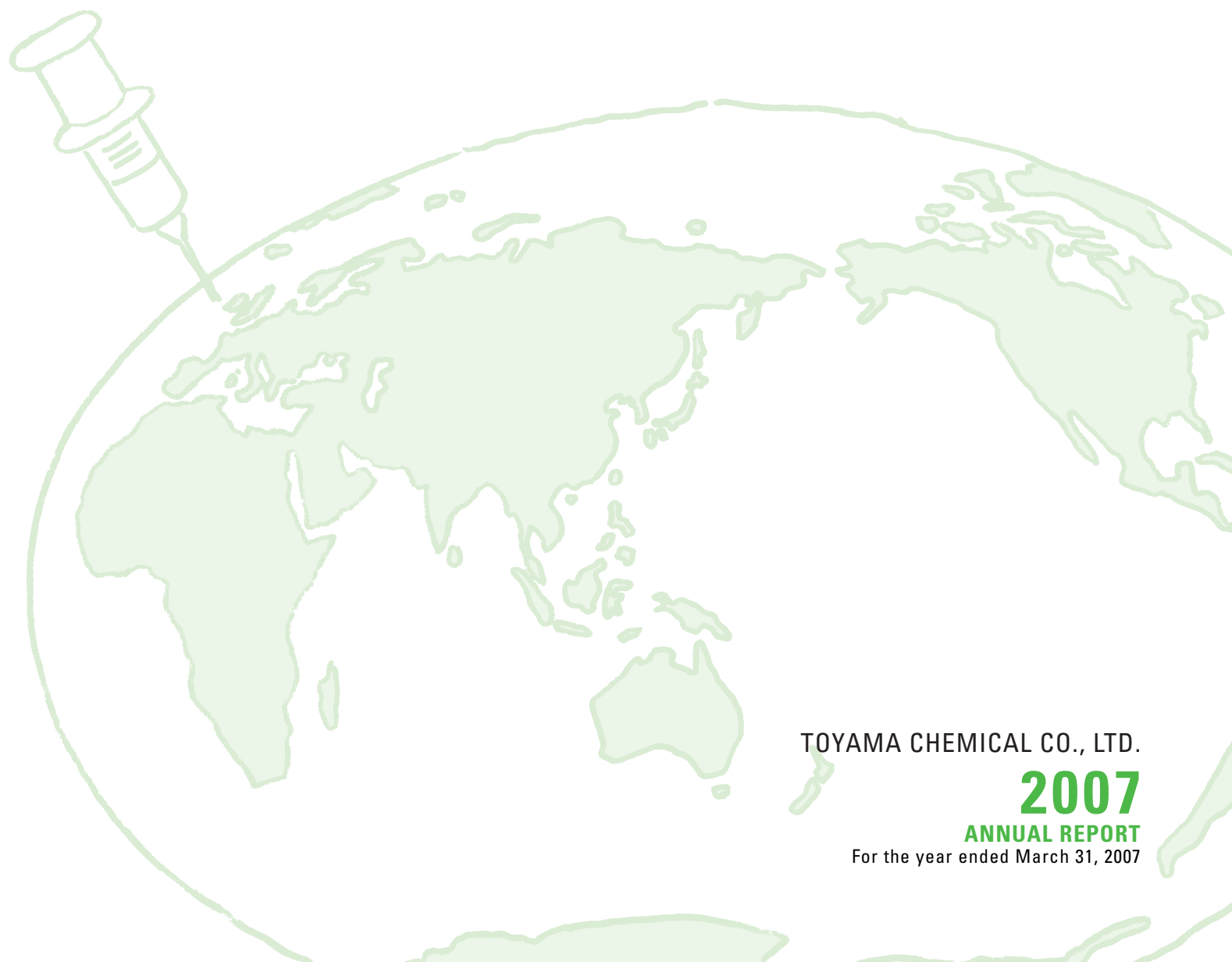


Bringing Superior New Drugs into the World



TOYAMA CHEMICAL CO., LTD.

2007

ANNUAL REPORT

For the year ended March 31, 2007

PROFILE

Concentrating on three fields of research, we aim to provide excellent new drugs to the medical profession.

Toyama Chemical's mission is to contribute to the further development of global health care through new drug development.

We focus our research and development efforts on the three areas of anti-infective agents, central nervous system (CNS) and cardiovascular agents and anti-inflammatory agents. Through this concentrated investment of our management resources, we have worked to create a system to quickly deliver breakthrough drugs to the medical profession.

Products that are currently in the development pipeline include such potential blockbuster drugs as new-type quinolone synthetic antibacterial T-3811, T-817MA for the treatment of Alzheimer's disease and T-5224 for rheumatoid arthritis. In addition, Phase I clinical trials of the antiviral T-705 have commenced, and we are working to expand the development pipeline.

In the sales arena, in 2003 we joined Taisho Pharmaceutical Co., Ltd. in establishing Taisho Toyama Pharmaceutical Co., Ltd. as a joint ethical drug sales company. Under the theme of prioritization and centralization, we rely on this company to develop visitation-based marketing efforts for the sale of key drugs.

With the corporate philosophy of "The creation of health culture with live science," we have formed three revenue streams—sales of products to Taisho Toyama Pharmaceutical, royalties from the out-licensing of products developed in-house, and sales of bulk and drug products to partner firms—with the goal of establishing business structures focused on drug development. Through our creation of a system for the steady introduction of world-class drug compounds, we aim to provide excellent new drugs to the global medical profession.

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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.

Corporate Philosophy

The creation of health culture with live science*

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

* "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.

Business Domain

The creation of a culture of health

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

Management Objective

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

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

TO OUR SHAREHOLDERS

As an R&D-oriented company, we aim to raise our corporate value by delivering a steady flow of new, world-class drug compounds.

Chairman
Katsuhiko Nakano

President
Masuji Sugata



Fiscal 2007 Operating Performance

The Japanese pharmaceutical industry continues to face a difficult operating environment. In April 2006, government efforts to curtail health-care spending resulted in an average 6.7% cut in the base price of pharmaceuticals industrywide, and efforts to promote the use of generic drugs continue. Exacerbating this situation are overseas companies' efforts to introduce new blockbuster drugs and reinforce sales activities by increasing their number of medical representatives (MRs).

In this environment, we reported a decline, to ¥11,120 million, in sales of products to Taisho Toyama Pharmaceutical, which constitutes the first of its three revenue streams. These sales were affected by the reduction in base prices of drugs and the introduction of generics into the marketplace. Mainstay products—such as our broad-spectrum injectable quinolone antibacterial agent PASIL intravenous drip, β -lactamase inhibitor and antibiotic combination TAZOCIN, and long-selling loop diuretic LUPRAC—posted

slight sales increases, but these rises were unable to stem the overall downtrend in this revenue stream.

Sales from our second revenue stream, royalties from the out-licensing of products developed in-house, came to ¥2,054 million, also lower than the corresponding figure for the preceding term. We generated one-time income as a result of approval in Japan for the new-type broad-spectrum oral quinolone antibacterial agent T-3811, but revenues from out-licensing contracts on products developed in-house, such as T-5224 for rheumatoid arthritis and T-817MA for the treatment of Alzheimer's disease, shifted to the following fiscal year.

In our third revenue stream, sales of bulk and drug products to partner firms, sales amounted to ¥1,959 million. This figure reflects the absence of expected overseas shipments of the T-3811 drug substance.

As a result of these factors, consolidated gross revenue came to ¥16,732 million. We

Financial Highlights

Toyama Chemical Co., Ltd., and Consolidated Subsidiaries
For the Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note)
	2007	2006	2007
Operating Results:			
Gross revenue	¥16,732	¥23,123	\$141,798
Net sales	14,678	15,465	124,389
Royalty income	2,054	7,658	17,409
Operating profit (loss)	(5,798)	1,523	(49,132)
Net income (loss)	(8,765)	453	(74,281)
Per Share Data (yen and U.S. dollars):			
Net income (loss) (basic)	¥(44.68)	¥2.31	\$(0.38)
Financial Position:			
Total equity	¥23,962	¥33,429	\$203,070
Total assets	61,703	68,961	522,903
Other Data:			
Research and development expenses	¥7,932	¥6,316	\$67,224
Research and development expenses as a percentage of gross revenue	47.4%	27.3%	

Note: U.S. dollar amounts represent translations of Japanese yen amounts at the rate of ¥118=US\$1, the approximate rate of exchange at March 31, 2007.

strove to hold down selling, general and administrative expenses, but new drug R&D expenses surged. Consequently, loss before income taxes came to ¥6,911 million, and we posted a net loss of ¥8,765 million.

Developing World-Class Drugs

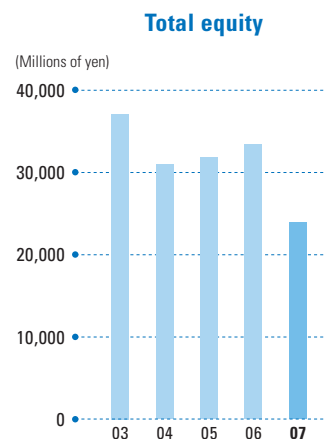
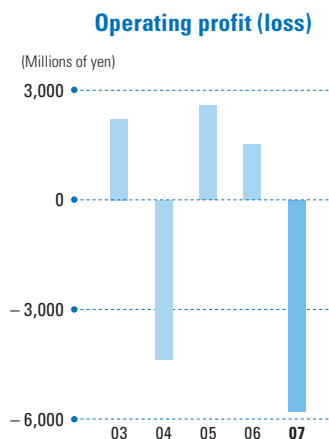
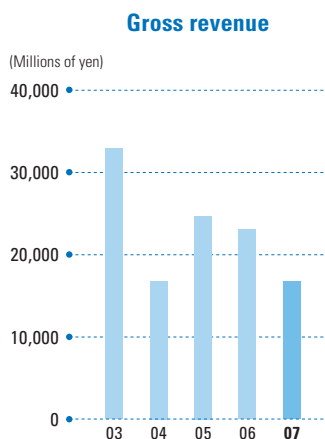
To meet mounting global concerns of new strains about influenza, we see the early development of the T-705 antiviral as our social mission. We are therefore giving top priority to its development, which links to maximizing corporate value and underscoring the common interests of our shareholders. In early 2007, clinical trials began in Japan and the United States for T-705 as a treatment for H5N1 and other strains of influenza.

In other new drug developments, in 2007 we are planning to launch the new-type broad-spectrum oral quinolone antibacterial agent T-3811 (brand name: GENINAX) into the Japanese market. For other new drugs, clinical trials are proceeding smoothly in the United States for

T-817MA for the treatment of Alzheimer's disease and in Japan for T-5224 (an AP-1 inhibitor) for rheumatoid arthritis. In May 2007, we submitted a new drug application (NDA) to obtain marketing approval in Japan for YP-18, an injectable preparation of a β -lactamase inhibitor and antibiotic combination. In June 2007, we signed a worldwide research, development and sales licensing agreement for the new T-5224 for rheumatoid arthritis with F. Hoffman-La Roche Ltd., and accordingly we expect to commence its overseas development. In fiscal 2007, we underwent preparations to commence clinical trials of novel antifungal T-2307, which we developed in-house. These are some of the fruits of our efforts as we work to enhance our development pipeline.

Outlook for Fiscal 2008

We expect the operating environment surrounding the pharmaceutical business to remain challenging, affected by continued cutbacks in



health-care spending. We therefore forecast a decline in Taisho Toyama Pharmaceutical's net sales. Nevertheless, following the domestic approval of T-3811, we expect the manufacture and supply of this product to bolster sales somewhat. Finally, we expect net sales in the pharmaceutical business to rise as the result of expanded royalty income from the introduction of products developed in-house.

As R&D expenses will rise in concert with steady drug development efforts, we plan to expand our overseas clinical development infrastructure. We will strive to hold down manufacturing costs by using overhead expenses more efficiently, as we work to balance income, expense and R&D investment to maximize profits. Through these efforts, in fiscal 2008 we expect to generate consolidated gross revenue of ¥32.1 billion, ordinary income of ¥5.5 billion and net income of ¥5.5 billion.

Befitting the emphasis of our core business as an R&D-oriented company on new drug R&D,

our management objective is to contribute to the further development of global health care through new drug development. We will continue working assiduously to forge strategic alliances with prominent pharmaceutical manufacturers in Japan and overseas and raise our corporate value in the process.

We ask for your ongoing support as we pursue these objectives.

August 2007

Katsuhiko Nakano

Katsuhiko Nakano
Chairman

Masuji Sugata

Masuji Sugata
President

REVIEW OF OPERATIONS

Toyama Chemical is striving to accelerate its R&D efforts by enhancing its new drug development pipeline and forging strategic alliances in Japan and overseas.

Based on its Medium-Term Management Plan 2009, the Company strives to discover new drugs that meet world standards and is working to enhance its production technologies in a variety of ways. In addition, Toyama Chemical is raising the efficiency of its marketing activities and implementing a process of focus and selection in research and development.

Research and Development

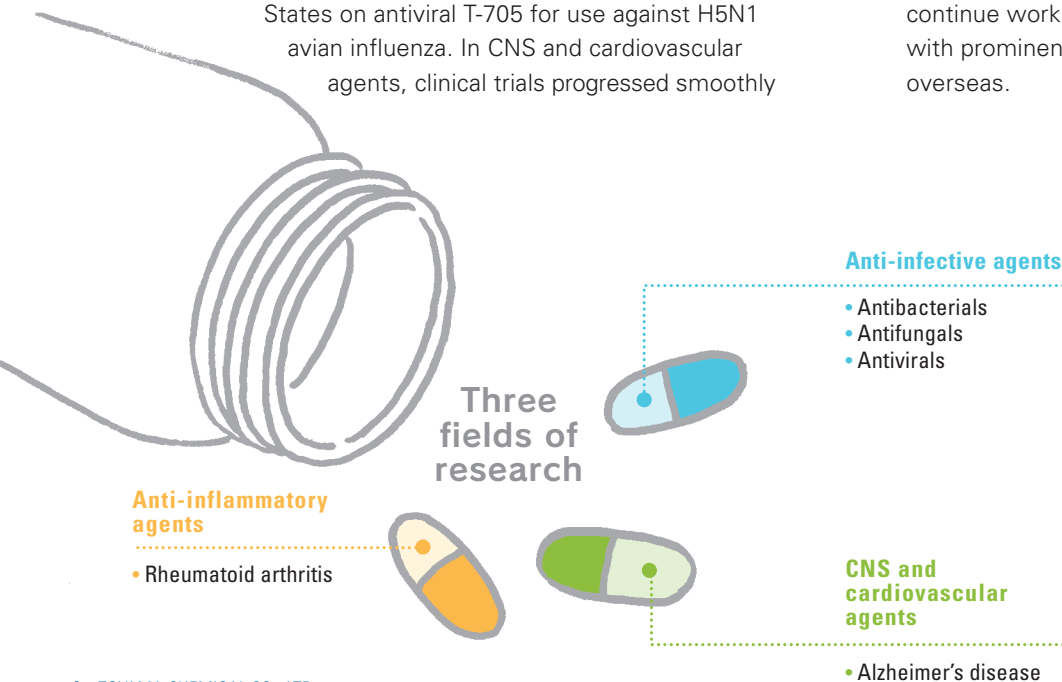
Toyama Chemical concentrates management resources and aims for the efficient and rapid pursuit of research into the three areas of anti-infective agents, CNS and cardiovascular agents and anti-inflammatory agents. The Company has built a clinical development infrastructure spanning Japan, Europe and the United States to facilitate the rapid development of drugs for supply around the world.

Main R&D achievements in fiscal 2007 in the field of anti-infective agency included the commencement of Phase III trials in Japan of quinolone antibacterial T-3262 10% fine granules as an oral antibiotic preparation. Also, Phase I trials commenced in Japan and the United States on antiviral T-705 for use against H5N1 avian influenza. In CNS and cardiovascular agents, clinical trials progressed smoothly

in the United States for T-817MA for the treatment of Alzheimer's disease. In anti-inflammatory agents, in June 2006 Phase I trials commenced in Japan for T-5224, which the Company anticipates will become a fundamental treatment for rheumatoid arthritis. Overall, R&D efforts continued apace.

Fiscal 2007 R&D expenses came to ¥7,932 million, accounting for 47.4% of gross revenue. The Company plans to invest ¥10.8 billion in these activities in fiscal 2008.

In the future, as Toyama Chemical works to generate new drug compounds rapidly, the Company will expand its drug development pipeline to supply the global medical profession. To accelerate its R&D efforts, the Company will continue working to forge strategic alliances with prominent manufacturers in Japan and overseas.



Development Code	Therapeutic Category	Region	Development Stage					Formulation	Originator/ Joint Development/ Out-Licensed	Comment
			Non-clinical	PI	PII	PIII	Filed			
T-614	Rheumatoid arthritis	Japan						Oral	Originator: Toyama Chemical Joint development: Eisai Out-licensed: Dong-A Pharmaceutical of South Korea	Overseas: Conclusion of Phase IIa trials (developed in-house) in South Africa Generic name: iguratimod
T-3811	New-type quinolone synthetic antibacterial	Japan						Oral	Originator: Toyama Chemical Joint development: Taisho Pharmaceutical	In July 2007, received manufacturing approval Marketing and joint development agreement with Astellas Pharma Inc.
		United States						Injection	In-house	Generic name: Garenoxacin
		Europe						Oral Injection	Out-licensed: Schering-Plough Corporation, Dong-A Pharmaceutical of South Korea	
YP-18	β -lactamase inhibitor and antibiotic combination	Japan						Injection	Joint development: Taiho Pharmaceutical	
T-3262 10% fine granules	Quinolone synthetic antibacterial	Japan						Oral	In-house	OZEX fine granules for children
T-817MA	Alzheimer's disease	United States						Oral	In-house	
T-5224	Rheumatoid arthritis	Japan						Oral	In-house Out-licensed: F. Hoffman-La Roche Ltd.	Funded by Japan Science and Technology Corporation
T-705	Antiviral	Japan						Oral	In-house	
		United States								
T-1106	Antiviral	Japan						Oral	In-house	
T-2307	Antifungal	Japan						Oral Injection	In-house	

Clinical trial stages

Phase I Confirm safety and other parameters in a small number of healthy volunteers who have given consent

Phase II Confirm safety, efficacy, dosage and administration methods in a small number of patients who have given consent

Phase III Confirm safety and efficacy versus existing drugs or other comparators, using double-blind or other study designs, in several hundred or several thousand patients who have given consent

T-3811

New-type quinolone synthetic antibacterial agent demonstrates effectiveness against a variety of bacteria

T-3811 is a potent, broad-spectrum antibacterial that is effective even against drug-resistant pathogens, such as penicillin-resistant *Streptococcus pneumoniae* (PRSP) and methicillin-resistant *Staphylococcus aureus* (MRSA). Toyama Chemical believes T-3811 is potentially efficacious for a wide range of indications, from respiratory tract infections to surgical infections. Given its excellent safety profile, the Company believes pediatric indications are also a possibility. In Japan Toyama Chemical plans to begin marketing an oral preparation (brand name: GENINAX tablets 200 mg) by the end of 2007.

T-817MA

Promising treatment to curb Alzheimer's disease progression

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

T-5224

Novel rheumatoid arthritis treatment more effective at curbing joint and bone destruction

T-5224 is a new type of drug that inhibits transcription factor AP-1—which plays a major role in the pathology of rheumatoid arthritis—and in so doing suppresses inflammation and joint destruction. As previous drugs were unable to fully curb joint and bone destruction, this compound is expected to become a fundamental treatment for rheumatoid arthritis. The drug is being developed jointly with Prof. Shunichi Shiozawa of Kobe University and Prof. Shuichi Hirono of Kitasato University.

T-705

Antiviral with a virogene replication inhibitor as its active mechanism

T-705 is a unique viral RNA polymerase inhibitor, acting on viral genetic copying to prevent its reproduction. T-705 has exceptionally potent activity in mouse infection models of H5N1 avian influenza. Its efficacy is expected to make this drug a potential option for treating avian influenza, a highly pathogenic infection that cannot be treated with established therapies.

Principal Products

Broad-spectrum penicillin **PENTCILLIN**

Original release: 1980; developed in-house at Toyama Chemical
This member of the PENCILLIN class of antibiotics, which works against *Pseudomonas aeruginosa*, is an example of a world-class drug that was developed in Japan. With a proven track record of performance and reliability over the past quarter century, it continues to be used widely.



Loop diuretic **LUPRAC**

Original release: 1999; third-party product
LUPRAC combines loop diuretic effects and anti-aldosterone properties. This global standard diuretic has been shown to be highly clinically effective in treating edemas of cardiac, renal and hepatic origin.



Broad-spectrum oral cephalosporin **TOMIRON**

Original release: 1987; developed in-house at Toyama Chemical
This member of the cephem class of antibiotics has excellent antibiotic properties against β -lactamase-producing bacteria. Toyama Chemical markets TOMIRON in small, easy-to-swallow tablets and in orange-colored, strawberry-flavored fine granules for children.



Broad-spectrum injectable quinolone antibacterial agent **PASIL**

Original release: 2002; developed in-house at Toyama Chemical
Possessing a high safety profile, even in high concentrations of blood, PASIL is the first intravenous quinolone-class antibiotic to be produced in Japan. Toyama Chemical markets this intravenous version of PASIL in an easy-to-use soft-bag preparation that does not need to be dissolved in solution.



Broad-spectrum oral quinolone antibacterial agent **OZEX**

Original release: 1990; developed in-house at Toyama Chemical
This quinolone antibacterial agent is applicable to 54 diseases and 27 bacteria. Toyama Chemical achieved broad-spectrum antibiotic effects by increasing the antibiotic properties against Gram-positive bacteria.



Stomachic/digestive powder **Tsukushi A·M**

Original release: 1968
The Tsukushi A·M stomachic/digestive powder is compounded from six digesting crude drugs, a digestive enzyme and antacid medications for greater effectiveness. People have been using it in Japan for some 40 years.



Quinolone antibacterial eyedrops **OZEX**

Original release: 2006; developed in-house at Toyama Chemical
Toyama Chemical developed the OZEX oral antibiotic as eyedrops. This medication is the first such medication with usage and dosages that are approved in Japan for use with children, including newborns and toddlers, as well as adults.



β -lactamase inhibitor and antibiotic combination **TAZOCIN**

Original release: 2001; developed by Toyama Chemical in association with Taiho Pharmaceutical Co., Ltd.
Available worldwide in over 90 countries, TAZOCIN is an antibiotic compound of PENCILLIN with the β -lactamase inhibitor TAZOBACTAM.

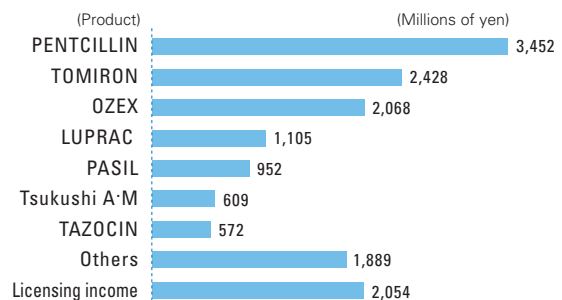


Broad-spectrum new-type oral quinolone antibacterial agent **GENINAX**

Scheduled for release in 2007; developed in-house at Toyama Chemical
GENINAX has strong activity against respiratory tract infection pathogens and otorhinolaryngological infection pathogens, including multidrug-resistant *S. pneumoniae*. It exhibits good oral absorption and tissue distribution, which allows once-daily oral administration, and shows high clinical efficacy. Astellas will distribute the product, which will be co-promoted by Taisho Toyama Pharmaceutical and Astellas.



Breakdown of Pharmaceutical Business Revenues



Manufacturing Technology

Manufacturing technology is another area of expertise for Toyama Chemical, on a par with the Company's R&D prowess. Pharmaceutical research is conducted at the Research Laboratories, which are located at the Toyama Works. Being on the same site as the Toyama Factory, which manufactures these products, helps to maximize the benefits of links with the Research Division and facilitates the efficient mass production and preparation of drug compounds. The Company's manufacturing complies with stringent current Good Manufacturing Practice (cGMP) guidelines for manufacturing management and quality control systems, including the production of bulk pharmaceuticals.

Sales System

In 2002, Toyama Chemical and Taisho Pharmaceutical established Taisho Toyama Pharmaceutical as a joint sales company in the ethical drug business by merging their sales and marketing divisions. This establishment reinforced and improved the efficiency of the two companies' sales and marketing efforts to medical institutions. In 2006, to improve sales efficiencies Taisho Toyama Pharmaceutical began concentrating its visitation-based marketing efforts toward a policy of "prioritize and centralize," which involves a focus on key products, key business partners and key physicians.

Toyama Chemical expects competition in the pharmaceutical industry to intensify due to the growth in generic prescribing and other factors. However, the Company aims to achieve profit growth by further improving sales efficiencies.

TOPICS 2007

Construction Completed on 6th Research Laboratory Safety Research Wing

In November 2005, the Company embarked on the construction of the 6th Research Laboratory, a safety research wing sited on the grounds of the Toyama Works, and construction concluded in November 2006. The new wing houses facilities for safety evaluation, pharmacokinetic testing, pathological testing and safety pharmacological testing, and is designed to take into account the welfare of researchers and the surrounding environment. The 6th Research Laboratory provides a research foundation for ensuring world-class levels of research and is designed to speed the evaluation process.

Toyama Chemical Receives ISO 14001 Consolidated Certification

The Company has now received ISO 14001 international environmental management system certification across the entire Toyama Chemical Group (excluding the sites of certain subsidiaries), following the extension of this certification from the Company's headquarters and head office building to its operating subsidiaries. The Company places a high management priority on environmental consciousness as part of its everyday operating activities, and will push ahead in its environmental management initiatives.

BOARD OF DIRECTORS

(As of June 26, 2007)



Chairman and Director
Nomination Commissioner
Katsuhiko Nakano



President and Director
Nomination Commissioner,
Compensation Commissioner
Masuji Sugata



Director and Senior Executive Officer
Head of Toyama Works
and Production Division
Hideo Sanada



Director
Audit Commissioner
Yoshiharu Murotani



Director
Nomination Commissioner,
Compensation Commissioner
Yukio Yanagida*



Director
Audit Commissioner,
Nomination Commissioner
Hiroichi Yoshida*



Director
Audit Commissioner,
Nomination Commissioner
Shinichiro Inushima*



Director
Audit Commissioner,
Compensation Commissioner
Shozo Kakimoto*

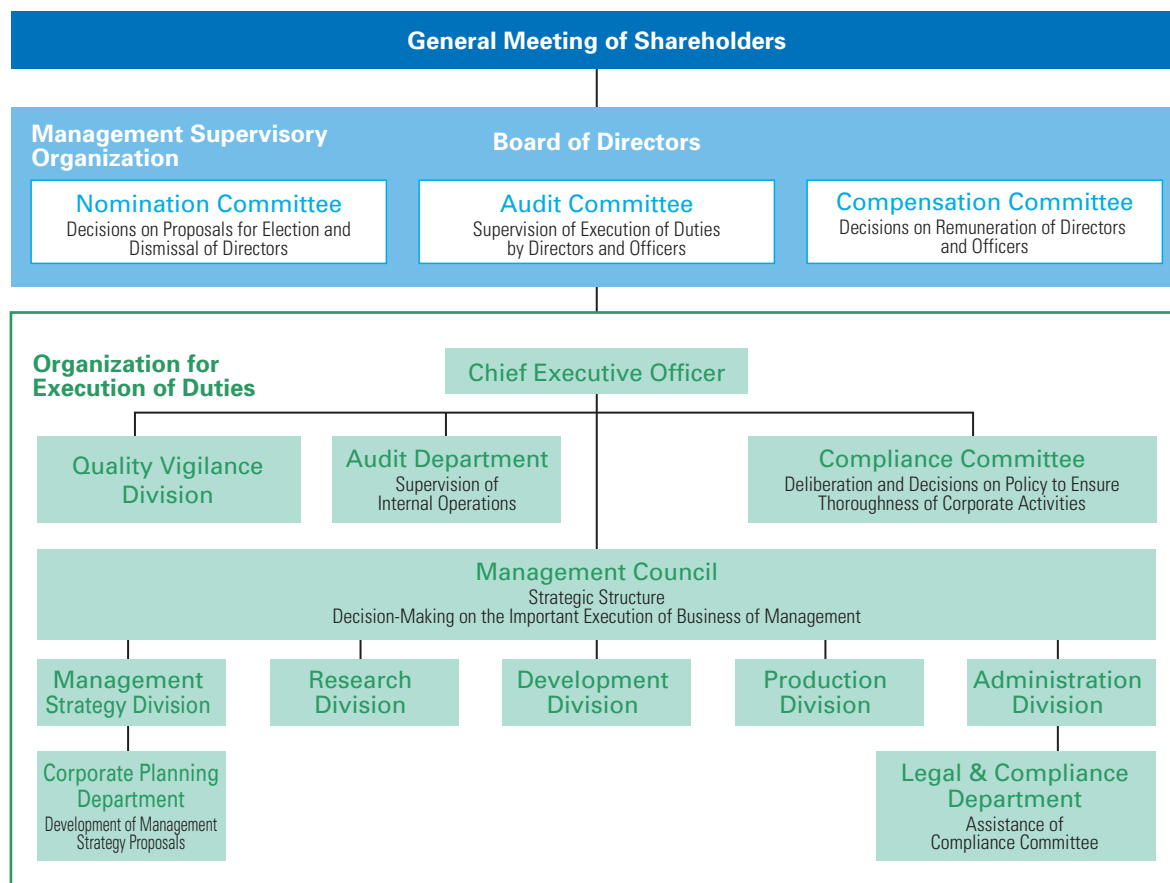


Director
Akira Ohira*

*Outside Directors

CORPORATE GOVERNANCE

Governance System and Roles (As of June 26, 2007)



Status of Toyama Chemical's Corporate Governance

Corporate governance is a top priority for Toyama Chemical's management, with the underlying goal of improving the speed and transparency of the decision-making process. To construct a management system capable of swift responses to changes in the business environment, the Company introduced a committee system in June 2003, and through the Board of Directors has separated management oversight from operational functions. The Company will also review the development of its internal control

system on an ongoing basis and strive to improve this function in the future.

To further strengthen corporate governance and to ensure the effectiveness of the system to which the Group aspires, the Company will heighten management's accountability and improve disclosure to all stakeholders. The Company thereby hopes to enhance its standing within the market. Furthermore, the management council, the decision-making body for the execution of business, conducts assessments on avoidance, reduction and other measures related to major risks in its operating activities.

CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIVITIES



Compliance

As a global R&D-oriented pharmaceutical company, Toyama Chemical must observe laws and regulations and maintain the public's trust by conducting corporate activities that meet high moral standards. The Company is therefore establishing a compliance management system and vigorously promoting risk management activities.

This system will build upon the Company's established Compliance Policy, which guides employees and officers in their corporate activities and promotes a thorough understanding of compliance issues. Toyama Chemical also conducts broad-based training and continuing education. Furthermore, the Company has established an internal/external helpline as an in-house reporting channel for compliance contraventions such as legal violations and improper conduct, or concerns by employees over these offences. While protecting employees who contact or consult the helpline, the Company has created a system that facilitates swift responses and remedial action to employees' complaints and opinions, all of which are handled as legitimate.

Environmental Activities

The Company considers the environment in its daily business as a paramount management issue and promotes active environmental management. Notably, the Company's R&D and production site, the Toyama Works, gained international ISO 14001 certification in 2000 for its environmental management system (EMS). While continuously improving this EMS, in 2006 the Toyama Works renewed its certification for the second time, and by extending the scope of EMS across the Company to include the head office and subsidiaries, it gained certification for the Toyama Chemical Group (excluding certain subsidiary sites).

The Company promotes continuous environmental consideration groupwide throughout the product lifecycle—research, development, manu-

facturing, sales, use and disposal—rather than only in pharmaceutical R&D and manufacturing.

With Society

As a good corporate citizen, Toyama Chemical strives to coexist harmoniously with regional communities and have a positive impact on the environment through its social contributions. In addition to organizing factory tours for neighbors and students of elementary, junior high and high schools, the Toyama Works provides workplace experience to junior high school students, health and safety practical training for nursing college students, internships for university students, and various other opportunities for participation by local communities.

Furthermore, the Company cooperates with local schools and residents in tending flowerbeds along the Toyama Light Rail municipal transportation link, which commenced operations in April 2006.

For Employees

To realize the goal of being an R&D-oriented company, the Company must create an environment in which each employee plays an active role in a job they believe is worth doing. In terms of human resource development, Toyama Chemical aims to cultivate specialist expertise and integrity in its staff. To achieve this objective, the Company is continually enhancing the ways in which it supports its human resources in their self-development through correspondence courses, English lessons open to all staff, an incentive system to gain qualifications and other programs. Toyama Chemical is also bolstering its mental-health-care provisions to enhance mental wellbeing, in addition to physical health. Furthermore, the Company endeavors to build a worker-friendly environment through countermeasures to sexual harassment and bullying, support in raising children, and health and safety activities with subsidiaries, among other measures.

SIX-YEAR FINANCIAL SUMMARY

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

	Millions of Yen (Except per Share Amounts)					
	2007	2006	2005	2004	2003	2002
Operating Results:						
Gross revenue	¥16,732	¥23,123	¥24,747	¥16,831	¥32,998	¥28,345
Net sales	14,678	15,465	15,986	16,227	24,983	28,263
Royalty income	2,054	7,658	8,761	604	8,015	82
Cost of sales	11,352	12,138	12,755	12,112	11,407	11,513
Selling, general and administrative expenses	11,178	9,462	9,395	9,088	19,366	19,981
Operating profit (loss)	(5,798)	1,523	2,597	(4,369)	2,225	(3,149)
Income (loss) before income taxes and minority interests	(6,911)	704	1,236	(5,550)	81	(3,937)
Net income (loss)	(8,765)	453	662	(4,900)	(5,166)	(2,665)
Per Share Data (in Yen):						
Net income (loss)	¥ (44.68)	¥ 2.31	¥ 3.37	¥ (24.91)	¥ (29.37)	¥ (17.74)
Financial Position:						
Total equity	¥23,962	¥33,429	¥31,897	¥31,031	¥37,166	¥23,568
Total assets	61,703	68,961	64,763	73,970	89,896	85,686
Other Data:						
Research and development expenses	¥ 7,932	¥ 6,316	¥ 5,763	¥ 5,161	¥ 5,088	¥ 4,893
Depreciation and amortization	1,347	1,196	1,333	1,685	2,130	2,256
Capital expenditures	1,697	1,396	707	288	239	471
Financial Ratios (%):						
Net income margin ⁽¹⁾	—	2.0%	2.5%	—	—	—
Return on equity (ROE) ⁽²⁾	—	1.4	2.0	—	—	—
Equity ratio ⁽³⁾	38.8%	48.5	49.3	42.0%	41.3%	27.5%
Research and development expenses as a percentage of gross revenue	47.4	27.3	23.3	30.7	15.4	17.3
Number of Employees	1,025	1,009	958	911	1,635	1,662

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 businesses and maintaining a healthy balance sheet. To secure adequate liquidity, the Company maintains appropriate 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 working capital requirements.

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

Financial Position

Current Assets

Total current assets amounted to ¥25,198 million as of March 31, 2007, a decrease of ¥6,400 million from the previous fiscal year-end. This was primarily attributable to recording as accounts receivable at year-end the one-time income from the signing of a contract for T-3811.

Current Liabilities

Total current liabilities were ¥6,068 million, up ¥671 million from a year earlier. This rise was mainly due to an increase in trade payables arising from raw materials, semi-manufactured goods and others associated with drug manufacture.

Net Working Capital

Net working capital amounted to ¥19,130 million, down ¥7,071 million from the previous fiscal year-end.

Property, Plant and Equipment

Net property, plant and equipment totaled ¥23,317 million, an increase of ¥636 million from a year earlier. The primary cause for the increase was purchases of buildings and structures for the newly constructed 6th Research Laboratory at the Toyama Works.

Investments and Other Assets

Total investments and other assets came to ¥13,188 million, a decline of ¥1,494 million compared with the previous fiscal year-end. The principal factors for this decline were lower gains on sales of investment securities and the value of shares held.

Long-term Liabilities

Total long-term liabilities were ¥31,673 million, an increase of ¥1,538 million from a year earlier. This increase arose from offset adjustments not being carried out for taxable entities from deferred tax assets, which were formerly offset against deferred tax liabilities.

Cash Flows

In fiscal 2007, net cash provided by operating activities amounted to ¥593 million, compared with ¥5,982 million used in operating activities in the previous fiscal year. This change stemmed from a substantial increase in one-time income from the signing of the contract with Astellas Pharma Inc.

Net cash used in investing activities was ¥1,725 million, as compared with ¥1,471 million a year ago, owing to such factors as purchases of property, plant and equipment.

Net cash provided by financing activities totaled ¥634 million, compared with ¥2,294 million in the previous fiscal year, resulting from financing through long-term debt.

As a result of the aforementioned factors, cash and cash equivalents at the end of the fiscal year amounted to ¥8,117 million, a decline of ¥500 million from the previous fiscal year-end.

Analysis of Operating Results

Gross Revenue and Selling, General and Administrative Expenses

In fiscal 2007, net sales amounted to ¥14,678 million; royalty income reached ¥2,054 million; and gross revenue fell ¥6,391 million, to ¥16,732 million. Revenue dropped because of a decrease in licensing income. Selling, general and administrative expenses rose ¥1,716 million, to ¥11,178 million, mainly because of additional expenditures for research and development.

Cost of Sales

The cost of sales ended at ¥11,352 million, a decrease of ¥786 million.

Operating Profit

As a result of the above factors, the Company recorded an operating loss of ¥5,798 million.

Other Income (Expenses)

Other expenses were ¥1,113 million, ¥294 million higher than in the previous fiscal year. The primary reasons for the increase was a rise in the equity in losses of associated company.

Income Taxes

During the year, a ¥1,842 million adjustment in income taxes—deferred caused income taxes to increase.

Net Income

The Company reported a net loss of ¥8,765 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 the Company and/or the amount of expenses at the pharmaceutical subsidiary borne by the Group.

Policies for Curbing Health-Care Spending

The National Health Insurance (NHI) system is undergoing extensive reform to curb the rising health-care costs resulting from the aging of Japan's population and the rising cost of medical care. Drug costs, which account for about 20% of medical expenditures, are significantly affected by these changes, and the Group's performance could be affected by specific reforms such as measures to promote generic prescriptions and changes to the frequency of revisions to the drug price standards.

New Product Research and Development

Recently, there has been a tendency for new product development to require many years of R&D work and considerable investment. Drug development may experience delays, and projects may be discontinued despite the major investment involved. For these reasons, the financial position and operating results of the Group may be affected by the progress of new drug development plans.

CONSOLIDATED BALANCE SHEETS

Toyama Chemical Co., Ltd., and Consolidated Subsidiaries
March 31, 2007 and 2006

Assets	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Current Assets:			
Cash and cash equivalents	¥ 8,117	¥ 8,617	\$ 68,787
Short-term investments (Note 3)	1,160	1,559	9,830
Receivables:			
Trade notes	335	333	2,841
Trade accounts (Note 17)	520	8,419	4,407
Unconsolidated subsidiaries and associated company	2,907	2,244	24,632
Other	846	440	7,168
Allowance for doubtful accounts	(6)	(17)	(51)
Inventories (Note 4)	9,619	8,255	81,521
Deferred tax assets (Note 11)	1	342	7
Other current assets	1,699	1,406	14,392
Total current assets	25,198	31,598	213,534
Property, Plant and Equipment (Note7):			
Land (Note 5)	12,644	12,644	107,157
Buildings and structures	27,903	26,530	236,462
Machinery and equipment	19,415	18,984	164,538
Construction in progress		583	
Other	3,016	2,728	25,557
Total	62,978	61,469	533,714
Accumulated depreciation	(39,661)	(38,788)	(336,110)
Net property, plant and equipment	23,317	22,681	197,604
Investments and Other Assets:			
Investment securities (Note 3)	6,248	6,998	52,950
Investments in unconsolidated subsidiaries and associated company (Note 6)	1,349	1,663	11,433
Long-term prepaid expenses	1,767	1,530	14,975
Long-term time deposits	2,900	2,900	24,576
Deferred tax assets (Note 11)	3	3	22
Other	1,388	1,699	11,766
Allowance for doubtful accounts	(105)	(111)	(886)
Allowance for investment losses	(362)		(3,071)
Total investments and other assets	13,188	14,682	111,765
Total	¥ 61,703	¥ 68,961	\$ 522,903

See notes to consolidated financial statements.

Liabilities and Equity	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Current Liabilities:			
Current portion of long-term debt (Note 7)	¥ 84		\$ 708
Payables:			
Trade notes	2,648	¥ 2,376	22,442
Trade accounts	1,200	1,158	10,171
Unconsolidated subsidiaries and associated company	121	46	1,029
Other	1,337	1,199	11,328
Accrued income taxes	63	75	532
Other accrued expenses	493	426	4,177
Allowance for loss on sales returns	2	4	16
Other current liabilities	120	113	1,016
Total current liabilities	6,068	5,397	51,419
Long-term Liabilities:			
Long-term debt (Note 7)	17,066	16,236	144,631
Liability for retirement benefits (Note 8)	7,818	7,866	66,253
Long-term accrued amount payable	2,763	3,277	23,411
Negative goodwill	2	3	20
Deferred tax liabilities (Note 11)	1,514	274	12,829
Deferred tax liabilities—land revaluation (Note 5)	2,427	2,427	20,572
Other long-term liabilities	83	52	698
Total long-term liabilities	31,673	30,135	268,414
Commitments and Contingent Liabilities (Notes 15 and 16)			
Equity (Note 9):			
Common stock—authorized, 780,000,000 shares; issued 197,160,461 shares in 2007 and 2006	22,400	22,400	189,832
Capital surplus	21,537	21,537	182,520
Stock acquisition rights	40		334
Accumulated deficit	(19,593)	(10,828)	(166,047)
Net unrealized gain on available-for-sale securities	1,947	2,332	16,503
Deferred loss on derivatives under hedge accounting	(76)		(646)
Land revaluation difference (Note 5)	(1,622)	(1,622)	(13,741)
Treasury stock—at cost, 1,152,995 shares in 2007 and 847,645 shares in 2006	(671)	(390)	(5,685)
Total equity	23,962	33,429	203,070
Total	¥61,703	¥68,961	\$522,903

CONSOLIDATED STATEMENTS OF OPERATIONS

Toyama Chemical Co., Ltd., and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Net Sales (Notes 15 and 17)	¥14,678	¥15,465	\$124,389
Royalty Income (Note 12)	2,054	7,658	17,409
Gross revenue	16,732	23,123	141,798
Cost of Sales (Notes 8, 13 and 15)	11,352	12,138	96,201
Gross profit	5,380	10,985	45,597
Selling, General and Administrative Expenses (Notes 8, 13, 14, 15 and 17)	11,178	9,462	94,729
Operating profit (loss)	(5,798)	1,523	(49,132)
Other Income (Expenses):			
Interest expense	(408)	(426)	(3,456)
Interest and dividend income	113	122	960
Loss on devaluation of inventories	(47)	(96)	(397)
Equity in losses of associated company	(314)	(165)	(2,660)
Foreign exchange gain (loss)	(11)	118	(90)
Gain on sales of investment securities (Note 3)	2	227	18
Provision for allowance for investment losses	(362)		(3,071)
Impairment loss		(358)	
Other—net	(86)	(241)	(736)
Other expenses—net	(1,113)	(819)	(9,432)
Income (Loss) before Income Taxes	(6,911)	704	(58,564)
Income Taxes (Note 11):			
Current	12	30	104
Deferred	1,842	221	15,613
Total income taxes	1,854	251	15,717
Net Income (Loss)	¥ (8,765)	¥ 453	\$ (74,281)
		Yen	U.S. Dollars
Per Share of Common Stock (Note 2. q.):			
Basic net income (loss)	¥(44.68)	¥2.31	\$(0.38)
Diluted net income		2.31	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Toyama Chemical Co., Ltd., and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

Millions of Yen

	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Accumulated Deficit	Net Unrealized Gain on Available-for- sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Land Revaluation Difference	Treasury Stock	Total Equity
Balance, April 1, 2005	197,160,461	¥22,400	¥21,534		¥(11,311)	¥1,135		¥(1,592)	¥(269)	¥31,897
Net income					453					453
Purchase of treasury stock (220,241 shares)									(136)	(136)
Disposal of treasury stock (37,658 shares)			3						15	18
Net increase in unrealized gain on available-for-sale securities						1,197				1,197
Transfer from land revaluation difference					30			(30)		
Balance, March 31, 2006	197,160,461	22,400	21,537		(10,828)	2,332		(1,622)	(390)	33,429
Net loss					(8,765)					(8,765)
Purchase of treasury stock (336,716 shares)									(298)	(298)
Disposal of treasury stock (23,366 shares)			4						13	17
Decrease by exercised stock acquisition rights in treasury stock (8,000 shares)			(4)						4	
Net change in the year				40		(385)	(76)			(421)
Balance, March 31, 2007	197,160,461	¥22,400	¥21,537	¥40	¥(19,593)	¥1,947	¥(76)	¥(1,622)	¥(671)	¥23,962

Thousands of U.S. Dollars (Note 1)

	Common Stock	Capital Surplus	Stock Acquisition Rights	Accumulated Deficit	Net Unrealized Gain on Available-for- sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Land Revaluation Difference	Treasury Stock	Total Equity
Balance, March 31, 2006	\$189,832	\$182,513		\$ (91,766)	\$19,762		\$(13,741)	\$(3,307)	\$283,293
Net loss				(74,281)					(74,281)
Purchase of treasury stock (336,716 shares)								(2,523)	(2,523)
Disposal of treasury stock (23,366 shares)			43					109	152
Decrease by exercised stock acquisition rights in treasury stock (8,000 shares)			(36)					36	
Net change in the year			334		(3,259)	(646)			(3,571)
Balance, March 31, 2007	\$189,832	\$182,520	\$334	\$(166,047)	\$16,503	\$(646)	\$(13,741)	\$(5,685)	\$203,070

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Toyama Chemical Co., Ltd., and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Operating Activities:			
Income (loss) before income taxes	¥(6,911)	¥ 704	\$(58,564)
Adjustments for:			
Income taxes—paid	(17)	(37)	(147)
Depreciation and amortization	1,347	1,196	11,411
Gain on sales of investment securities	(2)	(227)	(18)
Impairment loss		358	
(Decrease) increase in allowance for doubtful accounts	(11)	20	(93)
Increase in allowance for investment losses	362		3,072
Increase in accrued bonuses		13	3
Foreign exchange loss (gain)	2	(113)	20
Equity in losses of associated company	314	165	2,660
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	7,240	(8,040)	61,354
Increase in inventories	(1,365)	(12)	(11,564)
Increase in trade payables	505	323	4,278
Decrease in long-term accrued amount payable	(529)	(480)	(4,479)
(Increase) decrease in interest and dividends receivable	(3)	1	(21)
Increase in interest payable	21	96	180
(Decrease) increase in liability for retirement benefits	(34)	55	(287)
Increase in other payables	334	241	2,831
Other—net	(660)	(245)	(5,605)
Total adjustments	7,504	(6,686)	63,595
Net cash provided by (used in) operating activities	593	(5,982)	5,031
Investing Activities:			
Purchases of short-term investments	(3,014)	(7,312)	(25,544)
Proceeds from sales of short-term investments	3,416	8,210	28,949
Purchases of property, plant and equipment	(1,928)	(1,420)	(16,341)
Proceeds from sales of investment securities	203	836	1,719
Purchase of investment securities	(102)	(1,319)	(863)
Increase in other assets	(300)	(466)	(2,540)
Net cash used in investing activities	(1,725)	(1,471)	(14,620)
Financing Activities:			
Decrease in short-term bank loans—net		(4,100)	
Proceeds from long-term debt	914	6,713	7,742
Repayments of long-term debt		(200)	
Increase in other assets	(280)	(119)	(2,371)
Net cash provided by financing activities	634	2,294	5,371
Subtotal	(498)	(5,159)	(4,218)
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	(2)	113	(20)
Net Decrease in Cash and Cash Equivalents	(500)	(5,046)	(4,238)
Cash and Cash Equivalents, Beginning of Year	8,617	13,663	73,025
Cash and Cash Equivalents, End of Year	¥ 8,117	¥ 8,617	\$ 68,787

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Toyama Chemical Co., Ltd., and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

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 ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan ("ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006.

The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "Consolidated Statements of Changes in Equity" in the current fiscal year.

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 2006 consolidated financial statements to conform to the classifications and presentations used in 2007. In addition, the notes to the consolidated financial statements include information which is not required under Japanese GAAP 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 ¥118 to \$1, the approximate rate of exchange at March 30, 2007. 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.

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 five 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, certificates of deposit, 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 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. Allowance for Investment Losses—In 2007, the Company recorded an appropriate amount as an allowance for investment losses, in consideration of the financial position of the invested companies. Both loss before income taxes and net loss for fiscal 2007 increased by ¥362 million (\$3,071 thousand).

g. 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.

h. Impairment of Fixed Assets—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for the Impairment of Fixed Assets", and in October 2003 the ASBJ issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These 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 Group adopted the accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate 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.

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

j. Retirement and Pension Plans—The Company has a contributory funded pension plan and a defined contribution pension plan in addition to the unfunded retirement plans. Certain subsidiaries have a contributory funded pension plan in addition to the above unfunded plans.

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

k. Research and Development Expenses—The Company had included a portion of management expenses for research and development and manufacturing activities in manufacturing costs. However, effective from fiscal 2007, the Company shall include management's research and development expenses as research and development expenses, in line with the emphasis the Company places on research and development, and the Company's increasing focus on measures to promote research and development as a research and development-oriented company. The Company's intention is to know precisely the research and development expenses to clarify the Company's operating results. With this change, cost of sales decreased ¥306 million (\$2,598 thousand) and selling, general and administrative expenses increased ¥530 million (\$4,494 thousand). As a result, gross profit increased ¥306 million (\$2,598 thousand), while operating loss increased ¥223 million (\$1,896 thousand), and loss before income taxes increased ¥221 million (\$1,876 thousand).

l. Stock Options—On December 27, 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for

employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

The Company applied the new accounting standard for stock options to those granted on and after May 1, 2006. The effect of adoption of this accounting standard for the year ended March 31, 2007, was to increase loss before income taxes by ¥40 million (\$334 thousand).

m. Presentation of Equity—On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007, is presented in line with this new accounting standard.

n. 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.

o. 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.

p. Derivative Financial Instruments—The Company enters into derivative financial instruments, including interest rate swaps, as a means of hedging interest rate exposures of floating-rate bank loans. 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.

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 an 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.

q. Per Share Information—The computation of net income 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 196,165 thousand and 196,431 thousand for the years ended March 31, 2007 and 2006, respectively.

Diluted net income per share for 2007 is not disclosed because of the Company’s net loss position.

r. New Accounting Pronouncements **Measurement of Inventories**

Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, “Accounting Standard for Measurement of Inventories,” which is effective for fiscal years beginning on or after April 1, 2008, with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated

direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008, with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions, and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements; 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process; 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material.

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008, with early adoption permitted.

3. Short-term Investments and Investment Securities

Short-term investments and investment securities at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Current:			
Time deposits	¥ 60	¥ 60	\$ 508
Government and corporate bonds	1,100	1,499	9,322
Total	¥1,160	¥1,559	\$ 9,830
Non-current:			
Marketable equity securities	¥5,052	¥5,691	\$42,816
Non-marketable equity securities	715	721	6,054
Trust fund investments and other	481	586	4,080
Total	¥6,248	¥6,998	\$52,950

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2007 and 2006, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2007				
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,764	¥3,288		¥5,052
Other	500		¥19	481
Held-to-maturity	100			100
March 31, 2006				
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,762	¥3,929		¥5,691
Other	400		¥14	386
Held-to-maturity	200			200

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2007				
Securities classified as:				
Available-for-sale:				
Equity securities	\$14,949	\$27,867		\$42,816
Other	4,240		\$160	4,080
Held-to-maturity	847			847

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2007 and 2006, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Available-for-sale—Equity securities	¥ 714	¥ 721	\$ 6,055
Held-to-maturity	1,000	1,499	8,474
Total	¥1,714	¥2,220	\$14,529

Proceeds from sales of available-for-sale securities for the years ended March 31, 2007 and 2006, were ¥3 million (\$24 thousand) and ¥3,886 million, respectively. Gross realized gains, computed on the moving-average cost basis, were ¥2 million (\$18 thousand) and ¥227 million for the years ended March 31, 2007 and 2006, respectively.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2007, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Held-to-Maturity	Held-to-Maturity
Due in one year or less	¥1,100	\$9,322
Total	¥1,100	\$9,322

4. Inventories

Inventories at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Finished goods and merchandise	¥3,696	¥2,730	\$31,327
Semi-finished goods and work in process	4,680	3,985	39,663
Raw materials and supplies	1,243	1,540	10,531
Total	¥9,619	¥8,255	\$81,521

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 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, 2007, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥3,614 million.

6. Investments in Unconsolidated Subsidiaries and Associated Companies

Investments in unconsolidated subsidiaries and associated companies at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Investments in:			
Unconsolidated subsidiaries	¥ 69	¥ 69	\$ 582
Associated companies	1,280	1,594	10,851
Total	¥1,349	¥1,663	\$11,433

7. Long-term Debt

Long-term debt at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Unsecured 1.13% yen bonds, due June 2007	¥ 50	¥ 50	\$ 424
1.23% to 2.75% secured loans from banks, due serially to 2013, payable in yen	8,700	8,700	73,729
Unsecured loans from banks, 1.4% to 2.58% due serially to 2011	5,900	5,900	50,000
Non-interest bearing loans from Japan Science and Technology Corporation	2,500	1,586	21,186
Total	17,150	16,236	145,339
Less current portion	(84)		(708)
Long-term debt, less current portion	¥17,066	¥16,236	\$144,631

Annual maturities of long-term debt at March 31, 2007, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 84	\$ 708
2009	5,434	46,051
2010	434	3,678
2011	8,434	71,475
2012	134	1,135
2013 and thereafter	130	1,106
Total	¥14,650	\$124,153

The Company has non-interest bearing loans of ¥2,500 million (\$21,186 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 the above collateralized long-term debt at March 31, 2007, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥6,312	\$53,491
Total	¥6,312	\$53,491

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.

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.

The liability for retirement benefits at March 31, 2007 and 2006, includes retirement benefits for directors and corporate auditors of subsidiaries of ¥3 million (\$25 thousand) and ¥7 million, respectively.

The liability for employees' retirement benefits at March 31, 2007 and 2006, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥8,173	¥8,262	\$69,258
Fair value of plan assets	(72)	(68)	(607)
Unrecognized actuarial gain	(286)	(335)	(2,423)
Net liability	¥7,815	¥7,859	\$66,228

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥327	¥304	\$2,273
Interest cost	180	182	1,526
Recognition of actuarial loss	46	50	386
Contribution for trusted pension fund	194	194	1,641
Contribution for defined contribution pension plans	102	83	865
Net periodic benefit costs	¥849	¥813	\$7,191

Assumptions used for the years ended March 31, 2007 and 2006, are set forth as follows:

	2007	2006
Discount rate	2.2%	2.2%
Recognition period of actuarial gain/loss	11 years	11 years

9. Equity

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006, and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below.

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having

the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Board of Directors with board committees (an appointment committee, compensation committee and audit committee) can also do so because such companies with board committees already, by nature, meet the above criteria under the Corporate Law, even though such companies have an audit committee instead of the Board of Corporate Auditors.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and accumulated deficit can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. Stock Options

The stock options outstanding as of March 31, 2007, are as follows:

Details of stock options

Stock Option	Toyama Chemical 1st stock acquisition rights	Toyama Chemical 2nd stock acquisition rights
Persons Granted	Directors and executive officers of the Company (16 persons)	Directors and executive officers of the Company (17 persons)
Number of Options Granted	114,000 common shares	67,500 common shares
Date of Grant	June 25, 2005	August 15, 2006
Exercise Period	From June 25, 2005, to June 24, 2035	From August 15, 2006, to August 14, 2036
Exercise Price	¥1	¥1

The stock option activity is as follows:

For the year ended March 31, 2006	Toyama Chemical 1st stock acquisition rights (shares)	Toyama Chemical 2nd stock acquisition rights (shares)
Non-vested		
March 31, 2005—Outstanding		
Granted		
Canceled		
Vested		
March 31, 2006—Outstanding		
Vested		
March 31, 2005—Outstanding		
Vested	114,000	
Exercised		
Canceled		
March 31, 2006—Outstanding	114,000	
<hr/>		
For the year ended March 31, 2007		
Non-vested		
March 31, 2006—Outstanding		
Granted		
Canceled		
Vested		
March 31, 2007—Outstanding		
Vested		
March 31, 2006—Outstanding	114,000	
Vested		67,500
Exercised	8,000	
Canceled		
March 31, 2007—Outstanding	106,000	67,500
Exercise price	Yen	¥ 1
	U.S. Dollars	\$0.01
Average stock price at exercise	Yen	¥ 907
	U.S. Dollars	\$7.69
Fair value price at grant date	Yen	¥ 804
	U.S. Dollars	\$6.81

The assumptions used to measure fair value

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	41.145%
Estimated remaining outstanding period:	15 years
Estimated dividend:	¥0 per share
Interest rate with risk free:	2.1255%

11. Income Taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.4% for both the years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006, are as follows.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Accrued retirement benefits	¥ 4,264	¥ 4,432	\$ 36,135
Tax loss carryforwards	5,310	2,701	44,998
Loss on devaluation of investment securities	379	377	3,210
Loss on devaluation of inventories	279	266	2,366
Allowance for investment losses	147		1,242
Write-down of golf club membership	81	90	689
Other	454	474	3,852
Less valuation allowance	(10,911)	(6,494)	(92,463)
Total	3	1,846	29
Deferred tax liabilities:			
Special reserve for land for tax purposes	192	192	1,625
Net unrealized gain on available-for-sale securities	1,322	1,583	11,205
Other			1
Total	1,514	1,775	12,831
Net deferred tax assets (liabilities)	¥ (1,511)	¥ 71	\$(12,802)

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, 2007 and 2006, is as follows.

	2007	2006
Normal effective statutory tax rate	(40.4)%	40.4%
Expenses not deductible for income tax purposes	0.2	2.3
Minimum inhabitant taxes	0.2	1.6
Valuation allowance—net	63.9	(15.7)
Equity in losses of associated companies	1.8	9.5
Other	1.1	(2.4)
Actual effective tax rate	26.8%	35.7%

At March 31, 2007, the Company and its certain subsidiaries have tax loss carryforwards aggregating approximately ¥13,170 million (\$111,610 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	¥ 965	\$ 8,178
2011	5,265	44,619
2012	106	898
2014	6,834	57,915
Total	¥13,170	\$111,610

12. Royalty Income

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

13. Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was ¥1,040 million (\$8,813 thousand) and ¥877 million for the years ended March 31, 2007 and 2006, respectively.

14. Research and Development Expenses

Research and development costs charged to the consolidated statements of operations were ¥7,932 million (\$67,224 thousand) and ¥6,316 million for the years ended March 31, 2007 and 2006, respectively.

15. 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, 2007 and 2006, were ¥970 million (\$8,220 thousand) and ¥1,094 million, respectively, including ¥922 million (\$7,817 thousand) and ¥1,024 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance lease, depreciation expense and 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, 2007 and 2006, was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
March 31	Machinery and Equipment	Other	Total	Machinery and Equipment	Other	Total	Machinery and Equipment	Other	Total
Acquisition cost	¥5,884	¥324	¥6,208	¥6,250	¥218	¥6,468	\$49,870	\$2,742	\$52,612
Accumulated depreciation	4,213	140	4,353	3,852	85	3,937	35,708	1,183	36,891
Net leased property	¥1,671	¥184	¥1,855	¥2,398	¥133	¥2,531	\$14,162	\$1,559	\$15,721

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 661	¥ 826	\$ 5,602
Due after one year	1,312	1,854	11,117
Total	¥1,973	¥2,680	\$16,719

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Depreciation expense	¥803	¥878	\$6,804
Interest expense	81	121	683
Total	¥884	¥999	\$7,487

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, 2007 and 2006, was ¥209 million (\$1,773 thousand) and ¥252 million, respectively, including ¥209 million (\$1,773 thousand) and ¥252 million of lease income under finance leases.

Information of leased property such as acquisition cost, accumulated depreciation, amounts to be received under finance lease, depreciation expense and interest revenue of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2007 and 2006, was as follows.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
March 31	Machinery and Equipment	Machinery and Equipment	Machinery and Equipment
Acquisition cost	¥843	¥987	\$7,147
Accumulated depreciation	675	653	5,723
Net leased property	¥168	¥334	\$1,424

Amounts to be received under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥144	¥179	\$1,218
Due after one year	47	193	404
Total	¥191	¥372	\$1,622

Depreciation expense and interest revenue under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Depreciation expense	¥167	¥206	\$1,415
Interest revenue	31	52	261
Total	¥198	¥258	\$1,676

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.

16. Derivatives

The Company 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 Company's policy.

The Company 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 Company does not anticipate any losses arising from credit risk.

The management planning section of the Company enters into derivative transactions upon approval of transaction type and position limit by the management council, and monitors and controls risks associated with these derivatives. Also, a director responsible for derivatives reports financial results, including derivatives, at the management council. The Company 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 Company's exposure to credit or market risk.

Fair Value of Derivative Financial Instruments

The fair value of the Company's derivative financial instruments at March 31, 2007 and 2006, is as follows.

Interest Rate Transaction	Millions of Yen					
	2007			2006		
	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss
Not through market: Interest rate swaps—fixed rate payment, floating rate receipt	¥1,000	¥(31)	¥18	¥1,000	¥(50)	¥40
Total	¥1,000	¥(31)	¥18	¥1,000	¥(50)	¥40

Interest Rate Transaction	Thousands of U.S. Dollars		
	2007		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Not through market— Interest rate swaps—fixed rate payment, floating rate receipt	\$8,475	\$(266)	\$155
Total	\$8,475	\$(266)	\$155

Interest rate swaps which qualify for hedge accounting for the years ended March 31, 2007 and 2006, are excluded from the disclosure of market value information.

17. Related Party Transactions

Transactions with the principal shareholder, unconsolidated subsidiaries and an associated company for the years ended March 31, 2007 and 2006, consisted of the following.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Sales	¥11,250	¥12,098	\$95,343
Commission expenses	358	356	3,037

The balance of trade accounts receivable from the principal shareholder amounted to ¥39 million (\$326 thousand) and ¥24 million as of March 31, 2007 and 2006, respectively.

18. Subsequent Event

- a. The Company concluded a contract to offer security on May 31, 2007, by granting a mortgage on land and buildings of Toyama Works, in conjunction with a syndicated commitment loan contract on February 28, 2005 (aggregate amount: ¥5,000 million, loan period: from April 4, 2005, to April 5, 2010, rate: 1.3975%). The book values of assets collateralizing the mortgage are as follows, as of March 31, 2007.

	Millions of Yen	Thousands of U.S. Dollars
Buildings	¥5,558	\$47,099
Land	4,024	34,103
Total	¥9,582	\$81,202

b. On June 25, 2007, the Company entered into a license agreement for the worldwide research, development and commercialization of novel anti-rheumatoid arthritis agent, T-5224, with F. Hoffmann-La Roche Ltd. (Switzerland) and Hoffmann-La Roche Inc. (USA) ("Roche").

An overview of the contract is as follows:

(1) The party to the contract

Company names: F. Hoffmann-La Roche Ltd. (Switzerland)
Hoffmann-La Roche Inc. (USA)*

*Hoffmann-La Roche Inc. is a subsidiary wholly owned by F. Hoffmann-La Roche Ltd.

(2) Profile of the party

Company name: F. Hoffmann-La Roche Ltd.
Representative: Dr. Franz B. Humer (Chairman and CEO)
Number of employees: Approx. 75,000
Net sales: CHF 42 billion (2006)
Headquarters: Grenzacherstrasse 124 CH-4070, Basel, Switzerland

(3) Content of agreement

1. The Company has granted Roche exclusive rights to research, develop, and sell T-5224 worldwide, excluding Japan.
2. The Company has exclusive rights to research, develop and sell T-5224 in Japan.
3. The Company will receive upfront payments and milestone payments based on certain development and commercial milestones. In addition, depending on the degree of the achievement to the terms of the contract in each event, the above milestone payments change greatly, but they are totaling up to US\$370 million.
4. The Company will receive royalties based on the net sales of T-5224 by Roche.

(4) Date of the contract

June 25, 2007 (Japanese standard time)

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 years ended March 31, 2007 and 2006, amounted to ¥551 million (\$4,666 thousand) and ¥508 million, respectively.

INDEPENDENT AUDITORS' 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, 2007 and 2006, and the related consolidated statements of operations, changes in 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, 2007 and 2006, 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.

As discussed in Note 18 to the consolidated financial statements, the Company concluded a contract to offer security on May 31, 2007, by setting mortgage in land and buildings, about a syndicated commitment loan contract.

As discussed in Note 18 to the consolidated financial statements, the Company and F. Hoffmann-La Roche Ltd. (Switzerland) and Hoffmann-La Roche Inc. (USA) entered into a license agreement with respect to T-5224, a rheumatoid arthritis agent on June 25, 2007.

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 26, 2007

Member of
Deloitte Touche Tohmatsu

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 risk factors affecting the Group's business 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, the Company believes 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.

1. 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.

2. Seasonal Fluctuations in Operating Results

Antibiotics and antibacterials account for more than 70% 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.

3. Legal Regulations

The ethical drug business is subject to various regulations, including the Pharmaceutical Affairs Law (PAL) and such regulatory standards as Good Laboratory Practice (GLP), which covers the implementation of safety testing for drugs, Good Clinical Practice (GCP), which deals with the conduct of clinical trials, and Good Manufacturing Practice (GMP), which covers drug manufacturing and quality management. In addition, with the implementation of the revised PAL in April 2005, new systems were introduced 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 (GPSP), 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 the timing of product marketing were impacted by the introduction of more rigorous systems for quality management and safety monitoring following manufacturing and marketing.

4. Policies for Curbing Health-Care Spending

The drugs manufactured and marketed by the Group are billed to the National Health Insurance (NHI) system based on the drug price standards, and the Group is affected when the drug price standards are revised and its sales prices consequently change. National health-care spending is on the increase because of the demographic aging of the population, the growing sophistication of medical treatment, and other factors, so the NHI system is undergoing extensive reform in order to curb spending. Drug

costs, which account for about 20% of medical expenditures, are also affected by these reforms, and the trend is toward revising the drug price standards as part of efforts to curb health-care spending. The Group's revenues could be affected in the future if the government implements such specific reforms as measures to promote generic prescribing and changes to the frequency of revisions to the drug price standards.

5. 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 post-marketing surveillance and testing.

6. Royalty Income

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

- 1) Revenue from sales of products supplied to Taisho Toyama Pharmaceutical
- 2) Royalty revenue from the out-licensing of products developed in-house
- 3) Revenue from sales of bulk and drug products supplied to partner firms

Of these sources, royalty revenue from the out-licensing of products developed in-house 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. Running royalties are linked to the sales performance of the licensing partner, so the revenues of the Group may also be affected by sales strategies and policies at the licensing partner.

7. Alliances with Other Companies

The Toyama Chemical Group has formed various types of alliances with other companies across the Group's various operations, including research, development, manufacturing, and sales. Such alliances cover agreements on joint research, joint development, out- and in-licensing of development compounds and approved products, contracting out and in of manufacturing, and contract sales. The Group's revenues may be affected if circumstances led to these alliances being terminated or proving difficult to maintain.

8. Out-Licensing Contracts and Foreign Exchange Rates

The Toyama Chemical Group's licensing agreement with overseas companies provides for the royalty revenues to be received 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.

9. Stable Product Supply

As a pharmaceutical manufacturer, the Toyama Chemical Group works to provide a stable supply of products to the market. The Group's revenues could be impacted if, for some reason, there were delays or interruptions to the procurement of raw materials or operations had to be suspended at manufacturing facilities due to natural disasters or some other factor.

CORPORATE INFORMATION

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, 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)	¥2,000,000
The Company's equity ownership (%)	45.0
Principal business	Sales and promotion of ethical drugs

*Consolidated subsidiaries

Principal Locations

Toyama Chemical Co., Ltd. Head Office

2-5, Nishi-Shinjuku 3-chome,
Shinjuku-ku, Tokyo 160-0023, Japan
Telephone: +81-3-3348-6611
Facsimile: +81-3-3348-6638
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: +81-76-432-3136
Facsimile: +81-76-431-8203

History

- 1936** Toyama Chemical Co., Ltd., established around the business of Toyama Chemical Research Laboratory
- 1960** Head office relocated from city of Toyama to Tokyo's Chuo-ku
- 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
- 1972** Listed on the First Section of the Tokyo Stock Exchange
First phase of pharmaceutical factory completed
- 1975** No. 2 Research Laboratory completed
Second phase of pharmaceutical factory completed
- 1978** Head office relocated from Tokyo's Chuo-ku to Shinjuku-ku
- 1980** PENTCILLIN injection and intramuscular introduced
No. 3 Research Laboratory completed
- 1981** ABOVIS capsules and CEFOPERAZIN injection and intramuscular introduced
- 1982** BAXO capsules introduced
- 1984** 2nd Toyama Factory established
- 1985** TOMIPORAN intravenous introduced
- 1986** BAXO ointment introduced
- 1987** TOMIRON tablet introduced
- 1988** BAXO suppositories introduced
- 1989** No. 1 Research Laboratory completed
- 1990** TOMIRON fine granules and OZEX tablet introduced
- 1994** FLUCAM capsules introduced
Consumer Health Care Department established
- 1997** TOYAMA USA INC. established
- 1998** HOKURIKU MEDICAL SERVICE CO., LTD., and TOYAMA EUROPE LTD. established
New pharmaceutical factory and distribution wing completed
- 1999** LUPRAC tablet introduced
- 2000** Toyama Works and the 2nd Toyama Factory acquired ISO 14001 certification
- 2001** TAZOCIN intravenous introduced
- 2002** HALOSPOR intravenous and PASIL intravenous drip 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.
PENTCILLIN intravenous bag introduced
- 2004** Concluded a license agreement for T-3811, a new-type quinolone synthetic antibacterial agent, with Schering-Plough Corporation
- 2006** No. 6 Research Laboratory completed
- 2007** Concluded a license agreement for T-5224, a novel anti-rheumatoid arthritis agent, with Roche

TOYAMA USA INC.

75 Rockefeller Plaza, New York,
NY 10019, U.S.A.
Telephone: +1-212-704-9460
Facsimile: +1-212-704-9467

TOYAMA EUROPE LTD.

60 Cannon Street, London EC4N 6JP, U.K.
Telephone: +44-20-7002-1010
Facsimile: +44-20-7002-1810

Investor Information

(As of March 31, 2007)

Established

November 15, 1936

Capital

¥22.4 billion

Employees

1,025

Date of Ordinary General Meeting of Shareholders

June

Custodian of Shareholders' Register

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

Stock Listing (Ticker Code: 4518)

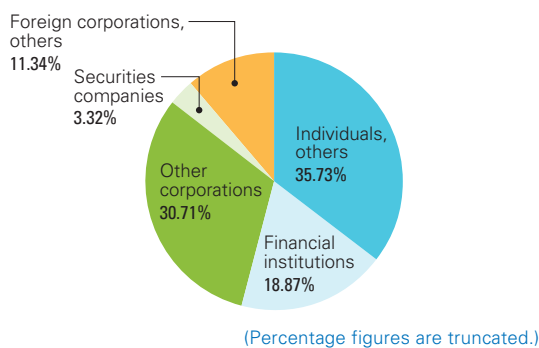
Tokyo Stock Exchange, First Section

Contact

Telephone: +81-3-5381-3889

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Distribution of Shareholders



Shares issued and outstanding	197,160,461
Shareholders	31,722
Average shares per shareholder	6,215

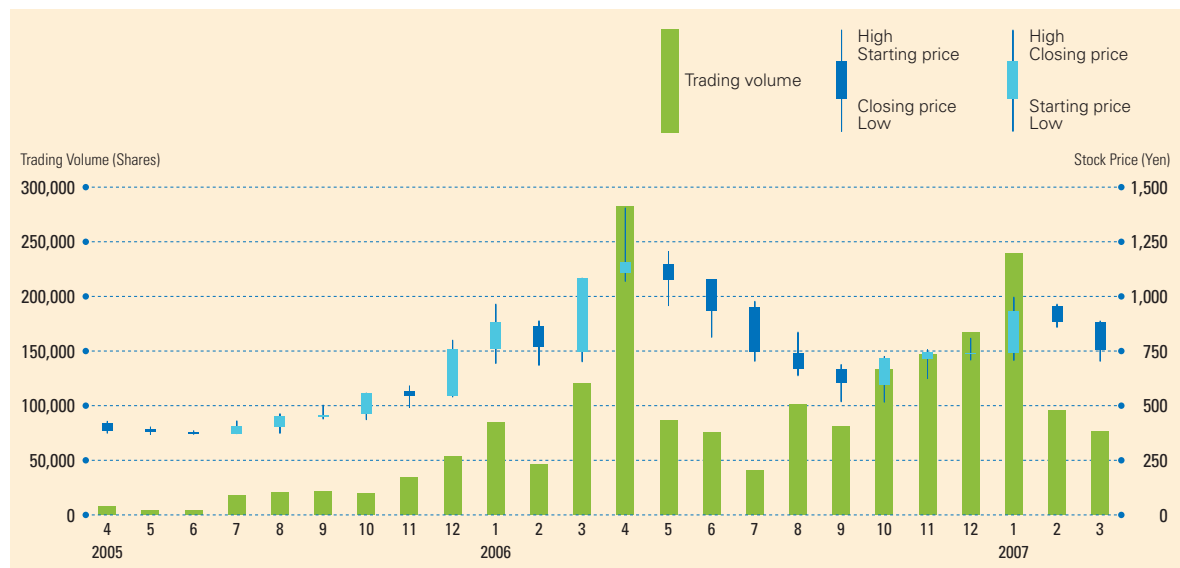
Major Shareholders

(Percentage figures are truncated.)

Ranking	Shareholder	Shares	Percentage Ownership (%)
1	Taisho Pharmaceutical Co., Ltd.	43,000,000	21.93
2	Bank of New York GCM Client	8,566,000	4.37
3	The Hokuriku Bank, Ltd.	7,487,714	3.82
4	Sumitomo Mitsui Banking Corporation	5,000,000	2.55
5	Taisei Corporation	4,699,000	2.39
6	Nippon Life Insurance Company	3,487,168	1.77
7	Nakano Kosan Co., Ltd.	3,377,316	1.72
8	Tokio Marine & Nichido Fire Insurance Co., Ltd.	3,281,438	1.67
9	Asahi Kasei Corporation	3,020,408	1.54
10	Trust & Custody Services Bank, Ltd. (Pension Trust Account)	2,880,000	1.46
Total of Above 10		84,799,044	43.04

Note: Percentage shareholding calculations exclude treasury stock (1,152,995 shares).

Stock Price





This annual report is printed on 100% recycled paper using soy ink.
Furthermore, a waterless printing process was used to prevent toxic emissions.

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