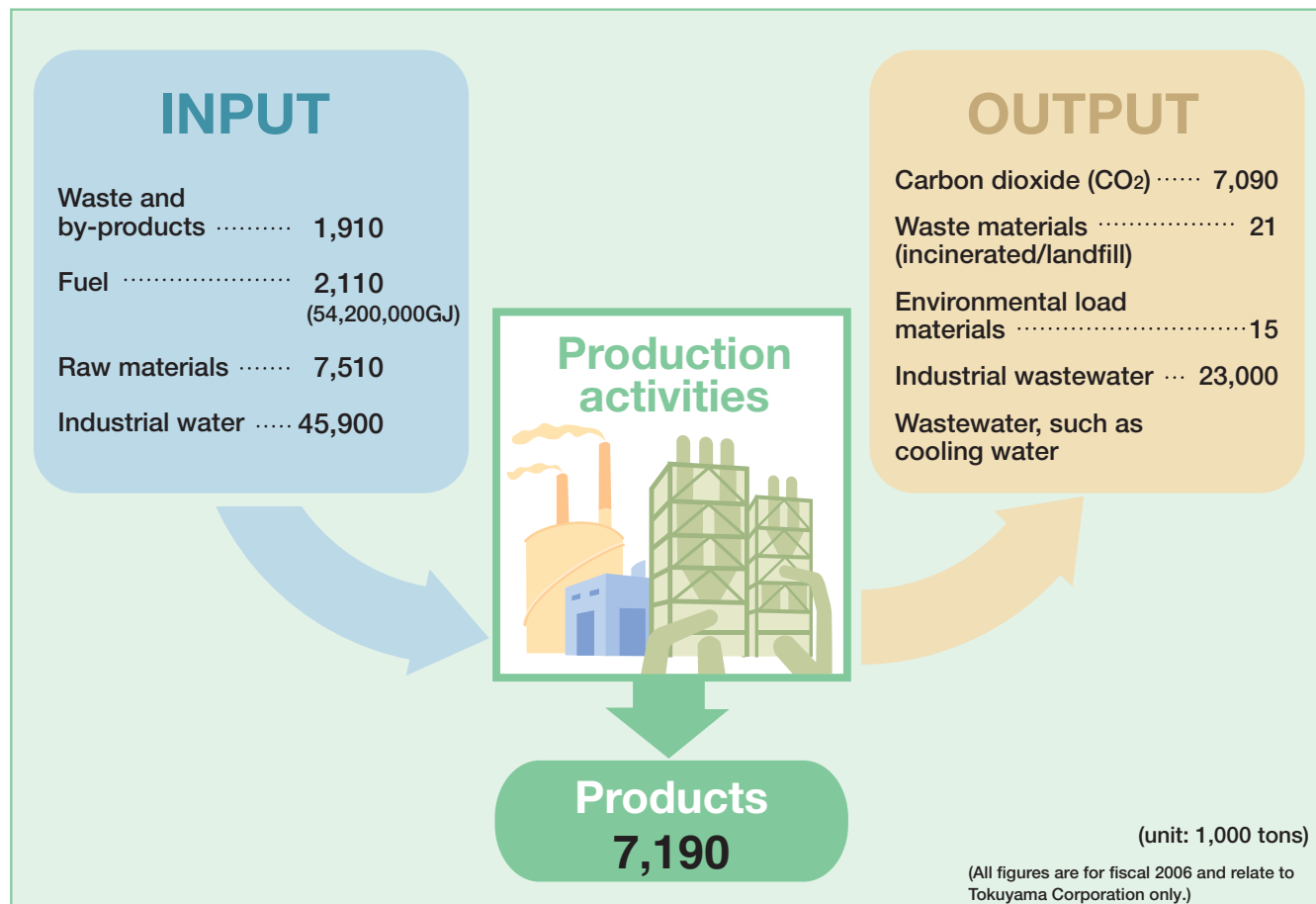
In Harmony with the Environment

Environmental protection activities are part of our important CSR work. Tokuyama promotes "environmental management" in which a priority is placed on environmental protection in all processes of business operations.

Results of Fiscal 2006 Activities

We are making an effort to reduce environmental impacts by accurately assessing and managing the input and output of our manufacturing operations. In fiscal 2006, we continued to focus on energy saving. As a result, unit energy consumption in fiscal 2006 was reduced by 19.1% compared with the level of fiscal 1990 (targeted reduction in fiscal 2010 compared with the 1990 level is 17.5%.)

Material Flow Balance in Our Production Activities



Performance of Environmental Preservation Measures in Fiscal 2006 (Tokuyama Factory)

Segment	Items	Base fiscal year	FY 2006 target	FY 2006 performance	Evaluation	FY 2007 target	
Reduction of environmental impacts	Air	Soot and Dust	2004	-11%	-2%	×	-11%
	Water	COD	2004	+7% or less	+5%	○	+5% or less
		N	2004	±0%	+16%	×	±0%
		P	2004	±0%	-50%	○	±0%
	PRTR	PRTR	2004	-18%	-4%	×	-15%
		Hazardous air pollutants (vinyl chloride monomer (VCM), EDC)	2004	-35%	-35%	○	-35%
Global environment conservation	Energy conservation	Unit energy consumption index	1990	Improved by 15.5%	Improved by 19.1%	○	Improved by 17.5% (fiscal 2010)
Reduced waste materials	Recycling	Waste material effective utilization rate	-	94.4% or higher	94.4%	○	94.0% or higher
	Zero emission	Zero emission rate	-	99.8% or higher	99.9%	○	99.8% or higher

*Evaluation (○ : almost achieved, × : unsatisfactory)

Environmental Accounting

Since fiscal 2000, we have adopted the Environmental Accounting System to assess the total cost of environmental conservation activities and to utilize the data for effective environmental investment. The amount of environmental investment in fiscal 2006 decreased by approximately 1.6 billion yen as compared with the previous fiscal year, while total expenditure and economic benefits in fiscal 2006 remained almost unchanged from fiscal 2005.

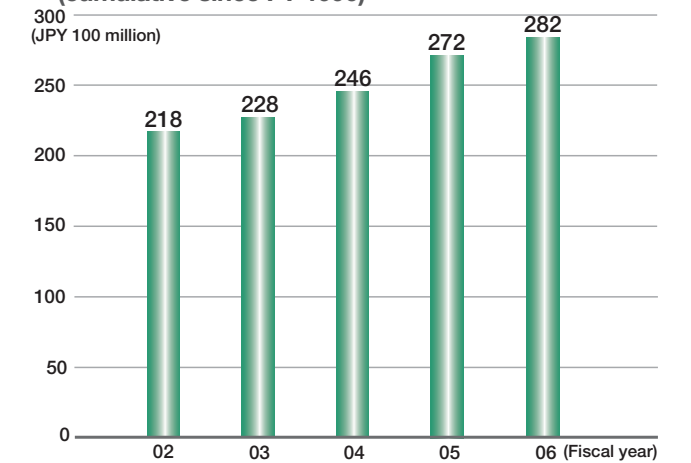
Environmental Conservation Costs

About 70% of environmental investment is used for pollution prevention, and about 10% each for conservation of the global environment, resource recycling, and social activities. In fiscal 2006, our main environmental investment included the renewal of electric precipitators and NOx removal equipment and the installation of waste recycling equipment.

Economic Benefits

Economic benefits are evaluated based only on actual revenue figures, where any projected benefits are excluded, in areas of energy conservation, sales of relevant materials and reutilization of waste materials, which helps minimize processing for disposal and reduce consumption of raw materials and fuel. In fiscal 2006, economic benefits in the amount of about 1.3 billion yen were generated. This amount remains almost unchanged from the previous year's level.

● Trends of Accumulated Environmental Investments (cumulative since FY 1990)



Environmental Conservation Costs

Classification	Major Expenditure Items	Amount Invested (JPY million)	Total Expenditure (JPY million)	
Factory site costs	Pollution prevention	Renewal of electric precipitators and NOx removal equipment, and construction of wastewater treatment facility	657	3,364
	Global environment conservation	Installation of waste recycling equipment	123	953
	Resource recycling	Improvement of waste soil disposal facility	82	1,054
Upstream/downstream costs		0	0	
Costs of management activities	Installation of environmental analyzer	47	293	
Research and development costs	Development of technology to reduce the emission of PRTR substances	0	30	
Costs of social activities	Tree-planting at factories and preparation of the Responsible Care Report	100	53	
Costs of environmental damage	Levies and management of disused mines	0	193	
Total		1,009	5,940	

Economic Benefits

Item	Material Benefits (1,000 tons)	Economic Benefits (JPY million)	Remarks
Benefits from energy conservation	—	143	Benefits from lower electricity and steam consumptions
Revenues from salable materials	97	183	Revenues from selling metal scraps, waste oils, waste acids and alkalis
Benefits from lower waste materials processing costs	232	594	Processing costs reduced by reutilization of waste materials
Benefits from lower raw material and fuel consumption realized by waste reutilization	234	428	
Total		1,348	

* Costs were compiled according to "Environmental Accounting Guideline '2002" of the Ministry of the Environment.

* Data is collected from all Tokuyama facilities and offices.

Prevention of Global Warming

Corporate citizens have an important obligation to contribute to the prevention of global warming. We are promoting efforts to reduce CO₂ emissions mainly through energy saving activities.

Promotion of Energy Saving Efforts

We use a large amount of energy in the processes of manufacturing our core products, including caustic soda and cement. CO₂ is one of the greenhouse gases mainly generated by combusting fossil fuels. In the process of producing cement, CO₂ is also generated by the decarboxylation of limestone as a raw material. Based on the understanding that it is an important task for our company to contribute to the prevention of global warming, we are promoting efforts to reduce CO₂ emissions, mainly through energy saving activities.

Tokuyama Factory, which accounts for more than 99% of the total energy consumption of our company, reduced unit energy consumption in fiscal 2006 by 19.1% as compared with the level of fiscal 1990, due to efficiency improvements as a result of the renewal of the chloralkali plant in fiscal 2006.

In the future, we will make efforts to increase the quantity of waste tires and wood biomass used at the No.7 unit of our private power generation plant—renewal of this unit will be completed in fiscal 2007—and other units.

We are cooperating with Yamaguchi Prefecture in their "Initiative on the Promotion of Hydrogen Frontier Yamaguchi." In the Hydrogen Town Model Project, our company supplies hydrogen direct to households via piping.

Ceremony for the introduction of a hydrogen fuel cell system (March 27, 2007)

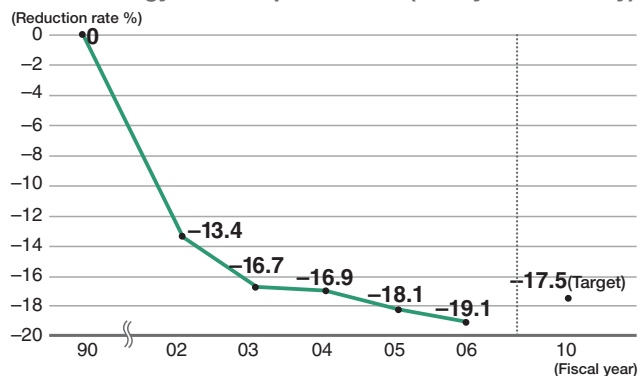


Piping for households

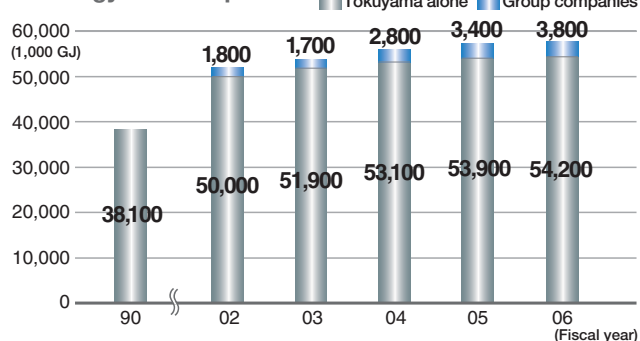
Contribution to Global Warming Prevention Measures of Consumer and Transportation Sectors

Both Tokuyama and its group companies have contributed to a reduction in CO₂ emissions in the consumer and transportation sectors, in which CO₂ emissions have significantly increased, through the sales of particular products, including a plastic window sash called the "Shanon Window" for energy saving houses, and silica for energy saving tires. Furthermore, we are developing technologies for the prevention of global warming, including the construction of a demonstration plant for polycrystalline silicon for solar cells and the development of electrolyte membranes for fuel cells.

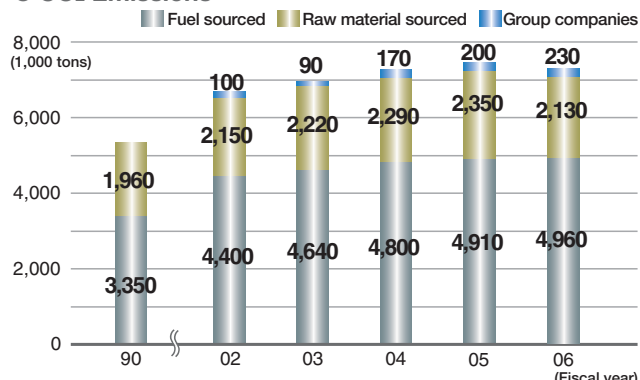
Unit Energy Consumption Index (Tokuyama Factory)



Energy Consumption



CO₂ Emissions



* Figures of group companies are included in and after fiscal 2001. As for Tokuyama Plant of Sun Tox Co., Ltd., their actual figures have been included in the Tokuyama data until fiscal 2004 and included in the group company data since fiscal 2005.

Efforts at Our Offices

We are participating in the "Cool Biz" campaign that started as a national movement in the summer of 2005. In addition to conventional energy saving activities at our offices, we encourage our employees to work in light clothing and the temperature of air-conditioned rooms is strictly maintained at specified levels. Thanks to these efforts, our Tokyo headquarters could reduce power consumption in the four months from June to September 2006 by 6% from the level of the corresponding period in the previous fiscal year.

Reducing and Recycling Waste Materials

In fiscal 2006, we achieved an effective utilization rate of waste materials of 94.3% and a zero emission rate of 99.9% due to intensified efforts to reduce waste and enhance recycling activities. Tokuyama Factory was certified as an accredited enterprise under the "System of Evaluation of Performances of Industrial Waste Disposal Companies."

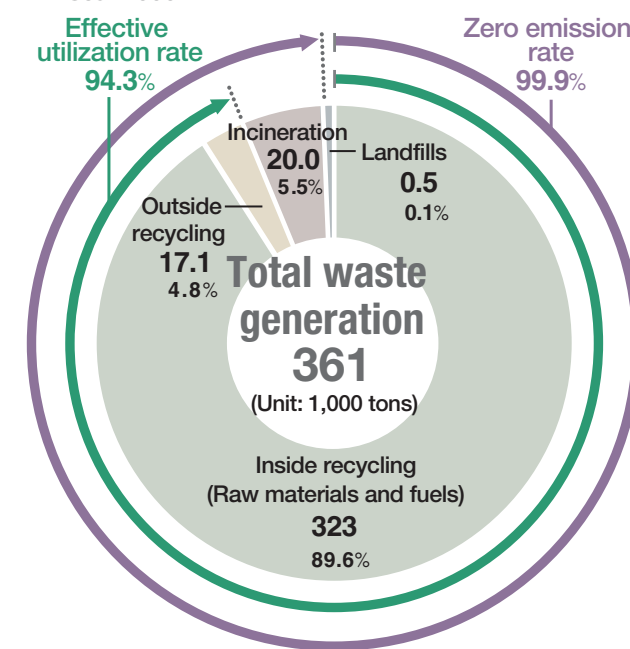
Waste Management

Waste materials generated from our facilities totaled 360,000 tons in fiscal 2006. We have actively promoted the recycling of waste materials generated both inside and outside our company, such as the reutilization of waste materials as raw materials and fuel for producing cement at Tokuyama Factory. In the past, wood waste such as packaging materials and pallets was simply incinerated. Since fiscal 2006, however, these waste materials have been crushed and used as fuel for power generation. In addition, an effort was made to reduce and recycle the waste that had been used for landfills. As the quantity of waste materials used as raw materials for cement increased, the effective utilization rate of waste materials rose to 94.3%, a slight increase over the previous year.

Our efforts to reduce the quantity of landfill waste and to maximize recycling of such waste resulted in the achievement of a 99.9% zero emission rate.

In November 2006, Tokuyama Factory was certified by Yamaguchi Prefecture as an accredited enterprise under the prefecture's "System of Evaluation of Performances of Industrial Waste Disposal Companies." This is because our

Breakdown Graph of Industrial Waste Handling in Fiscal 2006



$$\text{Effective utilization rate (\%)} = \frac{\text{Recycled Volume (inside \& outside)}}{\text{Total Waste Generated}} \times 100$$

$$\text{Zero emission rate (\%)} = \left[1 - \frac{\text{Disposal to Landfill (inside \& outside)}}{\text{Total Waste Generated}} \right] \times 100$$

* PCB is an abbreviation for Polychlorinated Biphenyl. This is a chlorinated organic compound and produces dioxins when burnt at low temperatures. It is chemically stable, heat-resistant, chemical-resistant and provides excellent electrical characteristics such as high insulation performance. It had many applications in electrical equipment, such as utility transformers, capacitors, etc., until 1972 when its production and use were banned due to the fact that it is harmful to humans. The law requires that transformers, capacitors and the like, that are already in the market be brought to safe storage at appropriate business units.

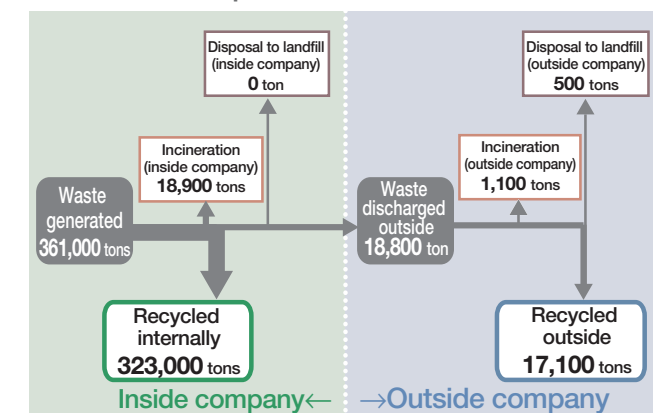
company's positive efforts to treat and recycle waste materials in an appropriate manner were highly appreciated by Yamaguchi Prefecture.

Management and Disposal of PCB Waste

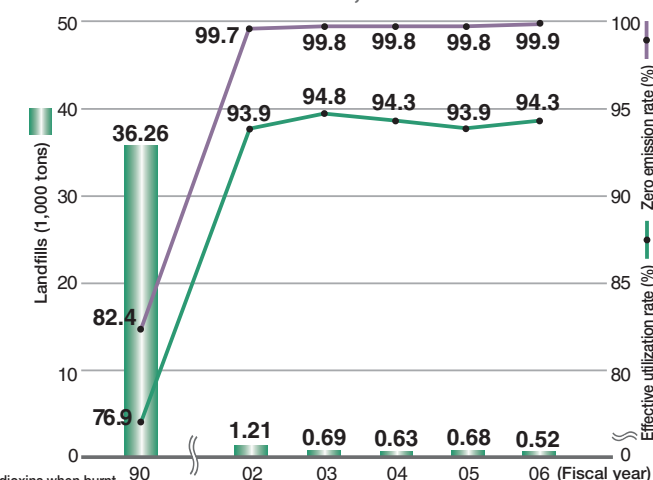
Tokuyama and its group companies have a total of 81 transformers, capacitors, etc. containing PCBs.* Since this equipment is no longer in use, it is properly stored and managed in accordance with the requirements of the Special Measures Law for the Proper Treatment of Polychlorinated Biphenyl Waste.

Parties concerned are required to complete the disposal of PCB waste by July 2016 under the applicable law. Based on a plan made by the central government, wide-area PCB waste disposal facilities are being constructed, and put into operation one after another. In December 2005, we placed an advance order for PCB disposal with Japan Environmental Safety Corporation by utilizing its early registration system. In the future, we will appropriately dispose of all PCB-containing waste according to a schedule agreed with the relevant wide-area PCB waste disposal facility.

Flowchart of Disposal of Waste Materials in Fiscal 2006



Changes in Quantity of Landfill Disposal, Effective Utilization Rate for Waste, etc.



Development of Environmentally Friendly Products and Environmental Technologies

In fiscal 2006, Tokuyama and its group companies conducted efforts to develop a variety of environment-conscious products and recycling technologies, including the development of equipment to mass-produce polycrystalline silicon for solar cells, demand for which has been increasing sharply, and the operation of a verification plant for production.

“Hydrocarbon-Based Electrolyte Membranes” for Fuel Cells Broad Lineup of Products, Including an Anion Type

We are continuing efforts to develop “hydrocarbon-based electrolyte membranes”^{**} for direct methanol fuel cells* (DMFCs^{*}) and for anionic fuel cells. We have already established a system to supply these products in various specifications to meet the diverse needs of users in the emerging DMFC market for portable terminals, including a high-output type and a highly concentrated methanol fuel type.

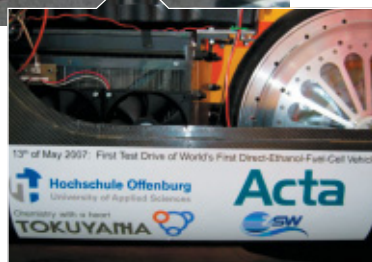
In 2005, we began to supply samples of anion-type hydrocarbon-based electrolyte membranes, developed by us as a world first. Anionic fuel cells have the advantage that catalysts other than platinum and various fuels can be used. Eco-cars that have fitted fuel cell that uses our company’s anion-type membranes are now being developed. Thus, these fuel cells are increasingly regarded as next generation fuel cells.



“Hydrocarbon-based electrolyte membranes” for fuel cells



Eco-car of Offenburg Technical College (Germany), which uses fuel cell that uses our company’s anion-type hydrocarbon-based electrolyte membranes



* Fuel cell: A chemical battery to generate electricity via a chemical reaction between hydrogen inside the fuel cell and oxygen in the air in contrast with electrolysis of water.
 ** DMFCs: Direct methanol fuel cell that converts fuel methanol into hydrogen using a catalytic electrode in the fuel cell.
 * Electrolyte membrane: Membrane to selectively conduct.

Polycrystalline Silicon for Solar Cells Contribution to the Prevention of Global Warming through Solar Cells

The prevention of global warming has become an urgent task for the human race. Solar cells for photovoltaic generation are manufactured in many countries to effectively utilize clean solar energy in an effort to protect the global environment. In 2006, solar cells with a total generation capacity of 2,521 MW were manufactured (please refer to “PV News”; March/April 2007 issue.) This is 6.3 times larger than the total generation capacity of 400 MW of solar cells manufactured in 2001.

Approximately 90% of solar cells are manufactured using polycrystalline silicon. We are contributing to efforts to prevent global warming through supplying polycrystalline silicon for use as a raw material in the manufacture of solar cells.

We are scheduled to increase the annual production of polycrystalline silicon for solar cells by 500 tons by 2009.

To further contribute to the prevention of global warming through the increased usage of solar cells, it will be indispensable to reduce the production costs of polycrystalline silicon. At present, we are promoting demonstration tests using a plant (with a production capacity of 200 tons a year) using the VLD method, which can, in principle, manufacture polycrystalline silicon more rapidly and efficiently than other methods.



Verification plant to manufacture polycrystalline silicon for solar cells

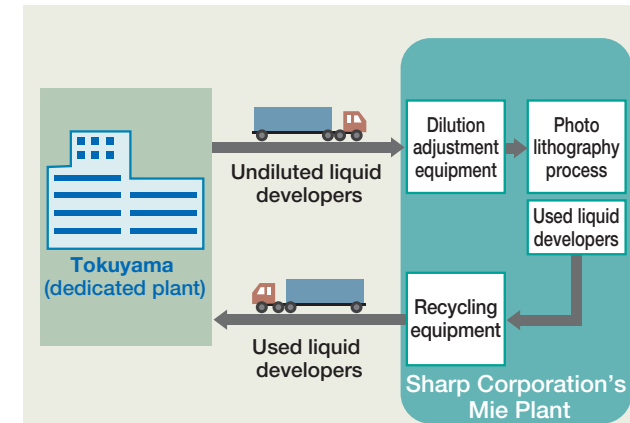
Closed System for Liquid Developers Material Recycling of Used Liquid Developers

Tokuyama and Sharp Corporation completed a process to develop a “material-recycling technology for used liquid developers at liquid crystal plants.” In April 2005, the commercial operation of this closed system for liquid developers (collection, recovery, and reuse) commenced, involving Sharp Corporation’s Mie plant (in Taki-gun, Mie Prefecture) and our own dedicated plant. Our dedicated plant speedily began operations on a commercial basis and continued operations satisfactorily for two years. This is because we had conducted practical tests at a pilot plant over a period of about three years to identify any problems

from various viewpoints and then taken appropriate countermeasures.

From now on, we will make our utmost efforts to further improve this technology and reduce costs so that the closed system may be effectively utilized not only by crystal manufacturers but also by other users of liquid developers. We will continue efforts to develop technologies to manufacture and dispose of liquid developers that generate less environmental impact throughout the supply chain (manufacture, use by customers, and disposal of used developers.)

● Closed System for Liquid Developers at Sharp Corporation’s Mie Plant



Ion Exchange Membranes (ASTOM Corporation) Prevention of Environmental Pollution through Clean Technology

ASTOM Corporation, a Tokuyama Group company, contributes to the solution of environmental problems with its separation technology based on ion exchange membranes, “NEOSEPTA,” and high performance dialyzer, “ACILYZER.” Ion exchange membranes enable selective permeation of positive and negative ions dissociated in solutions. Traditionally, ion exchange membranes have been used for salt production, food, fresh water generation, pharmaceuticals and the treatment of various waste liquids. Recently, ion exchange membranes have been used to separate and collect acid and alkaline in waste liquids, treat leachate at waste disposal facilities and eliminate nitrate nitrogen from groundwater as part of efforts to prevent the environmental pollution. Thus, ion exchange membranes as clean technology are attracting the attention of the international community. As a bio-refinery technology that contributes to the creation of a recycle-oriented society, ion exchange membranes will be utilized for separating and refining organic acid used for biodegradable plastics and cleaning animal waste to make manure.



High performance dialyzer “ACILYZER” using ion exchange membranes

Plastic Window Sash, “Shanon Window” (Shanon Corporation) High-Performance Sashes Contribute to Household Energy Conservation

Shanon Corporation, one of our group companies, manufactures and sells plastic window sashes named “Shanon Window,” which provide an excellent airtight quality, heat and sound insulation, and prevention of condensation.

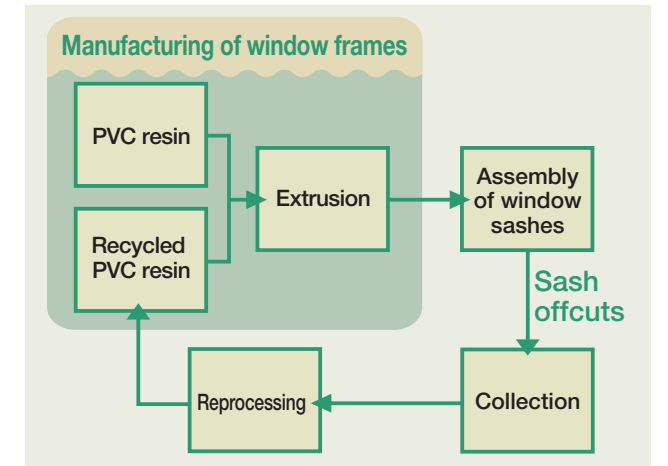
To help prevent global warming, all companies and citizens are required to reduce greenhouse gas emissions. Although reductions are being steadily achieved in the industrial sector, household emissions are on the rise and need to be addressed through more effective measures. In this connection, plastic window sashes are receiving attention due to their ability to conserve energy. A provisional calculation made by the Plastic Window Sash Promotional Committee indicates a significant improvement in insulation efficiency, or some 40% reduction in terms of CO₂ emissions, can be achieved per house if single-glazed aluminum window sashes were all replaced with double-glazed plastic window sashes fitted with a low emission glass. The government of Japan actively encourages the diffusion of double-glazed plastic window sashes. Shanon’s plastic window sashes are a promising energy saving measure that will certainly contribute to the prevention of global warming in the future.

Shanon Corporation has already begun to manufacture window sashes by recycling discarded sash offcuts generated at the manufacturing plant with the aim of establishing a material recycling system for window sashes in the future.



“Shanon Window” (Shanon Corporation aims at establishing a material recycling system for window sashes in the future)

● Shanon’s System to Recycle Sash Offcuts



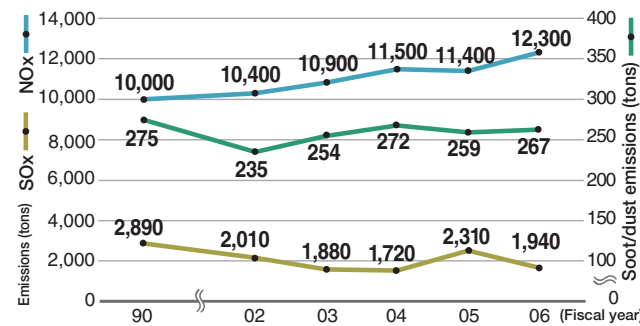
Reduction of Air and Water Pollutants

We have long taken various measures to reduce air and water pollutants. In fiscal 2006, we reduced the emission of SOx and hazardous air pollutants, and reduced COD.

Release of Air Pollutants

To reduce SOx emissions, we installed flue gas desulfurization equipment in each boiler system at our private power generation plant. In fiscal 2006, SOx emissions were reduced as operations of our private power generation plant were adjusted to decrease environmental impact. To reduce NOx and soot/dust emissions, boilers and cement kilns are equipped with NOx removal equipment, low NOx burners and high performance dust collectors. In fiscal 2006, NOx and soot/dust emissions slightly increased as the operating rate of our power generation plant increased.

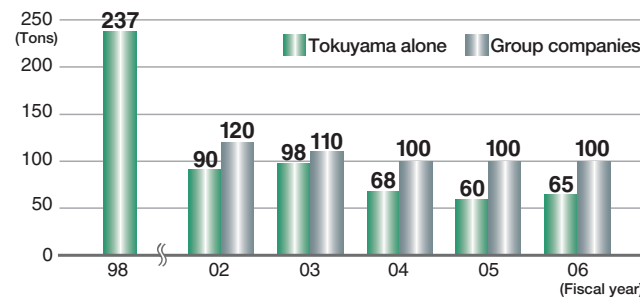
Changes in Emissions of SOx, NOx, and Soot/Dust



Release of Substances Regulated by the PRTR Law

In fiscal 2006, we submitted a report for 25 substances under the PRTR* Law. Although we took measures to reduce the discharge of chloroethylene in fiscal 2006, the total discharge of these substances slightly increased as the operating rate of the facilities remained high.

Release of Substances Regulated by the PRTR Law



Dioxin Measures

Waste incinerators, waste oil incinerators and part of the vinyl chloride monomer (VCM) production facilities are regulated by the Special Measures Law for Countermeasures against Dioxins. The measured concentrations of dioxin in emission gas and wastewater are well below regulatory standards.

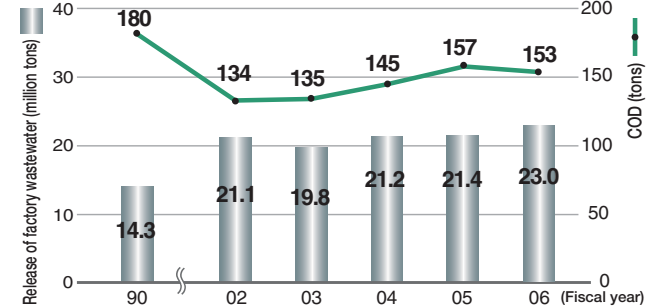
* PRTR Pollutant Releases and Transfer Register, is a system for the compilation and publication of data concerning harmful chemical substances with respect to their sources, the amount of their environmental emissions and the amount released from factory in waste materials.
 ** COD is the abbreviation for Chemical Oxygen Demand. It shows the amount of oxygen required to oxidize organic matter in the water and indicates the level of water contamination.

Release of Factory Wastewater and Water Pollutants

Tokuyama Factory has a stringent monitoring system to ensure that hydrogen-ion concentrations (pH) and suspended solids (SS) remain within their respective limits. Wastewater from Kashima Factory is treated at the final treatment facilities.

To reduce COD,* we installed activated sludge processing equipment, etc. for processing wastewater containing organic matter. Since fiscal 2004, we have measured the discharge of nitrogen and phosphorus to which the "restriction on total volume" applies under the Water Pollution Control Law. In fiscal 2006, the amounts of discharge of nitrogen and phosphorus slightly increased as the operating rate of the facilities remained high, but levels are still far lower than the regulatory standards.

Changes in Release of Factory Wastewater and COD



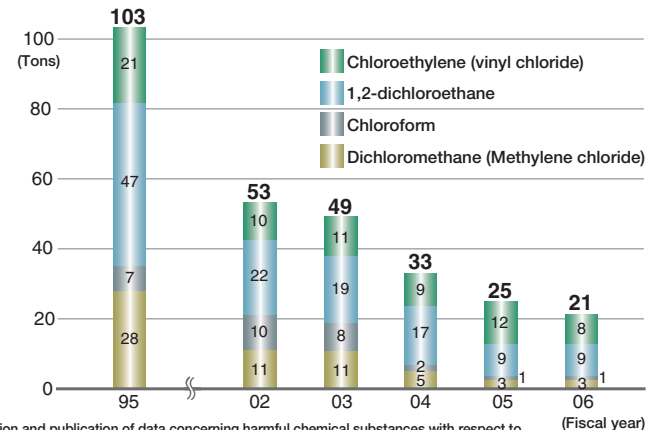
Release of Nitrogen and Phosphorus (kg/day)

Item	Legal regulation value	2004 Fiscal year	2005 Fiscal year	2006 Fiscal year
Nitrogen	5,280	260	260	300
Phosphorus	270	21	11	11

Hazardous Air Pollutants Release

Of the 12 substances left to corporate self-management under the Air Pollution Control Law, four substances, including chloroethylene (vinyl chloride), are produced by our company. Regarding these four substances, we have established a voluntary program to reduce the amount of discharge, and in practical terms discharge of these substances has been decreasing gradually.

Hazardous Air Pollutants Release



Site Reports

Tokuyama Factory

Location: 1-1, Mikage-cho, Shunan City, Yamaguchi Prefecture
 Employees: 1,583
 Area of Factory: 1,650,000 m² (total area)

General Manager of Tokuyama Factory, and Managing Director
 Seichi Shiraga



■ Main Products Cement, inorganic and organic chemical products, polycrystalline silicon, silica, vinyl chloride, etc.

Performance Data

	Unit	2002	2003	2004	2005	2006
SOx	tons	2,010	1,880	1,720	2,310	1,940
NOx	tons	10,400	10,900	11,500	11,400	12,300
Soot/dust	tons	235	254	272	259	267
Industrial water consumption	mil. tons	48.1	47.1	50.1	49.5	45.8
Wastewater	mil. tons	21.0	19.6	21.1	21.3	22.8
COD	tons	129	131	141	152	148
Nitrogen	tons	-	-	94	95	110
Phosphorus	tons	-	-	7.8	4.0	3.9
PRTR substances	tons	84	95	66	57	63
Waste generation	1,000 tons	367	383	395	349	360
Final disposal of waste	tons	1,170	650	610	660	480
Energy consumption	1,000 GJ	49,900	51,800	53,000	53,900	54,100
CO ₂ emissions (fossil fuel sourced)	1,000 tons	4,390	4,640	4,800	4,910	4,960
Complaints	cases	3	4	5	5	3

Kashima Factory

Location: 26 Sunayama, Kamisu City, Ibaraki Prefecture
 Employees: 77
 Area of Factory: 101,000 m²

Kashima Factory
 General Manager
 Osamu Iwamoto



Main Products

Tokuyama's Kashima Factory
 Bulk pharmaceuticals (x-ray contrast media, stomach and duodenal ulcer treatment drugs,) optical materials (plastic lens monomers, light modulating materials, hard-coating liquid), raw materials for electronic materials, and metal washing solutions

Kashima Plant of Tokuyama Dental Corporation

Dental materials (restorative materials, adhesives, denture relining materials, impression materials, dental stone, implant materials)

Kashima Works of A&T Corporation

Reagents for clinical analysis (electrolyte analysis reagents, glucose analysis reagents)

● Tokuyama Dental has changed its processing solutions from dichloromethane to aqueous solvent for certain products. The company is continuing efforts to reduce the release of dichloromethane by changing processing solutions for other products.

● Kashima Factory began material recycling for waste acetone and toluene in fiscal 2005. In fiscal 2006, the effective utilization rate of waste increased by 5%, to 71%.



Release and Transfer of PRTR Substances Sorted by Item (FY 2006)*

(in tons** except dioxins, in mg-TEQ)

Name of substance	Legally-specified substance number	Amount released			Subtotal	Amount transferred
		To atmosphere	To public water systems	To soils		
Cresol	67	0.0	27.4	0.0	27.4	0.0
1,2-dichloroethane	116	8.6	0.0	0.0	8.6	0.2
Chloroethylene (Vinyl chloride)	77	8.3	0.0	0.0	8.3	0.0
Toluene	227	5.6	0.0	0.0	5.6	153.5
1,2-dichloropropane	135	4.4	0.0	0.0	4.4	194.5
Chloromethane (Methyl chloride)	96	3.2	0.0	0.0	3.2	0.0
Water soluble zinc compound	1	0.0	2.2	0.0	2.2	0.0
Dichloromethane (Methylene chloride)	145	2.0	0.0	0.0	2.0	0.0
Chloroform	95	0.8	0.0	0.0	0.8	0.0
1,2-epoxypropane (Propylene oxide)	56	0.6	0.0	0.0	0.6	2.4
Carbon tetrachloride	112	0.2	0.0	0.0	0.2	0.0
Benzene	299	0.0	0.0	0.0	0.0	0.0
2,2'-azobisisobutyronitrile	13	0.0	0.0	0.0	0.0	0.0
Ethylene glycol	43	0.0	0.0	0.0	0.0	0.0
Nickel compounds	232	0.0	0.0	0.0	0.0	0.0
Hydrazine	253	0.0	0.0	0.0	0.0	0.0
Hydrogen fluoride and its water soluble salt	283	0.0	0.0	0.0	0.0	0.0
Boron and its compounds	304	0.0	0.0	0.0	0.0	0.0
Dioxins	179	(52.3)	(0.4)	(0.0)	(52.6)	(0.0)
Total		33.7	29.6	0.0	63.3	350.7

* Scope of survey includes PRTR-law specified substances with an amount handled of more than 1 ton per year and dioxins.

** While the PRTR Law says the amount of release shall be given in kilograms to two significant figures, the amount in this report is given in tons, rounded to the nearest 1/10 ton (dioxins in mg-TEQ).

Performance Data (Total of Three Companies)

	Unit	2002	2003	2004	2005	2006
Industrial water consumption	1,000 ton	106	96	91	112	110
Wastewater	1,000 ton	124	109	107	126	125
COD	ton	5	4	4	5	5
PRTR substances	ton	6	3	3	2	3
Waste generation	ton	609	614	749	719	779
Final disposal of waste	ton	39	43	29	15	34
Energy consumption	1,000 GJ	46	46	45	51	53
CO ₂ emissions (fossil fuel sourced)	ton	2,110	2,170	2,180	2,130	2,170
Complaints	cases	0	0	0	0	0

Release and Transfer of PRTR Substances Sorted by Item (FY 2006)*

(in tons**)

Name of substance	Legally-specified substance number	Amount released			Subtotal	Amount transferred
		To atmosphere	To public water systems	To soils		
Dichloromethane (Methylene chloride)	145	1.4	0.0	0.0	1.4	6.0
Toluene	227	0.9	0.0	0.0	0.9	4.4
Chloroform	95	0.3	0.0	0.0	0.3	1.1
Acetonitrile	12	0.0	0.0	0.0	0.0	1.7
Methyl methacrylate	320	0.0	0.0	0.0	0.0	0.0
N,N-dimethylformamide	172	0.0	0.0	0.0	0.0	18.8
1,4-dioxane	113	0.0	0.0	0.0	0.0	0.1
Ethylene glycol	43	0.0	0.0	0.0	0.0	1.3
2-vinylpyridine	256	0.0	0.0	0.0	0.0	0.2
2,3-epoxypropyl methacrylate	316	0.0	0.0	0.0	0.0	0.0
Formaldehyde	310	0.0	0.0	0.0	0.0	0.0
a-methylstyrene	335	0.0	0.0	0.0	0.0	0.0
Total		2.7	0.0	0.0	2.7	33.6

* Scope of survey includes PRTR-law specified substances with an amount handled of more than 1 ton per year.

** While the PRTR Law says the amount of release shall be given in kilograms to two significant figures, the amount in this report is given in tons, rounded to the nearest 1/10 ton.

Activities of Group Companies

We believe we should jointly address Responsible Care activities with our group companies. To provide support for their activities, we have exchanged a memorandum of agreement on RC management with respective group companies that are engaged in production activities at home and abroad.

To strictly manage the RC activities of Tokuyama Group, we assess RC activities of group companies by reviewing data, including environmental impacts and safety management indicators, and by conducting a safety and environmental assessment for several selected companies on a yearly basis. We share information on regulatory standards with our group companies.

We also help group companies to acquire ISO 14001 and ISO 9001 certification. In fiscal 2006, Kanto Plant of Sun Tox Co., Ltd. acquired ISO 14001 certification.

ISO 9001 and ISO 14001 Acquisition Status for 11 Group Companies

Company name	ISO 9001	ISO 14001
Sun Tox Co., Ltd.	●	●
Shanon Corporation	●	—
Tohoku Shanon Corporation	●	●
A&T Corporation	●	●
Figaro Engineering Inc.	●	●
Tokuyama Dental Corporation	●	●
Tokuyama Siltech Co., Ltd.	●	●
Sun Arrow Chemical Co., Ltd.	—	●
ASTOM Corporation	●	●
Shin Dai-ichi Vinyl Corporation	—	●
Tokuyama Polypropylene Co., Ltd.	●	●

●=Certified ●=Included as a group site

Sun Tox Co., Ltd.

Kanto Plant 3075-18, Shimasu, Itako City, Ibaraki Prefecture



Plant manager: Hideki Tanaka
Employees: 173
Area: 55,800 m²

Kanto Plant is located in the Itako Industrial Park in Ibaraki Prefecture and manufactures approximately 25,000 tons a year of biaxially oriented PP films and cast PP films. With the aim of saving energy and reducing CO₂ emissions, we introduced a cogeneration unit in fiscal 2004, and began to fully operate the unit in fiscal 2005. Fuel oil consumption in fiscal 2006 decreased by more than 50% from the level of fiscal 2004 due to efficient operation of this cogeneration unit.

In December 2006, we acquired ISO 14001 certification. We promote the PDCA cycle aiming at running our plant in harmony with society through implementing ISO 9001 and our Occupational Health and Safety Management System as well as ISO 14001. We designate the 30th day of each month as "Zero Waste Day" and conduct cleaning operation in neighboring areas.

Performance Data

	Unit	2002	2003	2004	2005	2006
Power consumption	1,000 kWh	26,890	27,810	28,470	28,480	29,730
Heavy oil consumption	kl/year	1,480	1,460	1,470	910	600
SO _x	tons/year	2.2	2.0	2.0	0.7	0.6
NO _x	tons/year	2.8	3.3	3.3	0.9	0.5
Soot particles	tons/year	0.1	0.3	0.3	0.04	0.03
Industrial water consumption	tons/year	56	52	53	63	59
Waste generation	tons/year	100	27	90	22	52
Final disposal of waste	tons/year	10	20	0	0	9
COD	tons/year	0.02	0.02	0.02	0.02	0.01

Established: February 14, 1992
Shareholders: Tokuyama Corporation (100%)
Head office: Annex to Tokuyama Bldg. 1-4-5, Nishi-Shimbashi, Minato-ku, Tokyo, 105-8429
Business: Manufacture and sales of biaxially oriented polypropylene films and cast polypropylene films (including multi-layer co-extruded films)

Tokuyama Plant 7-7, Harumi-cho, Shunan City, Yamaguchi Prefecture



Plant manager: Toshiyuki Yamaoka
Employees: 143
Area: 24,100 m²

Tokuyama Plant is located within Higashi Plant of the corporation's Tokuyama Factory and manufactures about 23,000 tons a year of biaxially oriented PP films. Our plant conducts environmental conservation activities in cooperation with Tokuyama Factory and also maintains ISO 14001 requirements. In fiscal 2006, we made our utmost efforts to "drastically reduce manufacturing losses." Thanks to these efforts, we achieved a 1% reduction in unit raw material consumption and a 2.5% decrease in unit energy consumption.

As for health and safety, one year has passed since we began implementation of an Occupational Health and Safety Management System. In fiscal 2006, we promoted various health and safety activities, including risk assessments. In fiscal 2007, we aim at acquiring a certification under the Occupational Health and Safety Management System, and continue efforts under the slogan of "Feel joy in production; Be stringent with quality; and Adhere to safety," so that our plant can be consistently relied upon by society and by our customers.

Performance Data

	Unit	2002	2003	2004	2005	2006
Power consumption	1,000 kWh	34,920	36,170	35,740	35,770	34,230
Consumption of 0.3 MPa steam	tons/year	2,450	3,080	2,610	2,930	4,220
Consumption of 2.1 MPa steam	tons/year	39,670	42,270	42,760	44,830	42,270
Waste generation	tons/year	270	100	80	160	180
Final disposal of waste	tons/year	18	4	2	0	1

Sun Arrow Chemical Co., Ltd.

Established: February 1, 1999
Shareholders: Tokuyama Corporation (100%)
Head office: Kitahama-Chuo Bldg., 2-2-22, Kitahama, Chuo-ku, Osaka City, 541-0041
Business: Manufacture and sales of vinyl chloride compounds

Tokuyama Plant 1-2, Harumi-cho, Shunan City, Yamaguchi Prefecture



Plant manager: Shigefumi Kunihiro
Employees: 28
Area: 3,280 m²

Our Tokuyama Plant is located within Higashi Plant of the corporation's Tokuyama Factory, and manufactures about 13,000 tons of vinyl chloride compounds a year.

Out of recognition that RC activities should be carried out irrespective of the size of a company, our plant conducts such activities in collaboration with the Tokuyama Factory. In fiscal 2006, production hit a record high and the amount of waste plastics also increased. However, we exhaustively sorted waste plastics with a target of realizing 100% recycling. As a result, the amount of external final disposal of waste has become zero.

In fiscal 2007, we are continuing to undertake chemical production activities with professionalism and safety in mind, aim at continuing our no-accident and no-disaster records, acting in compliance with laws and regulations, and carrying out business operations in harmony with the global environment as a corporate citizen.

Performance Data

	Unit	2002	2003	2004	2005	2006
Power consumption	1,000 kWh	2,570	2,790	3,020	3,210	3,540
Consumption of 0.3 MPa steam	tons/year	240	240	240	240	240
Industrial water consumption	1,000 tons/year	65	65	65	65	65
Waste generation	tons/year	97	132	150	172	186
Final disposal of waste	tons/year	7.3	0.3	0.2	0.1	0

Tokuyama Polypropylene Co., Ltd.

Established: April 2, 2001
Shareholders: Tokuyama Corporation (50%), Prime Polymer Co., Ltd. (50%)
Head office: 1-1, Harumi-cho, Shunan City, Yamaguchi Prefecture
Business: Manufacture of polypropylene and flexible polyolefin

Tokuyama Plant 1-1, Harumi-cho, Shunan City, Yamaguchi Prefecture



Plant manager: Hiroshi Horii
Employees: 63
Area: 71,000 m²

Our Tokuyama Plant is located within Higashi Plant of the corporation's Tokuyama Factory, and manufactures 200,000 tons a year of polypropylene resin and 5,000 tons a year of flexible polyolefin resin. Our plant implements three management systems: safety management, environmental management, and quality management, and conducts RC activities in collaboration with the Tokuyama Factory.

As for process safety, we acquired the qualification of a "Certified Safety Inspector" as specified in the High Pressure Gas Safety Law in 2005. We are promoting safety management activities based on risk assessment for "processes, facilities, and operations." We have been breaking "no-accident and no-disaster" records for the past 32 years, including the era when our company was the Polypropylene Production Department of Tokuyama Corporation. In fiscal 2007, we will continue RC activities with targets such as, "continuance of no-accident and no-disaster operations," "reduction in environmental impacts," and "no quality-related complaints."

Performance Data

	Unit	2002	2003	2004	2005	2006
Industrial water consumption	1,000 tons/year	482	402	410	443	387
Waste generation	tons/year	66	106	134	85	161
Final disposal of waste	tons/year	5*	0	20*	0	25*
Unit energy consumption index as compared with FY 2002	%	100	86	87	79	79

*The year of the scheduled shutdown maintenance

Tokuyama RC Activities—Historical Overview

July 1991	Established Global Environmental Issues Committee	March 2003	Received the distinction award in "Resource Recycling Technologies and Systems" from the Director-General of Industrial Science and Technology Policy and Environment Bureau, the Ministry of Economy, Trade and Industry
March 1993	Established RC Administration Committee, Instituted voluntary plan for Total Management of Environment, Safety and Quality	April	Updated certification to ISO 9001: 2000; company's sales sector was newly certified
April 1994	Acquired ISO 9002 certification for High-Purity Isopropyl Alcohol	December	Underwent the Responsible Care verification process. Tokuyama Factory achieved a Category II zero-accidents record (8.1 million hours for the chemical industry) as defined by the Ministry of Health, Labour and Welfare
June	Establishment of product warranty systems, including product and labeling assessments	October 2004	Figaro Engineering Inc. acquired an ISO 14001 certification. Kashima Factory was granted the Director-General of Labor Bureau of the Ibaraki Prefectural Government Award
April 1995	Became a member of the Japan Responsible Care Council	February 2005	Tokuyama Factory was granted the Director-General of the Agency of Natural Resources and Energy Award for Excellent Energy Management Plant (Electricity Sector)
May 1997	Acquired ISO 9001 certification for Cement Manufacturing	March	Tokuyama Factory acquired a certification of the Yamaguchi Prefecture Eco Factory
September	Issued RC Report (First edition)	June	Tokuyama Factory achieved the Ministry of Health, Labour and Welfare's Category III Zero-Accident record (chemical industry: 12.2 million hours)
April 1998	Acquired ISO 9001 certification for Dental Materials Manufacturing	September	ASTOM Corporation acquired ISO 9001 certification
December	Acquired ISO 9001 and 9002 certifications for aluminum nitride, functional powders, etc.; Tokuyama Factory acquired ISO 14001 certification	August 2006	Shanghai Tokuyama Plastics Co., Ltd. acquired ISO 9001 certification
January 1999	Kashima Factory was certified to ISO 14001	December	Kanto Plant of Sun Tox Co., Ltd. acquired ISO 14001 certification
June	Acquired ISO 9002 certification for Chemical Products, Polypropylene, Films, etc.	April 2007	Corporate Social Responsibility Division established
December	Set up Ecological Management Initiative Department. Acquired ISO 9002 certification for polycrystalline silicon, organic solutions, etc.		
August 2000	Created Recycling and Environmental Business Department		
April 2001	Established Yamaguchi Eco-Tech Corporation		
April 2002	Acquired ISO 9002 certification for vinyl chloride monomer and polyvinyl chloride		
June	Kashima Factory won the Ibaraki Prefecture award in recognition of being an "Earth-Friendly Company"		

Tokuyama Corp.

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