Chemistry with a heart
TOKUYAMA

TOKUYAMA CORPORATION

Annual Report 2002

YEAR ENDED MARCH 31, 2002

Consolidated Financial Highlights (Years ended March 31, 2002 and 2001)

	Millions of yen		Change (%)	Thousands of U.S. dollars
	2002	2001	2002/2001	2002
Net sales	¥226,950	¥244,182	(7.1)%	$1,706,394
Operating Income	10,297	15,665	(34.3)	77,420
Income before income taxes	2,709	11,164	(75.7)	20,368
Net Income	792	6,321	(87.5)	5,954
Per share amounts (in yen, dollars)				
Net income (basic)	3.11	24.79	(87.5)	0.023
Net income (diluted)	–	24.17	–	–
Cash dividends	6.00	6.00	–	0.045
Total assets	346,600	373,551	(7.2)	2,606,013
Total shareholders' equity	114,365	121,873	(6.2)	859,890
Capital expenditures	18,476	19,988	(7.6)	138,918
Depreciation	24,096	20,811	15.8	181,176
R&D expenses	8,123	7,570	7.3	61,076
Number of employees	4,685	4,868	–	–
Consolidated subsidiaries	41	43	–	–

Note: U.S.dollar amounts above and elsewhere in this annual report are converted from Japanese yen, for convenience only, at the rate of ¥133=US$1.

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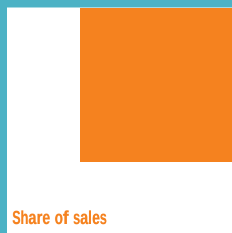
At a Glance

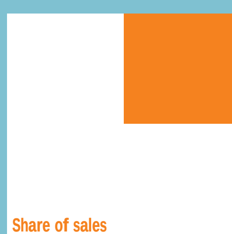
Chemicals



46.0%

This segment consists of chlor-alkali—a core part of Tokuyama's operations—as well as the vinyl chloride, soda ash, calcium chloride and plastic film business. Within the plastic film business, the Company's microporous film operations mainly supply products that satisfy demand for such sanitary applications as diaper lining sheets. Tokuyama also manufactures vinyl chloride monomer (VCM), which is then turned into polyvinyl chloride (PVC) by subsidiary Shin Dai-ichi Vinyl Corporation. A Tokuyama subsidiary in China produces biaxially oriented polypropylene film.

Specialty Products



23.6%

Principal businesses within this segment are polycrystalline silicon, precipitated silica, fumed silica, aluminum nitride, solvent for semiconductor base materials, medical diagnosis systems, dental materials, semiconductor gas sensor elements, pharmaceutical and agrochemical intermediates, plastic lens materials, cleaning systems and ion-exchange membranes. Tokuyama has almost 70% of the global market for aluminum nitride powder and ranks second worldwide in terms of polycrystalline silicon production capacity. Tokuyama's specialty products are expected to find extensive applications in the Company's strategic areas of Information & Electronics and Environment & Energy.

Cement, Building Materials and Others

30.4%

This business segment includes cement and plastic window-sashes, logistics and other services. Tokuyama has made its cement operations more competitive and eco-friendly by recycling waste materials for production fuels and raw materials. In plastic sashes and other building materials, Tokuyama is strengthening ties with housing construction firms and broadening its areas of sales coverage. Tokuyama has also made efforts to reduce costs and enhance profitability by recycling waste materials and rationalizing its production and distribution. Tokuyama achieves economies of scale by concentrating cement production at one high-capacity plant at the Tokuyama Factory.

Message from the Management

Shigeaki Nakahara, President (Left)
Yuichi Miura, Chairman (Right)

In line with its three-year plan, which commenced in April 2002, Tokuyama Corporation has carried out a major reform in its organizational structure and management. Yuichi Miura, who guided the Company through the recent severe economic climate as president, has assumed the position of chairman.

Tokuyama has embraced a three-part, nine-year reformation plan as a cornerstone of its management strategy, and has embarked on a new short- to mid-term management strategy, as outlined below.

Elements of Our Business Implementation during the Last Nine Years

Overview

Since 1993, Tokuyama has been implementing its structural reform and strategic growth initiatives in accordance with three successive three-year business plans.

We placed emphasis on strengthening our business in basic materials and specialty products as part of our “Plan for Strategic Growth Through Business Reform.” This effort enabled us to steadily increase profits despite fluctuating business conditions.

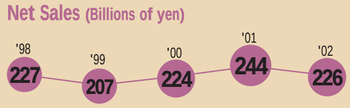
We had expected to successfully complete the Structural Reform by the end of March 2002 and, in succession, to launch New Strategic Growth Initiatives in the 21st century. However, not only did we fail to meet the final goal in the last three-year plan, but we also experienced the largest drop in profit since 1993, during fiscal 2002 (the year ended March 31, 2002). It would not be accurate to blame this lowered profitability solely on the global economic downturn or the slump in the information technology (IT) sector.

Despite a backdrop of severe economic conditions, sales of Tokuyama’s basic materials businesses in cement and chemicals were holding relatively firm, rather than slumping as during the slowdown of the early 1990s. In addition, our businesses in specialty products excluding those related to the IT industry remained strong, as did those for plastic window-sash and film. This favorable performance was clearly attributable to our structural reform and strategic growth initiatives.

However, solid results in the above areas have not been sufficient to offset severe operating conditions for other products that had been mainstays of Tokuyama's profitability during the 1990s. In particular, our businesses for polycrystalline silicon and aluminum nitride, as well as those for other products that had enjoyed rapid profit growth, are now suffering as a result of the slump in the IT sector. Management must acknowledge that the structural reform measures it has taken are not effective enough to counter the drastic change in operating environments, and that past strategic growth initiatives have not been firm enough to stand on.

Results of the Previous Three-Year Plan

Our recently ended three-year plan had the main objectives of "Targeting New Growth Through Structural Reform" and "Group and Environmental Management." Progress made toward those objectives through the plan's final year in fiscal 2002, was as follows.



The plan called for completion of the reform of the business structure during fiscal 2000 and 2001, and for implementing the New Strategic Growth Initiatives in fiscal 2002. Rationalization is but one dimension of our overall business structure reform effort. Toward that objective, we reorganized Shin Dai-Ichi Vinyl Corporation as a subsidiary and formed a business alliance with Idemitsu Petrochemical Co., Ltd. in the polypropylene business. We also spun off our plastic window-sash, film and dental materials businesses into subsidiaries.

The Company rationalized corporate functions by forming seven teams to work on reform and strengthening capabilities in such areas as marketing, research and development (R&D), and Group management, and implemented its "BRIGHT Plan" in an effort to increase the competitiveness of the Tokuyama Factory. This plan is continued under our new, recently commenced three-year plan.

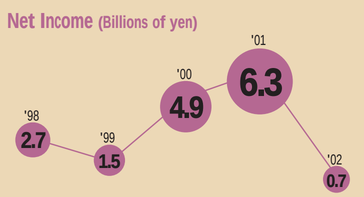
The results for the first and second year of our previous three-year plan met projections. However, business conditions changed dramatically during the third year of the plan (fiscal 2002). As a result of deteriorating business conditions, a pronounced downward trend developed in corporate profitability, and accordingly we were unable to meet the plan's objectives.

Our new three-year plan takes into account the downward trend in corporate profitability. If this continues throughout the next three-year period, however, we will inevitably post an annual operating deficit—our first in over 50 years of operations. Clearly, it is incumbent on us to reverse this downward trend in profitability.

Toward the Revitalization of Growth: Outline of the New Three-Year Plan

A Sobering Look at the Operating Environment

In formulating our new three-year plan, we must take into account the deterioration in business conditions that has continued since April 2001. To comprehend the compounded change in the business environment during fiscal 2002, it is important to consider both cyclical and structural changes that have occurred in the marketplace.

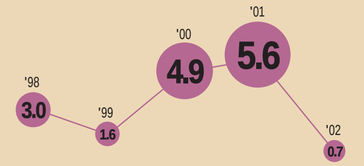


As might be anticipated in the element of cyclical changes, favorable conditions typically will come around sooner or later. Two strategic areas in which Tokuyama made forward investments as key components of its growth strategy, Information & Electronics and Environment & Energy, maintain the promise of future profitability.

Accordingly, our new three-year plan calls for the continual increasing of capability to cope with the structural changes mentioned above. As we progress with our new three-year plan, our basic philosophy is to reform a corporate structure to both take advantage of economic cyclical upswings to come and deal decisively with structural changes.

Considering the Customer's Viewpoint

Return on Equity (%)



Elements of the structural changes in general economy observed in 2001 can be traced back to the collapse of the bubble economy triggered in 1990. We must acknowledge that the era of mega-competition and the post-industrial society have since begun in earnest.

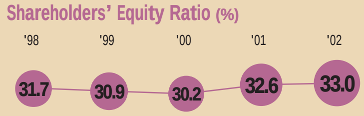
Despite general comment about the period as being "the lost 1990s," Tokuyama's business in fact benefited from a number of tailwinds during that decade. These included robust demand for materials streaming from the IT boom led by the United States, rapid growth in demand in East Asia, and the promotion of domestic demand through public spending.

However, these tailwinds were no longer with us in 2001. Against the backdrop of mega-competition and the post-industrial society, conditions for the continuation of business and the establishment of new business grew harsher. The near disappearance of an environment suitable for sustainable business formation has indeed become a major topic of discourse. Structural changes in economy, shifts in customer behavior, the shift toward optimal procurement on a global basis and the hollowing of domestic industry to cause shrinking of total demand have all continued rapidly.

In this environment, there is an ever-increasing need to reduce costs and increase profitability through the sales of new products and services to customers. This is indeed the foundation for the concept and formation of Tokuyama's new three-year plan.

Rebuilding the Profit Structure

Shareholders' Equity Ratio (%)



The most important dimension of our plan is rebuilding the profit structure in our various businesses against the backdrop of mega-competition and the trend toward a post-industrial society. To rebuild profit, we will leverage and move forward with the cumulative achievements we have attained in the areas of structural reform and strategic growth initiatives. We quantify the objectives of our new three-year plan as follows: consolidated recurring profit of ¥15 billion or greater, a ratio of consolidated operating income on sales before depreciation of 18% or greater, and return on assets (ROA) of 2.5% or higher. To achieve these goals during the plan's three-year period, we shall:

1. Become customer-oriented in our business and organizational initiatives.
2. Replace short-term profit improvement initiatives with structural sustainable profit-growth measures.
3. Reinforce a corporate environment that fosters employee vitality and the spirit of challenge.

Tokuyama has posted solid achievements in structural reform and strategic growth initiatives. A strategic goal as we move forward is to become a unique chemical manufacturer with technological prowess as its centerpiece. In pursuing these objectives, we shall strive to be a corporation highly valued by all of our stakeholders.

September 2002

Shigeaki Nakahara
President

Our Focus

Responding to Change

In 2002, the final fiscal year of Tokuyama's previous three-year plan, earnings unfortunately fell short of target, reflecting a dramatic change in economic conditions. However, the organizational reform pursued by the Company reaped many rewards, and the business philosophies of "Group and Environmental Management" are becoming firmly established within the Tokuyama Group as a whole. The new three-year plan will continue to put these philosophies into practice to an even greater extent while tackling the remaining structural reforms. At the same time, a strengthening of the profit structure is an important challenge for the management.

We are achieving this strengthening of the profit structure by promoting four policies that are designed to maximize customer value. The Tokuyama Group aims to increase its corporate value while putting these policies into action.

Four Policies for Strengthening the Profit Structure

I. Creating a Customer-Oriented Organizational Structure and Business System

Reorganization into four business divisions

Tokuyama has reorganized its operations, including those of Group companies, into four business divisions: Cement, Chemicals, Si (Silicon) and Advanced Materials. We are also changing our existing six business divisions into an organization where functions are more integrated by adding development and manufacturing to the functions of planning and marketing. By transferring authority to these business units and clarifying their responsibilities, we aim to strengthen our ability to respond to customer needs.

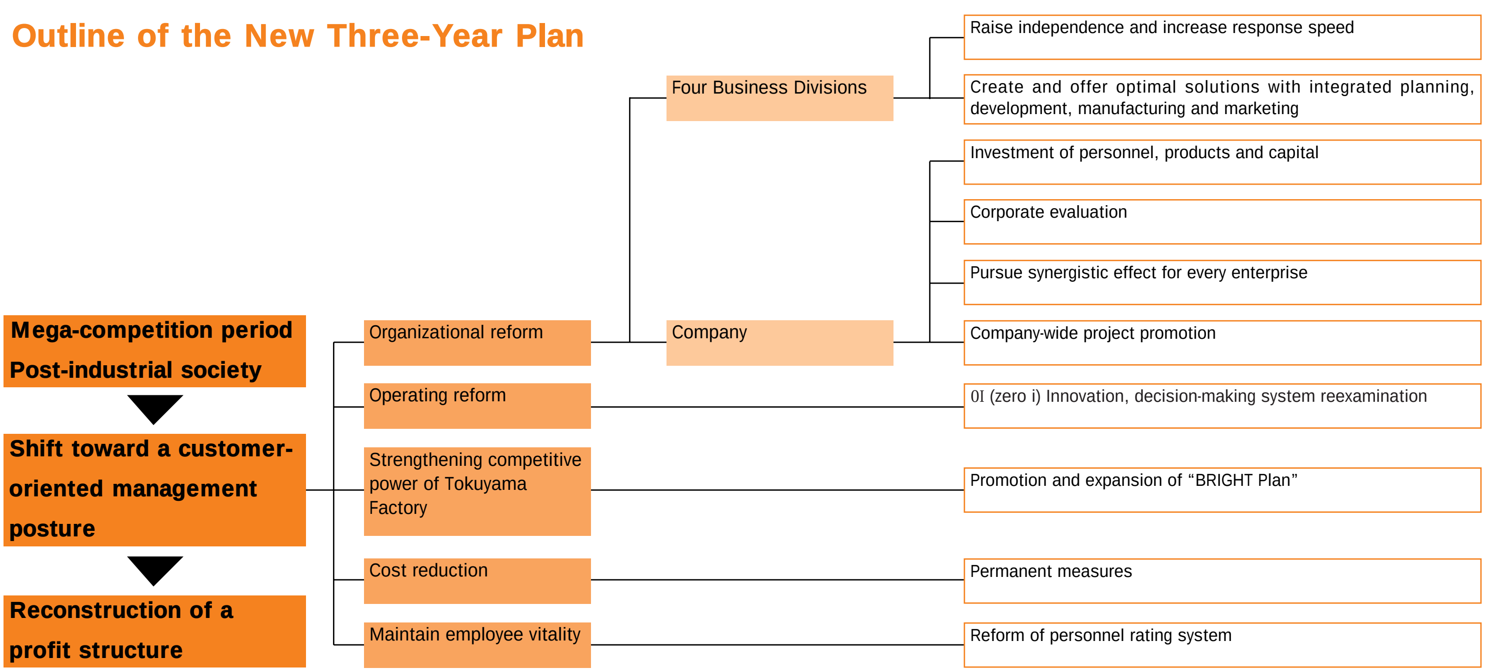
Ensuring market competitiveness of administrative operations at Head Office and promoting the use of shared services

Tokuyama is considering the introduction of a system to evaluate the market competitiveness of administrative operations under the control of the Head Office, and is initiating efforts aimed at promoting the use of shared services.

Measures to pursue synergies in each business and encourage the overall optimization of resources

While enhancing functions to evaluate each business, Tokuyama is developing a system to establish the framework for the allocation of management resources, including human resources and wages. In addition, we are striving to distribute these management resources effectively within the Group, and are reinforcing functions and systems designed to ensure the optimal allocation of these resources.

Outline of the New Three-Year Plan



II. Promoting New Structural Reform and Growth Strategies

By changing our organizational structure and business systems, we are increasing contact points with customers, and strengthening our ability to mobilize inter-departmental task forces to meet customer requirements. The effective use of these reinforced capabilities is promoting further structural reforms and suggesting growth strategies.

Three structural reforms

Tokuyama is carrying out a process of structural reform based on the achievements and concepts of the previous three-year plan, focusing on the three following objectives:

1. Reform of the business structure

Tokuyama is stepping up efforts aimed at forging alliances with other companies to further bolster the business base of each business division.

Strategy by Business Division

Chemicals

Chlor-Alkali:
Realize stable growth in profits befitting a core business, and strengthen international competitiveness through cost reductions.
Vinyl Chloride:
Prioritize a quick return to profitability, and aim for a shift to businesses that enable reinvestments.
Soda and Calcium Chloride:
Aim for the top profit structure in Japan in the soda ash, calcium chloride, sodium silicate, sodium bicarbonate and cullet businesses.
Film:
Improve profits through cost-reduction measures and the introduction of high-value-added products. Carry out business in Asia, and consider tie-ups.

Si

Polysilicon Sales:
While focusing on distinctive manufacturing technologies, strengthen competitiveness to maintain a market share that exceeds 20% of worldwide demand.
Silica and Derivatives:
Build a business structure that responds quickly to changes in the market, and aim for a 30% share of the silica market.

Advanced Materials

IEM & Cleaning Systems Department:
* Promote such environmental business as (drainage processing adapting film) wastewater treatment using film technologies.
* Promote electrodeposition coating business for automobile chassis.
* Expand sales of semi-aqueous metal-cleaning solvents.

Fine Chemicals:
Develop and cultivate new functional products.
IC Chemical Sales:
* Expand and strengthen business for developing solution for use in semiconductor production.
* Expand sales by providing various solutions, such as the recycling of waste liquids.

Shapal Sales:
Commercialize multiple development themes.

Cement

Cement:
* Implement thorough cost-reduction measures to establish a business structure that will allow us to survive independently in the future.
* Increase cost-competitiveness through waste processing.

Resources and Environment:
* Progress with and strengthen recycling of sludge and waste soil from construction sites in addition to recycling of waste plastic.
* Further strengthen our industrial waste collection system (= marketing and distribution)

2. Reengineering of the business process

Tokuyama aims to continue expanding these reforms mainly through the efforts of the 0I (zero i) Innovation Promotion Headquarters. By March 2002, the activities of project teams came to an end, and begining in April 2002 the emphasis shifted to Company-wide activities. In the area of business process reform, we are also carrying out a review of corporate governance in tandem with a review of internal decision-making functions.

What is 0I Innovation?
0I Innovation refers to "open integration," a concept that was originally realized at the Tokuyama Factory, and is now a feature of plants throughout the entire Tokuyama Group. At present, it is necessary to achieve open integration in all businesses of the Tokuyama Group. One of our principal tasks is to accelerate and optimize our business operations and share information to the greatest degree possible through integration internally as well as with business partners, Group companies and other companies in the industry. We believe our mission is to use IT to create a framework for attaining this objective.

3. Boosting competitiveness of the Tokuyama Factory

While evaluating the relationship between cost and effect, based mainly on the concepts of Tokuyama's "BRIGHT Plan," we aim to continue to boost our competitiveness. Moreover, based on the viewpoint that the Tokuyama Factory is the mother factory in terms of technology and know-how, we are utilizing such technological resourses to the benefit of other manufacturing bases to be established in business alliances with other companies.

What is the "BRIGHT Plan"?
Following a one-year survey and evaluation, in April 2002 we launched our "BRIGHT Plan" at the Tokuyama Factory, which handles approximately 90% of our production. This plan emphasizes environmental protection, quality and safety, achieving world-class technologies, and building open integrated plants. The "BRIGHT Plan" has nine themes:

1) Performing autonomous maintenance
2) Carrying out autonomous preservation
3) Creating a knowledge-based network system
4) Rebuilding our production structure
5) Raising the value of energy conservation
6) Strengthening port facilities
7) Bolstering our infrastructure
8) BI-21 (reducing fixed costs)
9) Educating and training our human resources

Two-pronged growth strategy

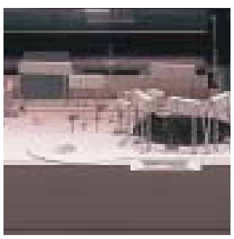
Tokuyama is adopting a two-pronged approach in its growth strategy by focusing on business divisions as well as Company-wide projects. In both cases, high-priority tasks are expanding and reinforcing planning and marketing functions in terms of contact with our customers. We are continuing to regard Information & Electronics and Environment & Energy as priority areas in our growth strategy. Research and development (R&D) capability is the fundamental element of our growth strategy. Therefore, as R&D becomes integrated with such strengthened functions as planning and marketing, we are promoting R&D while stepping up customer cooperation.

In the case of our business divisions, the planning group is acting as coordinator in promoting a cross-functional growth strategy.

With Company-wide projects, this group also plays a fostering role for new businesses. At the same time, it is starting up businesses based on three themes: Developing new manufacturing methods for polycrystalline silicon to be used in solar batteries, Developing new optical materials, and Engaging in resourse recycling and environment-related businesses.

As part of its growth objectives, Tokuyama is also pursuing overseas strategies to expand its areas of operation, and is undertaking a Company-wide project involving the establishment of bases with a prime emphasis on its expansion in China.

III. Cost-Cutting Initiatives



In fiscal 2003, as an emergency measure, Tokuyama is striving to cut fixed costs by ¥4.0 billion. To ensure the progress of the new three-year plan, we are implementing these measures systematically and continuously, and will introduce a system to accumulate the effect of cost cuts every year. At the same time, we will also ensure that these initiatives lead to a growth strategy and not a spiral of shrinking budgets.

IV. Developing a System to Maintain Employee Vitality

It is the employees that make up the Tokuyama Group and their vitality that is supporting the rebuilding of the Group’s profit structure. Based on this way of thinking, we are further developing a system that appropriately evaluates and rewards employees for their roles and achievements, as well as a system that maximizes capability and performance of our human resources.

Research and Development

In carrying out its research and development (R&D), Tokuyama places particular emphasis on working closely with individual business divisions and on promoting its specialty products business as it works under the Company-wide campaign for Structural Reforms and the New Strategic Growth Initiatives. In fiscal 2002—the last year of the previous three-year plan—despite a deepening slump in our businesses caused by the significant adverse effects of a downturn in IT industries, we continued to focus on new research themes that will be carried over to our next three-year plan. Under our new three-year plan, R&D activities are pursued both as divisional projects and as Company-wide projects. We are continuing to concentrate our resources in Information & Electronics and Environment & Energy, which are our principal strategic growth fields. Specifically, our business divisions are proceeding with functional and cross-sectional R&D activities, while Company-sponsored projects are serving as incubators for new businesses to hatch, including such R&D projects as "Developing new manufacturing methods for polycrystalline silicon to be used for solar batteries," "Developing new optical materials," and "Engaging in resource recycling and environment-related businesses." To strengthen R&D capabilities, we are continuing to computerize administrative functions, which is one step in our administrative reforms.

Tokuyama has designated environmental management as one of its basic management policies. We are contributing to the creation of a recycling-oriented society by developing technologies that enable a large volume of diverse waste materials to be used and processed in the production of cement. We are also strengthening our awareness of environmental protection toward development of what we call "post-kiln processing technology" (environmental protection measures to recycle waste materials by chemical processing but not by thermal recycling in use of cement kilns). In line with efforts to invigorate our R&D, we are continuing to promote interchanges among the various research divisions within the Tokuyama Group. We are also focusing on a wide range of areas outside the Group, which includes forging close collaborative ties with industry, academia and government.

During the fiscal year under review, there were approximately 500 R&D staff members in the Tokuyama Group, and R&D expenditures amounted to ¥8,123 million (US$61 million). This figure includes ¥2,589 million (US$19 million) spent on basic research not allocated to operating divisions.

Chemicals

To enhance the efficiency of our R&D for polyvinyl chloride, Tokuyama is carrying out R&D through a framework consisting of two bases in Tokuyama and Takaoka. In this segment, consolidated subsidiary Sun•Tox Co., Ltd. develops stretched and non-stretched plastic films with new functions that match the specific needs of the market. Total R&D expenditures in the Chemicals segment amounted to ¥1,354 million (US$10 million).

Specialty Products

In aluminum nitride, Tokuyama progressed with the development of various substrates with high thermal conductivity for IT-related needs. In polycrystalline silicon, we promoted basic technology research on a commissioned basis from New Energy and Industrial Technology Development Organization (NEDO) and began the development of new production methods for silicon as raw material for solar batteries. Our activities in specialty chemicals centered on the development of materials to be used in the semiconductor industry. In dental-related materials, in October 2001 we spun off our dental materials operation and its R&D group into a separate company established as Tokuyama Dental Corp. This new company aims to become an efficient operation with its priority placed on the responsive speed of its integrated research, manufacturing and sales functions. In medical diagnosis systems, A&T Corporation, a consolidated subsidiary, made vigorous efforts to develop new analyzers and reduce equipment costs. In the sensor business, another consolidated subsidiary, Figaro Engineering Inc. began full-scale marketing of a newly developed compact gas sensor for CO_2 that has applications in air-conditioning equipment. Total R&D expenditure in fiscal 2002 in the Specialty Products segment amounted to ¥3,454 million (US$26 million).

Cement, Building Materials & Others

In building materials Tokuyama succeeded in the development of a plaster sheet and launched “Shinpu” (“New breeze”), a natural architectural material for housing interior finish. We also took an aggressive approach to R&D for the recycling of waste materials into fuels that provide energy for cement production. In plastic window-sash, Shanon Co., Ltd., a consolidated subsidiary, developed a new design of window frame and also proceeded with measures to reduce costs. Total R&D expenditure in fiscal 2002 in this segment amounted to ¥726 million (US$5 million).

Activities Concerning the En

Since chemicals are used in a wide variety of situations ranging from industrial operation to daily life, it is incumbent upon manufacturers to ensure that chemicals do not harm the environment or people's health throughout the product's life cycle. Tokuyama has adopted a highly proactive stance toward this issue. The Company has participated in the Japan Responsible Care Council, a voluntary environmental initiative by the Japan Chemical Industry Association, ever since its foundation in 1995. As stated in our announcement of our Responsible Care (RC) activities, in addition to ongoing measures to protect the environment and ensure safety, Tokuyama is actively engaged in RC activities from a more comprehensive standpoint than previously.

Environmental management has been an integral part of the core management strategies in Tokuyama's mid-term management program, which began in fiscal 2000, and the Company has been starting full-fledged business on environmental management in its new three-year plan, which was initiated in April 2002. Tokuyama regards environmental management as part of its social mission as a corporate citizen to make all parts of its operations—from R&D and production through to product sale, usage and disposal—as eco-friendly as possible. The ultimate goal is sustainable growth of the Company by enhancing its corporate value.

The 21st century, which has been called the "Century of the Environment," has already begun, and Japan is moving rapidly toward the creation of a recycling-oriented society that allows sustainable development.

To play a vital role in such a society, Tokuyama set up the Recycling & Environmental Business Group in 2000 and starting from fiscal 2003, the Group clarified the position of its cement division as one of its central operations.

Tokuyama has long accepted industrial waste from external sources and made use of it in cement production. However, we aim to be a company with a strong presence and that plays an important role in developing the recycling-oriented society. We are working to achieve this position mainly by using our cement operations as a base to reuse the large amounts of waste products generated in our society, while keeping focused on possible recycling technologies that do not use cement kilns.

Various RC and other environmentally oriented activities carried out during the fiscal year under review are described below.

Environmental Impact-Reduction Targets and Their Attainment in Fiscal 2002

To precisely evaluate and manage the results of Tokuyama's plans aimed at reducing environmental impact, it sets new detailed and specific environmental impact-reduction targets for each manufacturing site. These targets were initiated in fiscal 2002 and are intended to be attained in five years.

In addition, at our Head Office and branch offices, we have set targets for energy saving and are reducing waste, and we are carrying out such activities in a Company-wide campaign.

With regard to the effectiveness of Tokuyama's measures for reducing waste emissions, the discharge of SOx, NOx and Pollutant Release & Transfer Register (PRTR) chemicals increased compared with the previous year, while soot and dust emissions decreased. Energy consumption rates, effective waste utilization rates, and harmful atmospheric pollutant emissions were at similar levels to those of the previous year.

Recent RC Activities

Tokuyama has developed eco-friendly products such as a thinner electrolytic cell that contributes to a reduction in power consumption for electrolysis, electrodialysis and diffusion dialysis equipment that enables the recovery of precious resources, and energy-saving building materials and interior materials made of natural substances. In the development of technology related to the environment, the Company has developed a processing technology for the recycling of vinyl chloride waste and successfully applied it to the conversion of waste plastics into recycled fuel for cement production.

With respect to environmental activities, as a core element of the Ecotown project (a public project that aims to use waste ash as a raw material for cement manufacturing), Tokuyama has established Yamaguchi Ecotech Co., Ltd., a 50-50 joint venture with UBE INDUSTRIES, LTD., to convert waste ash into raw materials. In this way, Tokuyama is contributing to the creation of a recycling-oriented society.

Environmental Accounting

Tokuyama has implemented Company-wide environmental according practices since fiscal 2001 in accordance with guidelines published by the Ministry of the Environment. In fiscal 2002, the Company installed flue gas treatment equipment and wastewater treatment equipment and adopted measures to reduce environmental impact. In addition, Tokuyama promoted the recovering and recycling of waste solid substances by installing comprehensive wastewater treatment facilities.

Total environment-related capital investment in fiscal 2002 amounted to ¥1,111 million, which yielded ¥728 million in economic benefits. In the future, through continual evaluation of the costs and effects of environmental protection activities, Tokuyama expects to further boost the effectiveness of its investments in this area.

Promoting the Creation of a Recycling-Oriented Society Through Cement Manufacturing Operations

Since it first began manufacturing cement in 1938, Tokuyama has utilized large amounts of internally and externally generated industrial waste or by-products in production at its cement factories. In the case of materials for recycling, the Company has accepted waste slag from blast furnaces, coal ash, sludge and incinerator ash. Tokuyama also reuses waste tires and plastics for thermal recycling purposes. Owing to the very high temperatures inside of cement kilns, ranging from 1000 to 1800˚C, combustible materials are completely burned in the manufacturing process. The total volume of industrial waste and by-products reused in this manner in fiscal 2002 was 1.82 million tons, of which Tokuyama accepted 1.59 million tons from outside sources. The Company intends to further increase the amount of recycled industrial waste.

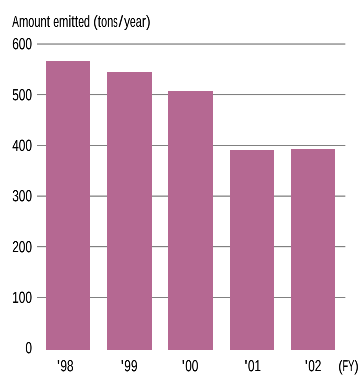
Recognizing that the active disclosure of information about its RC and other environmental activities is an important issue, Tokuyama publishes an RC report on a regular basis.

Responsible Care (RC): This is a program of voluntary activities on the part of Japanese companies involved in the manufacture and handling of chemical substances, designed to embody a public commitment to management policies oriented toward the environment, health and safety. It covers all parts of the chemical life cycle, from development and manufacture to distribution, use, final consumption and disposal.

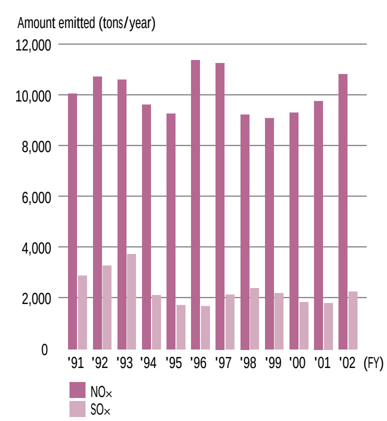
Pollutant Release and Transfer Registers (PRTR)

Tokuyama participates in the PRTR surveys initiated by the Japan Chemical Industry Association, and while carrying out these surveys every year, the Company also endeavors to reduce the release of these pollutants. In fiscal 2002, in line with the enactment of PRTR legislation in Japan, Tokuyama also collected PRTR data on regulatory substances. Thirty-seven kinds of chemical substances dealt with by Tokuyama during fiscal 2002 were applicable to PRTR.

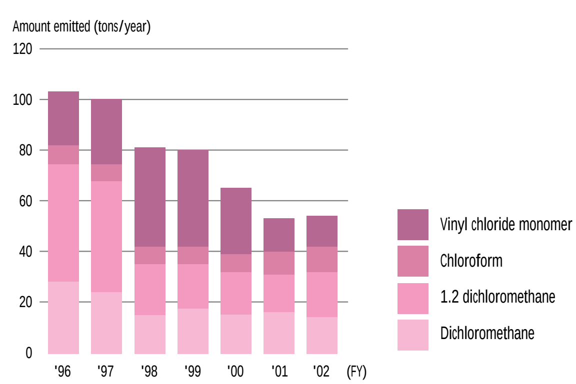
Emissions of PRTR Substances



Reducing Environmental Impact



Harmful Air Pollutant Emissions



Business Operations

Chemicals

The Chemicals segment is primarily composed of operations for chlor-alkali, polyvinyl chloride, soda ash and calcium chloride. The strength of our chlor-alkali operations, which form one of Tokuyama’s core businesses, is that it has a wide variety of customers in both chlorine and alkali, so that demand sources are not lopsidedly concentrated in any specific segment of users. To preserve the stability of this demand structure, the Company is emphasizing stable business growth based on trust with customers it has established over long years of service.

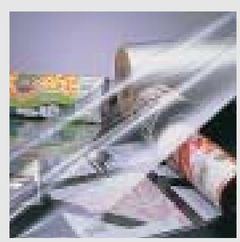
Tokuyama’s subsidiary, Shin Dai-Ichi Vinyl Corporation, processes vinyl chloride monomer (VCM) produced by Tokuyama into polyvinyl chloride (PVC) and markets it. The acceleration of improvements in the profitability of these operations is an urgent issue, and management will address it through investments in rationalization.

In Tokuyama’s chlor-alkali business, it is working to strengthen international competitiveness and secure a stable profit structure through the reduction of production costs, principally fixed costs.

The chief source of demand for microporous films, one of our film products, is the sanitary goods industry. In the future, we will be expanding these operations from the domestic market into the Southeast Asian market.

Tokuyama is also engaged in the polypropylene film business through Sun•Tox Co., Ltd. and, in Tianjin, China, Tianjin Sunshine Plastics Co., Ltd. In Japan, excess capacity and pressure from imports are causing an adverse operating environment, but Tokuyama is taking measures to strengthen its cost competitiveness through the reduction of costs, thereby enhancing its profitability.

A steady increase in demand is evident in China as a result of the increased use of films for packaging, and a stable increase in income is being recorded. Tokuyama continues to strive for a stronger profit structure.



Specialty Products

The Specialty Products segment is engaged in the production and sale of polycrystalline silicon, precipitated silica and fumed silica, aluminum nitride, high-purity chemicals for the electronics industry, medical diagnosis systems, dental materials, gas sensors, pharmaceutical and agrochemical intermediates, plastic lens materials, cleaning systems and ion-exchange membranes.

Tokuyama’s current three-year plan, which commenced in fiscal 2003, specifies Information & Electronics and Environment & Energy as growth fields, and it is focusing on these areas in the allocation of management resources. The greater part of the products of the Specialty Products segment belong to these two categories, so our emphasis on these areas puts the products on a trajectory for renewed growth. High growth in demand for polycrystalline silicon and aluminum nitride is forecast as a result of the information and communications revolution. Tokuyama has the world’s second-largest polycrystalline silicon production capacity. The slump in the semiconductor industry in 2001 had a pronounced effect on the Company’s revenues, but growth in demand is forecast over the long term. Against the backdrop of its technological development prowess, Tokuyama will distinguish itself and its products through quality and cost competitiveness. We hold an almost 70% share of the world market for aluminum nitride powder, and with the advantage of such a position, we have been successfully expanding our presence in the field of optical communications components. With strong customer appreciation of the characteristic properties of Tokuyama's aluminum nitride as well as the Company's precision-processing technology, sales of aluminum nitride are expected to grow actively in line with a recovery of the market.

In its semiconductor-related business, Tokuyama is endeavoring to secure stable revenues that are insulated from market swings.

The use of precipitated silica and fumed silica in information processing fields is expanding, and together with increasing demand for silicone resin, further growth of sales will continue. In response to growing demand for silica fillers in East Asia, Tokuyama has strengthened its alliance with Thai subsidiary Pornpat Chemicals Co., Ltd. and is also striving to expand overseas sales of fumed silica, primarily in Southeast Asia. Both efforts are designed to increase the profitability of operations. In these areas, the Company is striving to develop a structure that can respond promptly to customer needs and to offer further value-added products, with the objective of expanding business.

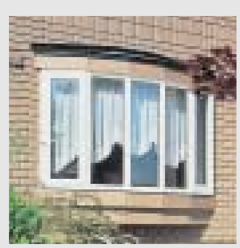
In addition to the foregoing, the Company is expanding its optical advanced materials business.

Cement, Building Materials & Others

The Cement, Building Materials & Others segment consists of cement and plastic window-sash manufacturing and sales, as well as distribution, administrative and other services. With its technological expertise as a diversified chemical company, Tokuyama regards cement operations as a stronghold to implement utilization of recycled industrial waste or reuse of natural resources as fuel and materials. Taking advantage of its well-organized infrastructure as well as mass production at a single location, Tokuyama will further rationalize operational cost through the thermal utilization of waste and streamlined operation of physical distribution, thereby remaining a successful cement producer with secured profitability.

In the plastic window-sash business, consolidated subsidiary Shanon Co., Ltd. is reinforcing ties with housing construction firms, expanding its sales area, and stressing the reuse of scrap woods as materials, while reducing costs through rationalization of manufacturing and distribution, with the objective of enhancing profitability.

Through its other operations, Tokuyama is rationalizing and raising the efficiency of Group operations as a whole, and reinforcing its competitiveness.



Consolidated Five-Year Summary

Tokuyama Corporation and Consolidated Subsidiaries   Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2002	2001	2000	1999	1998	2002
Results of operations:						
Net sales	¥226,950	¥244,182	¥224,110	¥207,391	¥227,440	$1,706,394
Cost of sales	161,728	170,125	151,930	139,583	156,129	1,216,000
Operating income	10,297	15,665	15,438	13,977	14,525	77,420
Net income	792	6,321	4,917	1,508	2,796	5,954
Per share amounts (in yen, dollars):						
Net income (basic)	¥3.11	¥24.79	¥19.29	¥5.91	¥10.97	$0.023
Net income (diluted)	–	24.17	18.92	–	10.83	–
Cash dividends	6.00	6.00	6.00	6.00	7.50	0.045
Financial position:						
Property, plant and equipment	¥159,015	¥164,481	¥166,368	¥154,015	¥136,545	$1,195,599
Total assets	346,600	373,551	351,662	304,736	300,242	2,606,013
Interest-bearing debt	149,919	159,149	164,991	144,089	128,632	1,127,208
Total liabilities	229,503	248,753	243,011	209,432	205,165	1,725,585
Total shareholders’ equity	114,365	121,873	105,446	93,925	95,077	859,890
Ratios:						
Return on sales (ROS)	0.3%	2.6%	2.2%	0.7%	1.2%	–
Return on equity (ROE)	0.7%	5.6%	4.9%	1.6%	3.0%	–
Return on assets (ROA)	0.2%	1.7%	1.5%	0.5%	0.9%	–
Common stock price range (in yen):						
High	¥580	¥798	¥548	¥445	¥653	–
Low	300	390	347	280	283	–

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥133=US$1.
2. Common stock prices refer to the market price on the Tokyo Stock Exchange.

Financial Review

Income Analysis

Conditions in the domestic economy continued to be severe during fiscal 2002, ended March 31, 2002. The prolonged slump in the information technology (IT) sector and the September 11 events in the United States had an averse effect on the economic environment worldwide. In Japan, structural reforms have contributed to an uncertain employment outlook, and there is no prognosis for an end to the current deflationary trend.

The companies that form the Tokuyama Group operate in three principal areas: Chemicals, Specialty Products, and Cement, Building Materials and Others. Deteriorating conditions in the IT sector have had an especially big impact on electronics-related businesses. There is a general imbalance of supply and demand for many consumer and industrial products, with both sales volumes and unit prices under downward pressure. Overall, conditions have made profitability a continual challenge.

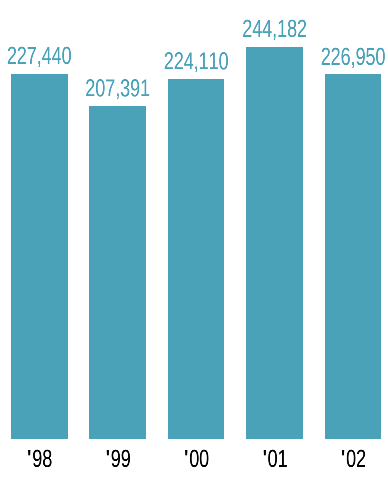
Tokuyama has struggled to combat these factors with vigorous curtailment measures in purchasing, manufacturing and logistics activities. We also strove to augment profitability by making every possible effort to preserve our pricing structure.

Consolidated net sales for the fiscal year under review totaled ¥226,950 million (US$1,706 million), down 7.1% from the prior fiscal period's figure of ¥244,182 million. The main factor behind this decrease was the drop in sales of electronics-related products.

By segment, sales of Chemicals totaled ¥104,328 million (US$784 million), a drop of 5.9% from the prior fiscal period. Sales of Specialty Products fell 9.7% to ¥53,698 million (US$404 million), and sales of Cement, Building Materials and Others declined 6.7% to ¥68,924 million (US$518 million).

The cost of sales dropped 4.9% to ¥161,728 million (US$1,216 million), compared with ¥170,125 million in fiscal 2001. As a result, gross profit for the fiscal year under review was ¥65,222 million (US$490 million), down 11.9% from ¥74,057 million in the prior fiscal period. The gross profit margin was 28.7% of total sales, down from 30.3% during the prior fiscal period. Selling, general and administrative expenses decreased 5.9% year-on-year to ¥54,925 million (US$413 million). As a result, operating income for the fiscal year under review dropped 34.3% to ¥10,297 million (US$77 million), compared with ¥15,665 million in the same period last year. Operating income was 4.5% of net sales, down from 6.4% in the previous fiscal year.

Net Sales (Millions of yen)



Sales Composition (%)

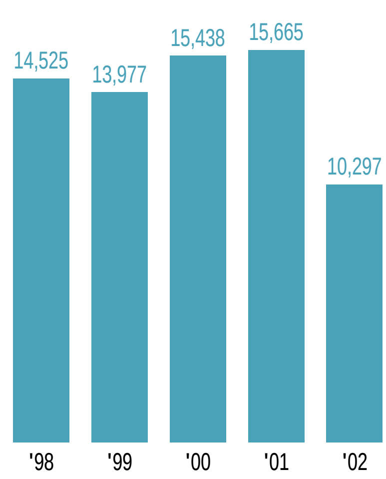
Depreciation totaled ¥24,096 million (US$181 million), a year-on-year increase of 15.8%. The chief factor behind this increase was the commencement of operations of polycrystalline silicon manufacturing facilities. Research and development expenses totaled ¥8,123 million (US$61 million), an increase of 7.3% over the prior fiscal year.

In other income and expenses, costs of idle operations totaled ¥2,359 million (US$18 million). Loss from disposal of property, plant and equipment totaled ¥250 million (US$2 million). Gains on sales of marketable and investment securities totaled ¥314 million (US$2 million), down 63.3% from the previous year. As a result, net other expenses amounted to ¥7,588 million (US$57 million) up 68.6% from the previous year.

Income before income taxes was ¥2,709 million (US$20 million), a drop of 75.7% from the prior-year figure of ¥11,164 million. Income taxes were ¥2,178 million (US$16 million), and minority interests in losses of consolidated subsidiaries were ¥261 million (US$2 million). As a result, net income for the fiscal year under review was ¥792 million (US$6 million), a drop of 87.5% compared with ¥6,321 million the same period last year. Return on sales (ROS) was 0.3% of sales, down from 2.6% in the prior period. Basic net income per share were ¥3.11 (US$0.023), down from ¥24.79 in the same period a year earlier. Dividends per share were ¥6.00 (US$0.045), unchanged from the prior period.

Return on equity (ROE) and return on assets (ROA) in fiscal 2002 were 0.7% and 0.2%, compared with 5.6% and 1.7% in fiscal 2001, respectively.

Operating Income (Millions of yen)



Segment Information

The Tokuyama Group consists of parent company Tokuyama Corporation, 43 subsidiaries and 51 affiliated firms, with operations divided into three broad segments: Chemicals, Specialty Products, and Cement, Building Materials and Others. For accounting purposes, 41 of the Company's principal subsidiaries are consolidated, and 14 affiliates are accounted for by the equity method.

Chemicals

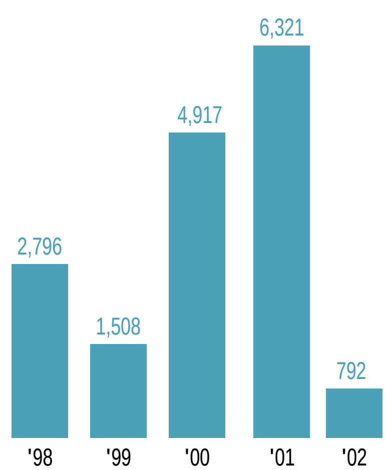
The Chemicals segment consists of 8 consolidated subsidiaries and 4 equity-method affiliates. Sales totaled ¥104,328 million (US$784 million), down 5.9% year-on-year, accounting for 46.0% of consolidated net sales, which represented an increase of 0.6% compared with the same period last year. Operating income grew 33.4% to ¥3,436 million (US$26 million).

In chemicals operations, demand for vinyl chloride fell against a backdrop of generally softened demand for intermediary materials and shipments of calcium chloride were lower due to the warm winter. Profitability increased, however, due to firm prices for caustic soda and propylene oxide (PO) in the first half of the fiscal year under review, and lower petroleum costs in the second half.

In polypropylene (PP) operations, Tokuyama formed an alliance with Idemitsu Petrochemical Co., Ltd. on July 1, 2001. The two companies are jointly investing in a newly formed corporation called Tokuyama Polypropylene Ltd., Co. During the period until the new company's facilities begin operation, Tokuyama is continuing its polypropylene manufacturing business activities but consigns actual manufacturing to Idemitsu Petrochemical Co., Ltd.

In film operations, although Sun·Tox Co., Ltd. experienced a shortage of material at the beginning of the period under review due to an interruption in manufacturing caused by an earthquake and operated in an environment of prolonged weakness in domestic demand, rigorous efforts in marketing led to an increase in revenues. However, profitability fell due to heightened competition and a generally weak market. The film business of Tianjin Sunshine Plastics Co., Ltd. enjoyed increased revenues and profits, as the general economic climate of China remained favorable. The microporous films business, despite cost curtailment and strengthened marketing efforts, dropped in profitability as competition escalated and market conditions weakened beyond expectations.

Net Income (Millions of yen)



Specialty Products

The Specialty Products segment consists of 13 consolidated subsidiaries and 4 equity-method affiliates.

Total sales for fiscal 2002 were ¥53,698 million (US$404 million), down 9.7% from the prior year. Operating income was ¥5,235 million (US$39 million), a drop of 47.5%. Sales of specialty products accounted for 23.6% of total sales, a decrease of 0.8% from the prior year.

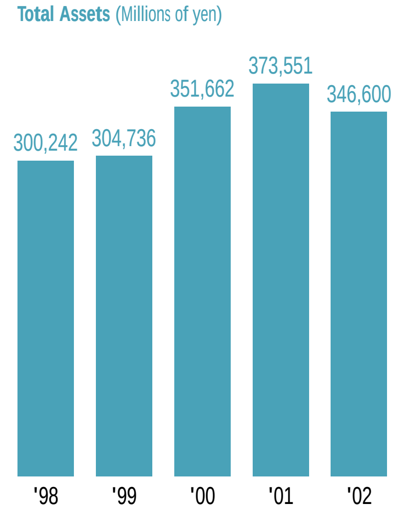
While market conditions were strong for environment-related items, shipments of such products as cleaning systems, pharmaceuticals, agricultural chemical bulks, intermediates and others were weak, resulting in declining revenues. There was some contribution to profitability from optical functional materials and from cost reduction measures.

In the medical diagnosis systems operations of subsidiary A&T Corporation, increased marketing efforts boosted sales of Clinilan laboratory systems, even as pressures mounted for the containment of medical costs across the industry. As a result of cost control measures, profitability rose although revenues were roughly unchanged.

In dental materials, operations were consolidated as of October 1, 2001 under Tokuyama Dental Corporation. With brisk market conditions for such new products as the dental adhesive resin Multibond, the dental materials business showed improved revenues and profits in its first year.

In functional powder operations, sales and profits for amorphous precipitated silica Tokusil, which is sold mainly in the domestic market, fell amidst continued weakness in the economy. However, sales and profits for fumed silica Reolosil rose as a result of increased shipments to China and other countries in the region.

In electronic materials operations, this market has been affected by the prolonged slump in the IT sector, which contributes to weakness in demand for semiconductor chips and the materials necessary for their manufacture. Such items as polycrystalline silicon, aluminum nitride and high-purity chemicals for the electronics industry have all suffered drops in sales as demand has fallen sharply. Business profitability in polycrystalline silicon and aluminum nitride has also fallen due to increased depreciation charges arising from operating of new equipment, and drops in product prices because of oversupply. Severe business conditions have also hurt performance at Hantok Chemicals Co., Ltd., Tokuyama Electronic Chemicals Pte. Ltd. and Taiwan Tokuyama Corporation, which manufacture and sell high-purity chemicals for the electronics industry. While this has been a difficult business environment, Tokuyama anticipates that a market bottom was reached in autumn of last year, and that a recovery has begun.



Cement, Building Materials and Others

Tokuyama has 20 consolidated subsidiaries and 6 equity-method affiliates in this segment.

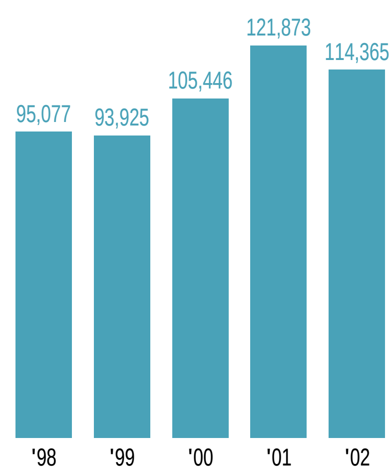
Total sales for the period under review were ¥68,924 million (US$518 million), down 6.7% compared with the same period last year, and operating income fell 32.0% to ¥3,207 million (US$24 million). Sales in this segment accounted for 30.4% of consolidated net sales, an increase of 0.2% over the previous fiscal year.

In cement operations with the exception of redevelopment projects in Tokyo, and central Japan where construction is being undertaken for a world exposition and a new international airport, a general drop-off both in public and private construction projects has resulted in decreased demand and less use of cement in Japan. This, together with overcapacity in the industry, has depressed prices for both cement and ready-mix concrete. Although we have worked hard to cut costs in both manufacturing and logistics, the cement business recorded year-on-year declines in both revenues and profits.

In plastic window sash operations, this business has suffered from some of the same factors affecting the cement operations. Subsidiary Shanon Co., Ltd. noting a curtailment in new housing starts, has reinforced its marketing activities by establishing new domestic sales points, rationalized its operations and sought to maintain profitability through cost containment measures. Nonetheless, weakness in the market has reduced revenues and profits for the business.

Regarding marine and land transportation, engineering, real estate management and other service operations, Tokuyama is raising the efficiency of Group activities in such areas as logistics, administration and general affairs activities, under the conditions that environment of business activities are getting worse. As a consequence, these measures have made considerable contribution to Group results.

Total Shareholders' Equity (Millions of yen)



Financial Position and Liquidity

Total assets as of March 31, 2002, were ¥346,600 million (US$2,606 million), a drop of 7.2% from the prior fiscal period's total of ¥373,551 million.

Current assets totaled ¥143,437 million (US$1,078 million), a decrease of 7.6% compared with the previous fiscal year, resulting chiefly from a decrease in cash and cash equivalents, and in accounts receivable, despite an increase in short term investments. Current liabilities edged up 0.6% to ¥116,023 million (US$872 million). As a result, the current ratio fell from 1.35 times to 1.24 times. Investments and long term receivables decreased 19.2% to ¥41,479 million (US$312 million), due mainly to a drop in the market value of investment securities.

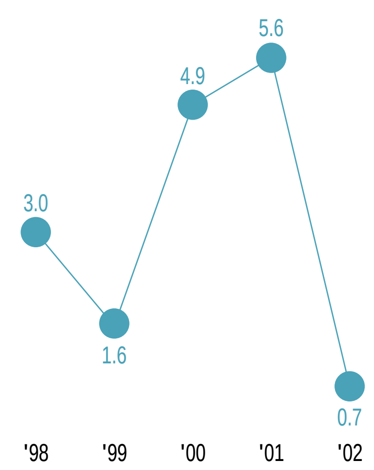
Net property, plant and equipment fell 3.3% to ¥159,015 million (US$1,196 million). Increases in this category were due mainly to increased investment in production facilities, with decreases primarily the result of divesture of propylene manufacturing facilities to Idemitsu Petrochemical Co., Ltd. Other assets increased 5.8% to ¥2,669 million (US$20 million).

Total liabilities at year-end stood at ¥229,503 million (US$1,726 million), a decrease of 7.7% compared with the prior year's figure of ¥248,753 million. This decline was primarily due to decreases in accrued income taxes, deferred tax liabilities and interest-bearing debt. Interest-bearing debt fell due to the decrease of short-term bank loans 5.8% from ¥159,149 million to ¥149,919 million (US$1,127 million) during the fiscal year under review.

Minority interests fell 6.6%, from ¥2,925 million in fiscal 2001 to ¥2,732 million (US$21 million).

Total shareholders' equity fell 6.2%, from ¥121,873 million to ¥114,365 million (US$860 million). The main reason for the drop was the decrease in unrealized holding gains on other securities accompanying the decrease in value of marketable securities held. The equity ratio was 33.0%, up from 32.6% a year earlier. Shareholders' equity per share was ¥448.62, down from ¥477.99 in the previous fiscal year.

Return on Equity (%)



Capital Expenditures

Investments were made in the expansion of production facilities and in rationalization. However, with the completion of additional polycrystalline silicon production facilities, total capital expenditures decreased 7.6% to ¥18,476 million (US$139 million), a drop of ¥19,988 million.

Cash Flows

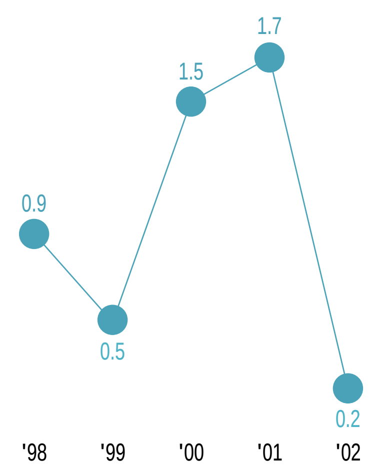
Net cash provided by operating activities fell from ¥24,459 million during fiscal 2001 to ¥23,666 million (US$178 million), a drop of ¥793 million. Tokuyama's cash position benefited from an increase in depreciation charges (¥3,286 million) and a decrease in trade receivable (¥8,087 million). The cash position suffered from a 75.7% drop in income before taxes to ¥2,709 million (US$20 million), and an increase in income taxes paid of ¥3,330 million.

Net cash used in investment activities increased ¥1,634 million, rising from ¥16,271 million to ¥17,905 million (US$135 million), owing mainly to the increase in short term financial assets despite of the curtailment of investment spending and purchases of property, plant and equipment.

Net cash used in financing activities increased ¥1,389 million, rising from ¥9,739 million to ¥11,128 million (US$84 million), resulting primarily from the paydown of interest-bearing debt.

As a result of the above, cash and cash equivalents fell ¥5,579 million from ¥41,392 million to ¥35,813 million (US$269 million), compared with the same period last year.

Return on Assets (%)



Consolidated Balance Sheets

Tokuyama Corporation and Consolidated Subsidiaries   Years ended March 31, 2002 and 2001

ASSETS	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 2) 2002
Current assets:			
Cash and cash equivalents	¥ 35,813	¥ 41,392	$ 269,272
Time deposits	483	578	3,629
Short-term investments	2,475	630	18,612
Marketable securities (Note 5)	134	187	1,009
Receivables:			
Trade notes and accounts	68,060	76,919	511,730
Others	6,888	4,824	51,784
Less allowance for doubtful accounts	(530)	(726)	(3,986)
	74,418	81,017	559,528
Inventories (Note 6)	26,662	25,820	200,464
Deferred tax assets (Note 8)	2,869	3,452	21,573
Other current assets	583	2,156	4,385
Total current assets	143,437	155,232	1,078,472
Investments and long-term receivables:			
Investment securities (Note 5)	24,745	37,328	186,050
Investments in unconsolidated subsidiaries and affiliates	7,876	7,973	59,221
Long-term receivables	1,763	2,380	13,253
Others	10,745	7,127	80,797
Less allowance for doubtful accounts	(3,650)	(3,493)	(27,444)
	41,479	51,315	311,877
Property, plant and equipment (Note 7)**:**			
Land	28,144	28,178	211,610
Buildings and structures	91,657	88,766	689,149
Machinery and equipment	385,109	364,606	2,895,553
Construction in progress	6,344	18,835	47,700
	511,254	500,385	3,844,012
Less accumulated depreciation	(352,239)	(335,904)	(2,648,413)
	159,015	164,481	1,195,599
Other assets:			
Intangible assets	2,170	2,231	16,313
Deferred tax assets (Note 8)	348	156	2,616
Excess of investment cost over equity in net assets acquired	151	136	1,136
	2,669	2,523	20,065
Total assets	¥ 346,600	¥ 373,551	$ 2,606,013

See notes to consolidated financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 2) 2002
Current liabilities:			
Short-term bank loans (Note 7)	¥ 26,667	¥ 36,484	$ 200,502
Current portion of long-term debt (Note 7)	26,631	7,982	200,236
Notes and accounts payable:			
Trade notes and accounts	39,539	41,340	297,288
Others	5,580	5,290	41,954
	45,119	46,630	339,242
Accrued income taxes (Note 8)	632	4,514	4,750
Accrued expenses	9,560	12,292	71,882
Guarantee deposits received from dealers	4,708	4,961	35,396
Other current liabilities	2,706	2,493	20,342
Total current liabilities	116,023	115,356	872,350
Long-term liabilities:			
Long-term debt, less current portion (Note 7)	96,621	114,683	726,470
Accrued retirement and severance benefits (Note 9)	10,453	10,382	78,593
Deferred tax liabilities (Note 8)	2,387	6,823	17,945
Other long-term liabilities	4,019	1,509	30,227
Total long-term liabilities	113,480	133,397	853,235
Minority interest in consolidated subsidiaries	2,732	2,925	20,538
Contingent liabilities (Note 17)			
Shareholders' equity (Note 14):			
Common stock, ¥50 par value:			
Authorized: 700,000,000 shares			
Issued: 254,971,876 shares	19,274	19,274	144,917
Additional paid-in capital	23,495	23,495	176,654
Retained earnings (Note 18)	67,783	68,709	509,648
Unrealized holding gains on available-for-sale securities	4,684	11,592	35,218
Foreign currency translation adjustments	(854)	(1,196)	(6,419)
	114,382	121,874	860,018
Less treasury stock, at cost	(17)	(1)	(128)
Total shareholders' equity	114,365	121,873	859,890
Total liabilities and shareholders' equity	¥346,600	¥373,551	$2,606,013

Consolidated Statements of Income

Tokuyama Corporation and Consolidated Subsidiaries   Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2002	2001	2000	2002
Net sales	¥226,950	¥244,182	¥224,110	$1,706,394
Cost of sales	161,728	170,125	151,930	1,216,000
Gross profit	65,222	74,057	72,180	490,394
Selling, general and administrative expenses (Note 11)	54,925	58,392	56,742	412,974
Operating income	10,297	15,665	15,438	77,420
Other income (expenses):				
Interest and dividend income	517	731	705	3,885
Interest expenses	(3,649)	(4,275)	(4,227)	(27,434)
Gain on sale (loss from disposal) of property, plant and equipment	(250)	1,158	707	(1,878)
Gain on sale of marketable and investment securities	314	855	1,633	2,364
Loss on write-down of marketable and investment securities	(207)	(198)	(1,335)	(1,559)
Restructuring of subsidiaries and affiliates	–	–	(1,318)	–
Foreign exchange gain (loss)	550	585	(506)	4,139
Seconded employee labor cost (Note 4)	(1,315)	(988)	–	(9,887)
Gain on contribution of securities to an employee retirement benefits trust (Note 9)	–	3,549	–	–
Amortization of net transition obligation (Note 9)	(134)	(4,249)	–	(1,005)
Casualty loss of earthquake	–	(763)	–	–
Costs of idle operations	(2,359)	(371)	–	(17,736)
Loss on valuation allowance for investments	(836)	–	–	(6,286)
Equity in earnings (loss) of unconsolidated subsidiaries and affiliates	(70)	500	175	(528)
Other—net	(149)	(1,035)	(2,677)	(1,127)
	(7,588)	(4,501)	(6,843)	(57,052)
Income before income taxes	2,709	11,164	8,595	20,368
Income taxes (Note 8):				
Current	1,339	5,822	3,241	10,069
Deferred	839	(430)	1,084	6,306
	2,178	5,392	4,325	16,375
Minority interests in losses of consolidated subsidiaries	261	549	647	1,961
Net income	¥ 792	¥ 6,321	¥ 4,917	$ 5,954

	Yen			U.S. dollars (Note 2)
	2002	2001	2000	2002
Per share amounts:				
Net income (basic)	¥3.11	¥24.79	¥19.29	$0.023
Net income (diluted)	–	24.17	18.92	–
Cash dividends	6.00	6.00	6.00	0.045

See notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity

Tokuyama Corporation and Consolidated Subsidiaries **Years ended March 31, 2002, 2001 and 2000**

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2002	2001	2000	2002
Common stock				
Balance at beginning of year	¥19,274	¥19,274	¥19,274	$144,917
Balance at end of year	¥19,274	¥19,274	¥19,274	$144,917
Additional paid-in capital				
Balance at beginning of year	¥23,495	¥23,495	¥22,895	$176,654
Increase in earnings due to merger— Sun Arrow Chemical Co., Ltd.	–	–	600	–
Balance at end of year	¥23,495	¥23,495	¥23,495	$176,654
Retained earnings				
Balance at beginning of year	¥68,709	¥64,024	¥52,217	$516,609
Cumulative effect of change in accounting for income taxes	–	–	4,562	–
Net income	792	6,321	4,917	5,954
Cash dividends paid	(1,530)	(1,530)	(1,530)	(11,502)
Bonuses to directors and statutory auditors	(58)	(59)	(57)	(436)
Adjustment due to increase of consolidated subsidiaries	–	–	(528)	–
Adjustment due to increase of affiliates accounted for by the equity method	–	–	1,915	–
Exempt from the consolidated subsidiaries and affiliates	(130)	(47)	(152)	(977)
Increase in earnings due to merger— Sun Arrow Chemical Co., Ltd.	–	–	2,680	–
Balance at end of year	¥67,783	¥68,709	¥64,024	$509,648
Unrealized holding gains on available-for-sale securities				
Balance at beginning of year	¥11,592	¥ –	¥ –	87,160
Increase (decrease)	(6,908)	11,592	–	(51,942)
Balance at end of year	¥ 4,684	¥11,592	¥ –	$ 35,218
Foreign currency translation adjustments				
Balance at beginning of year	¥ (1,196)	¥ (1,312)	¥ (456)	$ (8,990)
Increase (decrease)	342	116	(856)	2,571
Balance at end of year	¥ (854)	¥ (1,196)	¥ (1,312)	$ (6,419)
Less treasury stock, at cost				
Balance at beginning of year	¥ (1)	¥ (35)	¥ (4)	$ (11)
(Increase) decrease	(16)	34	(31)	(117)
Balance at end of year	¥ (17)	¥ (1)	¥ (35)	$ (128)
Shares of common stock (thousands)				
Balance at beginning of year	254,972	254,972	254,972	–
Balance at end of year	254,972	254,972	254,972	–

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Tokuyama Corporation and Consolidated Subsidiaries   Years ended March 31, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2002	2001	2000	2002
Cash flows from operating activities:				
Income before income taxes	¥ 2,709	¥ 11,164	¥ 8,595	$ 20,368
Adjustments to reconcile net cash provided by operating activities:				
Depreciation	24,096	20,811	19,810	181,176
Increase (decrease) in provision	(2,258)	96	2,678	(16,974)
Interest and dividend income	(517)	(731)	(705)	(3,885)
Gain on sale of marketable and investment securities	(314)	(855)	(1,633)	(2,364)
Foreign exchange gain	(323)	(324)	–	(2,428)
(Gain) loss on sale and disposal of property, plant and equipment	250	(1,158)	(707)	1,878
Equity in loss (earnings) of unconsolidated subsidiaries and affiliates	70	(500)	(175)	528
Interest expenses	3,649	4,275	4,227	27,434
Loss on write-down of marketable and investment securities	207	198	1,335	1,559
Gain on contribution securities to an employee retirement benefits trust	–	(3,549)	–	–
Amortization of net transition obligation	134	4,249	–	1,005
(Increase) decrease in trade receivables	8,087	(4,664)	734	60,801
(Increase) decrease in inventories	(731)	1,412	(1,397)	(5,496)
Increase (decrease) in trade payable	(785)	(708)	930	(5,900)
Payment for bonuses to directors and statutory auditors	(58)	(59)	(58)	(436)
Other.	(471)	1,960	1,046	(3,542)
Sub total	33,745	31,617	34,680	253,724
Interest and dividend received	613	781	871	4,608
Interest paid	(3,675)	(4,252)	(4,304)	(27,633)
Income taxes paid	(7,017)	(3,687)	(999)	(52,759)
Net cash provided by operating activities	23,666	24,459	30,248	177,940
Cash flows from investing activities:				
Increase in time deposits	(494)	(577)	(367)	(3,712)
Decrease in time deposits	589	367	219	4,426
Payments for purchases of marketable securities	(148)	(167)	(2,319)	(1,116)
Proceeds from sales of marketable securities	208	107	2,993	1,566
Payments for purchases of property, plant and equipment	(17,731)	(18,094)	(22,744)	(133,313)
Proceeds from sales of property, plant and equipment	1,524	2,239	1,295	11,456
Payments for purchases of investment securities	(849)	(1,352)	(984)	(6,380)
Proceeds from sales of investment securities	982	908	1,373	7,383
Increase in loans receivable	(132)	(1,096)	(384)	(990)
Decrease in loans receivable	547	736	530	4,114
Other	(2,401)	658	(1,827)	(18,057)
Net cash used in investing activities	(17,905)	(16,271)	(22,215)	(134,623)
Cash flows from financing activities:				
Increase (decrease) in short-term loans	(9,450)	4,550	(14,841)	(71,051)
Proceeds from long-term debt	8,530	8,296	13,567	64,132
Repayments of long-term debt	(8,159)	(10,693)	(9,285)	(61,345)
Proceeds from issue of bonds	–	–	20,000	–
Redemption of bonds	(500)	(10,452)	(5,000)	(3,759)
Cash dividends paid	(1,530)	(1,530)	(1,530)	(11,502)
Cash dividends paid to minority interest	(14)	(22)	(8)	(106)
(Increase) decrease in treasury stock	(15)	(33)	2	(116)
Other	10	145	–	75
Net cash provided by (used in) financing activities	(11,128)	(9,739)	2,905	(83,672)
Effect of exchange rate changes on cash and cash equivalents	194	190	(105)	1,462
Net increase (decrease) in cash and cash equivalents	(5,173)	(1,361)	10,833	(38,893)
Cash and cash equivalents at beginning of the year	41,392	42,256	28,266	311,220
Increase (decrease) in cash and cash equivalents due to changes of scope of consolidation	(406)	497	3,157	(3,055)
Cash and cash equivalents at end of year	¥ 35,813	¥ 41,392	¥ 42,256	$ 269,272

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

Tokuyama Corporation and Consolidated Subsidiaries

1. Basis of financial statements

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Tokuyama Corporation (the "Company") and its subsidiaries. The Company and its consolidated domestic subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance ("MOF") in Japan have been reclassified for the convenience of readers outside Japan. Such reclassifications have no effect on net income or retained earnings.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. U.S. dollar amounts

The U.S. dollar amounts included in the consolidated financial statements and notes represent the arithmetic results of translating Japanese yen to U.S. dollars at the rate of ¥133=US$1, the approximate exchange rate on March 31, 2002. The U.S. dollar amounts are included solely for the convenience of readers outside Japan, and are not intended to imply that the assets and liabilities that originated in yen have been or could be readily converted, realized, or settled in U.S. dollars at this or at any other rate.

3. Summary of significant accounting policies

Consolidation:

The consolidated financial statements include the accounts of the Company and its 41 significant subsidiaries (43 in 2001 and 49 in 2000). Significant intercompany transactions and accounts have been eliminated in consolidation.

In total, 12 subsidiaries are consolidated on the basis of their original fiscal years ended at December 31. Material differences in intercompany transactions and accounts arising from the use of the different fiscal year-end are appropriately adjusted in consolidation.

Investments in 14 unconsolidated subsidiaries and affiliates (15 in 2001 and 17 in 2000) are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

The excess of investment cost over equity in net assets acquired is amortized on a straight-line basis over five years.

Foreign Currency Transactions:

Effective April 1, 2000, the Company adopted a revised accounting standard for Foreign Currency Transactions. Revenue and expenses items denominated in foreign currencies are translated into Japanese yen at the rates of respective transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rate in effect at the balance sheet date and the resulting exchange gains or losses are credited or charged to income as incurred.

Foreign Currency Financial Statements (Accounts of overseas subsidiaries and affiliates):

Effective April 1, 2000, the Company adopted a revised accounting standard for Foreign Currency Transactions. All assets and liabilities are translated into yen at the exchange rate in effect at the balance sheet date except for shareholders' equity, which is translated at the historical exchange rates. Revenue and expense accounts of the consolidated overseas subsidiaries are translated at the average rates of exchange prevailing during the year. The resulting translation adjustments are shown as "Foreign currency translation adjustments" in shareholders' equity.

Cash and Cash Equivalents:

Cash and cash equivalents include all highly liquid time deposits with maturities of three months or less, and short-term investments and marketable securities which are readily convertible into cash and have no significant risk of change in value.

Marketable and Investment Securities:

Effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted a new accounting standard for Financial Instruments. Under the new accounting standard, securities are classified into four groups: trading securities, held-to-maturity debt securities, securities of subsidiaries and affiliates, and other securities. Trading securities are stated at fair market value, held-to-maturity debt securities at amortized cost, and securities of subsidiaries and affiliates are stated at cost. Other securities with a quoted current price are stated at fair value, and those without a quoted current price are stated at cost, cost being determined by the moving-average method. Net unrealized gains or losses of other securities are stated as

“Unrealized holding gains on available-for-sale securities” in shareholders’ equity after applying tax-effect accounting. The Company and subsidiaries do not hold trading securities.

Inventories:

Inventories are mainly stated at the lower of cost or market value, cost being determined by the moving-average method.

Property, Plant and Equipment:

Property, plant and equipment are stated at cost. Depreciation is mainly computed by the declining-balance method for structures, machinery and equipment, and by the straight-line method for buildings at rates based on the estimated useful lives of assets prescribed by the Japanese Income Tax Law. The range of estimated useful lives is principally from 3 to 50 years for buildings and structures, and from 2 to 17 years for machinery and equipment.

Significant renewals and betterments are capitalized. Maintenance expenses are charged to income as incurred.

Research and Development Expenses:

Research and development expenses are charged to income as incurred.

Derivative Transactions:

Effective April 1, 2000, the Company adopted a new accounting standard, wherein all derivative financial instruments, except hedging instruments, are stated at fair value. The Company includes interest rate swaps in hedging instruments subject to hedge accounting.

The Company utilizes financial derivative transactions only for the purpose of hedging foreign exchange risk arising from normal operating activities and for managing interest rate risks. The Company does not hold or issue derivatives for dealing or speculative purposes. All derivative transactions are performed and controlled by the financial section. Directors in charge approve all derivative transactions entered into.

As the counterparties to these derivative transactions are limited to major financial institutions with high credit standings, the Company does not anticipate nonperformance by the counterparties to these agreements, and no material losses are expected.

Leases:

Finance leases, other than those which are deemed to transfer ownership, are accounted for in the same manner as operating leases in accordance with generally accepted accounting principles in Japan.

Allowance for Doubtful Accounts:

The allowance for doubtful accounts of the Company and its consolidated subsidiaries is provided in amounts sufficient to cover possible losses on collection. In determining the allowance for doubtful accounts for normal receivables, regard is taken of the historical default rate. With receivables where there is an acknowledged credit risk, allowances for doubtful accounts are provided for taking account of collectability on a case-by-case basis.

Income Taxes:

The tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting is recognized as deferred income taxes. The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. 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 of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Accrued Retirement Benefits:

Effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted a new accounting standard. Under the new accounting standard, accrued retirement and severance benefits for eligible employees are stated in the accompanying balance sheet based on the present discounted value of employee services rendered, at the fiscal year end, in amounts which provided projected benefit obligation for each period, less amounts funded under a pension plan.

Net Income per Share:

The computations of net income per share are based on the weighted-average number of shares outstanding during each period.

Diluted net income per share is calculated based on the assumption that all diluted convertible bonds were converted at the beginning of the year. Diluted net income per share for the years ended March 31, 2002, was not presented because there was no dilutive effect on any assumed conversion of convertible bonds for the year ended March 31, 2002.

4. Changes in accounting policies

In the year ended March 31, 2001, the Company accounted for seconded employee labor costs as “Other expenses” instead of “Selling, general and administrative expenses,” as it did in the past. The increase in the number of seconded employees was due to major corporate restructuring. The change was made to reflect the increased importance of these costs as a proportion of total labor costs. This accounting change more accurately states operating income or loss for financial reporting purposes. This change had the effect of increasing operating income by ¥988 million (US$7,428 thousand), compared with the previous method. There was no effect on income before income taxes as a result of the accounting change.

5. Market value information

The market values and net unrealized gains of quoted securities at March 31, 2002 were as follows:

	Millions of yen		
	Carrying amount	Market value	Difference
Held-to-maturity debt securities:			
Government securities and municipal bonds	¥ –	¥ –	¥ –
Bonds and others	1	1	0
Total	¥ 1	¥ 1	¥ 0

	Millions of yen		
	Acquisition cost	Carrying amount	Unrealized gain
Other securities:			
Listed corporate shares	¥12,986	¥21,018	¥8,032
Bonds and others	–	–	–
Total	¥12,986	¥21,018	¥8,032

	Millions of yen
	Carrying amount
Non-quoted main securities:	
Held-to-maturity debt securities	¥1,510
Other securities	3,631
Total	¥5,141

	Thousands of U.S. dollars		
	Carrying amount	Market value	Difference
Held-to-maturity debt securities:			
Government securities and municipal bonds	$ –	$ –	$ –
Bonds and others	8	8	0
Total	$ 8	$ 8	$ 0

	Thousands of U.S. dollars		
	Acquisition cost	Carrying amount	Unrealized gain
Other securities:			
Listed corporate shares	$97,643	$158,031	$60,388
Bonds and others	–	–	–
Total	$97,643	$158,031	$60,388

	Thousands of U.S. dollars
	Carrying amount
Non-quoted main securities:	
Held-to-maturity debt securities	$11,353
Other securities	27,298
Total	$38,651

6. Inventories

Inventories at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Finished products and merchandise	¥16,398	¥15,359	$123,295
Work in progress	3,558	3,916	26,753
Raw materials and supplies	6,706	6,545	50,416
	¥26,662	¥25,820	$200,464

7. Short-term bank loans and long-term debt

Short-term bank loans at March 31, 2002 represent loans, which principally bear interest at rates ranging from 0.40% to 8.10% per annum.

A summary of long-term debt at March 31, 2002 and 2001 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Loans principally from banks and insurance companies, due through 2015 with interest rates ranging from 1.10 percent to 8.36 percent	¥ 48,852	¥ 47,765	$367,307
2.2 percent unsecured convertible bonds in yen due September 30, 2003	9,400	9,900	70,677
2.75 percent unsecured bonds in yen due June 14, 2002	10,000	10,000	75,188
2.9 percent unsecured bonds in yen due February 15, 2003	10,000	10,000	75,188
2.45 percent unsecured bonds in yen due March 26, 2004	5,000	5,000	37,594
2.575 percent unsecured bonds in yen due August 19, 2004	10,000	10,000	75,188
2.9 percent unsecured bonds in yen due January 9, 2008	5,000	5,000	37,594
2.6 percent unsecured bonds in yen due April 28, 2005	5,000	5,000	37,594
2.24 percent unsecured bonds in yen due April 27, 2006	5,000	5,000	37,594
2.65 percent unsecured bonds in yen due September 2, 2009	5,000	5,000	37,594
2.35 percent unsecured bonds in yen due March 29, 2010	10,000	10,000	75,188
	123,252	122,665	926,706
Less current portion	(26,631)	(7,982)	(200,236)
	¥ 96,621	¥114,683	$726,470

The aggregate annual maturities of long-term debt at March 31, 2002 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31		
2003	¥ 26,631	$200,236
2004	23,379	175,780
2005	15,268	114,800
2006	8,042	60,468
2007	10,874	81,761
Thereafter	39,058	293,661
	¥123,252	$926,706

Assets pledged as collateral for certain loans and other liabilities at March 31, 2002 and 2001 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Pledged Assets			
Property, plant and equipment	¥62,051	¥74,969	$466,550
Other	289	519	2,169
	¥62,340	¥75,488	$468,719

Additional information with respect to the Company's convertible bonds outstanding at March 31, 2002 is as follows:

	Convertible price per share	Convertible at any time up to and including
2.2 percent unsecured convertible bonds in yen due September 30, 2003	827.80	September 29, 2003

Under the provisions of the issues, the conversion price is subject to adjustment in certain cases, which include the payment of stock dividends and the free distribution of shares. If all the outstanding convertible bonds had been converted at March 31, 2002, approximately 11,959 thousand additional shares of common stock would have been issued.

8. Income taxes

The Company and its consolidated domestic subsidiaries are subject to a number of income taxes that, in the aggregate, indicate a statutory tax rate in Japan of approximately 41.7% for the year ended March 31, 2002. Consolidated overseas subsidiaries are subject to income taxes of countries where they are domiciled.

The significant differences between the statutory tax rate and effective income tax rate for consolidated financial statement purposes for the years ended March 31, 2002 and 2001 were summarized as follows:

	2002	2001
Statutory tax rate	41.7%	41.7%
Increase (decrease) in income taxes resulting from:		
Loss carried forward without deffered tax assets	32.1	10.0
Permanent differences	7.0	–
Lower tax rates of overseas consolidated subsidiaries	(6.4)	(2.1)
Per capita inhabitant tax	3.4	–
Other	2.6	(1.3)
Effective income tax rate	80.4%	48.3%

Significant components of deferred tax assets and liabilities at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Allowance for repairs	¥ 1,856	¥ 2,739	$ 13,958
Fixed assets	951	1,186	7,153
Accrued retirement and severance benefits	1,330	1,291	10,000
Deficits	5,130	4,421	38,570
Others	3,653	3,441	27,463
Subtotal	12,920	13,078	97,144
Less valuation allowance	(5,178)	(4,530)	(38,932)
Total deferred tax assets	7,742	8,548	58,212
Deferred tax liabilities:			
Unrealized holding gains on available-for-sale securities	(3,361)	(8,305)	(25,271)
Special depreciation reserve	(1,412)	(1,497)	(10,616)
Appropriations for advanced depreciation	(1,836)	(1,960)	(13,808)
Others	(303)	(1)	(2,273)
Total deferred tax liabilities	(6,912)	(11,763)	(51,968)
Net deferred tax assets (liabilities)	¥ 830	¥ (3,215)	$ 6,244

9. Retirement and severance plan

The Company and consolidated domestic subsidiaries have lump-sum severance benefits plans and tax-qualified pension plans as vested benefits system. Benefits under these plans are based on the current rate of pay, length of service and conditions under which terminations occur. Under the new accounting standard in the year ended March 31, 2001, the Company set up an employee retirement benefit trust, contributed certain marketable securities to the trust and recognized gains of ¥3,549 million (U.S $ 27 million) as “Gain on the contribution of securities to an employee retirement benefits trust” in the consolidated statement of income.

Benefit obligations for the year ended March 31, 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars
Project benefit obligation	¥(27,961)	$(210,236)
Fair value of plan assets	14,678	110,364
Funded status	(13,283)	(99,872)
Unrecognized net transition obligation	333	2,502
Unrecognized actuarial loss	3,136	23,583
Unrecognized prior service cost	–	–
Net amount shown on balance sheet	(9,814)	(73,787)
Prepaid pension expense	639	4,806
Accrued retirement and severance benefits	¥(10,453)	$ (78,593)

Benefit costs for the year ended March 31, 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥1,278	$ 9,609
Interest cost	913	6,865
Expected return on plan assets	(335)	(2,519)
Amortization of net transition obligation	133	1,004
Recognized actuarial loss	81	608
Amortization of prior service cost	–	–
Benefit cost	¥2,070	$15,567

Assumptions used in the actuarial calculation were as follows:

Discount rate	3.5%
Expected rate of return on plan assets	3.0%

10. Leases

Lease payments on finance lease contracts that do not transfer ownership for the year ended March 31, 2002 amounted to ¥575 million (US$4,321 thousand). Lease payments corresponding to depreciation expenses for the year ended March 31, 2002, which were computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥575 million (US$4,321 thousand).

If the leases were capitalized, the cost of assets and accumulated depreciation at March 31, 2002 and 2001 would be as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Machinery, equipment and vehicles	¥ 376	¥ 332	$ 2,828
Other	2,914	2,992	21,905
Less accumulated depreciation	(2,038)	(2,235)	(15,322)
Total	¥ 1,252	¥ 1,089	$ 9,411

The future lease payments on finance leases at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Due within one year	¥ 471	¥ 467	$3,539
Due beyond one year	781	622	5,872
Total	¥1,252	¥1,089	$9,411

11. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended March 31, 2002, 2001 and 2000 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
Carriage and shipping	¥26,973	¥29,800	¥29,570	$202,802
Salaries and bonuses	7,262	7,864	8,128	54,602
Research and development expenses	6,625	6,126	6,417	49,813
Rent	2,604	2,636	2,444	19,576
Traveling expenses and postage	1,844	1,831	1,783	13,863
Welfare expense	1,362	1,265	1,151	10,242
Other	8,255	8,870	7,249	62,076
Total	¥54,925	¥58,392	¥56,742	$412,974

12. Depreciation

Depreciation for the years ended March 31, 2002, 2001 and 2000 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
Depreciation	¥24,096	¥20,811	¥19,810	$181,176

13. Research and development expenses

Research and development expenses for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
Research and development expenses	¥8,123	¥7,570	¥8,108	$61,076

14. Shareholder's equity

The Commercial Code of Japan had provided that an amount equivalent to at least 10% of appropriations of retained earnings to be paid in cash should be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. This legal reserve was not available for dividends but might be used to reduce a deficit with shareholder approval or capitalized by resolution of the Board of Directors.

Effective October 1, 2001, the Commercial Code of Japan was amended to require earnings in an amount equal to at least 10% of appropriations of retained earnings to be paid in cash be appropriated as a legal reserve until total legal reserve and capital reserve equals 25% of stated capital. Moreover, the new Code permits the exceeding amount of limit of legal reserve to reduce and appropriate to the earnings available for dividends, subject to being determined by resolution of the shareholders and protecting procedure for creditors.

The legal reserve is included in the retained earnings and is not allowed to show separately in the accompanying consolidated financial statements.

15. Segment information

Business segment information

The Company and its consolidated subsidiaries operate primarily in the following three business segments: "Chemicals", "Specialty Products" and "Cement, Building Materials and Others".

Chemicals: caustic soda, soda ash, vinyl chloride monomer, polyvinyl chloride, biaxial-oriented polypropylene film, microporous film and others

Specialty Products: Polycrystalline silicon, aluminum nitride, amorphous precipitated silica, solvent for semiconductor base materials, medical diagnosis systems, dental materials, ion-exchange membranes and others

Cement, Building Materials and Others: cement, ready-mixed concrete, plastic window sashes and others

Business segment information for the years ended March 31, 2002, 2001 and 2000 was summarized as follows:

	Millions of yen					
2002	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
1. Sales						
Sales to customers	¥104,328	¥53,698	¥68,924	¥226,950	¥ –	¥226,950
Inter-segment sales/transfer	1,482	78	4,796	6,356	(6,356)	–
Total sales	¥105,810	¥53,776	¥73,720	¥233,306	¥ (6,356)	¥226,950
Operating expense	102,374	48,541	70,513	221,428	(4,775)	216,653
Operating income	3,436	5,235	3,207	11,878	(1,581)	10,297
2. Assets						
Assets	¥109,177	¥81,670	¥84,346	¥275,193	¥71,407	¥346,600
Depreciation	9,902	9,082	4,480	23,464	632	24,096
Capital expenditures	5,445	6,615	5,469	17,529	947	18,476

	Millions of yen					
2001	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
1. Sales						
Sales to customers	¥110,818	¥59,496	¥73,868	¥244,182	¥ –	¥244,182
Inter-segment sales/transfer	1,792	83	6,529	8,404	(8,404)	–
Total sales	¥112,610	¥59,579	¥80,397	¥252,586	¥ (8,404)	¥244,182
Operating expense	110,034	49,612	75,678	235,324	(6,807)	228,517
Operating income	2,576	9,967	4,719	17,262	(1,597)	15,665
2. Assets						
Assets	¥115,657	¥82,020	¥88,782	¥286,459	¥87,092	¥373,551
Depreciation	10,426	5,143	4,583	20,152	659	20,811
Capital expenditures	5,835	5,099	7,368	18,302	1,686	19,988

	Millions of yen					
2000	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
1. Sales						
Sales to customers	¥104,812	¥54,245	¥65,053	¥224,110	¥ –	¥224,110
Inter-segment sales/transfer	1,523	96	4,013	5,632	(5,632)	–
Total sales	¥106,335	¥54,341	¥69,066	¥229,742	¥ (5,632)	¥224,110
Operating expense	101,438	46,067	65,152	212,657	(3,985)	208,672
Operating income	4,897	8,274	3,914	17,085	(1,647)	15,438
2. Assets						
Assets	¥123,132	¥77,636	¥81,465	¥282,233	¥69,429	¥351,662
Depreciation	9,708	4,917	4,441	19,066	744	19,810
Capital expenditures	3,335	10,719	4,802	18,856	1,379	20,235

	Thousands of U.S. dollars					
2002	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
1. Sales						
Sales to customers	$784,420	$403,743	$518,231	$1,706,394	$ –	$1,706,394
Inter-segment sales/transfer	11,143	590	36,055	47,788	(47,788)	–
Total sales	$795,563	$404,333	$554,286	$1,754,182	$ (47,788)	$1,706,394
Operating expense	769,732	364,968	530,171	1,664,871	(35,897)	1,628,974
Operating income	25,831	39,365	24,115	89,311	(11,891)	77,420
2. Assets						
Assets	$820,882	$614,058	$634,184	$2,069,124	$536,889	$2,606,013
Depreciation	74,453	68,287	33,682	176,422	4,754	181,176
Capital expenditures	40,942	49,736	41,116	131,794	7,124	138,918

Overseas sales information

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2002 and 2001 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Asia	¥20,585	¥20,923	$154,773
Others	7,736	7,352	58,163
Total	¥28,321	¥28,275	$212,936

16. Derivative transactions

The Company enters into foreign exchange forward contracts for certain foreign currency-denominated assets and liabilities to hedge against future foreign currency fluctuations. The Company also enters into interest rate swap contracts to hedge against fluctuations in interest rates on bonds and to reduce financing costs on debt instruments.

The market values of derivative transactions at March 31, 2002 and 2001 were as follows:

	Millions of yen		
2002	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
To sell foreign currencies:			
U.S. dollars	¥ –	¥ –	¥ –
To buy foreign currencies:			
U.S. dollars	120	120	–
Interest rate swap contracts:			
To receive floating and to pay fixed rates	¥5,000	¥(331)	¥(331)

	Millions of yen		
2001	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
To sell foreign currencies:			
U.S. dollars	¥ 94	¥ 99	¥ (5)
To buy foreign currencies:			
U.S. dollars	11	12	1
Interest rate swap contracts:			
To receive floating and to pay fixed rates	¥5,000	¥(351)	¥(351)

	Thousands of U.S. dollars		
2002	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
To sell foreign currencies:			
U.S. dollars	$ –	$ –	$ –
To buy foreign currencies:			
U.S. dollars	899	899	–
Interest rate swap contracts:			
To receive floating and to pay fixed rates	$37,594	$(2,489)	$(2,489)

The contract and notional amounts of derivatives shown in the above table are estimates and may not represent the Company's actual exposure to credit or market risk.

17. Contingent liabilities

At March 31, 2002 and 2001, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Notes discounted or endorsed	¥1,634	¥1,588	$12,286
Loans guaranteed	1,396	988	10,499
Commitments to guarantee	1,716	1,205	12,904
Letters of awareness	171	440	1,287

18. Subsequent events

At the annual shareholders' meeting of the Company held on June 27, 2002, the appropriation of retained earnings for the year ended March 31, 2002, was approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.00 per share)	¥765	$5,750
Bonuses to directors and statutory auditors	46	346

19. Reclassification

Certain reclassifications have been made to previously reported fiscal year 2000 amounts to conform with the fiscal 2001 presentation.
These reclassifications had no effect on previously reported fiscal 2000 net income.

Report of Independent Certified Public Accountants

The Board of Directors
Tokuyama Corporation

We have audited the accompanying consolidated balance sheets of Tokuyama Corporation and its consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2002, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements referred to above present fairly the consolidated financial position of Tokuyama Corporation and its consolidated subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period subsequent to the change, with which we concur, in the method of accounting for the seconded employee labor cost, made in the year ended March 31, 2001, as described in Note 4 of the notes to the financial statements.

As described in Note 3, effective from the year ended March 31, 2001, Tokuyama Corporation and its consolidated subsidiaries have adopted new accounting standards for financial instruments, employees' retirement benefits and foreign currency translation.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Yamaguchi Audit Corporation

YAMAGUCHI Audit Corporation

Tokuyama, Japan
June 28, 2002

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Major Subsidiaries and Affiliates
(As of March 31, 2002)

Company	Capital (¥ millions) (local currencies in thousands)	Ownership (%)	Scope
Chemicals			
・Shin Dai-ichi Vinyl Corporation	8,000	71	Production and sale of polyvinyl chloride
・Sun Arrow Chemical Co., Ltd.	30	100	Production and sale of polyvinyl chloride compounds
・Sun・Tox Co., Ltd.	1,600	75	Production and sale of plastic films
・Tomitec Co., Ltd.	100	60	Production of plastic formations and moisture absorbing agents, as well as components for gas sensors and office equipment
・Tianjin Sunshine Plastics Co., Ltd.	RMB132,885	53.75	Production and sale of plastic films
・Tokuyama Home Products Co., Ltd.	210	100	Production and sale of toiletry products
・Tokuyama Siltech Co., Ltd.	200	100	Production and sale of layered silicate
* Nanbu Plastics Co., Ltd.	1,800	29.42	Production and sale of plastics
* Nishinihon Resicoat Co., Ltd.	50	50	Manufacture of metal parts and anti-rust surface coating materials
(Category also includes another 1 consolidated subsidiary, 2 equity method affiliates and 7 affiliates)			
Specialty Products			
・Tokuyama Dental Corporation	100	100	Production and sale of dental and medical materials
・A&T Corporation	378	67.53	Production and sale of diagnostic reagents, analyzers and system
・Figaro Engineering Inc.	48	100	Production and sale of sensor devices
・Pornpat Chemicals Co., Ltd.	Baht182,000	99.18	Production and sale of precipitated silica
・Taiwan Tokuyama Corporation	NT$291,520	100	Production and sale of solvent for semiconductor base materials
・Tokuyama Electronic Chemicals Co., Ltd.	S$11,000	100	Production of solvent for semiconductor base materials
・Tokuyama Asia Pacific Pte. Ltd.	S$800	100	Sale of Tokuyama's Products
・Figaro USA, Inc.	US$200	60	Sale of sensor devices
・Hantok Chemicals Co., Ltd.	Won4,500,000	50	Production of developers for photolithography
* Tokuyama Toshiba Ceramics Co., Ltd.	1,600	30	Production and sale of quartz-glass
* ASTOM Co., Ltd.	400	50	Production and sale of ion-exchange membranes
* Tianjin Figaro Electronic Co., Ltd.	RMB23,671	40.70	Production and sale of sensor devices
(Category also includes another 4 consolidated subsidiaries, 1 equity method affiliate and 3 affiliates)			
Cement, Building Materials and Others			
・Tokuyama Ready Mixed Concrete Co., Ltd.	100	100	Production and sale of ready-mixed concrete
・Seibu Tokuyama Ready Mixed Concrete Co., Ltd.	100	100	Production and sale of ready-mixed concrete
・Kawasaki Tokuyama Ready Mixed Concrete Co., Ltd.	40	100	Production and sale of ready-mixed concrete
・Tokuyama Trading Co., Ltd.	50	70	Sale of cement and building materials
・Oguri Shonan Corporation	80	100	Sale of cement, ready-mixed concrete and building materials
・Shanon Co., Ltd.	495	100	Production, processing and sale of building materials, including plastic sashes and doors.
・Tohoku Shannon Co., Ltd.	300	72	Production of plastic sashes
・Hachimaru Sangyo Corporation	10	100	Production of plastic sashes
・Tokuyama Mtech Corporation	50	100	Processing and sale of building materials
・Tokuyama Logistics Corporation	100	99	Transportation and warehousing
・Shunan System Sangyo Co., Ltd.	151	100	Real estate, civil engineering, construction
* Sanyo Tokuyama Ready Mixed Concrete Co., Ltd	50	50	Production and sale of ready-mixed concrete
* Chugoku Ready Mixed Concrete Co., Ltd.	80	50	Production and sale of ready-mixed concrete
* Sanyo Precon Co., Ltd.	49	45.27	Production and sale of pre-cast concrete curtain walls
* Southern Cross Cement Corporation	PP342,000	50	Sale of cement
(Category also includes another 9 consolidated subsidiaries, 2 equity method affiliates and 27 affiliates, 2 unconsolidated subsidiaries)			

・Consolidated subsidiary * Affiliate accounted for by the equity method

Overseas

Company	Capital (local currencies in thousands)	Ownership (%)	Scope
Tokuyama America Inc.	US$300	100	Sale of Tokuyama's products
Tokuyama Europe GmbH	EUR255	100	Sale of Tokuyama's products
Tokuyama Asia Pacific Pte. Ltd.	S$800	100	Sale of Tokuyama's products
Taiwan Tokuyama Corporation	NT$291,520	100	Production and sale of solvent for semiconductor base materials
Tokuyama Electronic Chemicals Pte. Ltd.	S$11,000	100	Production of solvent for semiconductor base materials
Pornpat Chemicals Co., Ltd.	Baht182,000	99.18	Production and sale of precipitated silica
Eurodia Industrie S.A.	EUR650	99.99	Sale of ion-exchange membranes and maintenance and leasing of related equipment
Figaro USA, Inc.	US$200	60	Sale of sensor devices
Hantok Chemicals Co., Ltd.	Won4,500,000	50	Production of developers for photolithography
Tianjin Sunshine Plastics Co., Ltd.	RMB132,885	53.75	Production and sale of plastic films
Southern Cross Cement Corporation	PP342,000	50	Sale of cement
Tianjin Figaro Electronic Co., Ltd.	RMB23,671	40.70	Production and sale of sensor devices

Main Products

Chemicals

Caustic soda

Soda ash

Calcium chloride

Sodium silicate

Vinyl chloride monomer

Polyvinyl chloride

Propylene oxide

Isopropyl alcohol

Methylene chloride

Moisture absorbent (household-use)

Polypropylene*

Biaxial-oriented polypropylene film

Multilayer co-extrusion films

Cast polypropylene films

Microporous film

Specialty Products

Polycrystalline silicon

Amorphous precipitated silica

Fumed silica

Aluminum nitride

Dental materials

Pharmaceutical, agricultural chemical bulks and intermediates

Plastic lens materials

Ion-exchange membranes

Methylene chloride for washing metals

Solvent for semiconductor base materials

Medical diagnosis systems

Gas sensitive semiconductor

Cement, Building Materials and Others

Ordinary Portland cement

High early strength Portland cement

Blast furnace slag cement

Ready-mixed concrete

Plastic window sashes

Cement type stabilizer

* In July 2001 Tokuyama transfered this business to Idemitsu Petrochemical Co., Ltd.

Board of Directors

(As of June 27, 2002)

Chairman

Yuichi Miura

President

Shigeaki Nakahara

Executive Managing Director

Kazuhiko Nishimura
Assistant to the President, Overseeing of all Affiliates

Managing Directors

Teruyoshi Fukuda
General Manager of Osaka Branch

Koshi Kusumoto
General Manager of Si Business Div.,
Responsible Care & Eco-Management

Hiroaki Masaki
General Manager of Corporate Administration Dept.,
General Manager of IT Strategies & Promotion Div.,
Overseeing of Auditing Dept., Secretarial Dept. and all branch locations

Hisami Tanimoto
General Manager of Tokuyama Factory

Yoshikazu Mizuno
General Manager of Chemicals Business Div.,
Deputy General Manager of IT Strategies & Promotion Div.

Masato Todo
General Manager of Advanced Materials Business Div., Overseeing of Kashima Factory

Directors

Kazuo Ikeda
General Manager of Manufacturing Technology Div.

Masao Kusunoki
General Manager of Cement Business

Etsuro Matsui
General Manager of Corporate Planning Div.

Shoji Iida
General Manager of General & Personnel Affairs Div.

Nobuyuki Kuramoto
General Manager of Research & Development Div.

Standing Auditor

Okitsugu Itokawa

Auditor

Suehiro Maruyama

External Auditors

Akira Nishio

Kiyoshi Nukariya

Corporate Data

(As of March 31, 2002)

Established:
February 16, 1918

Capital:
¥19,274 million

Employees (consolidated):
4,685

Shares Authorized:
700,000,000

Shares Issued:
254,971,876

Shareholders:
31,352

Major Shareholders:
(As of March 31, 2002)

	Number of Shares Held (Thousands)	Percentage of Total Shares
Nippon Life Insurance Company	15,984	6.27
UFJ Bank Ltd.	12,737	5.00
UFJ Trust Bank Ltd.	12,445	4.88
Japan Trustee Services Bank Ltd.	9,359	3.67
The Mitsubishi Trust & Banking Corporation	8,731	3.42
The Meiji Mutual Life Insurance Company	7,863	3.08
J.P. Morgan Trust Bank, Ltd.	7,601	2.98
The Tokio Marine & Fire Insurance Co., Ltd.	6,904	2.71
The Yamaguchi Bank Ltd.	6,548	2.57
The Sumitomo Trust & Banking Co., Ltd.	6,280	2.46

Composition of Shareholders:

	Number of Shares Held (Thousands)	Percentage of Total Shares
Financial Institutions	132,773	52.1
Individuals / Other	67,078	26.3
Other Domestic Corporations	38,317	15.0
Non-Japanese Corporations / Foreigners	15,307	6.0
Securities Companies	1,497	0.6

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