

INNOVATION THROUGH RESEARCH



ANNUAL REPORT 2005

TOYAMA CHEMICAL CO., LTD.



 **TOYAMA CHEMICAL CO., LTD.**

Developing World-Class Drugs

Profile

Toyama Chemical—Developing World-Class Drugs

We at Toyama Chemical aim to contribute to the further development of global health care by making the most of our greatest strengths—our R&D capabilities and production technologies. Our strategy going forward is to optimize our corporate resources and become an R&D firm for the world by concentrating on further strengthening our new drug development and manufacturing technologies, especially in the ethical drug business. To this end, we are investing management resources in our three core areas of anti-infective agents, central nervous system (CNS) and cardiovascular agents, and anti-inflammatory agents.

Major developments in fiscal 2005 included achieving consolidated gross revenue ¥24,747 million and a return to profitability, with net income of ¥662 million. In addition, royalty income climbed to ¥8,761 million, supported by major contracts for antibacterial agents. Moreover, Taisho Toyama Pharmaceutical Co., Ltd., a specialized marketing company formed in 2002, reported sales in line with its forecasts.

With the world as our target market, we will continue to strengthen our earnings base and resume dividend payments by providing the value that patients and health care professionals demand.

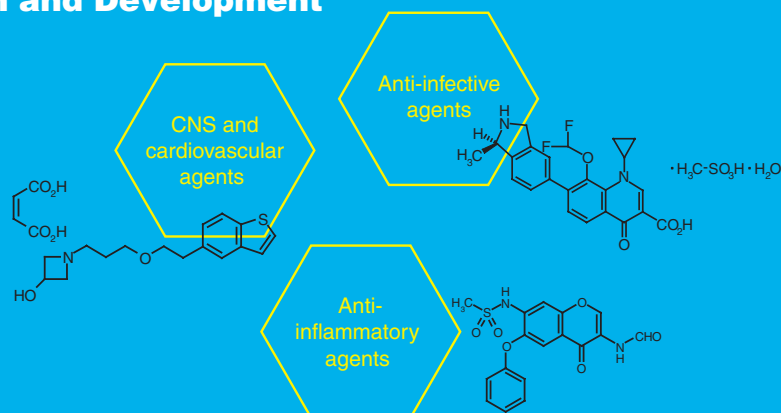
Three Revenue Streams

Revenue from sales of products supplied to Taisho Toyama Pharmaceutical

Royalty revenue from the out-licensing of products developed in-house

Revenue from sales of bulk and drug products supplied to partner firms

Research and Development



Cautionary Statement with Respect to Forward-Looking Statements

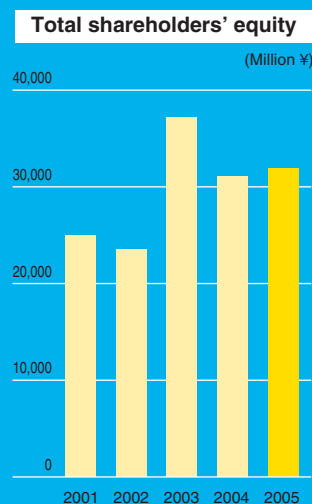
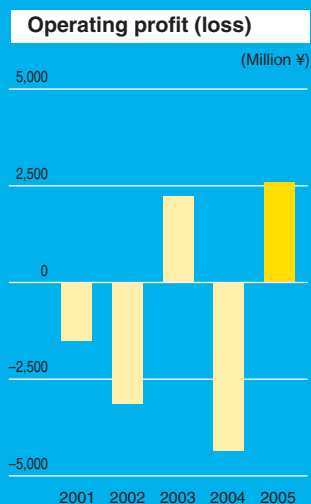
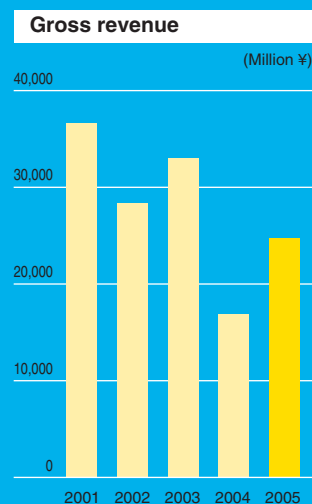
Statements made in this annual report with respect to Toyama Chemical's plans, strategies, and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Toyama Chemical based on management's assumptions and beliefs in light of information currently available to it, and involve certain risks and uncertainties.

Financial Highlights

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note)
	2005	2004	2005
Operating Results:			
Gross revenue	¥24,747	¥16,831	\$231,279
Net sales	15,986	16,227	149,405
Royalty income	8,761	604	81,874
Operating profit (loss)	2,597	(4,369)	24,274
Net income (loss)	662	(4,900)	6,190
Per Share Data (yen and U.S. dollars):			
Basic net income (loss)	¥3.37	¥(24.91)	\$0.031
Financial Position:			
Total shareholders' equity	¥31,897	¥31,031	\$298,103
Total assets	64,763	73,970	605,264
Other Data (yen and U.S. dollars):			
Research and development expenses	¥5,763	¥5,161	\$53,862
Research and development expenses as a percentage of gross revenue	23.3	30.7	

Note: U.S. dollar amounts represent translations of Japanese yen amounts at the rate of ¥107=US\$1, the approximate rate of exchange at March 31, 2005.



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To Our Shareholders

Contributing to the further development of global health care through new drug development

Results for Fiscal 2005

Overall growth in the domestic pharmaceutical market in Japan slowed in fiscal 2005, ended March 31, 2005, as cuts to drug reimbursement prices averaging 4.2% across the industry went into effect in April 2004, and the government worked to curb national expenditures on medicine and pharmaceuticals in response to the declining birthrate and demographic aging of society. On top of this, industry realignment picked up rapidly, with mergers between major domestic drugmakers.

Against this backdrop, Toyama Chemical Co., Ltd., focused its resources on its ethical drug business, where it could best display its strengths, and worked to expand earnings. This resulted in consolidated gross revenue of ¥24,747 million and the achievement of profitability for the first time in six years, with income before income taxes and minority interests of ¥1,236 million and net income of ¥662 million.

Royalty income increased significantly during the period, to ¥8,761 million. At the heart of this was a one-off payment of US\$80 million (¥8,692 million) as part of a licensing agreement for the development and sales rights for the new-type quinolone synthetic antibacterial agent T-3811 (generic name: garenoxacin) from Schering-Plough Corporation in June 2004. In addition, we received a one-off payment on the filing of a New Drug Application for the new quinolone synthetic antibacterial eye drops TN-3262a (Ozex eye drops) from South Korea's Dong-A Pharmaceutical Co., Ltd., to which the drug has been licensed.

Taisho Toyama Pharmaceutical Co., Ltd., our marketing arm, also recorded sales essentially in line with forecasts.

An R&D Firm for the World

With Japan's birthrate declining and its population's weighting toward an older demographic growing, the trend in the domestic ethical drug market has been toward a limited market hosting competition between a small number of new drugs. In 2002, we partnered with Taisho Pharmaceutical Co., Ltd., and transferred our domestic marketing functions to our joint venture affiliate, Taisho Toyama Pharmaceutical. This move was made to improve sales efficiency, and part of a change we saw as necessary for Toyama as an R&D firm wanting to shift from business expansion focused on the domestic market to business expansion around the globe.

To make the most of our greatest strengths—our R&D abilities and our production technologies—we changed the very nature of our growth, making the fruits of our research the cornerstone of our business.

With the world as our target market, our greatest concerns are development efficiency and speed. To this end, we are pursuing development not only on our own, but also through aggressive efforts with other firms and academic-led ventures. In September 2004, we reached a joint development and licensing agreement with GlaxoSmithKline Plc (GSK) to pursue new antibacterial agents using GSK's library of candidate compounds. This type of technological partnership can facilitate the swift discovery of revolutionary new drugs. Toyama is proactively licensing out new drugs to firms that can conduct sales worldwide, while continuing to pursue sustainable growth.

As we press forward with R&D that incorporates the customer's perspective, we will continue to strengthen our marketing

functions in our drive to pursue and supply the value that patients and health care professionals demand.

Developments in Fiscal 2006

Phase I clinical trials began in 2005 for the Alzheimer's disease treatment T-817MA. We also cleared the way for medium-term growth with the development of a number of other new drug candidates, including T-5224, an oral agent for treatment of rheumatoid arthritis currently at the non-clinical trial stage that is drawing attention as a basic antirheumatic, and T-2307, an injectable antifungal also at the non-clinical trial stage. Our new drug development is carried out with strict adherence to schedule management at every stage in an effort to ensure swift progress. Similarly, we are working to ensure steady progress with the approval schedules for TN-3262a and the oral antirheumatic agent T-614.

We also expect growth for Taisho Toyama Pharmaceutical's sales of the injectable antibiotic Pentacillin, the synthetic antibacterial agent Ozex, the long loop diuretic Luprac, the injectable new quinolone antibacterial agent Pasil (which was granted an additional indication for *Legionella* infections in February 2005), and other core products

Based on this, we expect consolidated gross revenue of ¥24,900 million in fiscal 2006, income before income taxes and minority interests of ¥1,100 million, and net income of ¥400 million.



Katsuhiko Nakano
Director, President, and Chief Executive Officer

Brand Image: Toyama Chemical, a High-Tech Company

By combining creation and speed, Toyama Chemical is becoming an R&D firm for the world, steadily building its brand image as a high-tech company. At the same time, the Company is concentrating fully on two issues warranting a swift response—the stabilization of its financial base and the resumption of shareholder dividends.

We ask you, our shareholders, for your continued support.

August 2005

A handwritten signature in black ink that reads "Katsuhiko Nakano".

Katsuhiko Nakano
Director, President, and
Chief Executive Officer

Progress of Medium-Term Management Plan 2009

Currently in the middle phase of
Medium-Term Management Plan 2009

Fundamental Operating Policies

Corporate Identity

Toyama Chemical's corporate identity is based on unlocking secrets through the proactive use of science backed by the Company's accumulated expertise, with all employees sharing the goal of supporting healthy lives for individuals.

Corporate philosophy

The creation of health culture with live science*

Toyama Chemical aims to grow as a company supporting a comprehensive culture of health with a focus on ethical drugs.

Business domain

The creation of a culture of health

Toyama Chemical's mission is to contribute to the further development of global health care through new drug development. It aims to be an R&D company serving the globe.

Management goal

To contribute to the further development of global health care through new drug development

* "Live science" is a phrase created to express Toyama Chemical's philosophy that its activities are based not only on research activities in "life science" but also on its aim to offer, first and foremost, a healthy and lively lifestyle to all and to thereby enable everyone to lead a lively working life.

Medium-Term Management Plan 2009: Issues

En route to its goal of contributing to the further development of global health care through new drug development, Toyama Chemical has set the stable creation over the next 10 years of new drug candidate compounds that meet global standards as an objective for management. In fiscal 2005, the Company essentially met all its goals in terms of earnings and R&D progress.

Going forward, the Company will continue to make progress toward one of its management goals—building an R&D foundation that will allow it to generate new drugs that meet global standards. As a leading firm in new drug development, Toyama Chemical will license its products to (and develop them jointly with) companies that can sell them around the world. To do this, the Company will develop drugs that provide efficacy and quality at costs that are acceptable to the market.

Pursuing four levels of satisfaction

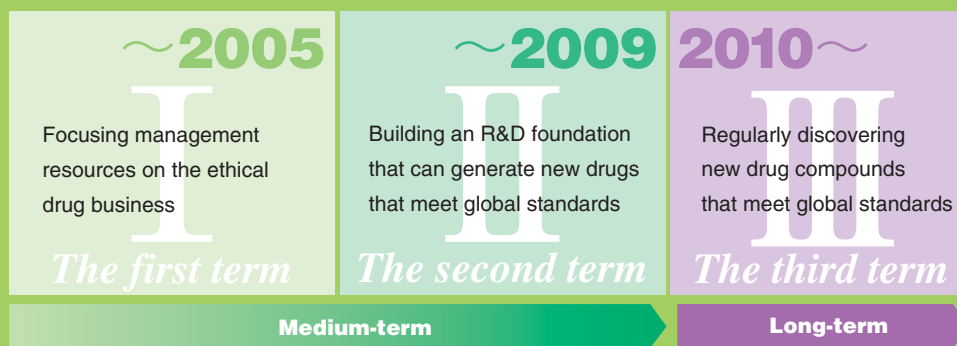
Satisfying customers: Supplying value to patients and health care professionals

Satisfying shareholders: Contributing to shareholders through stable business results

Satisfying society: Contributing to society's continued development through environmental management and social action programs

Satisfying employees: Providing an impartial, equitable venue and supporting the personal fulfillment of highly motivated employees

Long-Term Management Issues



Medium-Term Business Domain

Focusing on the ethical drug business

To make efficient and effective use of limited management resources, the Company's medium-term management plan focuses on the ethical drug business, where it will concentrate management resources on areas that play to the Toyama Chemical Group's strengths

Medium-Term Earnings Targets

Operating income in excess of ¥8,000 million by Fiscal 2010

To reach this earnings target, the Company aims to generate stable earnings by taking at least one new drug or new formulation to market every two years and pursuing licensing development candidates from other firms through cross-licensing agreements.

Three Revenue Streams



Five Strategies

- 1**
Developing a drug pipeline that meets global standards
- 2**
Supplying Taisho Toyama Pharmaceutical with distinctive products
- 3**
Stabilizing the Company's financial footing
- 4**
Building a manufacturing infrastructure that is competitive both in the domestic market and overseas
- 5**
Creating a management environment that retains society's trust

Business Overview

Toyama Chemical's strengths in R&D and manufacturing technologies are helping to increase its market presence as a new drug developer supplying the world.

Toyama Chemical's R&D Structure

Toyama Chemical pursues R&D in the three core areas of anti-infective agents, central nervous system (CNS) and cardiovascular agents, and anti-inflammatory agents.

The esteem in which the Company is held is reflected in its strong record of licensing agreements with drugmakers in the United States and Europe and its position as leader in royalty revenue among companies of comparable size.

The Discovery Laboratories was established in 2001 to discover seeds for new drug research by utilizing creative ideas. To ensure the faster global development of new drugs, the Company is establishing a clinical development network with bases in Japan, the United States, and Europe.

The Company's R&D budget in fiscal 2005 was ¥5,763 million, or 23.3% of gross revenue. With the rise of additional new drug candidate compounds, the Company expects to spend approximately ¥7,000 million on R&D in fiscal 2006.

The greatest challenges facing the Company are to transform new drug candidate compounds into new drugs and supply them to the frontlines of global medicine as swiftly as possible. This is why the Company is working to accelerate R&D by building up its new drug development pipeline and pursuing strategic partnerships with drug companies in Japan and abroad.

New Drug Development Schedule

T-3811

New-type quinolone synthetic antibacterial agent with superior efficacy and safety

T-3811 has a strong and broad antibacterial spectrum, and it is effective even against drug-resistant pathogens, such as penicillin-resistant *Streptococcus pneumoniae* (PRSP) and methicillin-resistant *Staphylococcus aureus* (MRSA). Toyama Chemical believes indications are possible for a wide range of ailments, from respiratory tract infections to surgical infections. Given its strengths in terms of safety, the Company also believes pediatric indications are also a possibility.

T-817MA

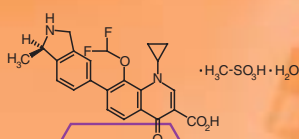
Promising treatment to curb the advance of Alzheimer's disease

In addition to having a neuroprotective effect, T-817MA helps promote neurite growth, which has raised hopes that it could curb the advance of Alzheimer's disease. Where drug therapies for Alzheimer's thus far have only slowed the onset of the disease's symptoms, T-817MA could be used to halt or even reverse cognitive dysfunction.

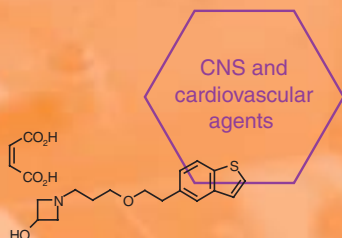
T-2307

Antifungal agent with a novel mechanism of action

T-2307's new mechanism of action covers a wide range of antifungal activity, and it has exhibited potent activity against *Candida* and *Aspergillus* as well as *Cryptococcus*, for which few drug therapies are available. The Company plans to seek indications for both deep-seated and superficial mycosis. T-2307 is also effective against pathogens resistant to other drugs.



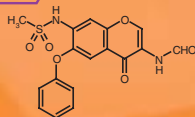
Anti-infective agents



CNS and cardiovascular agents



Anti-inflammatory agents



Development Code	Therapeutic Category	Region	Stage					Formulation	Origin (Collaborator)	Remarks	
			Non-clinical	Phase I	Phase II	Phase III	Filed				
T-614	Antirheumatic agent	Japan						Oral	In-house (Eisai)	Brand name: Kolbet	
		South Africa							In-house		
		South Korea							In-house (Dong-A)	Licensed out to Dong-A Pharmaceutical	
TN-3262a	New quinolone synthetic anti-bacterial agent	Japan						Eye drops	In-house (Nidek)	Licensed out to Otsuka Pharmaceutical (Sales and marketing only)	
T-3811	New-type quinolone synthetic anti-bacterial agent	Japan						Oral	In-house (Taisho)		
								Injection	In-house		
		U.S. & EU						Oral	In-house		Licensed out to Schering-Plough
								Injection	(Schering-Plough)		
T-588	Alzheimer's agent	Japan						Oral	In-house		
		UK									
T-817MA	Alzheimer's agent	U.S.						Oral	In-house		
T-5224	Antirheumatic agent	Japan						Oral	In-house	Funded by Japan Science and Technology Corporation	
T-1106	Antiviral agent	Japan						Oral	In-house		
T-2307	Antifungal agent	Japan						Injection	In-house		

Toyama Chemical's Manufacturing Technologies

Toyama Chemical's greatest strengths are its R&D abilities and its advanced manufacturing technologies. Its manufacturing technologies support two of the Company's three core revenue streams: revenue from sales of products supplied to Taisho Toyama Pharmaceutical and revenue from sales of bulk and drug products supplied to partner firms. Toyama Chemical's competitive superiority is built upon the integration of its R&D abilities and its manufacturing technologies.

It takes competitiveness in quality control, not just manufacturing efficiency, to be able to license out new drugs that meet global standards to overseas firms. For the

stable manufacture of high-quality products, the Toyama Factory uses quality control and production management systems meeting the current Good Manufacturing Practice (cGMP) guidelines of the U.S. Food and Drug Administration. The Second Research Laboratory is cGMP-compliant from the clinical stages, thereby accelerating new drug development.

The Company's medium-term management plan also calls for the establishment of manufacturing systems that are competitive both domestically and globally. Going forward, the Company plans to further improve its manufacturing technologies with an eye on technology licensing.

Taisho Toyama Pharmaceutical

Taisho Toyama Pharmaceutical is a sales company formed when the marketing units of Toyama Chemical and Taisho Pharmaceutical were merged to improve domestic sales efficiency for ethical drugs. Its main duties are to handle sales and marketing work for the two companies' products.

Two years after its founding, Taisho Toyama Pharmaceutical is working to improve operating efficiency by reevaluating the products it carries and medical institutions it serves through a process of focus and selection. In April 2004, employees seconded to Taisho Toyama Pharmaceutical from Toyama Chemical and Taisho Pharmaceutical were permanently transferred to the sales firm, further strengthening the sales infrastructure ahead of the start of sales of T-614 and T-3811.

TOPICS 2005

The injectable new quinolone antibacterial agent pazufloxacin mesilate (generic name) was granted an additional indication for *Legionella* infections in February 2005.

Legionella infections can be contracted through the use of contaminated hot springs and recirculating baths, and are a leading cause of *Legionella* pneumonia and other severe pneumonic diseases. Pazufloxacin mesilate is particularly useful because it is

injectable, and it is expected to contribute significantly to treatment of pneumonia caused by *Legionella* bacteria.

Toyama Chemical discovered pazufloxacin mesilate, and is developing it together with Mitsubishi Pharma Corporation. Toyama Chemical makes bulk pazufloxacin mesilate, which is then sold as Pasil by Taisho Toyama Pharmaceutical and as Pazucross Injection by Mitsubishi Pharma.



PASIL

Social Responsibility Activities

Toyama Chemical is building a business structure worthy of society's trust

Corporate Governance

With the underlying goal of improving the speed and transparency of the decision making process, we have positioned the strengthening of corporate governance as an issue of critical importance to our business.

We have put a committee system in place and have separated management oversight and operational functions as we work to realize our goals of establishing management that is fair and easily understandable by external metrics as well as operational execution that is swift and decisive. To this end, we are acting on the advice proffered by our four external directors, accelerating decision making by transferring authority to our operating officers, and otherwise pursuing reforms aimed at the development of a progressive management system.

Compliance

Toyama Chemical develops and makes products that directly impact people's lives. Therefore, it is critical that we be worthy of the public's trust and for our corporate activities to meet high moral standards.

We have established our Compliance Policy to guide our employees and officers in their corporate activities. We also work to promote a thorough understanding of compliance issues through broad-based training and continuing education. As part of our systems to further our work with compliance issues, a Compliance Committee was established under the supervision of the

Chief Executive Officer, and responsibility was clarified with the appointment of a Compliance Director.

Corporate Social Responsibility (CSR) Activities

Toyama Chemical promotes management focused on CSR. Through a variety of measures, we are working to realize one of the goals set out in the Medium-Term Management Plan 2009: the creation of a business structure worthy of society's trust.

Since announcing our environmental declaration in 1996, we have actively implemented measures to protect the environment. We began building an environmental management system in October 1999, and obtained ISO 14001 certification for the Toyama Works. We aim to obtain ISO 14001 certification for all Company facilities, including the head office, by 2006. Furthermore, we are working to further build the public's trust through sustained, constructive activities.

CSR Activities

1

ACTIVITIES AT TOYAMA CHEMICAL FACILITIES

The Company held tours of its facilities for elementary, middle, and high school students from various parts of Japan and residents of surrounding communities. It also conducted work experience programs for middle school students and internships for university students.

2

OFFERING VENUES TO CONTINUE LIFELONG LEARNING

With health as the central theme, the Company has held lectures at Toyama Citizens' College for Lifelong Learning for seven years. Including the year under review, Toyama Chemical has sponsored 12 lectures and 46 courses.

3

INTERACTING WITH CITIZENS OF SURROUNDING COMMUNITIES

In addition to opening its athletics facilities at the Toyama Works to local citizens, the Company supports local festivals and otherwise actively seeks interaction with members of the surrounding community.

4

DEVELOPING BUSINESSES THAT SUPPORT A CULTURE OF HEALTH IN THE LOCAL COMMUNITY

Two of the Company's subsidiaries were established as community-based businesses in Toyama Prefecture. Hokuriku Medical Service Co., Ltd., provides home-visit care and other care services, and Toyama Kouei Co., Ltd., offers design and engineering services for manufacturing and environmental facilities.

5

IDENTIFYING PACKAGING MATERIALS WITH LABELS

The Company labels packaging materials used in its products to simplify sorting upon disposal.

Six-Year Financial Summary

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31

	Millions of Yen (Except Per Share Amounts)					
	2005	2004	2003	2002	2001	2000
OPERATING RESULTS:						
Gross revenue	¥24,747	¥16,831	¥32,998	¥28,345	¥36,672	¥46,802
Net sales	15,986	16,227	24,983	28,263	35,460	45,579
Royalty income	8,761	604	8,015	82	1,212	1,223
Cost of sales	12,755	12,112	11,407	11,513	13,880	16,256
Selling, general and administrative expenses.....	9,395	9,088	19,366	19,981	24,306	27,097
Operating profit (loss)	2,597	(4,369)	2,225	(3,149)	(1,514)	3,449
Income (loss) before income taxes and minority interests.....	1,236	(5,550)	81	(3,937)	(4,119)	(7,177)
Net income (loss)	662	(4,900)	(5,166)	(2,665)	(2,778)	(4,648)
PER SHARE DATA (IN YEN):						
Net income (loss)	¥3.37	¥(24.91)	¥(29.37)	¥(17.74)	¥(18.52)	¥(31.03)
FINANCIAL POSITION:						
Total shareholders' equity	¥31,897	¥31,031	¥37,166	¥23,568	¥24,949	¥27,067
Total assets.....	64,763	73,970	89,896	85,686	91,434	89,104
OTHER DATA:						
Research and development expenses.....	¥5,763	¥5,161	¥5,088	¥4,893	¥6,017	¥7,046
Depreciation and amortization	1,333	1,685	2,130	2,256	2,525	2,711
Capital expenditures	707	288	239	471	696	2,009
FINANCIAL RATIOS (%):						
Net income margin ⁽¹⁾	2.5	—	—	—	—	—
Return on equity (ROE) ⁽²⁾	2.0	—	—	—	—	—
Equity ratio ⁽³⁾	49.3%	42.0%	41.3%	27.5%	27.3%	30.4%
Research and development expenses as a percentage of gross revenue	23.3	30.7	15.4	17.3	16.4	15.1
NUMBER OF EMPLOYEES	958	911	1,635	1,662	1,670	1,721

Notes: (1) Net income margin = Net income ÷ Gross revenue × 100

(2) ROE = Net income ÷ Average shareholders' equity × 100

(3) Equity ratio = Total shareholders' equity ÷ Total assets × 100

Management's Discussion and Analysis of Operating Results and Financial Position

FINANCIAL POLICY

Toyama Chemical's financial policy is focused on providing adequate financing and liquidity for its business activities and maintaining a healthy balance sheet. To secure adequate liquidity, the Company maintains an appropriate level of current assets. From a longer-term perspective, the Company implements financial management that supports plans for business creation and meets long-term funding requirements.

Toyama Chemical's basic funding policies are that long-term debt should meet fundamental funding requirements, such as those for capital expenditures, and that short-term loans should be raised to meet the Company's working capital requirements.

To achieve stable and effective funding, Toyama Chemical aggressively promotes direct fund procurement, including the issuance of corporate bonds.

FINANCIAL POSITION (At March 31, 2005)

Current assets:

Total current assets amounted to ¥30,671 million, a decrease of ¥9,578 million from the previous fiscal year-end. This decline was primarily due to the sale of securities.

Current liabilities:

The Company had total current liabilities of ¥9,125 million, a decrease of ¥8,952 million from a year earlier. This decrease was principally due to the repayment, on March 31, 2005, of convertible bonds that were due within one year.

Net working capital:

Net working capital amounted to ¥21,546 million, a decrease of ¥626 million from the previous fiscal year-end.

Property, plant and equipment:

Net property, plant and equipment totaled ¥22,594 million, a decrease of ¥1,239 million from a year earlier.

Investments and other assets:

The Company had total investments and other assets of ¥11,498 million, an increase of ¥1,610 million compared with the previous fiscal year-end. The principal factors accounting for this were increases in long-term time deposits and investment securities.

Long-term liabilities:

Total long-term liabilities were ¥23,741 million, a decrease of ¥1,000 million from a year earlier. The principal reason for the decrease was the transference of the lump-sum portion of liabilities for retirement benefits to a defined contribution pension plan.

CASH FLOWS (For Fiscal 2005)

In fiscal 2005, ended March 31, 2005, net cash provided by operating activities amounted to ¥4,562 million, compared with ¥4,974 million in the previous fiscal year. Factors accounting for this change included a decrease in liability for retirement benefits and certain other items accompanying the transfer of personnel to another company, a substantial improvement in income before income taxes and minority interests due to the receipt of a contractual lump-sum payment, and decreases in trade receivables and inventories.

Net cash provided by investing activities was ¥1,232 million, compared with net cash used in investing activities of ¥5,612 million in the previous fiscal year. This change was primarily because of a substantial increase in proceeds from sales of short-term investments, which more than offset cash used for the purchase of investment securities and additions to long-term deposits.

Net cash used in financing activities totaled ¥8,893 million, compared with ¥8,502 million in the previous fiscal year. This was largely because of repayments of convertible bonds and short-term debt.

As a result of the aforementioned factors, cash and cash equivalents at the end of the fiscal year amounted to ¥13,663 million, a decline of ¥3,275 million from the previous fiscal year-end.

ANALYSIS OF OPERATING RESULTS (For Fiscal 2005)

Gross revenue and selling, general and administrative expenses:

In fiscal 2005, net sales amounted to ¥15,986 million and royalty income climbed to ¥8,761 million. As a result, gross revenue rose a substantial ¥7,916 million, to ¥24,747 million. This was because of the contribution of royalty revenues amounting to US\$80 million (¥8,692 million) received from Schering-Plough of the United States. Selling, general and administrative expenses rose only ¥307 million, to ¥9,395 million, mainly because of additional expenditures for research and development.

Cost of sales:

The cost of sales was ¥12,755 million, an increase of ¥643 million. This was largely due to a change in the proportion of sales accounted for by products with higher manufacturing cost ratios.

Operating profit:

As a result of the above factors, the Company's operating profit was ¥2,597 million.

Other income (expenses):

Other expenses—net were ¥1,361 million, ¥180 million higher than in the previous fiscal year. Factors leading to an increase in other expenses included an increase in the loss on devaluation of inventories, higher foreign exchange losses, and a special premium payment on the separation from the pension fund. These various developments more than offset a decline in interest expense and certain other items, while interest and dividend income increased.

Income taxes:

Total income taxes, including current and deferred income taxes, amounted to ¥574 million.

Net income:

The Company reported net income of ¥662 million for the fiscal year under review.

KEY FACTORS AFFECTING OPERATING RESULTS**Prices of products supplied to Taisho Toyama****Pharmaceutical:**

The prices of products supplied to Taisho Toyama Pharmaceutical may be amended if there is a significant variation from the initial expectations for Toyama Chemical Group sales by Taisho Toyama Pharmaceutical and/or the amount of expenses at Taisho Toyama Pharmaceutical borne by the Toyama Chemical Group.

Construction of a GLP-compliant testing facility:

To address such issues as the aging of existing R&D facilities and the need for earthquake-resistant structures, the Company is considering the construction of new R&D facilities and improvements in existing facilities. As a first step, the Company began construction of an R&D facility for conducting GLP-compliant testing. Completion of this facility is expected in the latter half of next year.

Consolidated Balance Sheets

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2004

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
CURRENT ASSETS:			
Cash and cash equivalents	¥13,663	¥16,938	\$127,687
Short-term investments (Note 3)	3,559	5,801	33,261
Receivables:			
Trade notes	272	357	2,545
Trade accounts	437	479	4,087
Unconsolidated subsidiaries and associated companies	2,557	3,555	23,894
Other	218	918	2,038
Allowance for doubtful accounts	(8)	(6)	(75)
Inventories (Note 4)	8,243	10,486	77,034
Deferred tax assets (Note 10)	562	862	5,256
Other current assets	1,168	859	10,919
Total current assets	30,671	40,249	286,646
PROPERTY, PLANT AND EQUIPMENT (Note 7):			
Land (Note 5)	12,728	12,794	118,950
Buildings and structures	26,694	26,825	249,477
Machinery and equipment	20,535	25,455	191,920
Construction in progress	29	14	268
Other	2,683	2,497	25,073
Total	62,669	67,585	585,688
Accumulated depreciation	(40,075)	(43,752)	(374,532)
Net property, plant and equipment	22,594	23,833	211,156
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	5,206	4,818	48,653
Investments in unconsolidated subsidiaries and associated companies (Note 6)	928	673	8,675
Long-term prepaid expenses	1,180	1,053	11,028
Long-term time deposits	1,800	509	16,822
Deferred tax assets (Note 10)	565	1,004	5,282
Other	1,923	2,002	17,972
Allowance for doubtful accounts	(104)	(171)	(970)
Total investments and other assets	11,498	9,888	107,462
TOTAL	¥64,763	¥73,970	\$605,264

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
CURRENT LIABILITIES:			
Short-term bank loans (Note 7).....	¥ 4,100	¥4,687	\$ 38,318
Current portion of long-term debt (Note 7).....	200	8,270	1,869
Payables:			
Trade notes.....	2,236	2,282	20,898
Trade accounts.....	1,003	941	9,370
Unconsolidated subsidiaries and associated companies.....	52	58	486
Other.....	851	581	7,954
Accrued income taxes.....	142	12	1,326
Other accrued expenses.....	348	334	3,255
Allowance for loss on sales returns.....	6	4	59
Other current liabilities.....	187	908	1,746
Total current liabilities.....	9,125	18,077	85,281
LONG-TERM LIABILITIES:			
Long-term debt (Note 7).....	9,524	9,632	89,008
Liability for retirement benefits (Note 8).....	8,446	12,598	78,934
Long-term accrued amount payable (Note 8).....	3,121		29,169
Negative goodwill.....	5		44
Deferred tax liabilities—land revaluation (Note 5).....	2,450	2,468	22,898
Other long-term liabilities.....	195	43	1,827
Total long-term liabilities.....	23,741	24,741	221,880
MINORITY INTERESTS.....		121	
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14 and 15)			
SHAREHOLDERS' EQUITY (Note 9):			
Common stock—authorized, 348,000,000 shares; issued and outstanding, 197,160,461 shares in 2005, 197,147,537 shares in 2004.....	22,400	22,397	209,348
Additional paid-in capital.....	21,534	21,531	201,251
Accumulated deficit.....	(11,311)	(11,998)	(105,708)
Land revaluation difference (Note 5).....	(1,592)	(1,565)	(14,881)
Net unrealized gain on available-for-sale securities.....	1,135	884	10,603
Treasury stock—at cost, 665,062 shares in 2005 and 537,513 shares in 2004.....	(269)	(218)	(2,510)
Total shareholders' equity.....	31,897	31,031	298,103
TOTAL.....	¥64,763	¥73,970	\$605,264

Consolidated Statements of Operations

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
NET SALES (Notes 14 and 16)	¥15,986	¥16,227	\$149,405
ROYALTY INCOME (Note 11)	8,761	604	81,874
Gross revenue	24,747	16,831	231,279
COST OF SALES (Notes 8, 12 and 14)	12,755	12,112	119,205
Gross profit	11,992	4,719	112,074
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 12, 13, 14 and 16)	9,395	9,088	87,800
Operating profit (loss)	2,597	(4,369)	24,274
OTHER INCOME (EXPENSES):			
Interest expense	(430)	(570)	(4,016)
Interest and dividend income	151	123	1,411
Loss on devaluation of inventories	(856)	(251)	(7,998)
Loss on disposal of software		(162)	
Equity in earnings (losses) of associated company	268	(301)	2,501
Foreign exchange loss	(113)	(8)	(1,054)
Amortization of prior service cost	804		7,517
Special premium payment on the separation from the pension fund	(978)		(9,143)
Reversal of liability for retirement benefits on transferred employees	122		1,140
Premium severance pay resulting from transferring employment	(118)		(1,101)
Other—net	(211)	(12)	(1,983)
Other expenses—net	(1,361)	(1,181)	(12,726)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	1,236	(5,550)	11,548
INCOME TAXES (Note 10):			
Current	25	35	230
Deferred	549	(345)	5,128
Total income taxes	574	(310)	5,358
MINORITY INTERESTS IN NET LOSS		(340)	
NET INCOME (LOSS)	¥ 662	¥ (4,900)	\$ 6,190
		Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.o and 17):			
Basic net income (loss)	¥3.37	¥(24.91)	\$0.031
Diluted net income	3.32		0.031

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Issued Number of Shares of Common Stock	Millions of Yen					
		Common Stock	Additional Paid-in Capital	Accumulated Deficit	Land Revaluation Surplus (Difference)	Net Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2003	197,147,537	¥22,397	¥21,531	¥ (7,098)	¥ 538	¥ (16)	¥(186)
Net loss				(4,900)			
Increase in treasury stock (84,560 shares)							(32)
Net increase in unrealized gain on available-for-sale securities						900	
Net decrease in land revaluation surplus due to change in statutory effective tax rate					(2,103)		
BALANCE, MARCH 31, 2004	197,147,537	22,397	21,531	(11,998)	(1,565)	884	(218)
Net income				662			
Repurchase of treasury stock (245,765 shares) ..							(87)
Disposal of treasury stock (118,216 shares)				(2)			36
Conversion of convertible bonds	12,924	3	3				
Net increase in unrealized gain on available-for-sale securities						251	
Transfer from land revaluation difference				27	(27)		
BALANCE, MARCH 31, 2005	197,160,461	¥22,400	¥21,534	¥(11,311)	¥(1,592)	¥1,135	¥(269)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Land Revaluation Difference	Net Unrealized Gain on Available-for-sale Securities	Treasury Stock	
BALANCE, MARCH 31, 2004	\$209,320	\$201,223	\$(112,128)	\$(14,629)	\$ 8,259	\$(2,037)	
Net income			6,190				
Repurchase of treasury stock (245,765 shares)						(817)	
Disposal of treasury stock (118,216 shares)			(22)			344	
Conversion of convertible bonds	28	28					
Net increase in unrealized gain on available-for-sale securities					2,344		
Transfer from land revaluation difference			252	(252)			
BALANCE, MARCH 31, 2005	\$209,348	\$201,251	\$(105,708)	\$(14,881)	\$10,603	\$(2,510)	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ 1,236	¥ (5,550)	\$ 11,548
Adjustments for:			
Income taxes—paid	(16)	(129)	(146)
Income taxes—refunded	15		145
Depreciation and amortization	1,333	1,685	12,461
Increase (decrease) in allowance for doubtful accounts	4	(9)	38
Decrease in accrued bonuses	(1)	(222)	(9)
Foreign exchange loss	176	2	1,643
Equity in (earnings) losses of associated company	(268)	301	(2,501)
Special premium payment on the separation from the pension fund	(978)		(9,143)
Changes in assets and liabilities:			
Decrease in trade receivables	1,106	12,800	10,340
Decrease (increase) in inventories	2,244	(1,669)	20,969
Decrease in trade payables	(271)	(430)	(2,530)
(Decrease) increase in deposits received	(702)	525	(6,565)
Increase in long-term accrued amount payable	3,121		29,169
Increase in interest and dividends receivable		(2)	(4)
Increase in interest payable	22	73	202
Decrease in liability for retirement benefits	(4,152)	(301)	(38,807)
Increase (decrease) in other payables	366	(2,595)	3,422
Other—net	1,327	495	12,402
Total adjustments	3,326	10,524	31,086
Net cash provided by operating activities	4,562	4,974	42,634
INVESTING ACTIVITIES:			
Purchases of short-term investments	(12,574)	(14,360)	(117,514)
Proceeds from sales of short-term investments	13,524	9,381	126,390
Purchases of property, plant and equipment	(386)	(189)	(3,604)
Proceeds from sales of investment securities	408	271	3,814
Purchase of investment securities	(415)	(871)	(3,878)
Payment for purchase of investments in consolidated subsidiary	(33)		(311)
Decrease in other assets	708	156	6,613
Net cash provided by (used in) investing activities	1,232	(5,612)	11,510
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	(587)	(15,879)	(5,483)
Proceeds from long-term debt	157	8,000	1,467
Repayments of long-term debt	(392)	(591)	(3,665)
Repayments of convertible bonds	(7,936)		(74,168)
Increase in other assets	(135)	(32)	(1,264)
Net cash used in financing activities	(8,893)	(8,502)	(83,113)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS			
ON CASH AND CASH EQUIVALENTS	(176)	(2)	(1,643)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,275)	(9,142)	(30,612)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,938	26,080	158,299
CASH AND CASH EQUIVALENTS, END OF YEAR	¥13,663	¥16,938	\$127,687
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Increase in capital stock from conversion of convertible bonds into common stock	¥ 3		\$ 28
Increase in additional paid-in capital from conversion of convertible bonds into common stock	3		28
Decrease in convertible bonds from conversion of convertible bonds into common stock	¥ 6		\$ 56

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

Note 1 Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications and rearrangements have been made in the 2004 consolidated financial statements to conform to the classifications and presentations used in 2005. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Toyama Chemical Co., Ltd. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥107 to \$1, the approximate rate of exchange at March 31, 2005. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Note 2 Summary of Significant Accounting Policies

a. Consolidation—The accompanying consolidated financial statements include the accounts of the Company and its five significant subsidiaries (collectively the "Group"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Investment in one associated company is accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the profit of an acquisition under the fair value of the net assets of the acquired subsidiary at the date of acquisition is shown as "Negative goodwill" in long-term liabilities and amortized using the straight-line method over a period of 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from intercompany transactions is eliminated.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

c. Inventories—Finished goods, merchandise inventories, semi-finished goods, work in process and raw materials are stated at cost as computed by the average method. Supplies are stated at the most recent purchase price which approximates cost determined by the first-in, first-out method.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost. (2) Available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally from 3 to 60 years for buildings and structures, from 2 to 15 years for machinery and equipment and from 2 to 20 years for other property, plant and equipment.

g. Stock and Bond Issue Cost—Stock and bond issue costs are amortized by the straight-line method over 3 years under the Japanese Commercial Code (the "Code").

h. Allowance for Loss on Sales Returns—The allowance for loss on sales returns is calculated by multiplying the balance of trade receivables (including receivable transferred) by the rate of gross margin for the current year and the actual average rate of sales returns in the previous 2 years.

i. Retirement and Pension Plans—The Group has unfunded retirement plans for all eligible employees. The Company and its certain subsidiaries have a contributory funded pension plan in addition to the above unfunded plans.

Although the Company had temporarily transferred its employees to marketing affiliate Taisho Toyama Pharmaceutical Co., Ltd., such 438 employees in marketing division transferred to that affiliate on April 1, 2005. As a result of the transfer, income before income taxes and other adjustments increased ¥122 million (\$1,139 thousand).

Effective May 1, 2005, the Company changed its retirement and pension plans from one comprising lump-sum severance payments and an employee pension fund over to one in which a portion of the severance payment plan based on future service is allocated to a defined contribution pension plan. As a result of the transfer, income before income taxes and other adjustments increased ¥804 million (\$7,517 thousand).

The Company and its certain subsidiaries accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

Retirement allowances for directors and operating officers are recorded to state the liability at the amount that would be required if directors and operating officers of the Company retired at each balance sheet date. Duties rendered by the directors and operating officers for the year ended March 31, 2005 are excluded from computation period in providing retirement allowances by the reward committee.

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if directors and corporate auditors of subsidiaries and associated company retired at each balance sheet date.

j. Research and Development Expenses—Research and development expenses are charged to income as incurred.

k. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

l. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

m. Appropriations of Retained Earnings—Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon resolution of the Board of Directors.

n. Derivative Financial Instruments—The Group enters into derivative financial instruments, including interest rate swaps and caps as a means of hedging interest rate exposures of floating-rate bank loans. The Company enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets denominated in foreign currencies. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of operations and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge foreign currency risk. Certain assets denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Interest rate swaps are utilized to hedge interest rate exposures of floating-rate bank loans. These swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liability or asset. The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

o. Per Share Information—The computation of net income (loss) per share is based on the weighted-average number of shares of common stock outstanding during each year. The weighted-average number of common shares used in the computation was 196,589 thousand and 196,658 thousand for the years ended March 31, 2005 and 2004, respectively.

Diluted net income per share reflects the potential dilution that could occur if convertible bonds were converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year with an applicable adjustment for related interest expense, net of tax.

p. New Accounting Pronouncements—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

Note 3
Short-Term Investment
and Investment Securities

Short-term investments and investment securities at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Current:			
Time deposits	¥ 660	¥ 903	\$ 6,168
Government and corporate bonds.....	2,899	4,898	27,093
Total	¥3,559	¥5,801	\$33,261
Non-current:			
Marketable equity securities.....	¥3,674	¥3,272	\$34,339
Non-marketable equity securities.....	749	476	6,997
Trust fund investments and other.....	783	1,070	7,317
Total	¥5,206	¥4,818	\$48,653

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2005 and 2004 were as follows:

March 31, 2005	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,797	¥1,877		¥3,674
Other	555	31	¥ 3	583
Held-to-maturity.....	400	4		404

March 31, 2004

Securities classified as:				
Available-for-sale:				
Equity securities	1,801	1,552	81	3,272
Other	855	22	7	870
Held-to-maturity.....	400	5		405

March 31, 2005	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	\$16,795	\$17,544		\$34,339
Other	5,190	290	\$31	5,449
Held-to-maturity.....	3,738	36		3,774

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale—Equity securities.....	¥ 749	¥ 476	\$ 6,997
Held-to-maturity.....	2,699	4,698	25,224
Total	¥3,448	¥5,174	\$32,221

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥5,117 million (\$47,823 thousand) and ¥9,364 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥7 million (\$64 thousand) and ¥4 million (\$40 thousand), respectively, for the year ended March 31, 2005. And gross realized gains on these sales, computed on the moving average cost basis, were ¥97 million for the year ended March 31, 2004.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2005 are as follows:

	Millions of Yen Held-to-maturity	Thousands of U.S. Dollars Held-to-maturity
Due in one year or less	¥2,899	\$27,093
Due after five years through ten years	200	1,869
Total	<u>¥3,099</u>	<u>\$28,962</u>

Note 4 Inventories

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Finished goods and merchandise	¥2,551	¥ 3,949	\$23,843
Semi-finished goods and work in process	3,325	4,241	31,070
Raw materials and supplies	2,367	2,296	22,121
Total	<u>¥8,243</u>	<u>¥10,486</u>	<u>\$77,034</u>

Note 5 Land Revaluation

Under the "Law of Land Revaluation," promulgated on March 31, 1998 and revised on March 31, 2001, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2001.

The resulting land revaluation excess represents unrealized appreciation of land and is stated as revaluation surplus as a component of shareholders' equity. There is no effect on the statement of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the net land revaluation excess account and net related deferred tax liabilities. The details of the one-time revaluation as of March 31, 2001 were as follows:

Land before revaluation:	¥11,700 million
Land after revaluation:	¥12,603 million
Land revaluation excess:	¥526 million (net of deferred tax liabilities of ¥377 million)

In 2004, the land revaluation excess and differences were recognized on a gross basis, and the related deferred tax assets and liabilities were recognized on an individual basis due to the amendment of the accounting regulations.

As of March 31, 2005, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥3,069 million.

Note 6
Investments in
Unconsolidated Subsidiaries
and Associated Companies

Investments in unconsolidated subsidiaries and associated companies at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Investments in:			
Unconsolidated subsidiaries	¥ 69	¥ 69	\$ 641
Associated companies	859	604	8,034
Total	<u>¥928</u>	<u>¥673</u>	<u>\$8,675</u>

Note 7
Short-Term Bank Loans
and Long-Term Debt

Short-term bank loans are principally notes to banks and bank overdrafts. The average annual interest rates for such items are 1.590% and 1.681% at March 31, 2005 and 2004, respectively.

Long-term debt at March 31, 2005 and 2004, consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Unsecured 1.00% yen convertible bonds, due March 2005		¥ 7,942	
Unsecured 1.13% yen bonds, due June 2007	¥ 50	50	\$ 467
2.48% to 3.15% secured loans from banks and other financial institutions, due serially to 2010, payable in yen	8,200	8,585	76,636
Non-interest bearing loans from Japan Science and Technology Corporation	1,474	1,325	13,774
Total	9,724	17,902	90,877
Less current portion	(200)	(8,270)	(1,869)
Long-term debt, less current portion	<u>¥9,524</u>	<u>¥ 9,632</u>	<u>\$89,008</u>

Annual maturities of long-term debt at March 31, 2005, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 200	\$ 1,869
2008	50	467
2009	5,000	46,729
2011 and thereafter	3,000	28,038
Total	<u>¥8,250</u>	<u>\$77,103</u>

The Company has non-interest bearing loans of ¥1,474 million (\$13,774 thousand) from Japan Science and Technology Corporation, a government-affiliated institution, to aid in the development of new medicines. The repayment date is to be determined subsequent to certification of success in developing new medicines. Maturity information regarding such loans is excluded from the above table since the development is currently underway, and therefore the repayment date is not yet determined.

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥3,150 million (\$29,439 thousand) and the above collateralized long-term debt at March 31, 2005, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment— net of accumulated depreciation	¥6,412	\$59,924
Total	<u>¥6,412</u>	<u>\$59,924</u>

As is customary in Japan, the Company maintains deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

Convertible bonds were convertible into 12,924 shares of the Company's common stock for the year ended March 31, 2005.

Note 8 Retirement and Pension Plans

The Group has retirement payment plans for employees, directors and operating officers.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. The plan provides the payment to terminated (excluding death or job transferring under same employer) employees with more than ten years of participation in the plan, or to employees with more than ten years of participation and upon reaching the age of 65. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from a trustee.

On May 1, 2005, the Company changed the format of its retirement and pension plan, transferring a portion of the severance payment plan based on future service to a defined contribution pension plan.

The liability for retirement benefits at March 31, 2005 and 2004, includes retirement benefits for directors and operating officers of ¥649 million (\$6,063 thousand) and ¥697 million, respectively. The retirement benefits for the Company's directors and operating officers are paid subject to the reward committee.

The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥8,318	¥12,777	\$77,737
Fair value of plan assets.....	(67)	(70)	(628)
Unrecognized actuarial gain	(454)	(806)	(4,238)
Net liability	¥7,797	¥11,901	\$72,871

Note: The change resulted in a decrease in retirement benefit obligations of ¥804 million (\$7,517 thousand). The Company recognized this amount fully in fiscal 2005 as a gain.

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost.....	¥369	¥351	\$3,444
Interest cost.....	183	169	1,714
Recognition of actuarial loss (gain)	72	77	673
Decrease in retirement benefit obligations.....	(804)		(7,517)
Contribution for trusted pension fund	166	147	1,554
Periodic benefit costs for mass retirements	974		9,105
Net periodic benefit costs.....	¥960	¥744	\$8,973

Although the Company had temporarily transferred its employees to marketing affiliate Taisho Toyama Pharmaceutical Co., Ltd., such 438 employees in marketing division transferred to that affiliate on April 1, 2005.

The impact of employee transfers conducted on April 1, 2005 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Reversal of liability for retirement benefits on employees transferred:		
Decrease in projected benefit obligation	¥(3,362)	\$(31,421)
Periodic benefit liabilities (long-term accrued amount payable)	3,003	28,068
Subtotal	(359)	(3,353)
Recognition of actuarial difference	237	2,214
Net gain from the reversal of liability for retirement benefits on transferred employees	(122)	(1,139)
Premium severance pay resulting from transferring employment (long-term accrued amount payable)	118	1,101
Special premium payment on the separation from the pension fund	978	9,143
Periodic benefit costs for mass retirements	¥ 974	\$ 9,105

Assumptions used for the years ended March 31, 2005 and 2004 are set forth as follows:

	2005	2004
Discount rate	2.2%	2.2%
Recognition period of actuarial gain/loss	12 years	12 years
Amortization period of prior service cost	1 year	

The Company previously recognized prior service cost over a 12-year period, but has now revised this to an 11-year period. The Company will begin recognizing the actuarial impact of this change in its consolidated results in the first fiscal year after the change.

Note 9 Shareholders' Equity

Japanese companies are subject to the Code.

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of the balance of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the balance of common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to common stock by a resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

Dividends are approved by the Board of Directors at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Note 10
Income Taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.4% and 41.7% for the years ended March 31, 2005 and 2004, respectively.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 41.7% to 40.4%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will be realized on or after April 1, 2004 are measured at the effective tax rate of 40.4% as at March 31, 2004.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets:			
Accrued retirement benefits	¥4,368	¥4,570	\$40,820
Tax loss carryforwards	3,174	3,596	29,667
Loss on devaluation of investment securities.....	375	468	3,507
Loss on devaluation of inventories	282	12	2,632
Write-down of golf club membership	84	118	782
Other	411	365	3,848
Less valuation allowance	(6,605)	(6,472)	(61,727)
Total	2,089	2,657	19,529
Deferred tax liabilities:			
Special reserve for land for tax purposes.....	192	192	1,791
Net unrealized gain on available-for-sale securities.....	770	601	7,199
Other			1
Total	962	793	8,991
Net deferred tax assets	¥1,127	¥1,864	\$10,538

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2005 and 2004 is as follows:

	2005	2004
Normal effective statutory tax rate	40.4%	(41.7)%
Expenses not deductible for income tax purposes.....	1.4	0.3
Minimum inhabitant taxes	0.9	0.6
Valuation allowance	534.5	116.6
Prior period valuation allowance	(524.3)	(86.0)
Equity in losses of associated companies.....	(8.8)	2.3
Other	2.3	2.3
Actual effective tax rate	46.4%	(5.6)%

At March 31, 2005, the Company and its certain subsidiaries have tax loss carryforwards aggregating approximately ¥7,957 million (\$74,362 thousand) which are available to be offset against taxable income in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥2,489	\$23,259
2010	12	109
2011	5,341	49,920
2012	115	1,074
Total	¥7,957	\$74,362

**Note 11
Royalty Income**

Royalty income represents consideration prescribed on agreements for granting the license of patent rights and sales rights to domestic and overseas pharmaceutical companies.

**Note 12
Depreciation of Property,
Plant and Equipment**

Depreciation of property, plant and equipment was ¥924 million (\$8,635 thousand) and ¥1,167 million for the years ended March 31, 2005 and 2004, respectively.

**Note 13
Research and Development
Expenses**

Research and development costs charged to the consolidated statements of operations were ¥5,763 million (\$53,862 thousand) and ¥5,161 million for the years ended March 31, 2005 and 2004, respectively.

**Note 14
Leases**

The Group leases certain machinery, equipment, software, furniture and fixtures, both as lessee and lessor.

a. Lessee

Total rental expenses for the years ended March 31, 2005 and 2004 were ¥1,074 million (\$10,041 thousand) and ¥1,244 million, respectively, including ¥1,033 million (\$9,658 thousand) and ¥1,124 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2005 and 2004 was as follows:

	Millions of Yen		
	Machinery and Equipment	Other	Total
2005			
Acquisition cost	¥6,786	¥314	¥7,100
Accumulated depreciation	3,573	140	3,713
Net leased property	¥3,213	¥174	¥3,387
	Millions of Yen		
	Machinery and Equipment	Other	Total
2004			
Acquisition cost	¥5,966	¥340	¥6,306
Accumulated depreciation	2,887	243	3,130
Net leased property	¥3,079	¥ 97	¥3,176

2005	Thousands of U.S. Dollars		
	Machinery and Equipment	Other	Total
Acquisition cost.....	\$63,419	\$2,941	\$66,360
Accumulated depreciation.....	33,387	1,319	34,706
Net leased property.....	\$30,032	\$1,622	\$31,654

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year.....	¥ 905	¥ 835	\$ 8,464
Due after one year.....	2,656	2,529	24,820
Total	¥3,561	¥3,364	\$33,284

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Depreciation expense.....	¥ 889	¥ 988	\$8,314
Interest expense.....	150	150	1,400
Total	¥1,039	¥1,138	\$9,714

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.

b. Lessor

Total rental income for the years ended March 31, 2005 and 2004 was ¥271 million (\$2,533 thousand) and ¥226 million, respectively, including ¥271 million (\$2,533 thousand) and ¥226 million of lease income under finance leases.

Information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest revenue of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2005 and 2004, was as follows:

2005	Millions of Yen		
	Machinery and Equipment	Other	Total
Acquisition cost.....	¥1,134	¥5	¥1,139
Accumulated depreciation	608	4	612
Net leased property	¥ 526	¥1	¥ 527

2004	Millions of Yen		
	Machinery and Equipment	Other	Total
Acquisition cost.....	¥1,109	¥5	¥1,114
Accumulated depreciation	412	3	415
Net leased property	¥ 697	¥2	¥ 699

2005	Thousands of U.S. Dollars		
	Machinery and Equipment	Other	Total
Acquisition cost.....	\$10,599	\$42	\$10,641
Accumulated depreciation.....	5,685	34	5,719
Net leased property.....	\$ 4,914	\$ 8	\$ 4,922

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥202	¥204	\$1,887
Due after one year	357	517	3,340
Total	¥559	¥721	\$5,227

Depreciation expense and interest revenue under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Depreciation expense	¥223	¥197	\$2,085
Interest revenue	65	43	608
Total	¥288	¥240	\$2,693

Depreciation expense and interest revenue, which are not reflected in the accompanying consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.

Note 15 Derivatives

The Group has purchased interest rate caps to limit the unfavorable impact from increases in interest rates on floating-rate bank loans. The Group also enters into interest rate swaps as a means of managing its interest rate exposures on certain liabilities. Derivative transactions mentioned above are not executed for speculation purposes under the Group's policy.

The Group is exposed to interest rate risk due to future fluctuations of interest rates, which may arise from interest rate-related derivatives. Because the counterparties to those derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

The management planning section of the Group enters into derivative transactions upon approval of transaction type and position limit by the management council (the Board of Directors at subsidiary), and monitors and controls risks associated with these derivatives. Also, a director responsible for derivatives reports financial results on a monthly basis, including derivatives, at the meeting of full-time officers. The Group prevents derivative transactions from being executed for speculative purposes through the above-mentioned internal control and risk management procedures.

The contract or notional amounts of derivatives which are shown in the following table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Fair Value of Derivative Financial Instruments

The fair value of the Group's derivative financial instruments at March 31, 2005 and 2004, is as follows:

2005	Millions of Yen		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Interest Rate Transaction			
Not through market:			
Interest rate swaps—fixed rate payment, floating rate receipt	¥1,000	¥(90)	¥14
Interest rate options—caps purchased	4,000		
Total	¥5,000	¥(90)	¥14

2004	Millions of Yen		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Interest Rate Transaction			
Not through market:			
Interest rate swaps—fixed rate payment, floating rate receipt	¥1,200	¥(108)	¥62
Interest rate options—caps purchased	6,700		
Total	¥7,900	¥(108)	¥62

2005	Thousands of U.S. Dollars		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Interest Rate Transaction			
Not through market:			
Interest rate swaps—fixed rate payment, floating rate receipt	\$ 9,346	\$(842)	\$133
Interest rate options—caps purchased	37,383		(2)
Total	\$46,729	\$(842)	\$131

Interest rate swaps which qualify for hedge accounting for the years ended March 31, 2005 and 2004, are excluded from the disclosure of market value information.

Note 16 Related Party Transactions

Transactions with principal shareholder, unconsolidated subsidiaries and associated companies for the years ended March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Sales	¥12,729	¥12,537	\$118,963
Commission expenses	301	312	2,817

The balance of trade accounts receivable from the principal shareholder amounted to ¥32 million (\$299 thousand) and ¥124 million as of March 31, 2005 and 2004, respectively.

Note 17
Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2005 is as follows:

	Millions of Yen	Thousands of shares	Yen	U.S. Dollars
Year ended March 31, 2005	Net income	Weighted- average shares	EPS	EPS
Basic EPS				
Net income available to common shareholders	¥662	196,559	¥3.37	\$0.031
Effect of Dilutive Securities				
Convertible bonds	48	17,060		
Diluted EPS				
Net income for computation	¥710	213,619	¥3.32	\$0.031

Note 18
Subsequent Event

To ensure the financial stability of its employees following retirement and to strengthen its financial structure by reducing its liability for retirement benefits, the Company revised its retirement benefit system on May 1, 2005 with the introduction of a defined contribution pension plan (including a system of distributions paid with salaries).

As part of structural improvements to Japan's social security system, pension reform laws putting greater emphasis on individual financial responsibility in preparation for retirement were passed by the Diet in June 2004 and enacted in October 2004.

Against this backdrop, the Company has revised its retirement benefit system because 1) from a business perspective, it can reduce its liability for retirement benefits and lower its tax burden, as contributions are recognized as expenses, and 2) from the personnel perspective, it can ensure employees' income through their early 60s (in line with a higher age from which benefits are initially distributed) and promotes employees' independence.

Note 19
Segment Information

The Group operates principally in two business segments: pharmaceutical and other businesses. Information by business segment is not disclosed in accordance with the applicable regulations because net sales, operating income and assets of the pharmaceutical business are more than 90% of consolidated net sales, operating income and assets, respectively. Geographic segments are not disclosed because the Company does not have any consolidated subsidiaries or branches overseas.

Sales to Foreign Customers

Sales to foreign customers for the year ended March 31, 2005 amounted to ¥9,145 million (\$85,470 thousand).

Independent Auditor's Report



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Toyama Chemical Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Toyama Chemical Co., Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toyama Chemical Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 24, 2005

Business Risks and Other Information

The following is a summary of the principal items that could become risk factors for Group businesses. In the interest of disclosing information proactively to investors, these items have been chosen not only from among business risks but also from among items that are deemed to be important or useful for making investment decisions and items that are thought to be important for understanding Toyama Chemical's business activities. The Toyama Chemical Group is fully aware of these potential risk factors, is working to avoid their realization, and has prepared contingency plans for dealing with these problems should they occur. In making decisions regarding the Group's stock, we believe it is essential to give careful consideration to the factors described in this section together with other factors described elsewhere in this annual report.

Please note that the following section contains forward-looking statements that are based on judgments made based on information available at the time of submission of the Group's *Securities Report*.

Please take careful note that the following section is not a comprehensive statement of the risk factors that should be considered when investing in the Group's stock.

Transfer of Sales Functions to Taisho Toyama Pharmaceutical

Intensifying competition and slowing growth rates are making conditions even more challenging in the market for antibiotics and antibacterials, which are Toyama Chemical's mainstay products. To respond to such changes in the operating environment, the Company formed a capital alliance with Taisho Pharmaceutical in September 2002 and began a business partnership in ethical drug R&D and marketing.

As part of this business alliance, the joint venture, Taisho Toyama Pharmaceutical (in which Toyama Chemical owns a 45% share) began full-scale operations in April 2003 marketing ethical drugs produced by Toyama Chemical and Taisho Pharmaceutical. Accompanying the start of operations, Toyama Chemical Group staff involved in sales, including medical representatives (MRs), were seconded to Taisho Toyama Pharmaceutical, becoming employees of that company in April 2005.

Group sales to Taisho Toyama Pharmaceutical, excluding licensing royalties, account for more than 80% of Toyama Chemical's sales. Therefore, any fluctuations in Toyama Chemical Group product revenues from Taisho Toyama Pharmaceutical may have an impact on the Group's overall profitability and financial position.

Seasonal Fluctuations in Operating Results

Antibiotics and antibacterials account for more than 80% of the Toyama Chemical Group's ethical drug sales. Since demand for such drugs generally peaks in winter, sales tend to rise in the second half of the fiscal year.

Legal Regulations

The ethical drug business is subject to various regulations, including the Pharmaceutical Affairs Law (PAL) and such regulatory standards as the Good Laboratory Practice (GLP), which covers the implementation of safety testing for drugs, the Good Clinical Practice (GCP), which deals with the conduct of clinical trials, and the Good Manufacturing Practice (GMP), which covers drug manufacturing and quality management. In addition, beginning in April 2005, a revised PAL went into effect along with the introduction of systems for manufacturing and sales approvals as well as the introduction of the new standards Good Vigilance Practice (GVP), which covers safety management after manufacturing and marketing, Good Post-Marketing Surveillance Practice (GPSM), which covers surveys and testing after manufacturing and marketing, and Good Quality Practice (GQP), which covers quality control for manufactured and marketed products. As a result of these regulatory changes, the Group's revenues could be affected if there were any changes in the system for safety monitoring following manufacturing and marketing or the liberalization of regulations for quality management systems, any of which could affect the time required for approvals and the timing of marketing.

Policies for Restraining Medical Costs

The drugs manufactured and marketed by the Group are billed to the National Health Insurance (NHI) system based on drug price standards, and the Group is affected when drug price standards are revised and its sales prices consequently change. To restrain medical expenses, which are on the increase because of the demographic aging of the population, the growing sophistication of medical treatment, and other factors, the NHI system is undergoing extensive reform. Drug costs, which account for about 20% of medical expenditures, are also affected by these reforms, and the trend is toward revising drug price standards as part of efforts to restrain medical costs.

New Product Research and Development

The Toyama Chemical Group's business mainly involves the R&D, manufacture, and sale of ethical drugs (with Taisho Toyama Pharmaceutical responsible for sales).

The R&D of new products requires identifying candidate compounds from numerous substances, establishing each candidate's efficacy and safety through rigorous animal studies and clinical trials, and submitting these study data for strict regulatory review. Only candidates that have passed this regulatory review are approved as new drugs.

Typically, the process from the discovery of a new chemical substance to sale as a pharmaceutical requires the efforts of many R&D laboratories and research workers, many years of R&D work, and considerable investment in R&D. Drug development projects may experience delays or be discontinued, and, even after manufacturing and marketing begin, the discovery of unexpected side effects may result in suspension of sales. For these reasons, the financial position and operating results of the Group may be affected by delays in the development process and by the results of surveys and tests after manufacturing and marketing has begun.

Royalty Income

The Toyama Chemical Group is building the following revenue sources in line with its medium-term management plan:

- (1) Revenue from ethical drug sales through Taisho Toyama Pharmaceutical,
- (2) Royalty income from the out-licensing of compounds developed in-house, and
- (3) Revenue from the bulk supply of drugs and drug products to partner companies.

Of these sources, royalty income from out-licensing compounds may be categorized as follows:

- Initial royalties: One-off income received when a licensing contract is concluded
- Milestone royalties: One-off income received, for example, when the compound is filed for approval, approved, and launched as well as when it achieves certain sales targets
- Running royalties: Income commensurate with the sales performance of the licensing partner with regard to the out-licensed drug.

Since initial royalties and milestone royalties represent one-off income and often involve large sums, the revenues of the Group may vary substantially from initial targets if the royalties are received in accounting periods other than those expected.

Out-Licensing Contracts and Foreign Exchange Rates

A US\$80 million payment received from Schering-Plough, following the signing of a licensing agreement for T-3811 and the technology-related revenues to be received going forward will be in U.S. dollars. Therefore, any fluctuations in the yen-U.S. dollar exchange rate will have an impact on future revenue of the Toyama Chemical Group.

Corporate Information



BOARD OF DIRECTORS

Director, President, and Chief Executive Officer

Katsuhiko Nakano

Directors and Senior Executive Officers

Takeo Abe
Toyama Works and Production

Hideo Sanada
Research and Development

Directors

Masayuki Yamashita

Yukio Yanagida *

Hiroichi Yoshida *

Shinichiro Inushima *

Shozo Kakimoto *

* Outside Directors

PRINCIPAL LOCATIONS

Toyama Chemical Co., Ltd.

Head Office

2-5, Nishi-Shinjuku 3-chome,
Shinjuku-ku, Tokyo 160-0023, Japan

Telephone: (03) 3348-6611

Facsimile: (03) 3348-6638

Website: <http://www.toyama-chemical.co.jp>

Toyama Works

*(Toyama Chemical's main factory
and research laboratories)*

4-1, Shimo-Okui 2-chome,
Toyama-shi, Toyama 930-8508, Japan

Telephone: (076) 432-3136

Facsimile: (076) 431-8203

TOYAMA USA INC.

75 Rockefeller Plaza, New York,
NY 10019, U.S.A.

Telephone: (212) 704-9460

Facsimile: (212) 704-9467

TOYAMA EUROPE LTD.

8th Floor, Dashwood House,
69 Old Broad Street,
London EC2M 1QU, U.K.

Telephone: (020) 7256-2046

Facsimile: (020) 7256-2047

Back row (from left):
Shozo Kakimoto
Director

Hiroichi Yoshida
Director

Yukio Yanagida
Director

Shinichiro Inushima
Director

Front row (from left):
Masayuki Yamashita
Director

Takeo Abe
Director and Senior Executive Officer

Katsuhiko Nakano
Director, President, and
Chief Executive Officer

Hideo Sanada
Director and Senior Executive Officer

(As of June 24, 2005)

SUBSIDIARIES

Toyama Kouei Co., Ltd.*

Paid-in Capital (thousands)	¥20,000
The Company's Equity Ownership (%)	100.0
Principal Business	Design, production, and maintenance of manufacturing plants

Tomix Co., Ltd.*

Paid-in Capital (thousands)	¥41,250
The Company's Equity Ownership (%)	100.0
Principal Business	General leasing

HOKURIKU MEDICAL SERVICE CO., LTD.*

Paid-in Capital (thousands)	¥80,000
The Company's Equity Ownership (%)	100.0
Principal Business	Provision of medical equipment and instrument sterilization and home care services

Taiyo Sangyo Co., Ltd.*

Paid-in Capital (thousands)	¥42,000
The Company's Equity Ownership (%)	100.0
Principal Business	Contracting business

White Public Relations Co., Ltd.*

Paid-in Capital (thousands)	¥20,000
The Company's Equity Ownership (%)	100.0
Principal Business	Advertising

TOYAMA USA INC.

Paid-in Capital (thousands)	\$300
The Company's Equity Ownership (%)	100.0
Principal Business	Development and clinical trials of pharmaceuticals Gathering of medical and pharmaceutical information

TOYAMA EUROPE LTD.

Paid-in Capital (thousands)	£150
The Company's Equity Ownership (%)	100.0
Principal Business	Development and clinical trials of pharmaceuticals Gathering of medical and pharmaceutical information

Taisho Toyama Pharmaceutical Co., Ltd.

Paid-in Capital (thousands)	¥1,000,000
The Company's Equity Ownership (%)	45.0
Principal Business	Sales and promotion of ethical drugs

* Consolidated subsidiaries

HISTORY

- 1936** Toyama Chemical Co., Ltd., established around the business of Toyama Chemical Research Laboratory
- 1961** Listed on the Second Section of the Tokyo Stock Exchange
- 1970** General Research Laboratory completed
- 1971** Factory for the manufacture of injectable products completed
ESPERAN introduced
- 1972** Listed on the First Section of the Tokyo Stock Exchange
- 1975** No. 2 Research Laboratory completed
- 1980** PENTCILLIN introduced
No. 3 Research Laboratory completed
- 1981** ABOVIS and CEFOPERAZIN introduced
- 1982** BAXO capsules introduced
- 1985** TOMIPORAN introduced
- 1986** BAXO balm introduced
- 1987** TOMIRON introduced
- 1988** BAXO suppositories introduced
- 1989** No. 1 Research Laboratory completed
- 1990** TOMIRON fine granules and OZEX introduced
- 1992** SELECAL introduced
- 1994** FLUCAM introduced
Consumer Health Care Department established
- 1997** TOYAMA USA INC. established
- 1998** HOKURIKU MEDICAL SERVICE CO., LTD. and TOYAMA EUROPE LTD. established
- 1999** LUPRAC introduced
- 2000** Toyama Works and the 2nd Toyama Factory acquired ISO 14001 certification
- 2001** TAZOCIN introduced
- 2002** HALOSPOR and PASIL introduced
Agreed on a strategic capital and business alliance with Taisho Pharmaceutical Co., Ltd.
Taisho Toyama Pharmaceutical Co., Ltd., established
- 2003** Transferred OTC business to Taisho Pharmaceutical and Kyorin Pharmaceutical Co., Ltd.
- 2004** Concluded a license agreement for T-3811, a new-type quinolone synthetic antibacterial agent, with Schering-Plough Corporation

MAIN PRODUCTS

ETHICAL DRUGS

- Broad-spectrum injectable quinolone antibacterial agent PASIL
- Broad-spectrum oral quinolone antibacterial agent OZEX
- Broad-spectrum injectable second generation cephalosporin HALOSPOR
- Broad-spectrum oral third generation cephalosporin TOMIRON
- Broad-spectrum oral third generation cephalosporin TOMIRON fine granules
- Broad-spectrum oral third generation cephalosporin CEFOPERAZIN
- Penicillin formulation, combining PENTCILLIN and a β -lactamase inhibitor TAZOCIN
- Broad-spectrum penicillin PENTCILLIN
- Loop diuretic LUPRAC
- Long-lasting nonsteroidal anti-inflammatory drug FLUCAM
- Long-lasting nonsteroidal anti-inflammatory drug BAXO
- Percutaneous nonsteroidal anti-inflammatory drug BAXO ointment
- Long-lasting nonsteroidal anti-inflammatory drug BAXO suppository
- Gastro-selective muscarinic M1 agonist ABOVIS

CONSUMER HEALTH CARE PRODUCTS

- Alkaline ionized water SHINKAIYUMU



PASIL



OZEX



PENTCILLIN



TOMIRON



TAZOCIN



LUPRAC

INVESTOR INFORMATION

ESTABLISHED

November 15, 1936

CAPITAL STOCK

¥22,400 million

NUMBER OF EMPLOYEES

958

MAJOR SHAREHOLDERS

Taisho Pharmaceutical Co., Ltd.
The Hokuriku Bank, Ltd.
Sumitomo Mitsui Banking Corporation
Taisei Corporation
Trust & Custody Services Bank, Ltd.
(Pension Trust Account)
Japan Trustee Services Bank, Ltd.
(Trust Account)
Kanematsu Corporation
Nippon Life Insurance Company
Nakano Kosan Co., Ltd.
The Tokyo Marine and Fire Insurance Co., Ltd.

ORDINARY GENERAL MEETING

The Ordinary General Meeting of Shareholders is held annually in June.

TRANSFER AGENT

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

STOCK LISTING (TICKER CODE: 4518)

Tokyo Stock Exchange, First Section

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(As of March 31, 2005)

 **TOYAMA CHEMICAL CO., LTD.**

<http://www.toyama-chemical.co.jp>