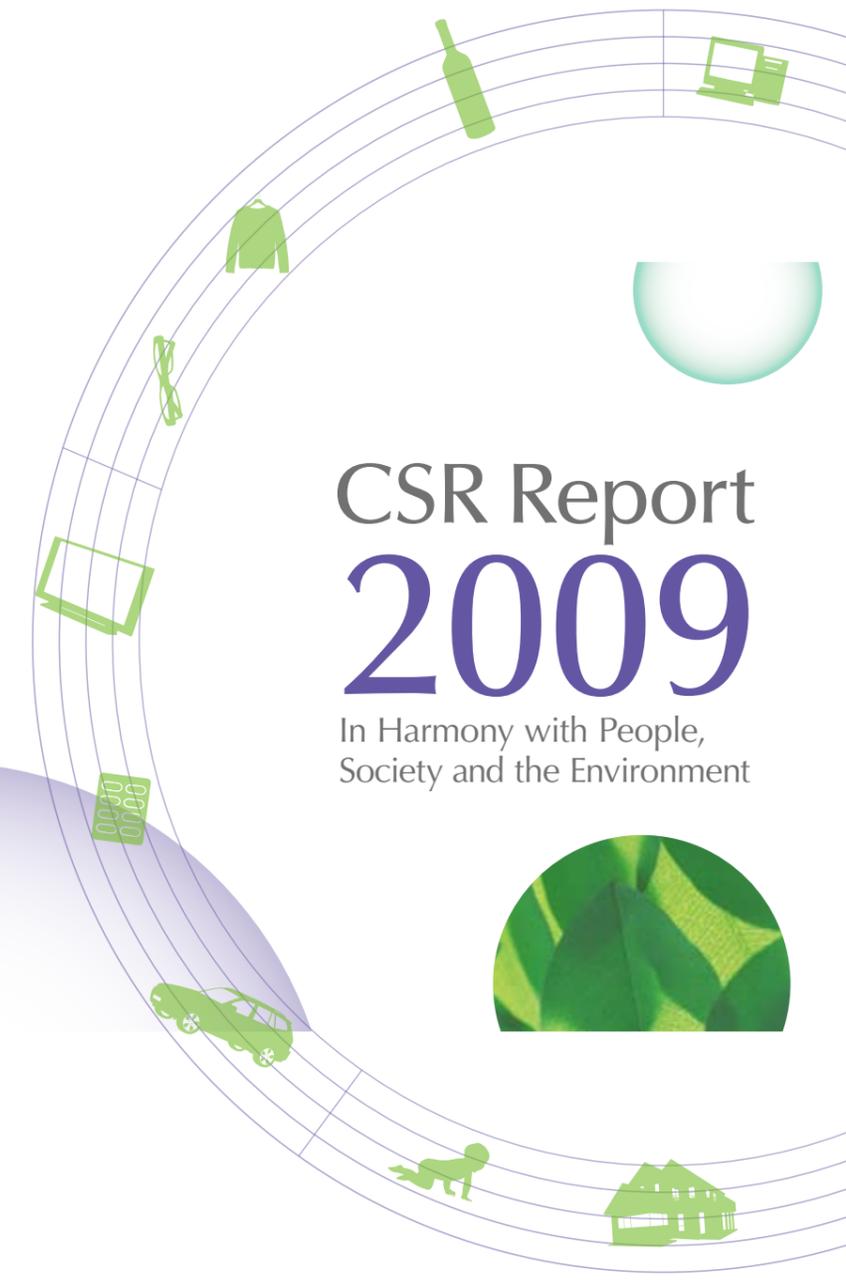


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CSR Report
2009
 In Harmony with People,
 Society and the Environment

Staying with you all the time



This report is printed on FSC-accredited paper with pure plant oil ink, which contains no volatile organic compounds and in a dry printing process that uses no water, thus precluding release of any harmful effluents.



The Tokuyama Group has adopted a Code of Business Activities.

Tokuyama Group Code of Business Activities Established : May 12, 2009

All Tokuyama Group members will commit to operating in a way that is compatible with society and to fulfilling the Group's corporate social responsibility, following the principles below and endeavoring to achieve sustained growth by earning the support of our clients.

1 Compliance

We act with good corporate ethics and common sense, based on the understanding that compliance with laws and corporate rules is the most important requirement in pursuing any kind of business.

2 Fair Business Activities

- We aim to be moderate and reasonable in our business through fair, free, and transparent competition.
- We will maintain fair and reasonable relation with political and governmental organizations.

3 Responsible Care

- We develop, produce and supply products and services that have value to the community, with a constant focus on safety requirements, so that we can satisfy our clients and consumers and earn their trust.
- We voluntarily and proactively address environmental issues based on an understanding of their significance to all mankind and their importance to the continuation of business activities.

4 Respect of Human Rights and Personality

- We respect the basic rights of people in our business and will do not discriminate on the bases of race, sexuality, creed, nationality or religion.
- We value diversity in the workplace and will provide a safe and comfortable working atmosphere to provide satisfaction and opportunity to each employee.

5 Communications

We make fair and positive public disclosure of information about our Group including its business activities and financial reports to maintain good communication with society.

6 Social Contributions

- We actively seek to contribute to our community as a good corporate citizen.
- We contribute to the development of local regions in our international business activities, respecting not only international rules, local laws and regulations but also local cultures and customs.

7 Exclusion of Antisocial Forces

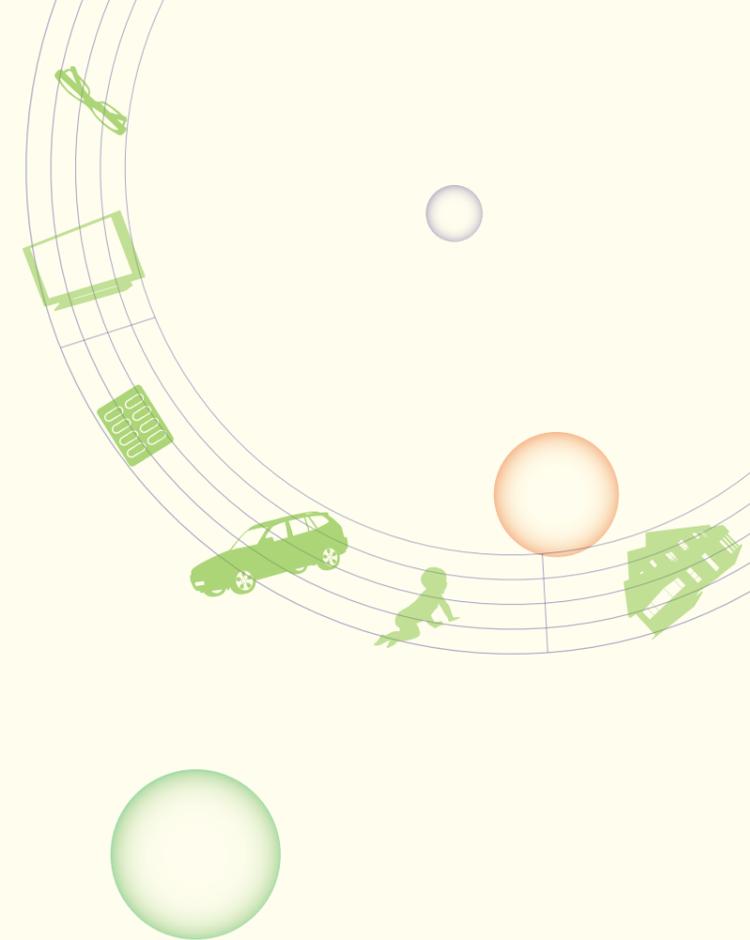
We will not enter into any business arrangement with antisocial forces that threaten public order and safety.

Responsibility of Senior Management Under the Tokuyama Group Code of Business Activities ("Code of Business")

Established : May 12, 2009

Each member of the senior management of Tokuyama Corporation and its Group companies is responsible for embodying the spirit of Code of Business, and specifically for carrying out the following jointly and individually.

- 1 Senior managers shall lead employees in complying with the Code of Business.
- 2 Senior managers shall ensure that all employees in their organization comply with the Code of Business.
- 3 Senior managers shall establish appropriate internal systems to ensure that compliance with the Code of Business operates effectively.
- 4 Senior managers shall take the following actions in dealing with any event that is not in compliance with the Code of Business ("Violation")
 - Demonstrate a clear commitment to solving the Violation.
 - Make every reasonable effort to identify the cause(s) of the Violation and put in place appropriate measures to prevent any recurrence.
 - Make public disclosure of the Violation quickly and accurately and with appropriate accountability.
 - Clarify authority and responsibility with respect to the Violation and take strict action (disciplinary measures), including appropriate action against senior managers themselves.



Editorial Policy

- CSR Report 2009 has been prepared with the aim of bringing Tokuyama's activities directed at meeting its Corporate Social Responsibility in fiscal 2008 to the attention of all concerned, including shareholders, investors, trading partners, employees and their families, people living near its production sites and members of the public. As with the 2008 edition, Ms. Eriko Nashioka of the Institute for Environmental Management Accounting was asked to offer independent comments on this report. The purpose of the independent comments is to continuously seek feedback and ratings that are helpful to Tokuyama's efforts in fulfilling its social responsibility. Details of Ms. Nashioka's comments are available on page 49.
- CSR Report 2009 has been prepared based on the Environmental Reporting Guidelines (Fiscal 2007 edition) published by the Ministry of the Environment.
- CSR Report 2009 is also available via Tokuyama's website: <http://www.tokuyama.co.jp/>

Scope of the Report

- Period: All performance data are for fiscal 2008, from April 2008 to March 2009. Activities are for fiscal 2008 in general, with some for fiscal 2009.
- Companies: Tokuyama Corporation (Environmental performance data relate to the Tokuyama factory and the Kashima factory.) Part of the performance data also includes the total value of eleven main production companies in the Group (See page 47).
- Region: Activities in Japan (Including some overseas companies in the Group)
- Date of issue: November 30, 2009 (The next edition will be issued in November 2010.)

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Editor's Notes

Consistently striving to regain trust and evolve into a manufacturing company that is in harmony with society



Kazuhisa Kogo
President

The Tokuyama Group has set out its Centennial Vision, ahead of the 100th anniversary of its founding in 2018. The Vision defines the optimum form of the Tokuyama Group as “a manufacturing company that creates a brighter future with the vitality of human resources and creativity of chemistry in harmony with society.” The principle central to the vision is to attain this Group ideal by strengthening its international competitiveness and by strengthening strategically growing businesses through human resources-based management and the promotion of CSR activities.

This report has been prepared to inform our stakeholders of the Tokuyama Group’s activities under the Centennial Vision to become a “manufacturing company in harmony with society,” and to seek their understanding.

During fiscal 2008, the Tokuyama Group continued to pursue its vision of becoming a manufacturing company in harmony with society. To our deepest regret, however, a major problem that betrayed the trust of society surfaced during the fiscal year. It was revealed that Tokuyama Corporation and one of its subsidiaries, Excel Shanon Corporation, sold plastic window sashes (fireproof/fire-resistant grade) with specifications

that differed from the individually authorized fireproof/fire-resistant specifications. We made an announcement about this matter in January 2009. Specifically, three facts became known. First, test products with specifications differing from those authorized were used to obtain individual authorization of fireproof/fire-resistant specifications for the plastic window sashes. Second, plastic window sashes with specifications differing from the authorized specifications were produced and sold. And third, approximately 70,000 window frames failing to meet the requirements for individual authorization on fireproof/fire-resistant specifications have been delivered to customers.

In response to these facts, we immediately began action to identify houses or buildings equipped with the sashes and to carry out replacement of or repairs to the said products. These actions are presently in full swing. At the same time, we have set up an external investigative committee and a recurrence prevention committee to probe the causes of the incident and to study ways to ensure that it does not happen again. We are faithfully and steadily introducing meaningful measures based on the reports provided by these two committees.

Although the Tokuyama Group has been operating with the aspiration to remain trusted and respected by society, this incident has severely damaged social faith in us. I take this opportunity to offer my sincerest apology to our customers and to all our stakeholders for a great deal of trouble and anxiety we have caused.

The external investigative committee advised us to take steps to change attitudes within the Group, along with the organization and the internal whistle-blowing system, with a firm resolve to prevent any recurrence and rebuild the trust that has been lost. Taking this incident most seriously, the Tokuyama Group will engage in a major effort to repair and improve the sashes in question and to carry out the thorough reforms needed to ensure that incidents of this kind are never repeated. It is my belief that if we consistently strive to recover trust, we will be able to proceed toward our vision of becoming a manufacturing company in harmony with society.

This report comprehensively covers our actions to win back trust and to achieve our vision.

We invite readers to provide us with their feedback and remarks in relation to this report.

July 2009

A Dishonesty Problem Concerning Plastic Window Sashes (fireproof/fire-resistant grade)

It was revealed that Tokuyama Corporation and Excel Shanon Corporation (hereinafter referred to as “Shanon”), one of Tokuyama’s subsidiaries, obtained individual authorization for fireproof/fire-resistant specifications for plastic window sashes (fireproof/fire-resistant grade) using test products that had specifications that were different from the specifications of the products that received the authorization, and that the companies then produced and sold plastic window sashes with specifications that did not match the said individually authorized specifications. This incident, announced in January 2009, caused a great deal of trouble and anxiety to our customers, government authorities, and other stakeholders. It betrayed the trust of those working to broaden the use of plastic window sashes, which offer excellent thermal insulation and contribute to the fight against global warming. We take this opportunity to again sincerely apologize, and to report here on the incident, the causes identified by the investigation, and the actions we are taking to ensure it is never repeated.

<Investigation into the causes and consideration of measures to prevent a recurrence>

When the incident was revealed, an external investigative committee and a recurrence prevention committee were set up to study the causes and to consider ways to prevent a recurrence. Chaired by Mr. Kozo Fujita, the external investigative committee also consisted of Mr. Chiharu Saiguchi and Mr. Yukio Machida. All members are attorneys. The recurrence prevention committee was chaired by Tokuyama’s President Kazuhisa Kogo. After receiving reports from these committees, Tokuyama’s Board of Directors adopted measures to prevent a recurrence, based on the findings of the investigation, in March 2009.

<History of plastic window sash business and facts of the incident>

The following describes the history and facts of the incident, as uncovered by the external investigative committee through an investigation and other efforts. Tokuyama built a factory at Kuriyama-cho in Hokkaido in December 1980 to launch the plastic window sash business, becoming Japan’s first manufacturer of such sashes. This business was operated mainly by the Shanon & Building Materials Business Division inside Tokuyama until it was spun off and integrated in 2000. It has been revealed that products with different specifications from the specifications authorized were sold at that time. The reason for doing this was because mass production in compliance with the authorized specifications would have required a lot of time and work in the manufacturing process and would have caused failure in opening and closing the windows.

In April 2004, the plastic window sash operations in Tokuyama and other group firms were unified under Shanon. After this integration, a policy to expand sales in Tokyo, Osaka, Fukuoka and other major urban areas was launched as a means of increasing our market share of the plastic window sashes in the window sash market and thereby moving the business out of the red. In these areas, many districts are so densely packed with residential houses that they are designated as fire protection districts. Acquisition of individual authorization of fireproof/fire-resistant specifications was considered essential. For these reasons, instructions to develop plastic window sashes (fireproof/fire-resistant grade) were issued. At that time, a dishonest act of modifying the structure of the test products was conducted for the purpose of passing the authorization test, since it was felt that it would be difficult, both in technical and cost terms, to develop any plastic window sash (fireproof/fire-resistant grade) that could compete with the aluminum window sashes that had already obtained general authorization.

Subsequently, in November 2007, the Ministry of Land, Infrastructure, Transport and Tourism carried out an inquiry into whether authorization was obtained using any illegal test product and whether any product with specifications that differed from the authorized ones was sold, as part of its fact-finding study on authorization of fireproof/fire-resistant structures and technologies. In answer to this inquiry, Shanon made the false response that there was no problem, as it felt that if the facts were made public it would incur such a heavy burden of repair and improvement costs that it would not be able to continue operations.

<Incident background and causes>

With respect to the causes of the incident and its background, the external investigative committee made three points. The first was the lack of respect for canons among Shanon’s top management. The second was the lack of respect for canons among its development personnel. And the third was the inappropriateness of the internal organization. At Shanon, both the management team and the development team were ignorant of the objectives and purposes of laws and regulations. In addition, the quality assurance system for plastic window sashes (fireproof/fire-resistant grade) was so underdeveloped that the dishonest acts passed unnoticed.

To identify the reasons for the long-term failure to discover this incident, the external investigative committee pointed out the inappropriateness of the internal organization and the relationship between Tokuyama and Shanon. Within Shanon, there was a barrier between the development team and the manufacturing and sales personnel. This hampered external checks on the acquisition of the authorization with the use of the dishonest test products and on the disparity between the authorized specifications and the specifications of the products sold. Meanwhile, Tokuyama, the parent company, and Shanon, a subsidiary of Tokuyama, attached importance to sustaining and expanding the business. The Tokuyama Group’s governance did not function effectively.

<Measures to prevent a recurrence>

The external investigative committee recommended the three reforms detailed below to prevent any recurrence of the incident. Following this recommendation, a meeting of Tokuyama’s Board of Directors in March 2009 resolved to adopt specific measures. The Tokuyama Group is now united in its efforts to steadily and faithfully implement these measures.

(1) Reforming attitudes

The recommendation on reforms to attitudes advises that the management executives must understand laws and corporate ethics as well as the spirit behind them, to thoroughly instill them within the Company by setting out a clear direction to be followed by the organization and its employees, and to make continuing efforts to make compliance management part of the corporate culture.

In accordance with this recommendation, we are working to upgrade the compliance system and take other measures to prevent a recurrence to spread awareness of compliance throughout the Tokuyama Group and to make it part of our corporate culture.

(2) Reforming the organization

For organizational reform, the recommendation advises that Shanon’s development, manufacturing, sales, and other individual sections, as well as its management team, must review the roles they play in the entire Tokuyama Group from a broad perspective that goes beyond their own organizations and positions. It then advises that they take actions to ensure that the organization that is reorganized operates in a truly organic way.

In answer to this recommendation, Shanon set up a Quality Assurance Department. It is also restructuring its management systems to ensure that all relevant teams including those for development, manufacturing, and sales are involved in every stage of the process ranging from the start of development to manufacturing and sales. On a Group-wide basis, efforts to improve initial training for newly-appointed officers of Group companies are underway.

(3) Reforming the internal whistle-blowing system

With respect to the reforms to the internal whistle-blowing system, the recommendation says: “Other companies’ scandals also teach us that it is of increasing importance to remove any potential source of problems at an early stage with the help of the internal whistle-blowing system. It is necessary to periodically make all employees fully aware that the internal whistle-blowing system is beneficial to maintaining and increasing corporate value.”

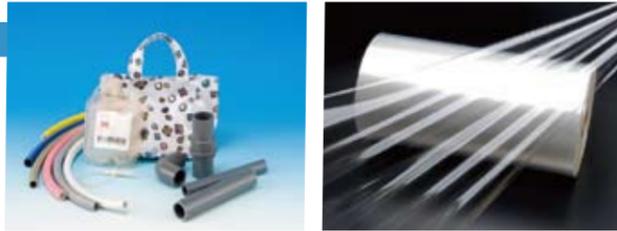
In accordance with this recommendation, an external contact for whistle-blowers has been added. Action is underway to make the internal whistle-blowing system better known within the Tokuyama Group, including the facts that information may be given anonymously and that the information offered is closely supervised.

Business Segments and Major Products (including group companies)

* For products, see also pages 9 and 10.

Chemicals

Caustic soda, soda ash, calcium chloride, vinyl chloride monomer, polyvinyl chloride resin, propylene oxide, isopropyl alcohol, methylene chloride, biaxial-oriented polypropylene films, co-extrusion multi-layer films, cast polypropylene films, microporous films, layered sodium disilicate



[Principal Domestic Group Companies]

- Shin Dai-ichi Vinyl Corporation ● Sun-Tox Co., Ltd.
- Sun Arrow Chemical Co., Ltd. ● Tokuyama Siltech Co., Ltd.

Specialty Products

Polycrystalline silicon, precipitated silica, fumed silica, aluminum nitride, dental materials and equipment, pharmaceutical ingredients and intermediates, plastic lens materials for glasses, ion-exchange membranes and systems, metal washing solvents, high-purity chemicals for electronics manufacturing, clinical analyzers and systems, gas sensors and gas detectors



[Principal Domestic Group Companies]

- A&T Corporation ● Figaro Engineering Inc. ● Tokuyama Dental Corporation
- ASTOM Corporation

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



[Principal Domestic Group Companies]

- Tokuyama Tsusho Trading Co., Ltd. ● Excel Shanon Corporation
- Tokuyama Ready Mixed Concrete Co., Ltd. ● Tokuyama Mtech Corporation

Tokuyama's Global Network



- [Germany] ● Tokuyama Europe GmbH
● Tokuyama Dental Deutschland GmbH
<Sale of dental materials and equipment>
- [France] ● Eurodia Industrie S.A.
<Design, manufacturing and sale of electrolysers>
- [Italy] ● Tokuyama Dental Italy S.r.l.
<Sale of dental materials and equipment>

- [China] ● Tokuyama Trading (Shanghai) Co., Ltd.
● Shanghai Tokuyama Plastics Co., Ltd.
<Manufacture and sale of microporous films>
● Tianjin Figaro Electronic Co., Ltd.
<Manufacture and sale of gas sensors and applied products>
● Tokuyama Chemicals (Zhejiang) Co., Ltd.
<Manufacture and sale of fumed silica>
● Tokuyama Electronic Materials (Suzhou) Co., Ltd.
<Manufacture and sale of high-purity chemicals for electronics manufacturing>
- [Taiwan] ● Taiwan Tokuyama Corporation
<Manufacture and sale of high-purity chemicals for electronics manufacturing>

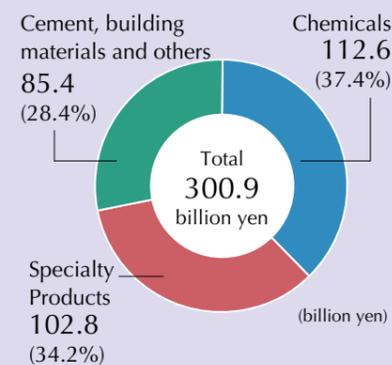
- [United States] ● Tokuyama America Inc.
● Figaro USA, Inc.
<Sale of gas sensors and applied products>
- [South Korea] ● Tokuyama Korea Co., Ltd.
● Hantok Chemicals Co., Ltd.
<Manufacture and sale of photoresist developer>
- [Thailand] ● Tokuyama Siam Silica Co., Ltd.
<Manufacture and sale of precipitated silica>
- [Singapore] ● Tokuyama Electronic Chemicals Pte. Ltd.
<Manufacture of high-purity chemicals for electronics manufacturing>
● Tokuyama Asia Pacific Pte. Ltd.



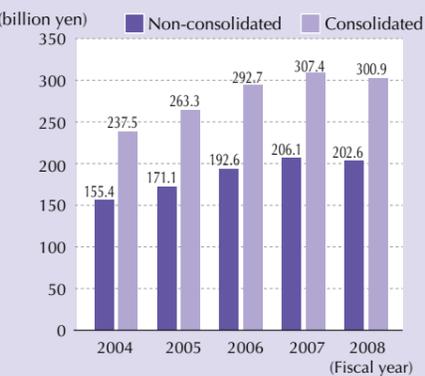
Company Outline

Corporate Name: Tokuyama Corporation
 Established: February 16, 1918
 Capital: 29,975 million yen (as of March 31, 2009)
 Registered address: 1-1, Mikage-cho, Shunan-shi, Yamaguchi, Japan
 Head office: Shibuya Konno Bldg. 3-1, Shibuya 3-chome Shibuya-ku, Tokyo, Japan
 Branches and offices: Sendai, Nagoya, Osaka, Takamatsu, Hiroshima and Fukuoka
 Production and Research Sites: Tokuyama Factory, Kashima Factory and Tsukuba Research Laboratory
 Number of Consolidated Subsidiaries: 46
 Number of Equity-Method Companies: 11

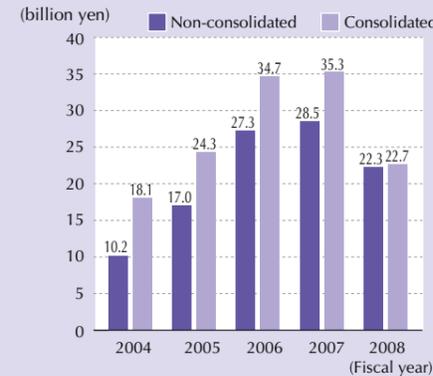
Sales Breakdown by Segment (Fiscal 2008)



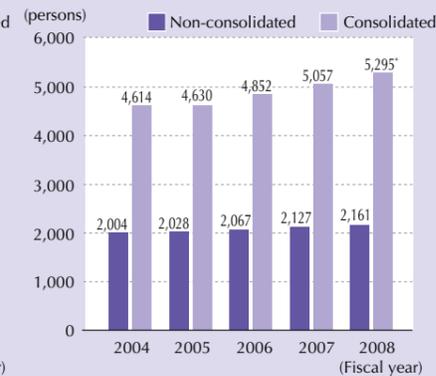
Net Sales



Operating Income

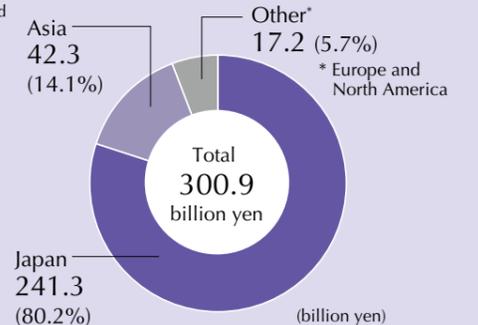


Number of Employees



* Including 581 overseas employees in fiscal 2008

Sales by Region (Fiscal 2008)



In Your Everyday Life - Chemistry in harmony with Society

Tokuyama has devoted itself diligently to manufacturing in an effort to serve society and to bring happiness to people since its establishment. Although they may attract little attention, products that are valuable in everyday life help you in your daily life. If you notice our products, you will find that Tokuyama is always beside you.

Tires (precipitated silica)

TOKUSIL (silica powder), also called white carbon, is chiefly used as a reinforcing and filling material for synthetic rubber. When used in tires as a reinforcing agent, it improves gripping performance to shorten braking distances. Reducing rolling resistance, it also has the effect of reducing fuel consumption.



Outside the home

- Medical gloves (polyvinyl chloride resin)
- Intravenous bags (polyvinyl chloride resin)
- Pharmaceutical products (pharmaceutical ingredients and sodium bicarbonate)
- Blood testing (diagnostic reagents, clinical analyzers, and laboratory information systems)
- Dental materials and equipment



Cement and concrete

Ordinary Portland cement is so versatile that it is used in a broad array of applications, including general civil engineering and construction works, and cement secondary products. Ready-mixed concrete is classified into ordinary concrete for general works, road paving concrete, and lightweight concrete, which is lighter than ordinary concrete. Ready-mixed concrete mills provide a wide range of concrete by changing the ingredients and the formulas.



Solar cells (polycrystalline silicon)

Polycrystalline silicon is used as a material for solar cells in which silicon substrates are used.
* For details about polycrystalline silicon, see also pages 11 and 12.



- Building exterior (building materials and polyvinyl chloride resin)
- Window glass (soda ash)
- Paint (isopropyl alcohol and precipitated silica)

- Aluminum wheels (caustic soda)
- Car navigation systems (aluminum nitride, polycrystalline silicon, high-purity chemicals for electronics manufacturing, photoresist developer and silica for semiconductor encapsulant)
- Hybrid cars (aluminum nitride)
- Glasses (plastic lens materials for glasses)

Personal computers

(aluminum nitride, polycrystalline silicon, high-purity chemicals for electronics manufacturing, photoresist developer and silica for semiconductor encapsulant)

Aluminum nitride is used for a number of leading-edge semiconductor devices such as heat dissipating components for computers, insulating substrates for the power supply units of trains in Japan and overseas, laser diode substrates for DVD and other optical drives, and substrates for automotive control modules in hybrid-powered and other vehicles.



- Cellular phones (polycrystalline silicon, high-purity chemicals for electronics manufacturing, photoresist developer and silica for semiconductor encapsulant)
- Sports shoes (precipitated silica)

- LCD televisions (aluminum nitride, polycrystalline silicon, high-purity chemicals for electronics manufacturing, photoresist developer and silica for semiconductor encapsulant)
- DVD recorders (aluminum nitride)
- Residential windows (plastic window sash)

- Keyboards (fumed silica)
- CD/DVD drives (aluminum nitride)
- Optical communications (aluminum nitride)

- Shampoo (isopropyl alcohol)
- Bathtubs (propylene oxide)
- Water pipes (polyvinyl chloride resin)
- Bath salts (sodium bicarbonate)

- Laundry detergent (layered sodium disilicate and soda ash)
- Soap (caustic soda)
- Toothpaste (precipitated silica)

Food wrapping film

(polypropylene film)

Polypropylene films offer excellent transparency and strength, and are highly suitable to automatic wrapping, printing, and processing into bags. With advantages in their resistance to chemicals and heat based on the characteristics of polypropylene, they are widely used in food wrapping, and wrapping for clothing and textile, as well as in many other applications.



- Clothing (caustic soda)
- Dehumidifying agent (calcium chloride and microporous film)
- Interior finishing material (plaster sheet)

- Baby diapers (microporous film)
- Toys (polyvinyl chloride resin)
- Newspapers (caustic soda)
- Sofas (propylene oxide)
- Wine (ion exchange membrane)

At home

- Gas detectors
- Low-salt soy sauce and table salt (ion exchange membrane)

Tokuyama's High-Purity Polycrystalline Silicon Backs the Widespread Use of Solar Cells.

The surface of the Earth receives one kilowatt of energy per square meter from sunlight. If all of the sun's energy that reaches the globe could be converted into electricity, just one hour of sunlight would supply the energy needs of the entire world for a year. Moreover, this energy is available to anyone, as it is supplied uniformly to every part of this planet. Solar cells emit no carbon dioxide at all when they produce electricity. Amid concern about global warming and the exhaustion of fossil resources, many governments are pursuing policies to boost the introduction of solar cells. In Japan, the introduction of solar cells is gathering momentum under the Fukuda Vision.



A new polycrystalline silicon plant, construction of which was completed in March 2009 (Higashi Plant, Tokuyama Factory)

Polycrystalline silicon

Polycrystalline silicon, or polysilicon, is a fundamental material in the electronics industry. It is a primary material for products that are indispensable to today's lifestyles, such as large scale integrated circuits (LSIs), which are the hearts of personal computers, electronic components for automotive control, and cell components for solar modules that convert sunlight into electricity, which are playing a central role in renewable energy.



Spread of solar cells

Global cumulative installed photovoltaic capacity has increased about tenfold, from 1,428 MW in 2000 to 14,730 MW in 2008. (See Graph 1)

Silicon-based solar cells account for approximately 90% of this capacity. The manufacturing process of silicon-based solar cells begins with silica stones, or silicon dioxide.

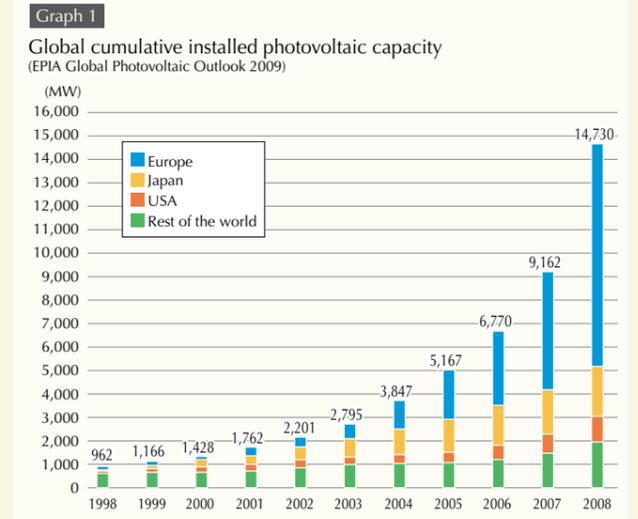
The diagram at the left page outlines the process flow.

(See Figure 1)

Solar cell technology is now so advanced that the energy required for manufacturing solar cells can be recovered in about one and a half years.

Tokuyama's polycrystalline silicon made its debut as a material for electronic components. The size of the electronic components has been reduced with each year. Today's small laptops boast performance superior to the mainframe computers used three decades ago. This could not have been achieved without making nine billion transistors on a 3-cm square single-crystalline silicon substrate, which in turn requires precision on the order of 1/10,000mm. At this tiny size, any non-silicon impurity causes failure. The polycrystalline silicon used for this must have eleven-nine¹ purity.

This eleven-nine requirement is met by Tokuyama's polycrystalline silicon, which embodies 25 years of experience and a constant commitment to research and development. The polycrystalline silicon produced by Tokuyama also represents an accumulation of our unique technologies in distillation, refining, deposition, and



product surface cleaning among other areas.

Conversion efficiency is an indicator of the percentage of sunlight energy turned into electricity. Solar cell manufacturers are in a fierce race to achieve higher conversion efficiency. Characterized by its low impurities, Tokuyama's high-purity polycrystalline silicon satisfies customers' needs in this respect.

^{*1} Eleven-nine: Refers to a purity level of 99.999999999% for semiconductor crystals. The percentage figure has 11 nines. This term means that the crystal has been refined to a purity level that is extremely close to 100%.

Development of the VLD (vapor-to-liquid deposition) method

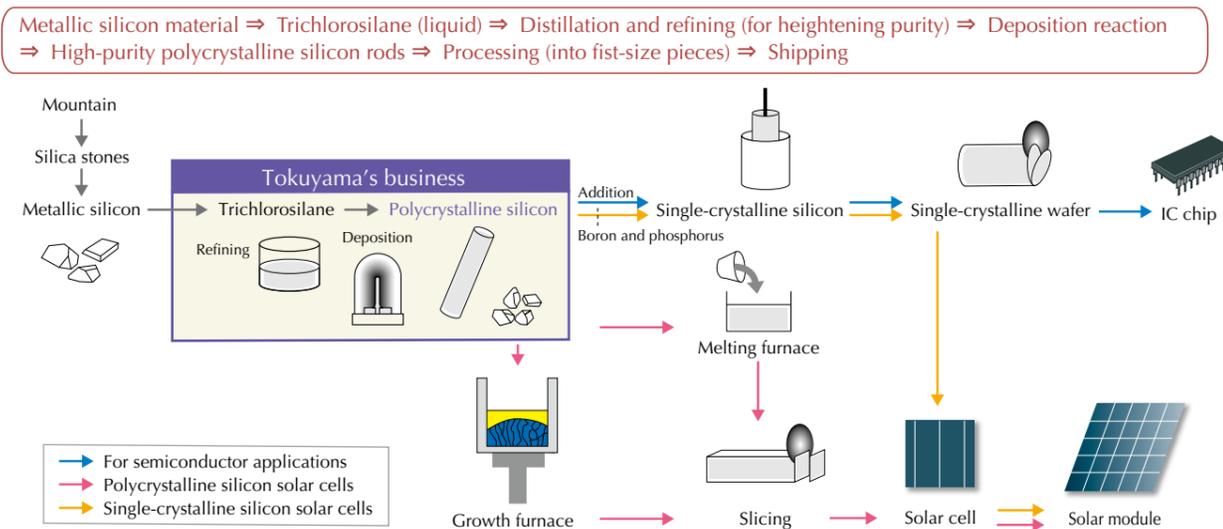
Grid parity refers to the point at which electricity can be generated at the cost equal to the charges for the electricity supplied by the electric power company. To approach this ultimate goal, it is necessary to ensure that polycrystalline silicon as a material for solar cells is produced at low cost. Tokuyama is focusing its R&D on the VLD method, which differs from the conventional production method. The second-generation verification reactor has recently been constructed. Verification tests will begin in summer 2009.



Since joining Tokuyama, I have been involved in developing the VLD method, a new manufacturing approach for the polycrystalline silicon used in solar cells. The VLD method is a technology unique to Tokuyama, and it enables more efficient polycrystalline silicon production compared with the conventional method. I believe it will help lower the costs of solar cells. The path to development is challenging, but it is truly exciting to be involved in the process of creating a new technology. The development of the VLD method is now in its final stages. We will work closely with other sections and with customers to ensure commercialization at the earliest possible date.

Takuya Majima, Si Development Dept., Si Business Div.

Figure 1 Process flow for production of high-purity polycrystalline silicon in the Siemens method

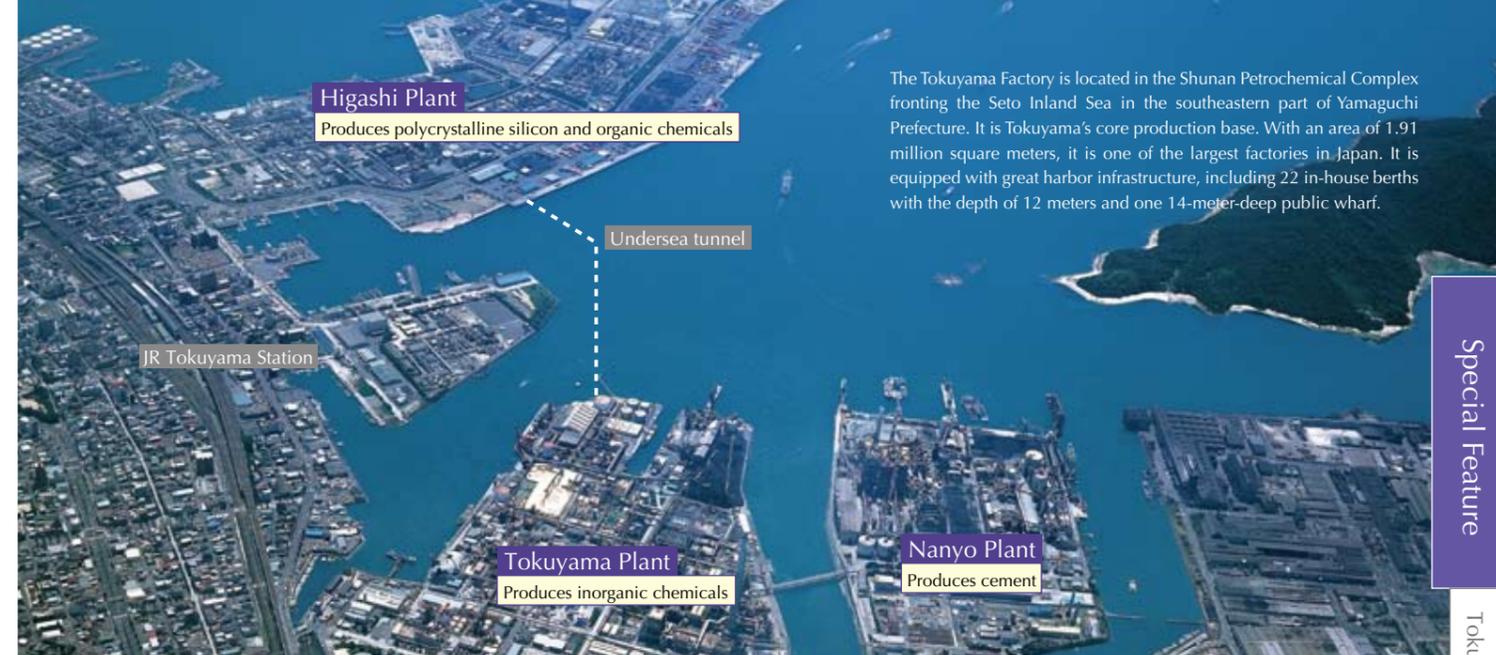


Voice

Integration in the Tokuyama Factory

-Toward Building a Sustainable Society-

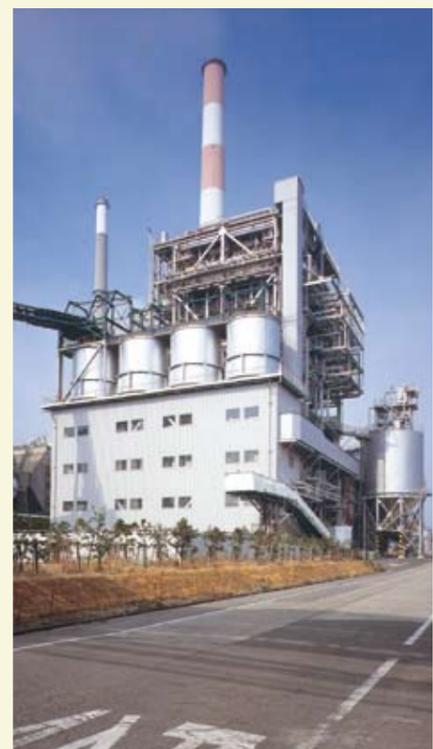
Tokuyama's principal production facilities can be found in the Tokuyama Factory. Equipped with one of the largest in-house power generation facilities in Japan, this factory integrates diverse manufacturing processes in a highly sophisticated manner. With a highly efficient production structure, it has achieved a zero emission rate of nearly 100%. The Tokuyama Factory is fully committed to building a sustainable society, for instance by actively accepting waste from outside the Company in its cement business.



The Tokuyama Factory is located in the Shunan Petrochemical Complex fronting the Seto Inland Sea in the southeastern part of Yamaguchi Prefecture. It is Tokuyama's core production base. With an area of 1.91 million square meters, it is one of the largest factories in Japan. It is equipped with great harbor infrastructure, including 22 in-house berths with the depth of 12 meters and one 14-meter-deep public wharf.

A highly efficient energy system based on in-house power generation

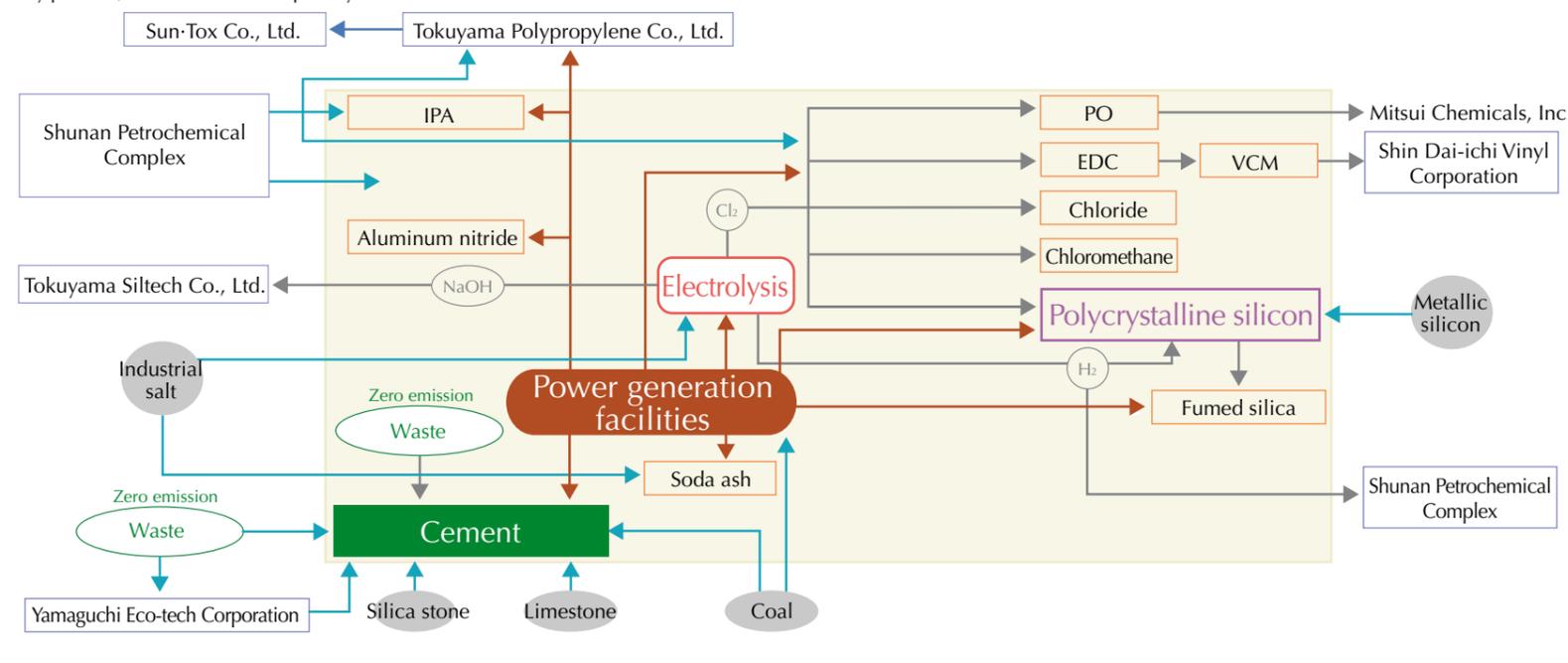
At the heart of the integration in the Tokuyama Factory is its in-house power plant, which boasts one of the largest power generation capacities in Japan at 552,000 kilowatts. The electric power and steam generated are supplied through power lines and pipes to the electrolysis plant and other plants. The factory makes effective use of steam as well as electric power to attain high levels of energy efficiency.



An in-house power plant with one of the largest power generation capacities in Japan

Integration in the Tokuyama Factory

Since it commenced operations in 1918, the Tokuyama Factory has constantly pursued its vision of becoming an integrated production base, where energy, materials, and technologies support close links among different businesses. The factory has built a sophisticated integration system, in which multiple plants for inorganic and organic chemicals, cement, electronic materials, and other products are arrayed in a layout designed to enable them to make effective use of raw materials, products, by-products, waste and utilities reciprocally.



Recycling operations open to society — Active acceptance of external waste

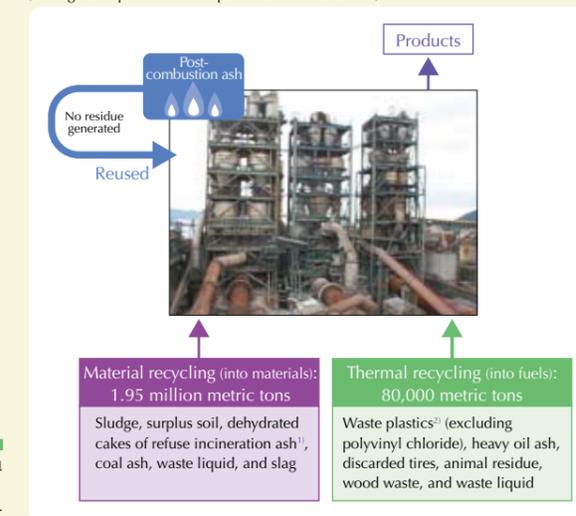
The Tokuyama Factory has been making exhaustive efforts to recycle by-products and waste generated from within. It has now attained an outstanding green performance: in fiscal 2008, it effectively utilized 94.1% of waste and achieved a zero emission rate of 99.9%.

The cement plant is another nucleus of the integrated Tokuyama Factory. It makes effective use of by-products from the Company's soda ash plant and coal ash from in-house power plants as raw materials. It also accepts a large amount of waste and by-products from outside the Company, and conducts recycling that is open to society. A significant percentage of waste and by-products can be used as raw materials for cement production, as they contain certain elements that are identical to those contained in clay, one of the raw materials for cement. Combustible waste can also be used as an energy source. The temperature in the **cement kiln**¹⁾ reaches 1,000 to 1,800 degrees Celsius. At this high temperature, combustible elements are reduced to ash, which is used as an ingredient for cement. This makes the cement kiln quite unlike an incinerator, in that it generates no residue. In fiscal 2008, the factory recycled 2.03 million metric tons of waste and by-products, including 0.30 million metric tons generated within the Company.

Committed to helping to create a recycling society, the Tokuyama Factory continues with its steady efforts to turn itself into a more advanced production base.

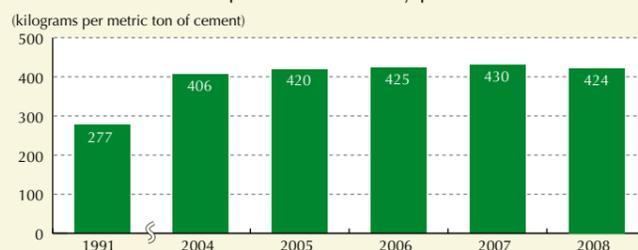
¹⁾ Cement kiln: A rotary kiln used for sintering raw materials in the cement plant

■ The process flow for the recycling of waste and by-products in cement production (The figures represent actual quantities for fiscal 2008.)

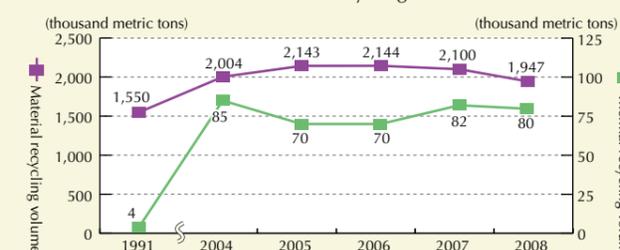


1) The factory accepts incineration ash generated from municipal refuse incineration facilities in Yamaguchi Prefecture after pretreatment by Yamaguchi Eco-tech Corporation, a joint venture of the Company and Ube Industries, Ltd.
2) A technology has been developed to enable the stable injection of crushed waste plastics in large quantities from the front of the kiln. The crushing and combustion capacity is boosted each year to meet the growing demand to accept the waste plastics.

■ Trend in unit consumption of waste and by-products



■ Trend in material and thermal recycling volumes





Tokuyama Chemicals

The Group's First Full-Scale Chemical Plant Outside Japan

With demand increasing rapidly in China, it is essential that the Tokuyama Group generate higher corporate value of the Group by quickly and appropriately responding to China's increasing demand. The Group's Centennial Vision sets a goal of increasing overseas sales to at least 30% of total sales. To reach this goal, Tokuyama Chemicals (Zhejiang) Co., Ltd. was established in the Zhejiang Province city of Jiaxing, in the suburbs of Shanghai, to build a production facility in China's principal consuming region.

This is Tokuyama's first full-scale factory outside Japan, and it commenced operations in November 2007 with a fumed silica production capacity of 5,000 metric tons. In addition, a second-phase construction project is now underway to build an additional plant with a capacity of 5,000 metric tons. The project is expected to conclude at the end of August 2009, when total annual production capacity is set to reach 10,000 metric tons.

Thoughts on overseas marketing of international products

China continues to achieve astonishing rates of economic growth. I believe that the keys to achieving sustainable growth in China are quality advantages, quality stability, cost competitiveness, and speed or timing of response.

With these points in mind, Tokuyama Chemicals approaches manufacturing with an emphasis on quality, its strongest point.

To maintain the growth of our business, we will continue to seek accurate insights into what this giant market demands today and in the future, and what approach we should take to increase customer satisfaction in rapidly changing business circumstances in China.



Hiroshi Nomura
President
Tokuyama Chemicals (Zhejiang) Co., Ltd.

Tokuyama Chemicals' CSR-related activities

In 2008, China's per capita GDP (gross domestic product) exceeded 3,000 US dollars. After per capita GDP topped 1,000 US dollars in 2003, China then tripled its economy in just five years. As the people of China seek to enjoy better lifestyles, demand is beginning to grow rapidly for fumed silica, which is used as a reinforcing agent for silicone rubber and fiber reinforced plastics (FRPs), as a sealant for building materials, and as an anti-drip agent for paints and inks, among other applications. China is set to be a rapidly emerging market for fumed silica. We believe that our mission is to provide this market with competitive products, aiming to achieve "independence, growth and fairness," Tokuyama Chemicals' basic policy, in line with China's development. This section takes a look at some of the initiatives that Tokuyama Chemicals has taken with a focus on the giant China market.

Employee education

A chemical plant differs from assembly plants in the mechanical equipment industry in that reactions and interactions among materials are not directly visible. A number of hidden risks are therefore present. Line personnel receive safety education at the Skills Education and Training Center on the premises of Tokuyama Corporation's Tokuyama Factory, in addition to daily safety and health education. A total of 28 manufacturing staff members have so far completed the safety education program, giving them a combined total of 56 days of experience in the dangers involved. In addition, an



Corporate Profile

Tokuyama Chemicals (Zhejiang) Co., Ltd.

Business: Manufacture and sale of fumed silica

Location: Zhapu Economic Development Zone, Jiaxing, Zhejiang Province, PR China

Capital: 43.9 million US dollars (as of the end of March 2009)

Ownership: Tokuyama Corporation 100%

Site Area: 150,000 m²

Production Capacity: 10,000 metric tons of fumed silica a year (after completion of the second phase project)

Date of Foundation: September 13, 2005

Number of Employees: 152 (as of the end of March 2009)



The instrument panel room where the plant is controlled



Fumed silica manufactured by Tokuyama Chemicals under the brand name of REOLOSIL®

The product warehouse

A wide variety of functions of fumed silica

- 1 Thickening and thixotropy
- 2 Reinforcement
- 3 Dispersion aiding and anti-settling
- 4 Anti-caking and fluidity improvement
- 5 Anti-blocking
- 6 Adsorption and absorption support
- 7 Abrasion
- 8 Matting

Providing these functions and effects, fumed silica is used for many different applications and products. As portrayed on page 10, it is helpful in all aspects of daily life.

- Crystal rubber (Sports shoe soles)
- Unsaturated polyester (Resin for ships, bathtubs and tanks)
- Sealant (Gap filling material for joints in windows, doors and other buildings)
- Printing inks and ink-jet printer paper (Coated on the surface)
- Synthetic leather (Coated on the surface as a matting agent)
- Silicone rubber
- Paints
- Adhesives
- Toothpaste
- Films
- Fire extinguishing agents

exchange meeting with Tokuyama's engineering personnel was organized for technical staff. It covered a broad array of subjects, including quality and the environment. In China, the key to boosting an employee retention rate lies in ensuring that individual employees achieve personal growth, with a recognition that they work in a place where they can develop their careers.

Relationships with the environment and the local community

In the process of manufacturing its products, a chemical plant generates waste. Tokuyama Chemicals has introduced flue gas exhaust treatment systems that have demonstrated an impressive track record for years at the Tokuyama Factory of Tokuyama Corporation. For wastewater treatment, a new high-performance sludge separator has been developed, which successfully lowers the suspended solid concentration in the discharged water. Currently, separated sludge is recycled into a brick material. We are in the process of patenting the sludge separating systems. In addition to submitting reports to the government authorities, full explanations were offered to local residents in the development zone prior to the construction of the plant.

It is often noted that corporate social responsibility (CSR) has moved from a debate about whether a company should fulfill its CSR to the question of how to fulfill it. In China, we will steadily operate a CSR program that is modest and unobtrusive but that is closely linked with the local community. Our CSR program includes introducing pollution control systems, as we did for our plants in Japan, engaging in dialogues with the local community, and dispatching staff members

to Japan for safety education.

ISO 9001 and 14001 certification

Tokuyama Chemicals is preparing to obtain ISO 9001 certification in July 2009 and an ISO 14001 certification in October 2009.

Voice

Aiming to become the number one quality provider

~ Obtaining ISO 9001 and 14001 certification ~

Under our project to double fumed silica production, quality management operations are increasingly significant. We are currently working hard to obtain ISO 9001 and 14001 certification, to respond to increasing demands from customers. This effort helps reduce ambiguities in the work flow and steadily improve the efficiency and transparency of operations. The number of players targeting the huge China market is expected to rise. To compete in this tough market, we must improve not only the competitiveness of our services and prices but also our quality level. We will continue to take steps to enhance our quality over the short, medium, and long terms, aiming to become the number-one quality provider.



Katsumi Nagase
General Manager of the Technical Dept.
and the Quality Assurance Dept.

Tokuyama's CSR Activities

The Tokuyama Group has a basic management policy of practicing management in harmony with society so as to coexist with and achieve a shared success with society and thereby establish itself as a business grouping which is trusted by society and whose members are each the enterprise of first choice for their customers.

What Are Tokuyama's CSR Activities?

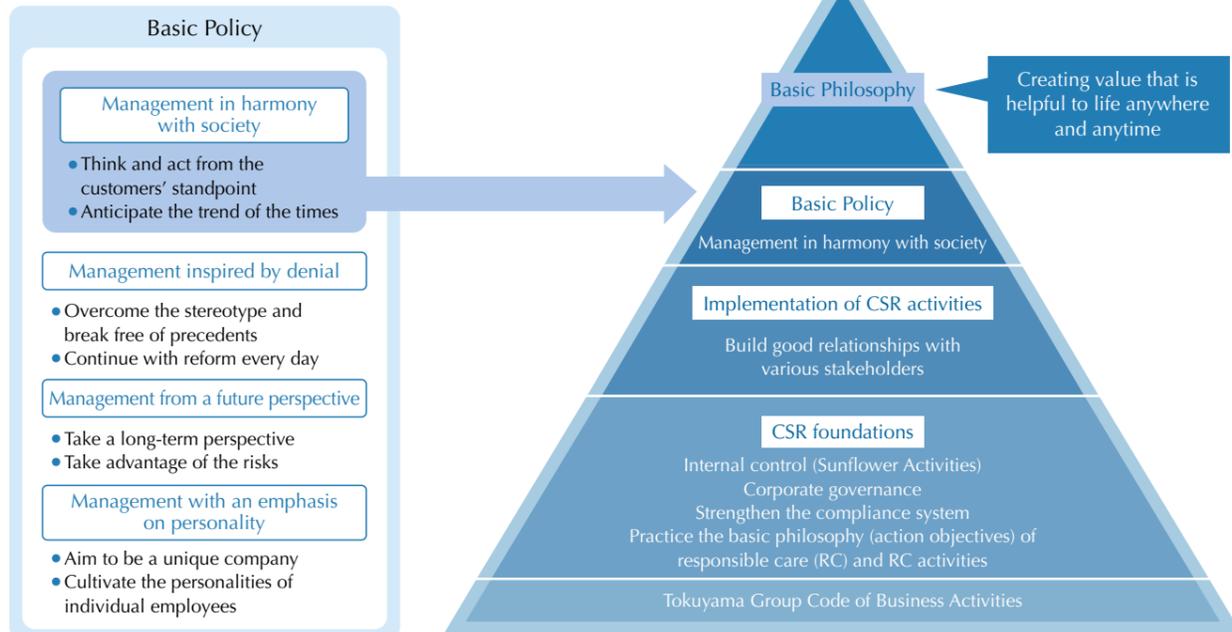
Tokuyama approaches its CSR activities in accordance with its basic policy of engaging in management in harmony with society. We believe that CSR activities help give us the continuation of our business and enable us to work with society to build a sustainable future. To increase stakeholder satisfaction, we commit to corporate activities that are welcomed by the society of which each stakeholder is part.

We see bolstering management transparency as a fundamental part of our CSR. We are also committed to a program of promoting sound corporate governance and to building an internal control system and a compliance system, to ensure comprehensive risk management.

The Tokuyama Group has been pursuing an initiative which it calls Sunflower Activities, designed to permanently instill within the Group the essence of internal control.

Under the Tokuyama Group Code of Business Activities, we seek to practice management in harmony with society, to make the Group into a business grouping whose members are each the enterprise of first choice for their customers, and to build excellent relationships with all stakeholders.

Tokuyama's CSR Approach



Message

An unyielding determination to regain the trust that has been lost

The Tokuyama Group strives to operate under the basic policy, "management in harmony with society." To our sincere regret, however, a dishonesty problem came into light in which test products with specifications that differed from those of the authorized products were used to obtain individual authorization for fireproof/fire-resistant specifications in the plastic window sash business. This has severely betrayed the trust of our customers and many other stakeholders. Compliance is a prerequisite in CSR management. We are treating this critical breach of compliance with the utmost seriousness, and we have adopted measures to prevent any recurrence, with an unyielding determination to regain the confidence of our stakeholders. I am convinced that these actions to regain trust will show us the way forward in our mission to become a manufacturing company that operates in harmony with society.



Etsuro Matsui
Managing Director
General Manager
Corporate Social Responsibility Div.

Tokuyama Group Code of Business Activities

Established: May 12, 2009

All Tokuyama Group members will commit to operating in a way that is compatible with society and to fulfilling the Group's corporate social responsibility, following the principles below and endeavoring to achieve sustained growth by earning the support of our clients.

- 1 **Compliance**
We act with good corporate ethics and common sense, based on the understanding that compliance with laws and corporate rules is the most important requirement in pursuing any kind of business.
- 2 **Fair Business Activities**
 - We aim to be moderate and reasonable in our business through fair, free, and transparent competition.
 - We will maintain fair and reasonable relation with political and governmental organizations.
- 3 **Responsible Care**
 - We develop, produce and supply products and services that have value to the community, with a constant focus on safety requirements, so that we can satisfy our clients and consumers and earn their trust.
 - We voluntarily and proactively address environmental issues based on an understanding of their significance to all mankind and their importance to the continuation of business activities.
- 4 **Respect of Human Rights and Personality**
 - We respect the basic rights of people in our business and will do not discriminate on the bases of race, sexuality, creed, nationality or religion.
 - We value diversity in the workplace and will provide a safe and comfortable working atmosphere to provide satisfaction and opportunity to each employee.
- 5 **Communications**
We make fair and positive public disclosure of information about our Group including its business activities and financial reports to maintain good communication with society.
- 6 **Social Contributions**
 - We actively seek to contribute to our community as a good corporate citizen.
 - We contribute to the development of local regions in our international business activities, respecting not only international rules, local laws and regulations but also local cultures and customs.
- 7 **Exclusion of Antisocial Forces**
We will not enter into any business arrangement with antisocial forces that threaten public order and safety.

- p. 20 Promoting Compliance
- p. 32 Relationships with Trading Partners
- p. 22-24 RC Promotion Structure and Operation of Management Systems
- p. 33-34 Relationships with Employees
- p. 31 Relationships with Shareholders
- p. 28-30 Relationships with Communities and Society

Tokuyama's Major Stakeholders

Tokuyama conducts customer-focused quality assurance activities based on implementation of its ISO 9001-compliant quality management system. Chemical substances are comprehensively managed to ensure safety at all stages of the manufacturing process.

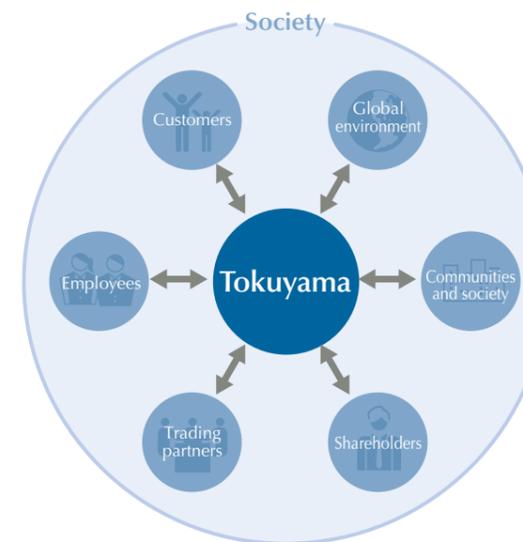
Relationships with Customers (p. 25)

Tokuyama strives to improve the work environment so that every individual employee can exhibit their abilities and perform their duties actively and with a high level of motivation. In fiscal 2008, we focused on the development of human resources in the Skills Education and Training Center and other facilities, and stepped up efforts to improve mental and physical health.

Relationships with Employees (p. 33)

Tokuyama is committed to creating relationships of trust with all trading partners through honest business dealings. Tokuyama is also committed to complying with CSR in its purchasing activities.

Relationships with Trading partners (p. 32)



Tokuyama conducts environmentally friendly management operations with an emphasis on the environmental perspective in every aspect of its business activities.

Harmony with the Environment (p. 37)

Tokuyama is engaged in many different activities directed at making a contribution to society. They include financial support for scientific development and technology and support for the healthy growth of children. We are also working on communication with local communities by providing opportunities for local RC dialogues.

Relationships with Communities and Society (p. 28)

Tokuyama offers information in a prompt and appropriate manner to gain the understanding and trust of shareholders and investors.

Relationships with Shareholders (p. 31)

We understand that information represents not only a powerful tool but also—if it is mishandled—a serious threat to continuation of the company. We place the focus of our security measures on an accurate understanding of threats and risks and on securing a balance among confidentiality, integrity, and convenience, and we define them as our guidelines in performing duties.

Maintaining and Improving Information Security

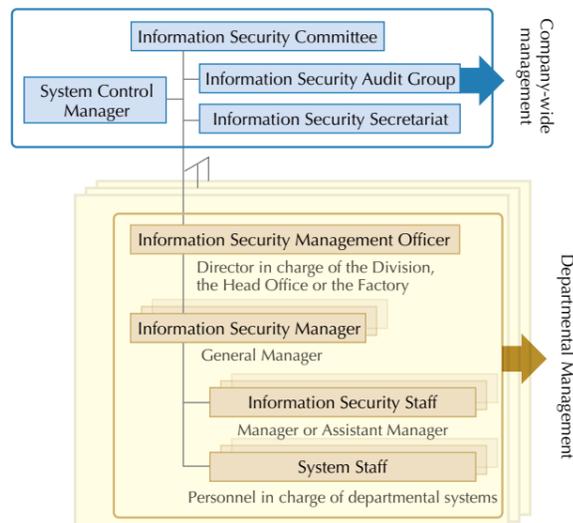
Tokuyama is proactive and consistent in deploying information technology as one of the drivers of business reform. We have been making an intensive effort to ensure sound protection and advanced use of information, based on the awareness that information security is of growing importance as we become increasingly dependent on networks following the IT-driven transition to electronic information and the widespread use of the Internet.

In 2001, our top management made a commitment to voluntary information security initiatives with the participation of all employees. In line with this move, we set up the Information Security Committee as a body mandated to develop and implement a comprehensive range of specific steps.

The Information Security Committee was launched with the mission of maintaining the security of our information assets, namely information and information systems, and encouraging the active use of these assets. It plays a central role in developing comprehensive security measures for information assets and compiling them into Information Security Policies. It also makes decisions about the Group's basic policies on overall matters relating to information security and engages in activities to increase awareness.

Apart from the policies set out by the Committee, Tokuyama's individual departments separately carry out specific initiatives in accordance with the Company rules instituted in the Information Security Policies that came into effect in March 2002. Group companies create their own rules based on the Information Security Policies. The Tokuyama Group is united in its efforts to improve its security level.

Information Security Management Structure



Recognizing the recent growth in both the prevalence and use of Internet technologies, we have been developing hardware and software measures to prevent infections with computer viruses. We strictly forbid the use of any medium brought into the Company without first performing a virus check. We also have filtering in place to block access to any website that is unrelated to business. As a result of these protocols, we have experienced no serious virus infection in the past several years. Every employee is aware that a disruption to business activities due to the work required to disinfect computers would have a serious negative impact on customer satisfaction. The effectiveness of these security measures is supported by this sense of crisis and by our customer-oriented stance. In cyberspace, however, there is no absolute or permanent security. We will continue with diligent efforts without placing undue confidence in existing measures.

Furthering the Protection of Personal Information

Tokuyama regards the protection of personal information as a symbol of the Company's spirit of valuing individuals and as a key obligation in meeting its social responsibility. Based on this view, Tokuyama has created a structure for improving the level of protection. Since the Personal Information Protection Act came into full force in April 2005, we published our Personal Information Protection Policy on our corporate website. We also established the Personal Information Protection Promotion Committee, a body for dealing with inquiries from inside and outside the Company and other related institutions, and appointed a Committee head who is responsible for overall control of privacy protection practices in the Company.

The promotion structure extends to every part of the Company. In each department, a Personal Information Protection Manager is appointed to ensure sound management and operation of personal information and to raise awareness among all employees. Aimed at encouraging all employees and officers to remain constantly aware of the importance of personal information in their activities, our awareness-building activities include intranet-based education and regular workplace inspections and audits. We have built a mechanism for databasing personal information owned by individual departments and for updating, removing, and checking the information on a regular basis. These actions are designed to remind all our employees and officers of the importance of personal information and to prevent information leaks or other serious incidents.

RC Promotion Structure and Operation of Management Systems

Tokuyama's CSR activities center on Responsible Care (RC) activities. A companywide promotion structure has been created to soundly operate different management systems. In this way we are continually improving our environmental, safety, and quality management systems.

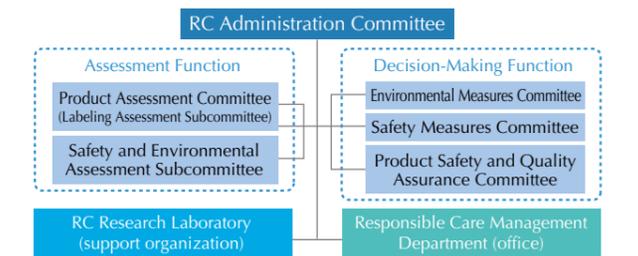
Responsible Care

Responsible Care refers to the voluntary management activities of companies that manufacture and handle chemical substances to protect the environment and maintain the safety and health of members of the public and employees in all processes covering the development, manufacturing, distribution, use, final consumption and disposal of chemical substances. RC also refers to publishing the results of the activities and engaging in dialogues and communication with society. RC originated in Canada in 1985, and it is now in place in 52 countries around the world. In Japan, the Japan Responsible Care Council (JRCC) was established in 1995 within the Japan Chemical Industry Association (JCIA). It had 100 corporate members as of October 2008, Tokuyama being one of the founding members. We actively work on RC activities as the basis of our environmental management and CSR activities.

RC Promotion System

Chaired by the President and consisting of members of the Board of Directors, the RC Administration Committee is Tokuyama's top decision-making body in relation to its RC activities. It deliberates and approves companywide policies and other environmental, safety and quality measures. Under this Committee, there are a number of subordinate bodies, including the Environmental Measures Committee, the Safety Measures Committee, the Product Safety and Quality Assurance Committee and the Product Assessment Committee. They study specific action plans and conduct product safety assessments. The Directors responsible for environmental, safety and product quality matters throughout the whole company work as the chairs of these committees, with the members consisting of the heads of the management divisions in charge of each matter.

RC Promotion System



Checks safety of chemicals and assesses their environmental impacts using simulations. Environmental measurements, work environment measurements and ultra-trace analyses of controlled substances and chemical pollutants are also carried out.

Promotes RC activities throughout the Company and its group companies covering areas of the environment, safety and quality

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 systematically 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

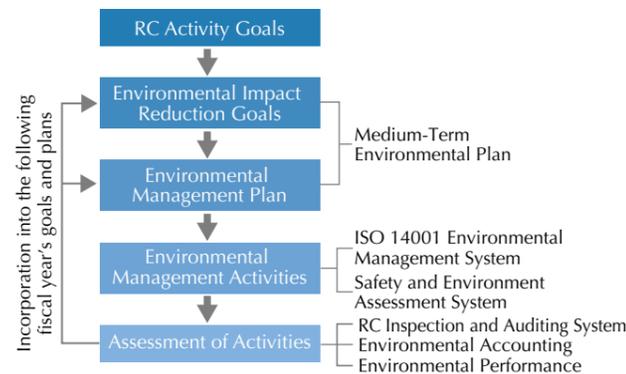
- Promote environmental protection**
 - Implement an ISO14001-based Environmental Management System and reduce the burden on the environment.
- Observe the laws and regulations**
 - Observe international rules, domestic laws and regulations and industrial standards.
 - Thoroughly implement internal export control rules.
- Promote energy conservation and curb global warming**
 - Achieve top-class unit energy consumption in the industry for each product.
- Promote resource recycling and work toward reduction and the proper management of waste materials**
 - Promote the material recycling and thermal recycling of resources.
 - Work toward achieving a paperless office.
- Promote process safety, disaster prevention and occupational health and safety**
 - Aim for zero accidents and disasters based on the principles of safety self-management and self-responsibility.
 - Achieve a comfortable work environment and protect people's safety and health.
- Ensure strict product safety standards**
 - Offer environmentally friendly products that can be used with safety.
 - Provide proper information on how to use products and what care to take.
- Deepen the relationship of trust with society**
 - Publicly disclose information on the Company's activities concerning environmental protection, process safety and disaster prevention, occupational health and safety, and chemical product safety.
 - Actively engage in dialogue with the local communities.

Evaluation and Management System for RC Activities

Tokuyama adopts a three-year plan in the area of responsible care and determines its policies and targets for separate fiscal years to achieving the plan. Under these policies, the individual departments create specific plans and engage in their activities. The results of the activities are assessed at the end of the fiscal year so that the plans for the following fiscal year will reflect the findings.

Tokuyama formulated a new three-year plan starting in fiscal 2008. Activities under the plan are now in process.

Evaluation and Management System for RC Activities (Environmental Preservation)



Operation of Management Systems

ISO 14001 Environmental Management System

The Tokuyama and Kashima Factories have already acquired ISO 14001 certification. ISO 14001 is an international standard for environmental management systems. In line with the company-wide environmental policy, each factory sets out an environmental policy and the specific goals to be achieved in areas covering environmental impact reduction, energy conservation, waste reduction and resource recycling.

At the head office, branch offices and research laboratories, activities are underway based on their respective policies and goals set out in response to their scales, covering energy conservation, waste reduction, resource recycling and other activities.

ISO 9001 Quality Management System

Tokuyama has also acquired ISO 9001 certification for its quality management system that covers its principal products.

Since fiscal 2002, this system has been operated as a system covering sales, development and all other divisions of the Company.

Occupational Health and Safety Management System

In accordance with the Japan Chemical Industry Association (JICA) New Occupational Health and Safety Guidelines, Tokuyama has built and promoted occupational health and safety management systems at individual factories and offices. In fiscal 2005, the Tokuyama Factory upgraded its system into a safety management system covering various safety-related activities.

Assessment Systems

Tokuyama has set up several assessment systems in an effort to reduce environmental and safety risks.

Safety and Environment Assessment

Prior to installing, expanding or modifying any facility, we assess safety and the environment. We check the safety design of equipment, the safety level of the materials handled, compliance with the laws and regulations and the impact on the environment, thereby aiming to ensure that our facilities are safe, easy to operate, easy to maintain and accident-free. The assessments apply to three stages: Basic Plan Assessment, Design Assessment and Pre-Operational Assessment. At these stages, assessments are conducted to verify that the facilities have a safety- and environmentally oriented design, that they have been built to the design requirements and that they are ready for operation.

Product Assessment and Labeling Assessment

To ensure product safety, Tokuyama conducts a product safety assessment at each stage from research and development to product delivery to the market. We assess the risk evaluation and examine compliance with the statutory requirements from a wide range of perspectives, including the safety of the chemical substances involved, the environmental impact and the effect on human health. We also assess the labeling to ensure that the product information in catalogs, handling manuals, material safety data sheets (MSDS)*1 and other types of labeling contain no defects in relation to the instructions and/or warnings and that there are no inappropriate expressions.

Education and Training

Employee education on responsible care activities are provided for all members within the framework of level-specific group education.

Practical education and training in relation to environmental management, safety management, occupational health and safety, and quality management are offered as part of actual management activities.

To take environmental management as an example, the Tokuyama Factory and the Kashima Factory have formulated specific education and training plans in accordance with the ISO 14001 environmental manual to offer education on the importance of environmental conservation and compliance with relevant laws and rules to employees and contracted workers alike.

In safety management and occupational health and safety, we offer *Kiken Yochi* (hazard prediction) training, hands-on experience training, pre-work *Kiken Yochi* activities, safety regulation education, internal special education on electricity, oxygen deficiency, waste incinerators and other areas, foreman education, troubleshooting training, training on use of fire prevention and extinguishing systems, evacuation drills, general disaster drills, traffic safety education, and training on aid activities following external accidents and disaster prevention.

For quality management, every workplace separately organizes safety meetings and other opportunities for ISO-related education.

Twenty-one key personnel at different workplaces have completed the ISO 9001 internal auditor development course. In October 2008, we organized a seminar on fault tree analysis (FTA) with an outside lecturer.

Auditing Systems

Tokuyama has an auditing system that aims at verifying that individual factories and offices engage in appropriate activities in line with the companywide policies.

Safety and Environment Audit

Tokuyama conducts this audit for the operation safety and environment on a yearly basis to verify the appropriateness of its accident/disaster prevention measures and management activities in relation to environmental conservation. The auditing team is headed by the director, who chairs the Environmental and Safety Measures Committees, and conducts audits of all factories and offices, authorized inspection organizations under the High Pressure Gas Safety Law, logistics departments and the Health Management Center. The results of the audits are developed into reports and distributed to all departments concerned. The results are also presented to the president.

Third Party Auditing

Tokuyama undergoes ISO 9001 and ISO 14001 examinations conducted by accreditation organizations.

The examination to renew our ISO 9001 certification discovered two minor deficiencies and made comments on five points. Remedial actions were completed by the end of April 2009.



The examination for renewal of the ISO 9001 certification at the Tokuyama Factory on January 28, 2009

Internal Auditing

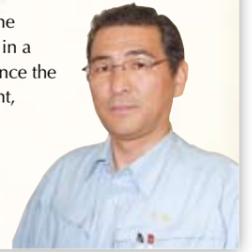
Tokuyama conducts internal auditing on a regular basis in accordance with the ISO 9001 and ISO 14001 standards and with the occupational health and safety management system. The progress of the planned actions and the status of system operations are audited. If a deficiency is found, it is identified and corrective actions are instituted.

Voice

Brushing up auditing skills to reach a higher level of internal auditing quality

Continuous self-training is indispensable to effective auditing since the auditing depends heavily on the skills of auditors. The Responsible Care Management Department is taking a new initiative to arrange a capacity development seminar for internal auditors. We are focusing our energies on human resource development of them. We will continue with efforts to build up the auditing skills and capacity of the auditors in a quest for effective auditing that helps enhance the quality of business operations, management, and environmental activities.

Nobuyuki Miyoshi
Assistant Manager,
Quality Assurance Dept.,
Advanced Materials Business Div.



Fiscal 2008 RC Activities – Priority Issues and Performance

Segment	Priority issues	Performance	Related pages
Management	<ul style="list-style-type: none"> Review by top management 	<ul style="list-style-type: none"> RC Administration Committee Safety and Environment Audit 	P22–24
Environmental conservation	<ul style="list-style-type: none"> Reduction in environmental impact (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 purchases 	<ul style="list-style-type: none"> Reduction of the emission of SOx, NOx, soot, etc. Promotion of energy conservation Facilitation of the use of waste as raw materials and fuels for cement Green procurement of office supplies and lighting equipment Unfailing operation of the environmental management system 	P41 P39 P13–14 P32 P22–24
Process safety	<ul style="list-style-type: none"> Zero accidents Promotion of risk management Promotion of independent safety management 	<ul style="list-style-type: none"> Proper operation of the safety management system Safety education and auditing of the providers of contracted logistics 	P35–36 P27
Occupational health and safety	<ul style="list-style-type: none"> Zero disasters 	<ul style="list-style-type: none"> Efforts to prolong the disaster-free period Promotion of risk assessment 	P35–36
Chemical product safety	<ul style="list-style-type: none"> Securing of product safety 	<ul style="list-style-type: none"> Implementation of product assessment and labeling assessment Improving MSDSs and research for new raw materials 	P25–26
Cultivation of a relationship of trust with society and the local communities	<ul style="list-style-type: none"> Participation in community activities Harmonious coexistence with society and the local communities 	<ul style="list-style-type: none"> Participation in community volunteer activities Dialogue meetings on RC activities with local communities (held independently by the factory) Organization of factory tours 	P28–30
Promotion of RC programs targeting group companies	<ul style="list-style-type: none"> Dissemination of RC activities 	<ul style="list-style-type: none"> Safety and environmental inspection Encouragement of ISO certification acquisition Sharing of RC-related information 	P47–48

Terminology *1 A material safety data sheet (MSDS) is a document that deals with the hazard and toxicity of a chemical substance. It is prepared to ensure the safe handling of a particular substance, and provides information on the name of the substance, safety measures, the action to be taken in the event of an emergency and suchlike.

Harmony with Society

Tokuyama is committed to building good relationships with all stakeholders, to achieving business management in harmony with society and to engaging in advanced CSR activities to pursue growth together with society.



Relationships with Customers

Based on implementation of the ISO 9001 quality management system, Tokuyama's quality assurance activities place first priority on the customers. The safety management of chemical substances is rigidly instituted at all stages of the product process ranging from research and development to disposal and even including transportation.

Topics

Assessments for ensuring safety

- In fiscal 2008, Tokuyama carried out 42 product assessments and 274 labeling assessments.
- Tokuyama is moving ahead with GHS compliance for products containing substances subject to GHS rules.

Satisfaction and Security – Quality Assurance System

As a company that is dedicated to its customers and that is always preferred by customers, Tokuyama places first priority on supplying customers with premium-grade products and services to meet their needs and to reassure them about their use.

Tokuyama implements quality management and quality assurance activities under the ISO 9001 quality management system. We are working to comply with the ISO 9001: 2008, which was released in November 2008.

Our management system covers the entire Company, including its branches, sales force, and the research section. We make sound and quick responses to customers' complaints and requests. Information from customers is sorted by division and posted to the groupware portal so that it can be shared.

Comprehensive Safety Management of Chemicals

Data Acquisition and Analysis on the Safety of Chemical Substances

Tokuyama collects and organizes safety data covering chemical substances so that the safety of the chemicals can be assessed. The data collected and organized is used to provide safety data on products and waste.

We are working to gain information on the hazards and toxicity of all chemical substances to be newly used, manufactured and discarded by means of product assessment, waste surveys and the analyses of new raw materials.

Risk Assessment and the Management of Chemicals

To eliminate any pollution to the environment, we monitor the concentration of chemicals in effluents and gas emissions.

In addition, we simulate the distribution of the concentration of chemicals and analyze in detail their movement. Their risks are evaluated after combining the data on concentration and the safety data. The resulting assessment data are used to improve equipment safety measures and the manner of handling chemicals as well as for the education of those who deal with chemicals. They also serve to increase product safety and to provide customers with accurate information.

Compliance with GHS

The Globally Harmonized System of Classification and Labelling of Chemicals (GHS)*1 refers to a system promoted by the United Nations under which chemicals are sorted by the type and level of hazard and toxicity in accordance with internationally standardized rules to provide labels and safety data sheets that can be understood at a glance.

For fiscal 2008, our quality control goal was addressing GHS compliance. We performed GHS classification of all our products, excluding those under development and molded items, in an effort to create GHS-compliant labels and material safety data sheets. We made particularly strong efforts to create labels and MSDSs for products containing chemicals subject to the three laws described below.

Chemicals that are subject to the three laws refer to the poisonous and deleterious substances controlled by the Poisonous and Deleterious Substances Control Law, those

subject to notification under the Industrial Safety and Health Law and designated substances under the Law Concerning Reporting, etc. of the Release of Specific Chemical Substances to the Environment and Promotion of the Improvement of Their Management.

Assessment of Products and Labeling

Tokuyama assesses the safety of both the chemicals and equipment units that it manufactures, in every stage from research and development through to commercialization. We made 42 assessments of this kind in fiscal 2008.

We also conduct labeling assessments for our catalogues, MSDSs and other technical documents. The appropriateness and legality of the representations on labeling and packaging of products, prototypes and sample products are examined and any inappropriate representations are corrected.

In fiscal 2008, we conducted 274 labeling assessments.

Process Flow in the Assessment Structure for Ensuring Safety and Environmental Conservation

Assessment Stages	Product Assessment	Safety and Environmental Assessment	Labeling Assessment
Commencement of Research	Development group leaders and others (primary assessment)		
Commencement of Development	Head of the Research and Development Division and others (secondary assessment)		Labeling Assessment Subcommittee (prototypes)
Study on Commercialization	Product Assessment Committee (tertiary assessment)	Safety and Environmental Assessment Subcommittee (basic planning)	Labeling Assessment Subcommittee (products)
Equipment Design		Safety and Environmental Assessment Subcommittee (design)	
Prior to Marketing (operations)		Safety and Environmental Assessment Subcommittee (prior to operations)	
After Operations		Report on Actual Conditions (environment)	

REACH Compliance

REACH refers to the European Union's legislation on registration, evaluation, authorization, and restriction of chemicals. It came into force in June 1, 2007. REACH is an abbreviation for registration, evaluation, authorization and restriction of chemicals.

To comply with the REACH regulations, Tokuyama made preliminary registration of products subject to the legislation by December 2008 after identifying the items and quantities exported to the European Union. There are approximately 20 products subject directly or indirectly to the regulations. We are

working to achieve full REACH compliance without any omission by joining a consortium, building a structure including a registration agent, conducting information gathering operations, and holding internal liaison meetings as needed.

Provision of Information on Chemical Products

Tokuyama offers MSDSs for all its products and prototypes to its customers and distribution agents. MSDSs have been prepared for around 600 products as of March 2009. In particular, for the 41 products that are transported in large quantities and heavily used by our customers, MSDSs are always made available on the Company's website.

To deal with any problems in transit, we have created Yellow Cards*2 and each of our drivers carries them. They include information on immediate measures to be taken in case of emergency. MSDSs and Yellow Cards for individual products are published on our Intranet to ensure the sharing of safety information.

Safety Management of Waste

Waste is handled in the same way as our products. We prepare MSDSs for waste and distribute them to waste disposal operators and distribution agents to ensure safety in handling and transportation. Particularly in the case of highly hazardous waste, Yellow Cards have been created to ensure that every driver carries them and that they can deal with any problem during transportation.

We have so far created MSDSs for 73 types of waste and Yellow Cards for 41 types of waste.

EH&S*3 Activities concerning Tokuyama's Products

The IC Chemicals Department began to proactively offer guidance on the proper use of Tokuyama's products to users as part of its responsible care activities.

In fiscal 2007, a project team was established to support this activity, and is called the Environment, Health & Safety (EH&S) Promotion Team. It provides users of Metacylene®, our chlorinated solvent product (dichloromethane), and other products with environmental, health, and safety information through briefings and other forums. Dichloromethane is one of the volatile organic compounds that have recently been subject to discharge control. We continue with the service of offering individual users proposals on appropriate application after gathering information on the environment in which the compound is used and on their equipment maintenance and management status.

*1 GHS refers to the global harmonized system of classification and labelling of chemicals.

*2 A Yellow Card is a commonly used name for an emergency notification card containing information on the immediate action to be taken by the driver, nearby operators, firefighters and police officers in the event of any accident involving a particular chemical substance in transit.

*3 EH&S stands for environment, health and safety.

Promotion of Safety and Environmental Management in the Distribution Process

Guidance and Education on Safety Management to Contracted Logistics Companies

At different locations, Tokuyama organizes periodical safety meetings with logistics operators all over the country under contract to transport its products. We perform logistics auditing for them to improve the level of logistics safety management and actively promote the practice of accident reporting and anti-accident actions.

On the premises of the Tokuyama Factory, dedicated safety managers perform regular patrols of loading points and worksites, and provides guidance onboard freight vessels in collaboration with logistics companies to raise safety awareness.



A high pressure gas disaster drill on December 4, 2008

Risk Assessment

Before hazardous materials are transported, we conduct risk assessments to verify the safety level of the mode of transportation, the trucking route and the emergency measures to be taken in the event of an accident. If anything that presents a high level of risk is found, it is remedied methodically. Whenever any new logistics facility is constructed or expanded inside or outside a factory, a facility safety assessment is conducted to assess the risk from the phase of facility design.

The Company continues with efforts to enhance the conditions at users' premises, such as remediation of defective facilities at the delivery destination.

In addition, we work unflinchingly to ensure full compliance with the Marine Pollution Prevention Act. For instance, we ensure that the Emergency Action Manual for the Prevention of Hazardous Liquid Contamination is always available at relevant ground facilities.

Crisis Management System

We have established emergency response criteria to deal with potential crises in logistics operations. The equipment and materials necessary for disaster prevention are always ready for use.

Jointly constructed with logistics operators, the mutual disaster control assistance system is in place at principal locations in Shunan, Kanto, Kansai, Chubu, and other key districts.

We are encouraging our contracted freight companies to equip their trucks with global positioning systems (GPS).

Environmental Preservation Measures and Energy Conservation in Transportation

In April 2009, we acquired the green management certification for our land transportation section. We are working actively toward environmental compliance. Together with our contracted freight companies, we are introducing vehicles that conform to exhaust regulations and energy efficiency, as well as digital tachographs and other devices that support environmentally friendly driving.

Following the Law Concerning the Rational Use of Energy, we are actively making efforts to conserve energy as a specified cargo owner. On a ton-kilometer basis, we have reached a modal shift ratio*1 of 95%, chiefly with marine transport.



The Daisan Tokuyama

Green Management Certification

The Ministry of Land, Infrastructure, Transport and Tourism and the Foundation for Promoting Personal Mobility and Ecological Transportation have developed a Green Management Promotion Manual, including a checklist for self-evaluation in an effort to encourage transport businesses to increase their environmental conservation activities.

The Green Management Promotion Manual sets out the actions required to meet each of the environmental conservation criteria in the checklist, which are to be addressed in accordance with the concept of the ISO 14031 standards for environmental performance evaluation. It facilitates target setting and evaluation, stimulates efforts toward green management and opens the way for voluntary continuous activities for environmental conservation.

The Foundation for Promoting Personal Mobility and Ecological Transportation acts as certifying body for the green management certification. It grants certification and registration to those operators that are confirmed by its examination to carry out activities that meet or exceed a predetermined level in accordance with the Green Management Promotion Manual.



Relationships with Communities and Society

Tokuyama has been engaged in a broad array of activities directed at making a social contribution. They include financial support for the development of science and technology and assistance to facilitate the sound growth of our children. In addition, we hold RC community dialogues to communicate with local residents.

Topics

- The Fiscal 2008 RC Community Dialogue took place at the Tokuyama Factory for community associations near the factory.
- Tokuyama joins the TABLE FOR TWO program.
- The Tokuyama Science Foundation marks the 20th anniversary of its founding with a commemorative ceremony.

Communication with the Local Community

RC Community Dialogue at the Tokuyama Factory

On August 21, 2008, the Fiscal 2008 RC Community Dialogue took place at Tokuso Kaikan. This event is organized independently by the Tokuyama Factory each year in collaboration with the Shunan City Government for neighboring community associations in an effort to deepen their understanding of the Factory's environmental conservation, safety and disaster prevention efforts.

The RC Community Dialogue in question attracted 16 participants from community associations and two from the municipal government. It included a briefing on the Factory's efforts, a factory tour, and a session for information exchange. This fifth Dialogue in the series was joined by the general managers of the Cement Manufacturing Department, the Steam & Power Generation Department and the Chemicals Manufacturing Department 2 to listen directly to the opinions of the community associations.

The participants exhibited great interest in environmental and safety issues. They asked questions and made comments, particularly concerning our odor and dust control efforts. The factory tour gave them a good insight into safety, disaster prevention, and environmental conservation activities at the Tokuyama Factory.



The RC Community Dialogue at the Tokuyama Factory

Forest Volunteer Activities

A project for creating a forest for water conservation, called the Meeting for Exchange among the City, the Forest and the Water, took place under the auspices of the Yamaguchi Prefectural Shunan Agriculture and Forestry Office at the municipal Ishinabe Forest at Kanokami in the city of Shunan. Aimed at securing a stable supply of high quality water by creating a forest as a green dam with high water retention capacity, this volunteer activity program included improvement cutting to remove weeds that impede the growth of trees, tree thinning and planting of broad leaf trees. The activity involved 133 Tokuyama staff members, who took part in pruning branches and other activities under the guidance of forestry instructors.



The Forest Volunteer Activities on October 11, 2008

*1 The modal shift ratio is the ratio of freight or passengers transported by alternative means, specifically rail and ship in substitution for automobile and aircraft.



Communication with the Local Community

Taking part in the Yamaguichi Iki-Iki Eco Fair as an Exhibitor

An environmental event hosted by the Yamaguchi Prefectural Government, called Yamaguchi Iki-Iki Eco Fair, took place at the Yamaguchi Kirara Expo Memorial Park in Ajisu, Yamaguchi City on October 18 and 19, 2008, attracting approximately 40,000 visitors.

As a manufacturer of polycrystalline silicon for solar cells, Tokuyama ran an exhibition booth to explain its efforts to reduce energy consumption and to combat global warming through the spread of solar cells. We provided parents and children visiting our booth with an opportunity to build miniature solar systems and take part in a quiz. A long line of people waited to play the Tokuyama Baseball Board Game created by the Si Development Dept. for this event. Many parents and children enjoyed the home run race.



Tokuyama's exhibition booth, as the baseball board game generates great excitement

The Shunan Swimming Club turns 30. Duke Saraie's Walking Live & Exercise Held

Launched as a project for the local community, the Shunan Swimming Club celebrated its 30th anniversary and organized a commemorative event as a demonstration of gratitude to local people. At the event, Duke Saraie gave a lesson on good posture, and held Duke Walk, seasoned with humorous comments in his Kansai accent, creating much laughter among the more than 1,000 participants.



A scene at the commemorative event on August 30, 2008



Communication with Overseas

Report on Activity in Nepal

The program for donating and delivering to children in Nepal our uniforms for female employees that are no longer in use following a design change is now in its fourth year. In the fiscal year under review, we again delivered white blouses and vests worn at our head office and branches to Balwapati Primary and Secondary School in Nagarkot, Nepal, with the help of Ms. Fumiko Kojima of Shunan Municipal Shuyo Elementary School. We enjoyed seeing the smiles of schoolchildren.

Ms. Kojima began her international exchange volunteer activities in 1994 and has since 1996 been engaging in an aid initiative to deliver stationery and uniforms by hand to Nepali schools in mountainous regions each year.



Schoolchildren at Balwapati Primary and Secondary School

The Table For Two Program

In December 2008, the Tokuyama Factory launched an initiative to contribute 20 yen per low-calorie lunch meal purchased at the canteen to the Table For Two program, which offers school meals in developing countries. Called the TFT lunch, the meal is offered at the factory every Wednesday. In the first month, 683 meals were purchased. Each donation pays for one school meal in developing countries. This means that our first month's donation can provide 683 schoolchildren with a school meal.



Lunchtime with TFT lunch

Voice

A volunteer activity allowing for casual participation

Half a year has passed since the TFT lunch began to be offered in December 2008. At our workplace, it seems that there are now a considerably larger number of orders for the TFT lunch than there were in the early days of the program.

An advantage of the program lies in that part of our everyday life serves as a volunteer activity. It is ideal for people, like me, who are interested in volunteer activities but are hesitant to take part in any special event. I would like to introduce to as many people as possible this great initiative, which turns part of our daily life into something helpful for the next generation.

Yukinobu Aimoto
Assistant manager, First Team,
Manufacturing Sect 1,
Si Manufacturing Dept., Si Business Div.



Encouraging the Next Generation

Tokuyama Science Foundation

The Tokuyama Science Foundation was established on September 19, 1988, marking its 20th anniversary in 2008. The mission of the Foundation is to offer financial support for research into new materials and related sectors, and to raise awareness of new materials that have the potential to lead to advances in science and technology, thereby enabling socioeconomic development and improving the lives of people.

Over its 20 years, the Foundation has offered research grants to 303 young researchers in universities and research institutions, financial support for exchange at international symposia to 224 young researchers, and grants for campaigns to stimulate the interest of younger people in science and technology. The Foundation has to date offered more than 700 million yen to 576 projects. Recipients of the Foundation's support are now playing active roles in a broad array of fields.

On December 4, 2008, we organized a ceremony to commemorate the 20th anniversary of the establishment of the Foundation. A research presentation meeting took place to coincide with the ceremony. At the meeting, 16 researchers from 14 universities delivered presentations on their research findings. There were also active discussions with the audience.

The Tokuyama Science Foundation will continue to provide financial support to encourage the development of science and technology.



The commemorative ceremony for the 20th anniversary of establishment of the Tokuyama Science Foundation on December 4, 2008

An Exciting World of Chemistry

In 2008, we set up and ran another exhibition booth at the Hiroshima Chemistry Show, designed to give children an interest in chemistry. At the sections for making fuel cells using our independently developed electrolyte membranes for fuel cells and for making Karumerayaki sugar cookies using our sodium bicarbonate, a cumulative total of 1,400 excited children experienced the wonder of chemistry.



At the venue of the Hiroshima Chemistry Show

Internship for High Schoolers

Two pupils from the Tokuyama Commercial Technical High School worked with us as interns for two weeks from July 27, 2008. As in 2007, this internship program was run in line with the Japanese version of the dual system promoted by the Ministry of Health, Labour and Welfare and the Ministry of Education, Culture, Sports, Science and Technology.



A scene from the internship training

"Invention" Class for Boys and Girls

Tokuyama took part in an "invention" class organized chiefly by the Tokuyama and Shin Nanyo Chamber of Commerce and Industry in October and November 2008, as an opportunity for elementary schoolchildren in the Shunan district to discover the joys of chemistry. Five Tokuyama staff members acted as lecturers to observe the properties of salt, starch, silica and other powdery substances and to perform an experiment making hand impressions using impression materials together with the participating children.



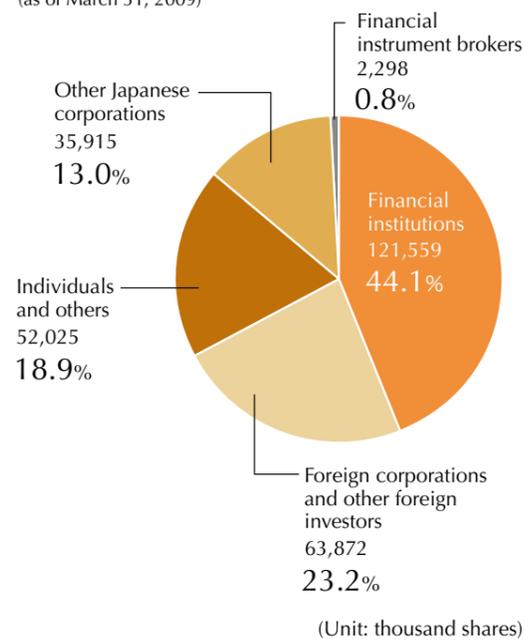
"Invention" class for boys and girls



Relationships with Shareholders

To earn the understanding of shareholders and investors and to respond to their confidence and expectations, Tokuyama is actively committed to timely, appropriate, and fair information disclosure. Through such disclosure, we seek to engage in a broad dialogue with society.

■ Composition of Shareholders (as of March 31, 2009)



Information Disclosure

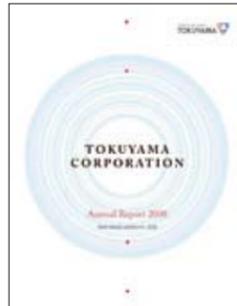
To provide information to investors, Tokuyama has opened a *For Investors* section on its website. This section provides stock information, consolidated financial data, information on general meetings of shareholders, an IR calendar, and financial reports such as financial summaries, electronic public notices, securities reports, annual reports, and presentations for IR meetings.

After announcing full-year financial results in May and second-quarter financial results in November, we organize an IR meeting for analysts and institutional investors and a factory tour guided by our IR personnel. The IR meeting includes a presentation from our president on business conditions, giving us an opportunity to speak directly with our investors.

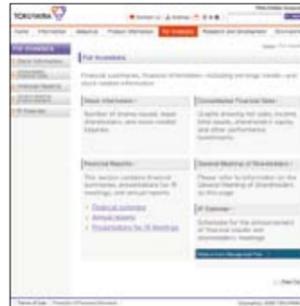
For overseas analysts and institutional investors, we make about three overseas visits each year, specifically to Europe, the United States, and Asia, to hold meetings in the framework of overseas IR activities. We will in the future continue to actively provide information in a timely, appropriate, and fair manner.



The financial results briefing on May 14, 2009



Annual Report



For Investors on Tokuyama's website

URL <http://www.tokuyama.co.jp/eng/ir/index.html>

Voice

Providing timely and easy-to-understand information

My assignment is website production. I am responsible not only for quickly and accurately offering financial results materials and updating data that is useful to shareholders and investors, but also for publishing special features to aid in understanding our operations. These features focus, for example, on Tokuyama products close to everyday life and on notable spots and items in the Tokuyama Factory.

My task is to constantly provide timely information that is easy to understand.

Akiko Nakano
Corporate Communications & Investor Relations Dept., Corporate Planning Div.



Relationships with Trading Partners

Tokuyama regards its suppliers as important business partners, and continuously strives to build relationships of trust with them through fair transactions. To create a highly efficient collaborative structure, we incorporate CSR initiatives into our purchasing operations.

Topics

Aiming to sign basic agreements about transactions

The Purchasing Dept. is stepping up its effort to sign basic agreements setting out important general provisions with all suppliers. These agreements seek to clarify the general terms and conditions and are not used to infringe on any particular contracts or provisions. This initiative helps raise the quality and efficiency of purchasing agreements, and aids internal control and compliance efforts inside and outside the Company.

Voice

Suppliers are key partners.

Aware that securing supplies of stable quality is a critical issue, the quality assurance groups of different divisions and the Purchasing Dept. take the initiative in conducting regular quality audits of our suppliers. Individual suppliers are ranked based on the degree of importance of the goods purchased from them. A quality audit consists of on-site and document audits. Rather than simply unilaterally citing deficiencies, we work together with our suppliers to come up with remedies. I believe that our periodical quality audits of suppliers play a very significant role in ensuring that we consistently have access to quality supplies.

Shinichi Kimura
Manager, Responsible Care Management Dept., Corporate Social Responsibility Div.



Fair Transactions

On the basis of its fair and sound partnerships with suppliers, Tokuyama carries out its purchasing operations in accordance with its Basic Purchasing Policy, to supply its customers with good products backed by outstanding technologies.

Tokuyama's Basic Purchasing Policy

Optimum Transactions

Tokuyama evaluates its trade partners from an overall perspective that includes quality, pricing, delivery dates, technical capabilities, credibility, safety, after-sales service, serviceability, the ability to respond to incidents, compatibility with existing equipment and business stability to choose suppliers that best suit the Company.

Statutory Compliance

In its purchasing activities, Tokuyama complies with the letter and with the spirit of the relevant laws and regulations. Tokuyama also requires its suppliers to comply with them and chooses suppliers that meet the requirement.

Partnership

Tokuyama aspires to be a good partner that shares with its suppliers the common goal of creating good products. To attain this goal, Tokuyama welcomes suppliers with unique proposals for creating an environment that gives new suppliers easy access to opportunities for transactions.

Promotion of Green Purchasing

Tokuyama views the Reduce-Reuse-Recycle (3R) perspective as another possible criterion for choosing suppliers to promote environmental conservation in its purchasing activities.

Note: The Basic Purchasing Policy does not constitute part of any agreement, nor does it indicate any offer to enter into an agreement.





Relationships with Employees

Tokuyama is committed to improving the working environment to ensure that individual employees can exhibit their capabilities and engage in their everyday duties with motivation. In fiscal 2008, we focused greater energy on human resources development and on improving mental and physical health, with a view to improving our front-line capabilities and becoming a more global company.

Topics

Providing technical education and training

- In fiscal 2008, the Manufacturing Skills Education Course I was introduced. A cumulative total of 106 participants have so far taken part in the course.
- In fiscal 2009, Manufacturing Skills Education Course II will be introduced.

Addressing the Development of Human Resources

Capitalizing on the Skills Education and Training Center

Inaugurated in 2007, the Skills Education and Training Center offers new operators with training mainly in basic skills and safety under the slogan of "Experience, Feel, and Learn." This follows an increase in the number of newly recruited employees and the launch of new plants in recent years.

The basic skills education allows trainees to learn about internal structures and detailed operations of systems by disassembling, drawing, and reassembling actual equipment so that they can study the basics of the systems. Safety education is centered on experiences of dangerous events, such as falling objects or objects getting snagged with other objects or in machinery.

In fiscal 2008, the Manufacturing Skills Education Course I was launched for operators in their second or more year of service. A total of five courses were held, including the operation management course that prompts its participants to use their own discretion for operating the machinery at the training plant. A cumulative total of 106 trainees have so far taken part in this course.

We called on group firms and contractors to participate in the hazard experience course. This program was taken by some 180 trainees in fiscal 2008, including those from overseas group companies based in China. This gave us a glimpse of globalization.

In fiscal 2009, Manufacturing Skills Education Course II for operators in their sixth or more year of service will also be launched.



A training session at Tokuyama Factory

Globalization Initiatives

Tokuyama is dedicated to developing global human resources, to attain the goal defined in its Centennial Vision.

With a principal objective of developing successors for personnel stationed overseas, a training session for international capacity development took place. The fifth session was held during fiscal 2008. This is a composite training program including not only English-language lessons but training on presentation and business meeting skills in preparation for overseas business settings. The session used to be held once every two years but we will be organizing another session in fiscal 2009, in view of our current need for workers who are comfortable in an international environment.

Pre-appointment training for personnel stationed overseas was offered to nearly ten relevant staff members in fiscal 2008. Before assuming their new posts outside Japan, these employees learned about the cultures and customs of their destinations. After they assumed their posts, we offered training in analyzing actual events.

In fiscal 2009, we will be inviting local staff members from our group companies operating in the Asian region to a tentatively named Asia International Meeting, so that they can talk about the problems that confront them. To bring all our staff closer together, we are determined to extend the unity of the Tokuyama Group beyond Japan.

Organizing a Conference of Junior Coaches

Junior coaches are advisors and counselors for new employees joining Tokuyama after graduating from high school. Twenty-one junior coaches gathered at the Tokuso Kaikan building to hold discussions and present on subjects such as what values new employees should have and what they should learn from senior personnel. The meeting confirmed the importance of building communication skills and the significance of having an attitude of positively addressing any challenge.



Organizing a conference of junior coaches (Sept. 11, 2008)

Personnel Management System to Energize Human Resources

Work-Life Balance

To achieve an appropriate work-life balance, Tokuyama is revising systems from many different perspectives. In fiscal 2008, we extended the period of childcare leave to allow parents to remain on leave until their child turns two years old. In addition, we introduced a shorter working hours program. More than half of those who have returned from childcare leave take advantage of this scheme. We have also added a paid childcare leave program that enables any employee to take a maximum of five days' leave within eight weeks of their spouse giving birth. This has made it easier for fathers to participate in childcare.

■ Trend in the Number of Employees on Childcare Leave (persons)

Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
9	13	3	11	6

Actions Toward Diversity (the employment of physically challenged persons and retiree reemployment program)

In fiscal 2008, 1.98% of Tokuyama's employees were physically challenged persons, meaning that the Company had satisfied the statutory employment requirement for physically challenged persons of 1.80% for the second consecutive year. Going forward, we will expand opportunities for physically challenged workers, in an active effort to address the employment issues.

Tokuyama instituted a retiree reemployment scheme in fiscal 2001, one of the first companies in its industry to do so. In fiscal 2008, 43 of the 80 employees who reached the age of retirement were reemployed. We anticipate that these employees will continue to display their excellent skills and expertise in their respective workplaces.

■ Trend in Employment Rate of Physically Challenged Persons (%)

Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
1.59	1.80	1.65	1.93	1.98

Actions against Sexual and Other Harassment

Set up in 2003, the Gender-Free Committee is dedicated to encourage the next generation of workers, promoting affirmative action, and improving the working environment, particularly to prevent sexual harassment. The Committee originally consisted of staff from the Tokuyama Factory. Since fiscal 2008, representatives from head office and branches have also taken part, so that the Committee can be active throughout the Company. The Committee meets on a regular basis and publishes reports on gender-free initiatives that are designed to raise awareness in the Company. In tandem with the expansion of helpline services in August 2009, a consultation service with an outside female lawyer will be added. We will continue our efforts to offer better working environments.

Promotion of Improvements to Mental and Physical Health

Improvements to Health through the THP

In accordance with the Guidelines for Health Improvement under the Total Health Promotion (THP) Plan put forward by the Ministry of Health, Labour and Welfare, Tokuyama operates an extensive program of activities to address priority issues in combating lifestyle-related diseases and promoting mental health.

To tackle lifestyle-related diseases, our industrial physicians and medical staff provide employees with individual guidance on the basis of regular health checks. Our health management personnel also visit workplaces to run Mini Health Classes.

To promote mental health, we offer an online occupational stress checkup service to assist in mental health care. In fiscal 2008, we designated model workplaces, analyzed their conditions, and then used the results of the analysis to conduct activities for mental and physical health.

Voice

Providing assistance in raising health awareness

The Health Management Center provides specific health guidance for those with metabolic syndrome in association with the health insurance association.

As we think about the approach to improving lifestyles in terms of diet and exercise together with those who suffer from metabolic syndrome, we realize that some will have difficulty making the lifestyle changes required. Our goal is to make suggestions in these circumstances to motivate them to voluntarily start improvement efforts.

We consider their lifestyle and provide assistance in improving health awareness so that they can take steps suited to them.

Sachiko Nishimoto

Nurse,
Health Management Center,
General & Personnel Affairs Div.





Process Safety, Disaster Prevention and Occupational Health and Safety

Tokuyama believes that safety is an essential part of business activities and that ensuring safety is the first step in achieving coexistence with society. In taking this stance on safety, Tokuyama thoroughly conducts process safety and disaster prevention activities as well as occupational health and safety efforts. With the aim of preventing accidents and injuries, the Company is striving to provide a favorable working environment.

Voice

Observing the basic rules and the Safety Day initiative

Process safety activities in the Manufacturing Department 1 of the Chemicals Business Division have two key elements. The first is observing the basic rules. Tokuyama has laid down five provisions for workers' actions. These provisions have been developed from incidents that have actually occurred in the past. We should perform a self-check on a monthly basis to habitually conduct the actions specified. The second key element is the Safety Day initiative. On the first working day of each month, an event for raising safety awareness is held, such as a drill for installing an on-site command post. Through these actions, we will inculcate safety consciousness into individual workers and maintain our no-accident and no-disaster status.

Toshiyuki Kaneda
Assistant Manager, Manufacturing Section 2,
Manufacturing Dept. 1,
Chemicals Business Div.



Commitment to Safety and Disaster Prevention

All-Inclusive Safety and Disaster Prevention Activities

Tokuyama has three safety principles. According to these principles, safety is, in the first instance, a social responsibility to be met as a corporate citizen. Second, safety is given priority over all other business activities; and third, security can be achieved by the fact that all staff members have a responsible attitude and engage in responsible activities.

The Company's main factory, the Tokuyama Factory, is located very close to the residential district of the city. We understand that it is absolutely essential to ensure safe operation of the factory and we make painstaking efforts to ensure safety of the equipment and the processes. Such efforts include, for example, safety patrol operations, *Kiken Yochi* (KY) activities for hazard prediction, *Hiyari Hatto* activities for accident control, the **five-S activities**^{*1} and the practice of pointing and calling a name out loud. These basic activities are strictly practiced with consistently rising intensity. For the purpose of risk and crisis management, we employ a safety management system and improve the safety management level in a plan-do-check-act cycle to prevent accidents and disasters.

In preparation for any unexpected crisis, we review and upgrade our disaster prevention system, including the structure, communication, disaster control activities, materials and equipment for disaster prevention and rescue and first-aid operations. Building on work done in the previous year, in fiscal 2008, we added gate security cameras, introduced new security cameras for monitoring the premises, and increased the number of automated external defibrillators (AEDs). We did this to tighten gate access and security on the premises and to enhance our readiness for emergency situations.

We also conduct a number of different drills. These specifically include general disaster drills jointly held with the public sector, departmental disaster drills, emergency drills organized in collaboration with affiliated and contractors, competitions in disaster control skills held on the factory's premises, and rescue and first-aid drills with the mustering of fire control personnel. These drills focus on the active use of materials and equipment for disaster prevention and on smooth links with headquarters, designed to boost the capability to cope with disasters as they happen.



The general disaster drills take place in full view of local residents so that they will be able to understand and place their trust in the security activities of the factory.

Annual fire brigade review and general disaster drill on the premises on January 23, 2009

Encouraging Voluntary Safety Activities

The Tokuyama Factory is accredited as a certified safety inspection operator and a certified completion test operator for twelve facilities pursuant to the High Pressure Gas Safety Law and is qualified to continuously operate boilers and other equipment. We ensure appropriate operations in compliance with the accreditation requirements. We also follow the principle of conducting voluntary safety activities under our own responsibility to run the plan-do-check-act (PDCA) cycle in safety management with complete consistency. While raising the awareness of safety among all employees, we will endeavor to prevent accidents and disasters.

We encourage the management teams for operations to engage in their voluntary safety activities. The equipment management section is working to build up its engineering expertise in ensuring safety for maintaining the stable operation of the plants.

Safety Audit

Tokuyama conducts audits of all its factories and offices to inspect the status of process safety, disaster prevention and occupational health and safety. If the audit identifies any nonconformance, it is specified and the necessary guidance is given to ensure corrective action. The audit results are reported to relevant departments so that they will implement remediation. The Safety Measures Committee is also informed of the results so that it can formulate an action policy for the following fiscal year on the basis of the findings.



Safety Audit
Kashima Factory on
October 23, 2008

Safety and Environment Assessment

When installing, modifying or adding any equipment, the head of safety calls internal experts to perform assessments at the planning stage, at the design stage and at the stage before starting operations. Each assessment conducts pre-emptive checks and examines any latent risks that may arise for the purpose of remediation and improvement. This ensures the safety of equipment, process and operation and prevents accidents and disasters from occurring.

Efforts to Maintain the Safety Performance and to Prolong the Accident-Free Period

Our safety activities have been conducted to meet the goal of achieving zero-accident and zero-disaster status. The Tokuyama Factory introduced special safety activities under the Safety Day initiative in addition to safety management activities based on comprehensive line management and collaboration with contractors. However, the factory did experience one on-the-job accident that forced one employee to take a leave of absence, and there were seven such incidents at contractors and other associates. This means that we failed to fulfill the target of completely eradicating on-the-job accidents that resulted in workplace absentees.

The Kashima Factory has maintained its zero-accident and zero-disaster status for 23 years since its inauguration. The Tsukuba Research Laboratory has also been free from accidents or disasters for 19 years since it was launched.

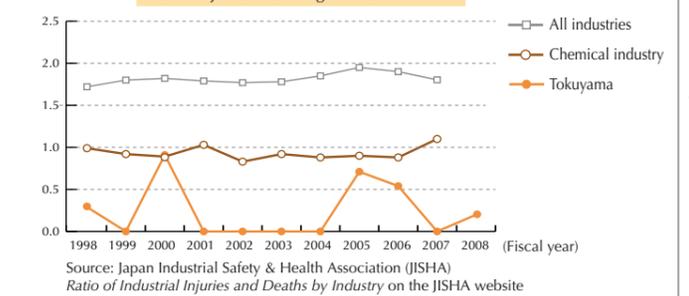
In fiscal 2008, we spent 1,100 million yen on upgrading facilities and on increasing disaster control equipment for the purpose of safety and disaster prevention. We will continue to step up our efforts to protect all workers from accidents, whether they are employed by Tokuyama or our contractors.

Commitment to Occupational Health and Safety

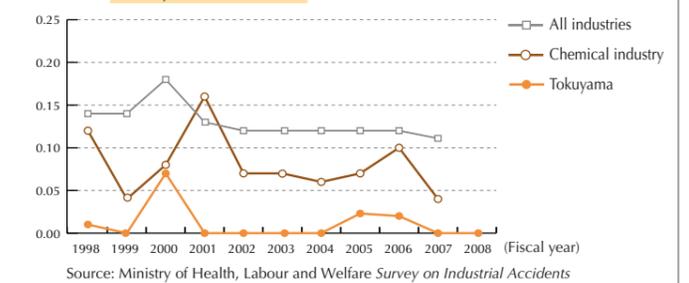
Promoting the Safety Management System

Tokuyama has established Occupational Health and Safety Management Systems for individual factories and offices and, in fiscal 2003, put them into operation. At the Tokuyama Factory, its system was upgraded into the Safety Management System in fiscal 2005 to additionally support process safety activities. This factory continues to make improvements by performing risk assessment in terms of work, equipment and processes with a view toward completely removing potential risk factors. In fiscal 2008, the Company invested 470 million yen to enhance and strengthen occupational health and safety.

Trend in the Rate of Injuries Resulting in Lost Work Time^{*1}



Trend in Severity Rate of Accidents^{*2}



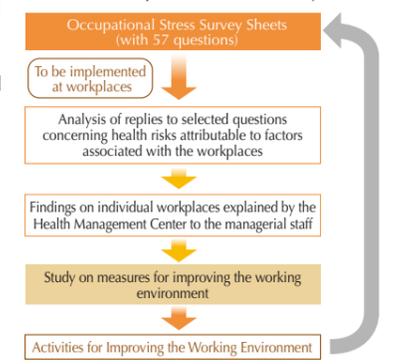
Implementation of Safety and Health Activities in Concert with Contractors

Tokuyama is working to safeguard all workers at its plants from accidents and injuries in collaboration with its contractors. Specific activities include efforts to share information and raise awareness through joint safety and health meetings and their departmental equivalents with the participation of Tokuyama's employees and those of its contractors. Other activities include enhancing safety checks and management by means of safety patrols, purpose-specific safety education and workshops for increasing knowledge of the personnel and training programs to increase the level of skill. We strengthened measures to prevent any accidents involving slipping, after a number of falls occurred in fiscal 2007. As a result, no similar accident took place.

Maintaining a Favorable Working Environment

With the goal of ensuring a comfortable working environment conducive to good mental and physical health, we take constant measures to improve working environments where specified chemical substances and organic solvents are handled. Our industrial doctor inspects these workplaces and we take other steps to improve the equipment and the working methods. At present, all worksites at every factory and office fall under **Control Category I**^{*3}. We have introduced tighter voluntary standards for the purposes of improvement. We have also separated smoking from non-smoking areas in the workplaces, while noting that the percentage of smokers is falling with each year. In fiscal 2008, we interviewed individual personnel to offer health guidance on the basis of the results of occupational stress checks on a companywide basis, and continued to offer health education with speakers visiting individual workplaces. We also introduced a health improvement workplace scheme and took other positive steps to enhance our working environment.

Process Flow of Stress Relief through the Use of Occupational Stress Survey Sheets



Terminology *1 Five-S activities: An initiative to ensure the five-S features at the workplace. The five-Ss refer to *Seiri* (tidy), *Seiton* (organized), *Seiketsu* (clean), *Seiso* (clean) and *Shitsuke* (disciplined).

Terminology *1 The rate of injuries that result in lost work time refers to the number of workers forced into absence through industrial accidents per million cumulative working hours. This reflects the frequency at which industrial accidents occur.
*2 The accident severity rate refers to the number of lost work days per one thousand cumulative working hours. This reflects the magnitude of industrial accidents that have taken place.

*3 Control Category I refers to the state in which the concentration of hazardous substances in the atmosphere does not exceed the standard control concentration in most (at least 95%) of workspace units. There are three control categories, namely I, II and III. Control Category I corresponds to the most desirable condition.

Harmony with the Environment

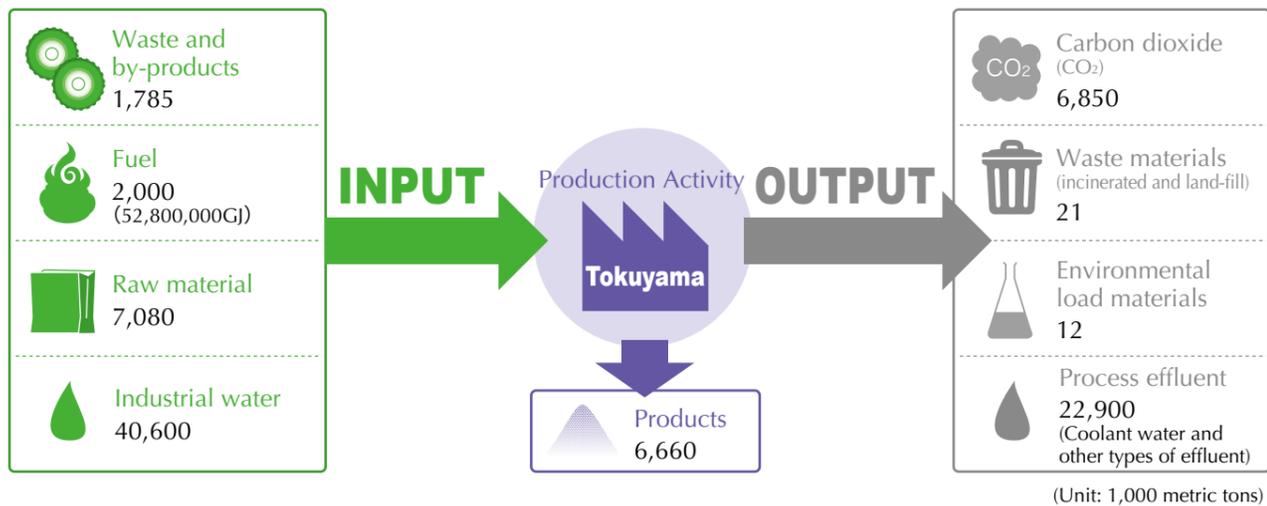
One of our most important corporate social responsibilities is to protect the global environment. Tokuyama practices environmental management with an emphasis on environmental perspectives in all of its business activities.

Performance for Fiscal 2008

Tokuyama strives to obtain accurate data on inputs and outputs in its business activities and reduce the burden on the environment to meet its new goals.

Flow of Materials in the Business Activities

* All figures represent the input and output amounts associated with Tokuyama Corporation alone in fiscal 2008.



Results of Environmental Preservation Activities in Fiscal 2008 at the Tokuyama Factory

Segment	Items	Fiscal 2008 Target (Reference Fiscal Year: 2007)	Fiscal 2008 Result (Reference Fiscal Year: 2007)	Rating*	Fiscal 2009 Target (Reference Fiscal Year: 2007)	Fiscal 2010 Target (Reference Fiscal Year: 2007)	
Environmental Impact Reduction	Atmosphere	Soot and Dust	±0% (Maintaining the level attained in the three preceding years)	-36%	○	±0% (Maintaining the level attained in the three preceding years)	±0% (Maintaining the level attained in the three preceding years)
	Water Quality	COD	-7%	-28%	○	-7%	-7%
		Nitrogen	±0%	-4%	○	±0%	±0%
		Phosphorus	±0%	-35%	○	±0%	±0%
	PRTR	PRTR	-24%	-2%	×	-24%	-50%
		Hazardous Air Pollutants (VCM, EDC)	-36%	-12%	×	-8%	-38%
Energy Conservation	Unit Energy Consumption Index	20% lower than the level in fiscal 1990	16.7% lower than the level in fiscal 1990	×	21% lower than the level in fiscal 1990	22% lower than the level in fiscal 1990	
Global Environment Conservation	Recycling	Rate of Effective Utilization of Waste	To be kept at 94%	94.1%	○	To be kept at 94%	To be kept at 94%
Waste Reduction	Zero-Emission	Zero-Emission Rate	To be kept at 99.9%	99.9%	○	To be kept at 99.9%	To be kept at 99.9%

*Rating: The circle refers to success in attaining of the target and the cross refers to failure to attain the target.

Environmental Accounting

To facilitate understanding and analysis of how much is invested in and spent on environmental preservation and for thus improving the effectiveness of environmental investment, Tokuyama has been implementing environmental accounting since fiscal 2000.

Topics

In fiscal 2008, our investment in the environment declined about 400 million yen from a year earlier and the economic benefits dropped some 200 million yen. Total spending rose about 300 million yen.

Environmental Costs

Nearly 60% of Tokuyama's environmental investment was appropriated to pollution control and less than 20% to global environment conservation and to actions relating to resource recycling each. The major targets of our environmental investments include installing combustion abatement systems and replacement of internal units for electric dust collectors.

Costs of Environmental Preservation

Classification of Environmental Preservation Costs	Principal Actions	Amount Invested (JPY million)	Total Amount Spent (JPY million)
Costs in the Business Areas	Pollution Control	1,252	4,077
	Global Environmental Conservation	70	904
	Resource Recycling	5	1,184
Upstream and Downstream Costs		0	0
Management Activity Costs	Installation of environmental analysis equipment	37	290
Research and Development Costs		0	15
Social Activity Costs	Planting in the factory premises and production of CSR Report	2	22
Costs for Environmental Damage	Contribution and management of the former mining site	1	173
Total		1,367	6,665

*The data in the table shown above are based on *Environmental Accounting Guidelines 2005* published by the Ministry of the Environment.
*The figures reflect the amounts incurred at all factories and offices of Tokuyama Corporation.

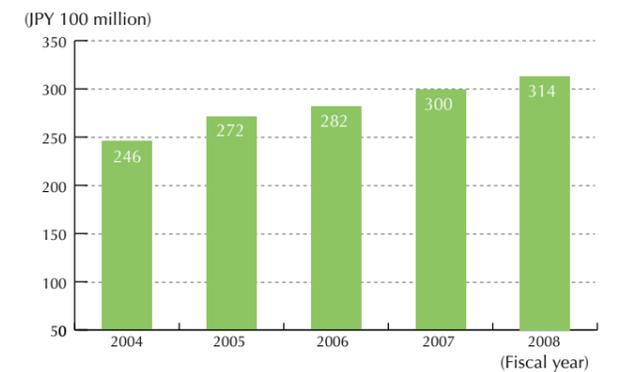
Economic Benefits

To analyze the economic benefits, we calculate nothing but the real benefits of gains on reduction in energy consumption, gains on the sale of valuable waste, gains on waste treatment cost-cutting and raw materials and fuel cost-cutting by reusing waste. Assumed economic benefits are not included in the estimates. In fiscal 2008, we reaped 1.6 billion yen worth of economic benefits, down around 0.2 billion yen from the preceding fiscal year.

Economic Benefits

Item	Material Benefits (thousand metric tons)	Economic Benefits (JPY million)	Remark
Gains on Reduction in Energy Consumption	-	202	Earned by reducing the amount of electricity and steam consumed
Gains on the Sale of Valuable Waste	84	610	Earned by selling scrap metal, waste oil, waste acid and alkali, and suchlike
Gains on Waste Treatment Cost-Cutting	236	398	Waste treatment costs slashed by reusing waste
Gains on Raw Materials and Fuel Cost-Cutting by Reusing Waste	237	428	
Total		1,638	

Trend in Cumulative Total Environmental Investments (since fiscal 1990)



Commitment to the Prevention of Global Warming

Prevention of global warming is a key challenge to be addressed by corporate citizens. Tokuyama makes constant achievements through the conservation of energy in business activities and supports the conservation of energy in employee households.

Topics

- In fiscal 2008, unit energy consumption was 16.7% below the 1990 level due to production decrease.
- The cumulative total number of applications for the program to encourage anti-global warming initiatives since the program launch has exceeded 20.

Promotion of Energy Conservation

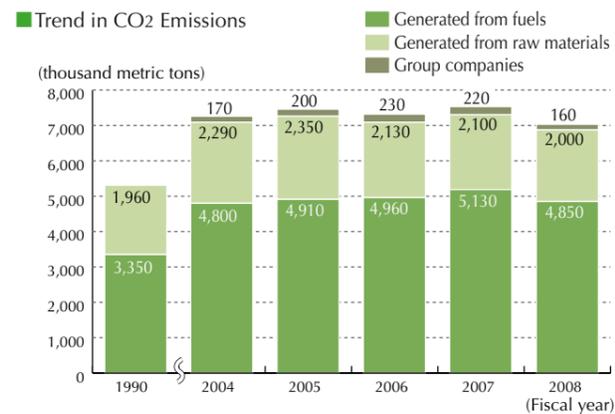
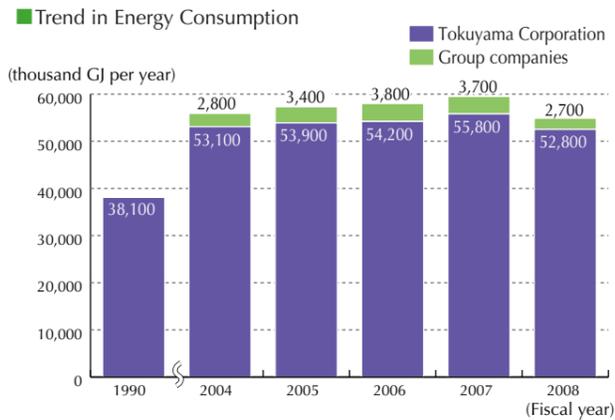
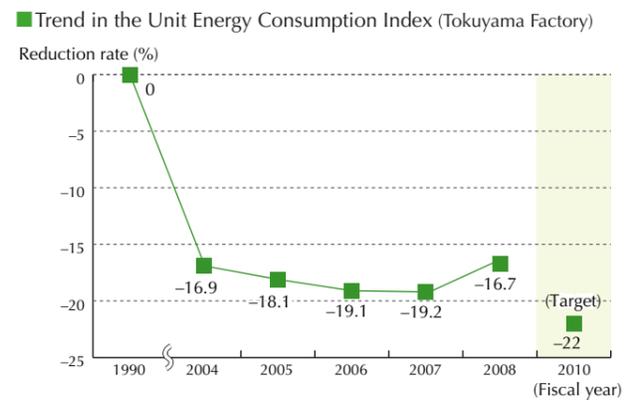
Tokuyama consumes a huge amount of energy in the processes of manufacturing its core products, such as caustic soda, cement and polycrystalline silicon. Carbon dioxide, one of the greenhouse gases, is generated chiefly by burning fossil fuels and also by the decarboxylation of limestone used as a raw material in the cement production process.

Aware of the high priority of preventing global warming, the Company is conducting energy conservation activities to reduce carbon dioxide emissions. The Tokuyama Factory is responsible for more than 99% of the Company's energy consumption. Its unit energy consumption in fiscal 2008 fell 2.5% from the preceding fiscal year, to a level that is 16.7% below the 1990 level, reflecting a decrease in production associated with the economic slowdown.

In fiscal 2008, the Cement Manufacturing Dept. and the Manufacturing Dept. 1 and 2 of the Chemicals Business Div. worked together on a project to improve unit energy consumption. They developed a program for energy efficiency improvement equivalent to a 0.5% reduction in energy consumed in the factory, or to a reduction in CO₂ emissions of nearly 40,000 metric tons per year. In fiscal 2009, the Si Manufacturing Dept. and the Steam & Power Generation Dept. have joined the three departments mentioned above to continue with this initiative.

We will be making efforts to improve with a goal of attaining unit energy consumption that is 22% lower than the 1990 level by fiscal 2010.

We also take part in the Initiative to Develop the *Hydrogen Frontier Yamaguchi*. The Hydrogen Town Model Project employs hydrogen supplied from our plant, which is piped directly to general households.



Note on the Diagrams: The Tokuyama Plant of Sun-Tox Co. Ltd., constituted part of Tokuyama Corporation in fiscal 2004 and earlier years. From fiscal 2005 onwards, it is counted as a group company.



A meeting for reporting the efforts under the initiative for improving unit energy consumption at the Tokuyama Factory on December 18, 2008

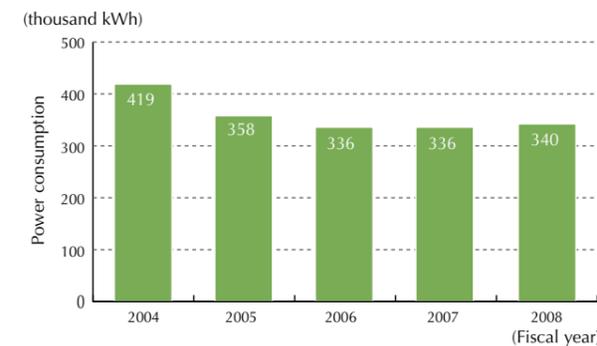
Contribution to Action against Global Warming In the Consumer and Transportation Sectors

In supplying the *Shanon* plastic window sash, silica for energy-saving tires and other products, the Tokuyama Group has been helping to reduce the emissions of CO₂ in the consumer and transportation sectors, in which CO₂ emissions have significantly increased. The *Shanon* is a powerful tool for energy conservation in residential houses. We focus our efforts on technical developments that contribute to trend toward anti-global warming, including the construction of a verification plant for polycrystalline silicon for solar cells and the development of electrolyte membrane for fuel cells etc.

Efforts at Our Offices

Tokuyama takes part in the Cool Biz campaign that began as a national movement in the summer of 2005. In addition to our conventional energy conservation efforts at our offices, we have encouraged our employees to work in light clothing and introduced thorough temperature control of the air conditioners. As a consequence, Tokyo head office managed to keep its power consumption during the four-month period from June to September 2008 nearly at the level a year earlier.

Cool Biz Benefit (At the Tokyo head office from June to September)



Program to Encourage Anti-Global Warming Actions

Tokuyama has a basic policy of pursuing management in harmony with society. In accordance with this policy, the Company is stepping up its environmental, energy conservation and social contribution efforts in an effort to create a sustainable society.

As part of the project to mark our 90th year in business, a program to encourage anti-global warming initiatives was launched in April 2008.

This program covers part of the costs incurred by employees purchasing and installing specific environmentally friendly products closely related to the Tokuyama Group's business, namely the plastic window sash for residential use and the solar power generation system. Its objective is to help reduce CO₂ emissions in the household sector by raising awareness against global warming and by encouraging householders to conserve energy. The program is open to all employees of the Tokuyama Group and applies to any of the specified products irrespective of the make.

To continuously increase awareness of the program within the Group, we present the program in our in-house magazine and intranet to encourage our personnel to take advantage of the public support program. These internal media communicate a wide range of information on global warming to ensure that the issue is better understood by the Group's employees.

Since it was launched, the program has attracted more than 20 applications. This shows the high level of interest in these environmentally friendly products. It is hoped that the launch of this program will help to cultivate environmental awareness among the Group's employees on an ongoing basis.

Voice

Raising individuals' awareness of environmental friendliness

There are today many products designed to help stop global warming without inconveniencing users in the housing, automobile, home electronics, and other fields. In addition, it seems clear that interest in environmental friendliness is growing rapidly as tax relief and other incentive programs are introduced.

In these circumstances, action taken in our offices to protect the environment include the casual attire campaign known as Cool Biz, careful control of air conditioning temperatures, specifically 28 degrees Celsius in summer and 18 degrees in winter, self-restraints on the use of elevators (in which we are encouraged to use stairs when moving up one level or two or down one, two, or three levels) and turning off lights. Instead of depending on improvements in facilities, we strive to raise environmental awareness among individual staff members and publish the consumption facts and other data as part of a sustained program of environmental activities.

Kenji Hirano
General Dept.,
General & Personnel Affairs Div.

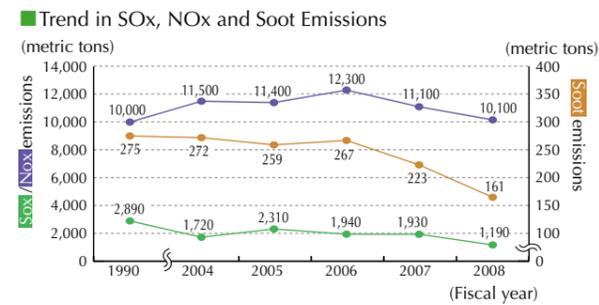


Reduction of Air and Water Pollutants

Tokuyama has always adopted a broad array of measures on a continuing basis to reduce air, water and other environmental pollutants. In fiscal 2008, we successfully lowered emissions of smoke, soot, and water pollutants.

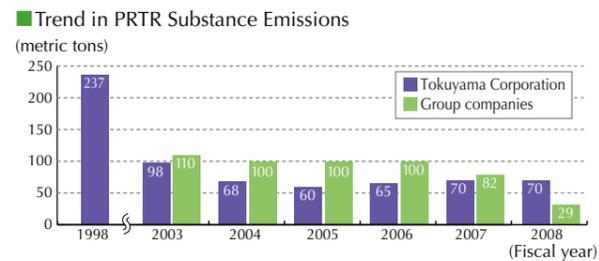
Air Pollutants Emissions

We have added a flue gas desulfurizer to every boiler in Tokuyama's in-house power generation facility to reduce sulfur oxides (SOx) emissions. In fiscal 2008, our environmentally friendly in-house power generation systems stayed in operation to cut SOx emissions. To reduce nitrogen oxides (NOx) and soot emissions, we have equipped boilers and cement kilns, which generate NOx and soot, with denitration equipment, low NOx burners and high-performance dust collectors. In fiscal 2008, we achieved a reduction in NOx emissions as well as soot emissions as a result of stable facility operation.



PRTR Substances Emissions

Twenty-seven substances among those handled by Tokuyama in fiscal 2008 are subject to notification under the Pollutant Release and Transfer Register (PRTR)*1 legislation. In fiscal 2008, emissions reduction measures were introduced at different worksites, but total emissions remained unchanged as the systems were started up and stopped more frequently.

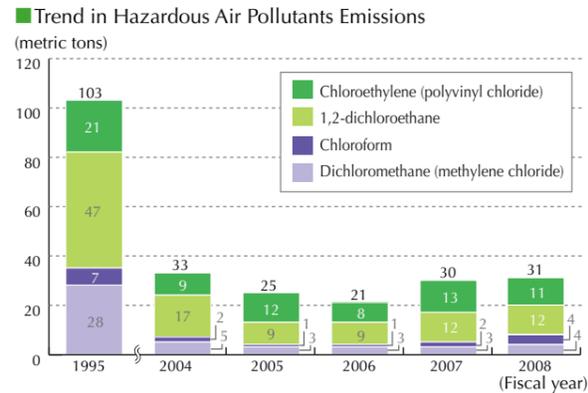


Anti-Dioxin Measures

Waste incinerators, waste oil incinerators and part of the vinyl chloride monomer manufacturing facilities are subject to regulations under the Special Measures Law for Countermeasures against Dioxins. The measured dioxin concentrations in flue gas and wastewater remain far below the control levels.

Hazardous Air Pollutants Emissions

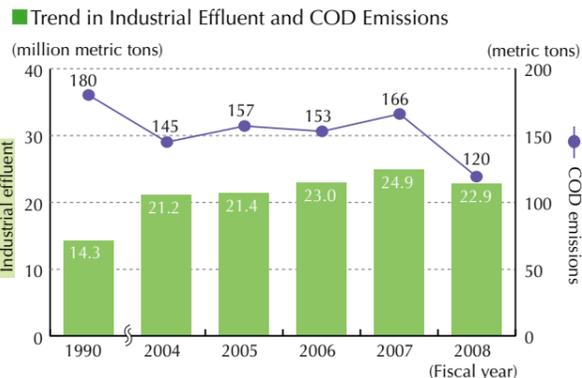
Tokuyama sets out a voluntary reduction plan for four substances that it produces among the 12 substances subject to voluntary control in accordance with the Air Pollution Control Law, including chloroethylene, to take continuous action. In fiscal 2008, the emissions stood at nearly the same level as in the preceding fiscal year, despite the slide in the system operation ratio. This is due largely to malfunctions of the combustion abatement systems.



Industrial Effluent and Water Pollutants Emissions

At the Tokuyama Factory, the hydrogen ion concentration (pH) and the suspended solids (SS) concentration in industrial effluent are under strict control. The Kashima Factory contracts with a terminal treatment plant to treat its effluent. To treat process effluent that contains organic substances, activated sludge process equipment has been installed to reduce the chemical oxygen demand (COD)*2. Since fiscal 2004, our measurements have been covering nitrogen and phosphorus as well. They are subject to total volume control under the Water Pollution Control Law.

In fiscal 2008, a decline in operation in the facilities resulted in a reduction in both nitrogen and phosphorus emissions.



	2004	2005	2006	2007	2008
Nitrogen emissions	94	95	110	112	108
Phosphorus emissions	7.8	4.0	3.9	4.5	2.9

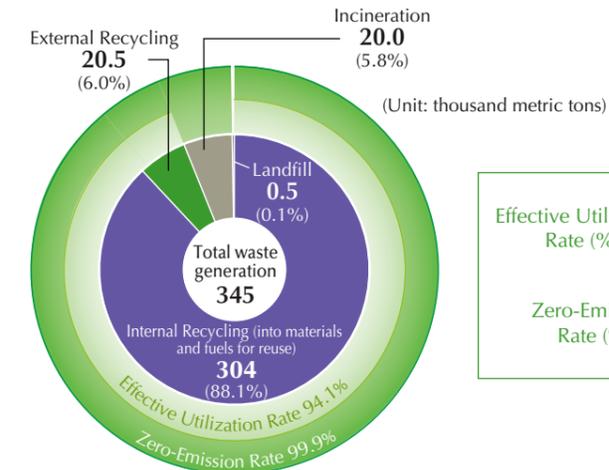
Waste Reduction and Recycling

As a result of its exhaustive efforts to reduce waste and recycle, in fiscal 2008 Tokuyama put 94.1% of its waste to effective use and diverted 99.9% of its waste from being dumped in landfills.

Waste Management

In fiscal 2008, Tokuyama generated 345 thousand metric tons of waste. It actively recycled them internally and externally, mainly reusing them as cement raw materials and fuel at the Tokuyama Factory. Packing materials, pallets and other wood waste were crushed into fuel so that they can be effectively used at power plants. As we worked diligently to recycle waste into raw materials for cement, we maintained the rate of effective use of waste at 94.1%. We stepped up our activities for reusing and reducing waste to achieve a high landfill zero-emission rate of 99.9%.

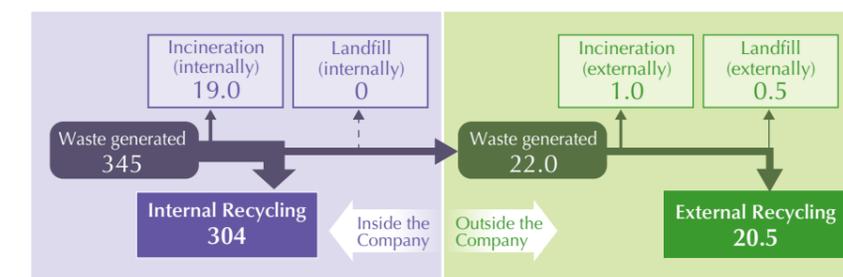
Breakdown Graph of Industrial Waste Treatment in Fiscal 2008



$$\text{Effective Utilization Rate (\%)} = \frac{\text{Recycling Volume (internal and external)}}{\text{Total Waste Generated}} \times 100$$

$$\text{Zero-Emission Rate (\%)} = \left[1 - \frac{\text{Landfill Volume (internal and external)}}{\text{Total Waste Generated}} \right] \times 100$$

Process Flow of Industrial Waste Treatment

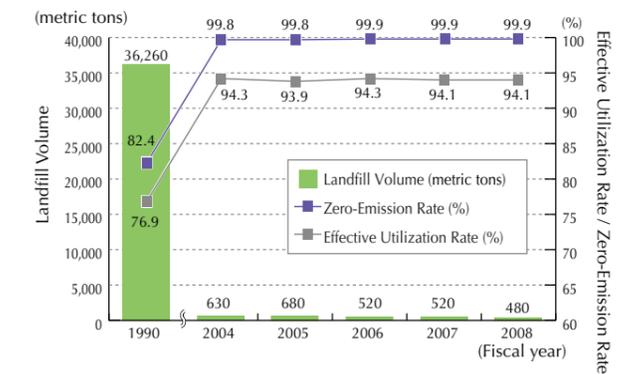


*The figures represent relevant values for fiscal 2008 (Unit: thousand metric tons).

Management and Treatment of PCB Waste

The Tokuyama Group has 82 transformers and capacitors containing polychlorinated biphenyl (PCB)*3. All of them have already fallen into disuse. In compliance with the Special Measures Law for the Proper Treatment of Polychlorinated Biphenyl Waste, they are retained and managed in an appropriate manner. Legislation requires all PCB waste to have been treated by July 2016. In accordance with the plan of the national government, wide-area PCB treatment facilities are increasingly constructed and coming into operation in succession. Taking advantage of the early registration program, the Tokuyama Group finished its registration to the Japan Environmental Safety Corporation (JESCO) in December 2005. In the future, we will be properly treating our PCB waste in line with the timetables of the wide-area treatment project in separate districts.

Trend in Waste Landfill Volume, Effective Utilization Rate and Others



Terminology *1 The pollutant release and transfer register (PRTR) refers to a system of collecting and publishing data on the sources of hazardous substances, the amounts of such substances emitted into the environment or carried away from business establishments in the form in which they are contained in waste.
*2 Chemical oxygen demand (COD) is an indicator of the water pollution level and refers to the amount of oxygen consumed by oxidizing organic substances in water.

*3 Polychlorinated biphenyl (PCB) is an organic chlorinated compound that emits dioxins when burnt in low temperature. Chemically stable and excelling in thermal resistance, chemical resistance, insulation and other electric characteristics, it was formerly used in many different electric products including transformers and capacitors. However, it has been banned from production or utilization since 1972 because of its hazardousness to humans. Transformers, capacitors and other PCB-contained products that have already been distributed have to be retained at business establishments.

Development of Environmentally Friendly Products and Environmental Technologies

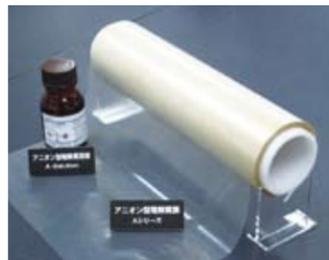
The Tokuyama Group maintained its efforts to develop environmentally friendly products and recycling technologies in fiscal 2008.

Development of an Electrolyte Membrane for Alkaline Membrane Fuel Cells

For Next-Generation, Environmentally Friendly Fuel Cells, and an Ionomer Additionally Developed

Tokuyama achieved a world first when it developed an electrolyte membrane for alkaline membrane fuel cells. This type of fuel cell has mainly two advantages. First, a wider array of metals, including iron or nickel, can be used as electrode catalyst and it is no longer necessary to use platinum, the reserve of which is limited. Second, biologically produced ethanol can be used as fuel. Development initiatives for alkaline membrane fuel cells are underway in different parts of the globe as they are regarded as environmentally friendly fuel cells for vehicle-mount and other applications. The alkaline electrolyte membrane that we have developed features dramatically improved performance supported by enhanced ion conductivity and thickness reduction. We have begun supplying this membrane in rolls.

We have also succeeded in developing an ionomer to be used as an electrode catalyst for fuel cells. Combined with the electrolyte membrane, it has paved the way for an output of 300 mW/cm² or more. In the future, we will contribute to practical application of fuel cells as a pioneer in alkaline electrolyte membranes.



The alkaline electrolyte membrane and the ionomer solution developed by Tokuyama

Voice

Toward developing materials with high performance and high economic efficiency

The use of alkaline electrolytes as electrolyte materials central to fuel cells is expected to widen the options of fuels and catalysts and to enhance environmental features as well as performance. As this is an unprecedented project, there are still unknown factors and issues to address. However, I feel both pride and a sense of responsibility in being involved in the development of the electrolyte material for alkaline membrane fuel cells.

In the future, I will continue to work hard to develop high-performance and low-cost materials in an attempt to make environmentally friendly batteries available to many people as soon as possible.

Kazuyuki Sadasue
Senior Research Chemist,
Corporate Development Dept. (Tsukuba),
Research & Development Div.



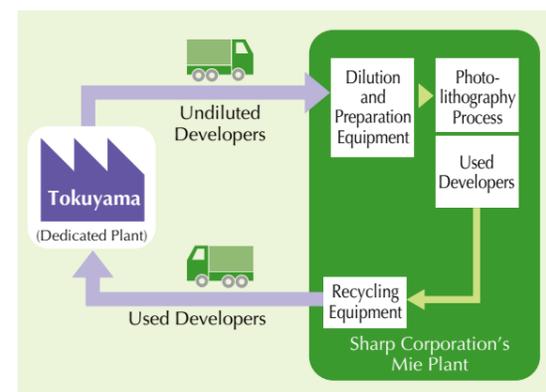
A Closed System for Developers

Material Recycling for Used Developers

Tokuyama and Sharp Corporation finished developing material recycling technologies for used liquid developers in liquid crystal panel plants. A closed system to collect, recycle, and reuse developers solutions between Sharp Corporation's Mie Plant in Taki-gun, Mie Prefecture and Tokuyama's dedicated plant commenced commercial operation in April 2005. Prior to this inauguration, we had conducted a demonstration trial that lasted about three years at a pilot plant to identify and address practical issues from a number of different perspectives. As a result, the system has been enjoying very robust operation over the past four years.

Going forward, we aim to improve the technologies and reduce costs so that they can be used without anxiety, not only by liquid crystal panel manufacturers but by many other developer users as well. We are also developing product manufacturing and disposal technologies that have low environmental impacts right through the supply chain, encompassing the production use and disposal by manufacturers and users of developers.

The Closed System for Developers at Sharp Corporation's Mie Plant



Ion Exchange Membranes ASTOM Corporation

Clean Technologies that Help Prevent Environmental Pollution

ASTOM Corporation, a Tokuyama Group company, helps resolve environmental problems with its separation technology based on the *NEOSEPTA* ion exchange membranes and the *ACILYZER* high-performance electrolysizer incorporating *NEOSEPTA*. Ion exchange membranes facilitate the selective permeation of positive and negative ions dissociated in solution. Traditionally, ion exchange membranes have been used in salt production, food, fresh water generation, pharmaceuticals and the treatment of waste liquids. Today, ion exchange membranes have application in the separation and collection of acid and alkali in waste liquids, the treatment of leachate at waste disposal facilities and the removal of nitrate nitrogen from groundwater as part of initiatives to prevent environmental pollution. Ion exchange membranes are therefore attracting the attention of the international community as a clean technology that serves to prevent environmental pollution.

In fiscal 2008, our separation technology was adopted as an approach to process improvement and reduction in waste liquid treatment load at food and chemicals plants. Given that this technology is increasingly being recognized as an environmentally friendly technology in Japan and overseas, we will be accelerating our efforts with a view to expanding overseas.



The *ACILYZER* high-performance electrolysizer based on ion exchange membranes

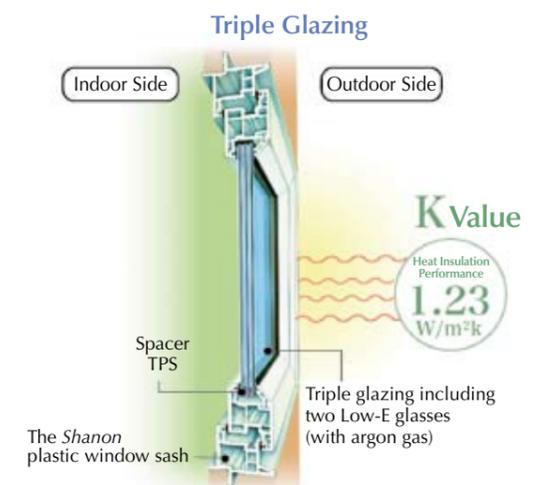
The *Triple Shanon* Plastic Window Sash Excel Shanon Corporation

High-Performance Plastic Window Sashes Conserve Energy and Reduce Household CO₂.

Excel Shanon Corporation, one of Tokuyama's group companies, manufactures and sells the *Shanon Window* plastic window sashes with distinguished levels of airtight, thermal insulation, sound proof, and moisture condensation proof characteristics. In 2008, it was revealed that individual authorization for fireproof/fire-resistant specifications had been obtained for certain models in the series, specifically the fireproof/fire-resistant grade models, in the dishonest way using test products with specifications that differed from those that received the authorization. This event severely betrayed the confidence of customers and many other stakeholders. We are committed to regaining trust by improving and repairing the products involved as soon as possible and by adopting comprehensive measures to prevent any recurrence. We then hope to shift the focus of our activities back to fulfilling our primary mission, namely contributing to energy conservation (reducing CO₂ emissions) in households and enabling comfortable and healthy lifestyles.

The residential housing industry has been taking broad measures to combat global warming. Among these measures, plastic window sashes draw attention for their superior performance in reducing energy consumption, as they add a high level of air-tightness and thermal insulation when used in residential houses. In April 2008, Excel Shanon released the *Triple Shanon*, which boasts the lowest K value of 1.23 W/m²k in the Japanese window sash market. The *K value**1 is a heat transmission coefficient. A lower figure means higher heat insulation performance. With the *Triple Shanon*, electricity costs are about 15% lower*2 than they are with ordinary aluminum-plastic composite window sashes. This product helps achieve further reductions in CO₂ emissions.

A Cross-Section View of the Window Sash



K value = 1.23W/m²k

Terminology *1 The K value is the heat transmission coefficient and represents the heat insulation performance of the wall, floor or other parts of the building.
*2 The expression, "15% lower," is based on the new reference rate for electric power set by the Home Electric Appliances Fair Trade Conference under the SMASH simulation program.



Tokuyama Factory

Location: 1-1, Mikage-cho, Shunan, Yamaguchi Prefecture
 Employees: 1,638
 Factory Area: 1,910,000 square meters (total area)

Main Products Cement, inorganic and organic chemical products, polycrystalline silicon, silica, vinyl chloride and others

* For further details about the factory, see page 13.



Seiichi Shiraga
 General Manager of
 Tokuyama Factory, and
 Managing Director

Performance Data

	Unit	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
SOx Emissions	metric tons	1,720	2,310	1,940	1,930	1,190
NOx Emissions	metric tons	11,500	11,400	12,300	11,100	10,100
Soot Emissions	metric tons	272	259	267	223	161
Industrial Water Consumption	mil. metric tons	50.1	49.5	45.8	41.1	40.6
Effluent	mil. metric tons	21.1	21.3	22.8	24.8	22.8
COD Emissions	metric tons	141	152	148	161	116
Total Nitrogen Emissions	metric tons	94	95	110	112	108
Total Phosphorus Emissions	metric tons	7.8	4.0	3.9	4.5	2.9
PRTR Substances Emissions	metric tons	66	57	63	67	66
Waste Emissions	thousand metric tons	395	349	360	363	344
Waste Final Disposal Volume	metric tons	610	660	480	480	460
Energy Consumption	thousand GJ	53,000	53,900	54,100	55,700	52,700
CO ₂ Emissions (in fossil fuel equivalents)	thousand metric tons	4,800	4,910	4,960	5,130	4,840
Complaints	complaints	5	5	3	6	0

PRTR Substances Emissions and Displacement by Substance in Fiscal 2008

Unit: metric tons
 (mg-TEQ for dioxins only)

Substance	Government Ordinance Number	Emissions				Subtotal	Displacement
		To Air	To Water	To Soil			
Cresol	67	0.0	24.7	0.0	24.7	0.0	
1,2-Dichloroethane	116	11.5	0.0	0.0	11.5	0.1	
Chloroethylene (Polyvinyl Chloride)	77	10.9	0.0	0.0	10.9	0.0	
Chloromethane (Methyl Chloride)	96	6.8	0.0	0.0	6.8	0.0	
Toluene	227	3.6	0.0	0.0	3.6	100.4	
Dichloromethane (Methylene Chloride)	145	2.7	0.0	0.0	2.7	0.0	
Water soluble zinc compounds	1	0.0	2.4	0.0	2.4	0.0	
Chloroform	95	1.8	0.0	0.0	1.8	0.0	
1,2-Epoxypropane (Propylene Oxide)	56	0.7	0.0	0.0	0.7	2.3	
1,2-Dichloropropane	135	0.4	0.0	0.0	0.4	185.6	
Carbon Tetrachloride	112	0.4	0.0	0.0	0.4	0.0	
2,2'-Azobisisobutyronitrile	13	0.0	0.0	0.0	0.0	0.0	
2-Aminoethanol	16	0.0	0.0	0.0	0.0	4.2	
Ethylene Glycol	43	0.0	0.0	0.0	0.0	0.0	
Water-soluble copper salt (excluding complex salt)	207	0.0	0.0	0.0	0.0	2.6	
Hydrazine	253	0.0	0.0	0.0	0.0	0.0	
Di-n-Butyl Phthalate (DBP)	270	0.0	0.0	0.0	0.0	0.0	
Hydrogen Fluoride and its water soluble salts	283	0.0	0.0	0.0	0.0	0.0	
Benzene	299	0.0	0.0	0.0	0.0	0.0	
Boron and its compounds	304	0.0	0.0	0.0	0.0	0.1	
Dioxins	179	45.3	3.3	0.0	48.6	0.0	
Total (excluding dioxins)		38.7	27.1	0.0	65.8	295.3	

The substances are listed in descending order of emissions and, for substances that were not emitted at all, in order of government ordinance number.

Emissions to Water refers solely to the emissions released into public waterways.

Displacement refers to the combination of the quantity displaced to sewerage and the quantity subject to intermediate treatment.

Total shows the value rounded to one decimal place after adding the values to three decimal places.



Kashima Factory

Location: 26, Sunayama, Kamisu, Ibaraki Prefecture
 Employees: 78
 Factory area: 101,000 square meters

Main Products Tokuyama Corporation's Kashima Factory

Pharmaceutical bulks (X-ray contrast agents, stomach and duodenal ulcer treatment drugs); optical materials (plastic lens monomer, light modulating materials, hard coat solutions); materials for electronic materials and metal washing solutions

Tokuyama Dental Corporation's Kashima Plant

Dental materials (restorative materials, adhesives, denture relining materials, impression materials, plaster materials and investment materials)

- At the Kashima Factory, material recycling of solvent, from which relatively high-purity recovery was possible, began in fiscal 2005. Today, the Kashima Factory performs material recycling for six types of waste solvent. In fiscal 2007, material recycling to recover iodine from waste fluid containing iodine compound commenced. This was followed in the next fiscal year by material recycling of waste silica gel. In fiscal 2008, the rate of effective utilization of waste was the same as the 73% registered in the preceding fiscal year.
- Tokuyama Dental Corporation has changed the materials for some products from dichloromethane to water-based materials. It is endeavoring to expand this material shift to other products to reduce dichloromethane emissions into the atmosphere.



Shingo Matsuoka
 General Manager of
 Kashima Factory



Performance Data (in total of two companies)

	Unit	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
Industrial Water Consumption	thousand metric tons	91	112	110	107	78
Effluent	thousand metric tons	107	126	125	129	95
COD Emissions	metric tons	4	5	5	5	4
PRTR Substances Emissions	metric tons	3	2	3	4	5
Waste Emissions	metric tons	769	749	779	965	770
Waste Final Disposal Volume	metric tons	29	15	34	32	27
Energy Consumption	thousand GJ	45	51	53	58	55
CO ₂ Emissions (in fossil fuel equivalents)	metric tons	2,180	2,130	2,170	2,320	2,230
Complaints	complaints	0	0	0	0	0

PRTR Substances Emissions and Displacement by Substance in Fiscal 2008

Unit: metric tons

Substance	Government Ordinance Number	Emissions				Subtotal	Displacement
		To Air	To Water	To Soil			
Chloroform	95	2.2	0.0	0.0	2.2	23.9	
Dichloromethane (Methylene Chloride)	145	1.8	0.0	0.0	1.8	6.9	
Toluene	227	1.4	0.0	0.0	1.4	9.6	
Acetonitrile	12	0.0	0.0	0.0	0.0	2.5	
Ethylene Glycol	43	0.0	0.0	0.0	0.0	2.8	
1,4-Dioxane	113	0.0	0.0	0.0	0.0	0.1	
N,N-Dimethylformamide	172	0.0	0.0	0.0	0.0	15.7	
Methacrylate	314	0.0	0.0	0.0	0.0	0.0	
2,3-Epoxypropyl Methacrylate	316	0.0	0.0	0.0	0.0	0.0	
Methyl Methacrylate	320	0.0	0.0	0.0	0.0	0.0	
Alpha-Methylstyrene	335	0.0	0.0	0.0	0.0	0.0	
Total		5.4	0.0	0.0	5.4	61.7	

The substances are listed in descending order of emissions and, for substances that were not emitted at all, in order of government ordinance number.

Emissions to Water refers solely to the emissions released into public waterways.

Displacement refers to the combination of the quantity displaced to sewerage and the quantity subject to intermediate treatment.

Total shows the value rounded to one decimal place after adding the values to three decimal places.

Site Report Activities of Group Companies

Sun-Tox Co., Ltd. Tokuyama Plant
Sun Arrow Chemical Co., Ltd. Tokuyama Plant
Tokuyama Polypropylene Co., Ltd.

Sun-Tox Co., Ltd. Kanto Plant

Tokuyama understands that responsible care activities should be conducted on a group-wide basis. The Company has signed RC management agreements with Tokuyama Group companies both inside and outside Japan engaging in production activities to support their activities.

We collect data on the environmental impact of group companies and their safety management indicators and conduct safety and environmental audits at the rate of several group companies per year. By means of these actions, we monitor and enforce RC activities conducted at individual group companies.

The trend of statutory regulations and other information are shared with our group companies.

We also provide our group companies with assistance in acquiring ISO 14001 and ISO 9001 certification.

ISO 9001 and ISO 14001 Certification Status of Eleven Group Companies

Group Company	ISO9001	ISO14001
Sun-Tox Co., Ltd.	●	●
Excel Shanon Corporation	●	—
Tohoku Shanon Co., Ltd.	●	●
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 in the certified sites * Certified with ISO 13485

Sun-Tox Co., Ltd.

Date of Foundation: February 14, 1992
Ownership: Tokuyama Corporation (100%)
Head Office: Annex to Tokuyama Bldg. 1-4-5, Nishi Shimbashi, Minato-ku, Tokyo
Business: Manufacture and sale of biaxial-oriented polypropylene films and cast polypropylene films

▶ **Kanto Plant** Location: 3075-18, Shimasu, Itako, Ibaraki Prefecture
Employees: 186
Area: 55,800 square meters



Koji Tanaka
Plant Manager

Located in the Itako Industrial Park in Ibaraki Prefecture, the Kanto Plant produces 25,000 metric tons of biaxial-oriented and cast polypropylene films per year. As a Type I Energy Management Designated facility, it has been taking steps to ensure effective energy operation by introducing co-generation systems and energy-efficient equipment, among other initiatives.

In February 2008, we obtained the Occupational Health and Safety Management System (OHSMS) certification. We capitalize on our three management systems for the environment (ISO 14001), quality (ISO 9001), and occupational health and safety to make steady improvements throughout the plant, with the top priority placed on safety.

In fiscal 2008, we added a production line for cast polypropylene films and made preparations for full operation. In the future, we seek to turn the products manufactured at this plant into a new pillar of revenues and to make our plant a model plant in terms of energy conservation and safety practices.

Performance Data

	Unit	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
Power Consumption	thousand kWh	28,470	28,480	29,730	29,212	30,600
Heavy Oil Consumption	Kl	1,470	910	600	639	745
SOx	metric tons	2.0	0.7	0.6	0.4	0.4
NOx	metric tons	3.3	0.9	0.5	0.7	0.7
Soot Particles	metric tons	0.3	0.04	0.03	0.04	0.08
Industrial Water Consumption	metric tons	53	63	59	66	77
Waste Emissions	metric tons	90	22	52	60	34
Waste Final Disposal Volume	metric tons	0	0	9	29	5
COD Emissions	metric tons	0.02	0.02	0.01	0.01	0.03

▶ **Tokuyama Plant** Location: 7-7, Harumi-cho, Shunan, Yamaguchi Prefecture
Employees: 148
Area: 24,100 square meters



Toshiyuki Yamaoka
Plant Manager

Located on the premises of Tokuyama Corporation's Tokuyama Factory, the Tokuyama Plant produces 23,000 metric tons of biaxial-oriented polypropylene films per year. In environmental aspects, we work together with Tokuyama Corporation's Tokuyama Factory to address environmental conservation and to carry out ISO 14001 activities. As a Type I Energy Management Designated plant, our plant is continuing with its efforts to slash manufacturing losses and thereby lower unit energy consumption. An activity is underway to recycle all manufacturing losses generated.

It obtained certification for the Occupational Health and Safety Management System in February 2008. Going forward, it will be introducing health and safety activities centering on risk assessment and developing them into a management system through a PDCA cycle.

Under the slogan of "Take pleasure in production, be stringent with quality and adhere to safety," the Tokuyama Plant aims to implement plant management in a manner that earns the trust of society, the customers and employees.

Performance Data

	Unit	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
Unit energy consumption index with fiscal 1990 as the base year	(%)	94	89	87	88	87
Power Consumption	thousand kWh	35,740	35,770	34,230	34,830	31,080
0.3 MPa Steam Consumption	metric tons	2,610	2,930	4,220	3,410	2,770
2.1 MPa Steam Consumption	metric tons	42,760	44,830	42,270	43,830	39,160
Waste Emissions	metric tons	80	160	180	200	120
Waste Final Disposal Volume	metric tons	2	0	1	11	20

Sun Arrow Chemical Co., Ltd.

Date of Foundation: February 1, 1999
Ownership: Tokuyama Corporation (100%)
Head Office: Kitahama Chuo Bldg., 2-2-22, Kitahama, Chuo-ku, Osaka
Business: Manufacture and sale of polyvinyl chloride compounds

▶ **Tokuyama Plant** 1-2, Harumi-cho, Shunan, Yamaguchi Prefecture
Employees: 27
Area: 3,280 square meters



Shigefumi Kunihiro
Plant Manager

Performance Data

	Unit	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
Power Consumption	thousand kWh	3,020	3,210	3,540	3,470	2,810
Waste Plastics Emissions	metric tons	150	172	186	158	157
Effective Used Waste Plastics Volume	metric tons	150	172	186	158	157
Waste Final Disposal Volume	metric tons	0.2	0.1	0	0	0.6
Steam Consumption	metric tons	240	240	240	240	240
Industrial Water Consumption	thousand metric tons	65	65	65	65	65

RC activities of the Tokuyama Plant

Located within the premises of Tokuyama Corporation's Tokuyama Factory, the Tokuyama Plant produces polyvinyl chloride compounds for plastic window sashes. While it is common to add lead-based stabilizer to polyvinyl chloride compound, we sought to develop a lead-free formula in fiscal 2008 in response to the requests of users.

To protect the environment, we perform statutory monitoring and measuring activities on a daily basis in compliance with the ISO 14001 standards. We have achieved positive outcomes, reducing environmental pollutants and cutting energy consumption. Understanding that the plant has a prime duty

to ensure safety, health, security, and disaster prevention, we carry out equipment and operation management in compliance with relevant laws and regulations as well as full-participation Five-S activities, Hiyari Hatto (accident prevention) activities, Kiken Yochi (hazard prediction) training, and Akafuda (red-tagging) operations. As a result of these activities, we successfully maintained our zero-accident and zero-disaster record. As a member of the Tokuyama Group, it will place top priority on environmental and safety considerations and constantly seek corporate development as well as the coexistence and mutual prosperity with the local community.

Tokuyama Polypropylene Co., Ltd.

Date of Foundation: April 2, 2001
Ownership: Tokuyama Corporation (50%) and Prime Polymer Co., Ltd. (50%)
Head Office: 1-1, Harumi-cho, Shunan, Yamaguchi Prefecture
Business: Manufacture and sale of polypropylene resins and polypropylene compound resins

▶ **Tokuyama Plant** 1-1, Harumi-cho, Shunan, Yamaguchi Prefecture
Employees: 64
Area: 70,997 square meters



Hiroshi Horii
Plant Manager

Performance Data

	Unit	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
Industrial Water Consumption	thousand metric tons	410	443	387	417	322
Waste Emissions	metric tons	134	85	161	141	158
Waste Final Disposal Volume	metric tons	20*	0	25*	4	16*
Unit Energy Consumption Index (Fiscal 2002 = 100)	%	87	79	79	85	98

* Year with periodic repairs

Our Tokuyama Plant is located on the premises of the Higashi Plant, which constitutes part of the Tokuyama Factory of Tokuyama Corporation. The plant manufactures and sells 200,000 metric tons of polypropylene resins and 7,000 metric tons of flexible polyolefin resins each year.

This plant runs three systems for safety management, environmental management, and quality management and undertakes responsible care activities in tandem with the Tokuyama Factory.

With respect to safety management, we perform risk assessments of processes, equipment, and work. We are also introducing the Company-wide Hiyari Hatto Kigakari (HHK) activities to eradicate accidents and other concerns, part of our aim

to maintain the zero-accident and zero-disaster status that we have enjoyed for 34 years, since the days when we operated as the Polypropylene Manufacturing Department.

In fiscal 2008, we became one of four businesses in Yamaguchi Prefecture to win the prize for encouragement from the Director-General of the Yamaguchi Labour Bureau. The prize recognized our distinguished safety and health level in the region and our improvement activities, which were held as an example for others.

In fiscal 2009 as well, we will be stepping up responsible care activities in a bid to maintain our zero-accident and zero-disaster record, to reduce our environmental footprint, and to eliminate all customer quality concerns.

A Review on Tokuyama's CSR Report 2009

Eriko Nashioka

Certified Public Accountant and Director of the Institute for Environmental Management Accounting

Profile

A part-time lecturer in environmental accounting and environmental auditing for the Faculty of Commerce of Doshisha University. After completing her studies in environmental management at the Doshisha University Graduate School of Policy and Management in 1997, she joined the Environmental Auditing Section, the Third Department at the Osaka Office of Century Ota Showa & Co., currently Ernst & Young ShinNihon LLC, where she worked as a consultant concerning accounting audits (the Commercial Code, the Securities Exchange Law and the Small and Medium Business and Investment & Consultation Companies Law), environmental audits and environmental reports. From April 2001 to March 2004,

she was chief researcher in the Enterprises and the Environment project run by the Kansai Research Center of the Institute for Global Environmental Strategies. In April 2004, she joined the management of the Institute for Environmental Management Accounting. She was involved in a number of committees, including the technical subcommittee on environmental accounting in the Management Research Committee of the Japanese Institute of Certified Public Accountants and other committees under the Ministry of the Environment and the Ministry of Economy, Trade and Industry. She is a member of the primary screening committee for the Environmental Report Award co-organized by Toyo Keizai Inc.



1. Actions in response to the window sash incident

In January 2009, Tokuyama made a public announcement about misleading activities carried out by a subsidiary in connection with fireproof plastic window sashes. The incident itself was most regrettable, given that Tokuyama had recently made a fresh start toward its centennial after marking the 90th anniversary of its establishment in 2008. However, the Company took quick action after the incident was revealed. It immediately set up an external investigative committee to probe the causes, published timely reports on its website and took remedial action. In this CSR Report, the incident is referred to in the Top Message. The first two pages are dedicated to delivering an in-depth report on this disgraceful event. Adopting the recommendations of the outside investigative committee, the Company devised specific measures to prevent a recurrence in March 2009. These measures are reflected in many parts of this report. The Company deserves high marks for its sincere approach in response to the incident. I see Tokuyama's strong determination to prevent any such incident from happening again in the Tokuyama Group Code of Business Activities instituted in the wake of the scandal.

2. Establishment of the Tokuyama Group Code of Business Activities

The Tokuyama Group has renewed its recognition of the critical nature of CSR activities and is determined to redouble its efforts in this area and improve awareness of the importance of fulfilling its social responsibility. This stance is symbolized by the establishment of the Tokuyama Group Code of Business Activities and the development of a number of policies, especially the Responsibility of Senior Management (see page 1). This demonstrates the strong determination of the Tokuyama Group. Following the Centennial Vision announced in fiscal 2008, it has clarified what goals to be achieved. What Tokuyama should do now is to devise specific measures to achieve its objective of fulfilling the Tokuyama Group

Code of Business Activities and adopt clear indices and criteria for measuring its progress as part of management.

3. Developing global CSR efforts

This report has a special feature focusing on Tokuyama Chemicals, one of Tokuyama's subsidiaries based in China. At present, a large majority of the Tokuyama Group's production and sales take place in Japan. If the Group steps up its presence in overseas markets, it will need to take global initiatives to meet environmental and social challenges. Issues common to global businesses may need to be addressed, such as understanding and controlling environmental impacts at overseas bases, actions toward employees, information disclosure, and the need to contribute to local communities. It will be essential to manage the Group's corporate operations by prioritizing issues determined from the perspective of materiality after identifying what Tokuyama Group's CSR is all about and after studying the opinions of stakeholders.

4. Active use of the CSR Report as a tool of communication

I consider this CSR Report to be reader friendly, given that colors are smartly used to add visual clarity and that notes on technical terms are supplied. More specific descriptions would help readers better understand the Tokuyama Group as an enterprise. The report features a number of comments from employees. These comments give readers a glimpse at the kind of people working at Tokuyama, making the Company more familiar to them. However, there are so few comments from people outside the Company that it is difficult to determine how this well-prepared report was intended to be used. I would like to see this report actively used for two-way communications with employees and other stakeholders.

Receiving Comments from Third Parties

We have received valuable comments about the problems that we currently face. We will proceed first with quick and appropriate actions to deal with the incident involving fireproof plastic window sashes, to regain the confidence of stakeholders and to improve our CSR activities and enhance our corporate value. We will meanwhile be studying means of using the CSR Report as a tool for interactive communications with stakeholders.

Etsuro Matsui,

Managing Director and General Manager of the Corporate Social Responsibility Division

■ In the process of producing Third-Party Comments



An interview with Etsuro Matsui, Managing Director and General Manager of the Corporate Social Responsibility Division

History of Tokuyama's RC Activities

- | | | | |
|------------------|--|------------------|--|
| Jul. 1991 | Global Environmental Issues Committee established | Apr. | Renews ISO 9001 certification under 2000 standard and concurrently extends its scope to the sales sector |
| Mar. 1993 | Establishes the RC Administration Committee | Dec. | Undergoes the Responsible Care verification process. The Tokuyama Factory achieves a Type II zero-accident record (8.1 million hours for the chemical industry) as defined by the Ministry of Health, Labour and Welfare |
| Mar. | Institutes a voluntary plan for Total Management of Environment, Safety and Quality | Oct. 2004 | Figaro Engineering Inc. acquires ISO 14001 certification. |
| Apr. 1994 | Acquires ISO 9002 certification for high-purity isopropyl alcohol | Oct. | The Kashima Factory becomes the recipient of a prize presented by the Director-General of Labor Bureau of the Ibaraki Prefectural Government. |
| Jun. | Develops product warranty systems, including product and labeling assessments | Feb. 2005 | The Tokuyama Factory becomes the recipient of a prize presented by the Director-General of the Agency of Natural Resources and Energy for Factories with Distinguished Energy Management (electricity sector). |
| Apr. 1995 | Joins the Japan Responsible Care Council | Mar. | Acquires Yamaguchi Prefecture Eco-Factory certification for the Tokuyama Factory |
| May 1997 | Acquires ISO 9001 certification for cement manufacturing | Jun. | The Tokuyama Factory achieves a Type III zero-accident record (12.2 million hours for the chemical industry) as defined by the Ministry of Health, Labour and Welfare. |
| Sept. | Publishes the first edition of the RC Report | Sept. | ASTOM Corporation acquires ISO 9001 certification. |
| Apr. 1998 | Acquires ISO 9001 certification for the manufacturing of dental materials | Aug. 2006 | Shanghai Tokuyama Plastics Co., Ltd. acquires ISO 9001 certification. |
| Dec. | Acquires ISO 9001 and 9002 certification for aluminum nitride and functional powders and ISO 14001 certification for the Tokuyama Factory | Oct. | Tokuyama Mtech Corporation acquires ISO 9001 certification. |
| Jan. 1999 | Acquires ISO 14001 certification for the Kashima Factory | Dec. | The Kanto Plant of Sun-Tox Co., Ltd. acquires ISO 14001 certification. |
| Jun. | Acquires ISO 9002 certification for chemical products, polypropylene, films and others | Apr. 2007 | Establishes the Corporate Social Responsibility Division. |
| Dec. | Sets up the Ecological Management Initiative Department | Jan. 2008 | The Tokuyama Factory becomes the recipient of a prize presented by the Minister of Economy, Trade and Industry in the Award for Excellent Energy Management Plant. |
| Dec. | Acquires ISO 9002 certification for polycrystalline silicon, organic solvents and suchlike | | |
| Aug. 2000 | Creates the Recycling and Environmental Business Department | | |
| Apr. 2001 | Establishes Yamaguchi Eco-Tech Corporation. | | |
| Apr. 2002 | Acquires ISO 9002 certification for vinyl chloride monomer and polyvinyl chloride | | |
| Jun. | The Kashima Factory becomes the recipient of the Award for Earth-Friendly Companies from the Ibaraki Prefectural Government. | | |
| Mar. 2003 | Recipient of an award from the Director-General of the Industrial Science and Technology Policy and Environment Bureau of the Ministry of Economy, Trade and Industry in the Award for Resource Recycling Technologies and Systems | | |

Editor's Notes

This third edition of the CSR Report has been produced with the objective of giving stakeholders a clearer insight into Tokuyama's CSR activities.

In this edition, the editing team focused on the quality of the special features and on extensive coverage of Tokuyama's CSR efforts. We also expanded coverage of overseas information.

We would be delighted to receive your frank feedback and suggestions so that we can produce a better CSR Report in the future.

For inquiries, please contact:

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* To ensure accessibility to as many readers as possible, the CSR Report is also available via Tokuyama's website.

<http://www.tokuyama.co.jp/eng/enviro/>