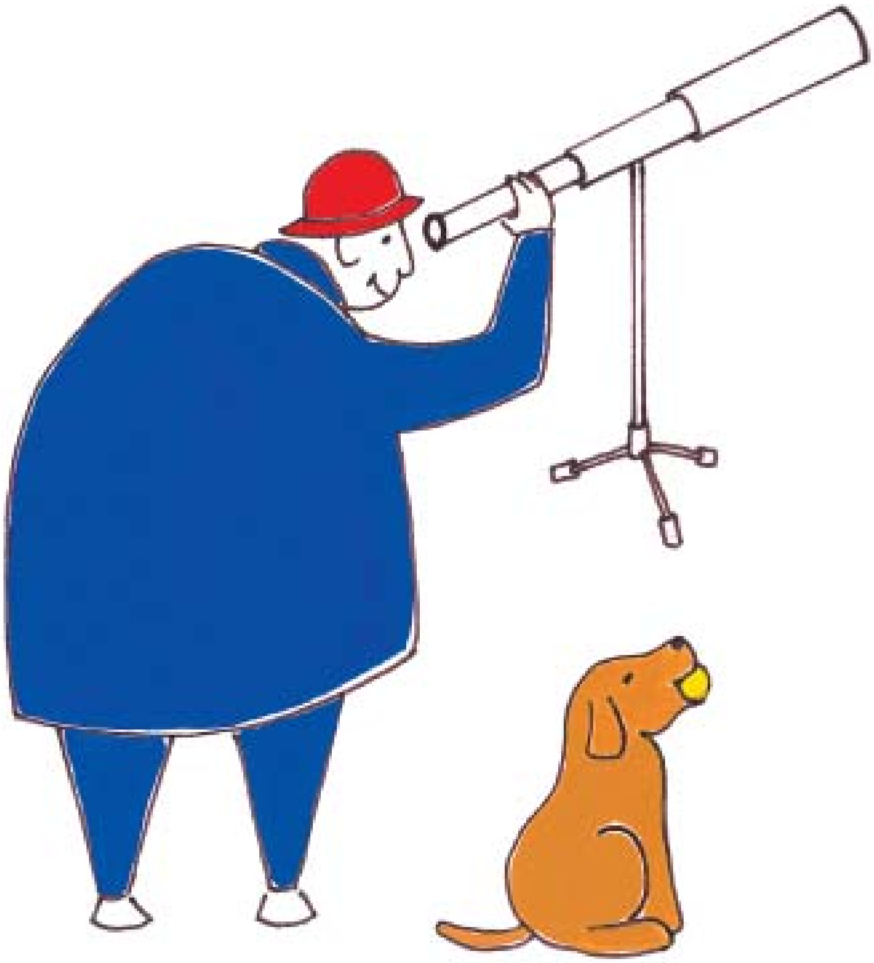


TOKUYAMA CORPORATION
Annual Report 2003
YEAR ENDED MARCH 31, 2003

Chemistry with a heart
TOKUYAMA

Contents

Consolidated Financial Highlights (Years ended March 31, 2003 and 2002)

	Millions of yen		Change (%)	Thousands of U.S. dollars
	2003	2002	2003/2002	2003
Net sales	¥225,528	¥226,950	(0.6)%	$1,879,400
Operating income	12,853	10,297	24.8	107,106
Income before income taxes	2,064	2,709	(23.8)	17,199
Net income	317	792	(60.0)	2,640
Per share amounts (in yen, dollars)				
Net income (basic)	1.22	3.11	(60.8)	0.010
Net income (diluted)	–	–	–	–
Cash dividends	6.00	6.00	–	0.050
Total assets	316,751	346,600	(8.6)	2,639,592
Total shareholders' equity	111,273	114,365	(2.7)	927,271
Capital expenditures	13,258	18,476	(28.2)	110,485
Depreciation	20,866	24,096	(13.4)	173,880
R&D expenses	7,780	8,123	(4.2)	64,829
Number of employees	4,615	4,685	–	–
Consolidated subsidiaries	40	41	–	–

Note: U.S.dollar amounts above and elsewhere in this annual report are converted from Japanese yen, for convenience only, at the rate of ¥120=US$1.

Building Our Future

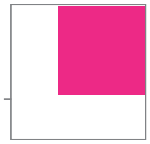
Fiscal 2003 marked the first year of Tokuyama's current three-year management plan. Although positive results have yet to be realized in the Company's financial statements, progress has been made toward reform of the long-term profit structure, and goals have become more clear. Going forward, the Company will make vigorous efforts to improve cost competitiveness, strengthen R&D and production technology, and reinvigorate ties with customers. These measures are the building blocks for a bright future.

At a Glance

Chemicals

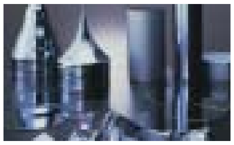
43.1%

Share of sales



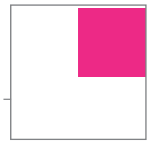
The Chemicals Segment consists of the chemicals business and film operations, comprising a total of 20 consolidated subsidiaries and affiliates. Its principal products include caustic soda, sodium silicate, cullet (anhydrous sodium silicate), and propylene oxide (PO).

Specialty Products



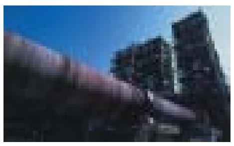
26.0%

Share of sales



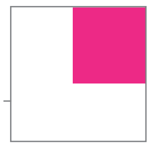
The Specialty Products Segment contains two business divisions, the silicon (Si) business consisting of the polycrystalline silicon business and functional powder operations, and the advanced materials business consisting of Ion-Exchange Membranes (IEM) & cleaning systems and fine chemicals operations. It is comprised of a total of 20 consolidated subsidiaries and affiliates, and its principal products include polycrystalline silicon, ion-exchange membranes, aluminum nitride, Dental materials and medical diagnosis systems.

Cement, Building Materials and Others



30.9%

Share of sales



The Cement, Building Materials and Others Segment consists of the cement businesses, building materials operations, building maintenance and information systems, comprising a total of 54 consolidated subsidiaries and affiliates. It is also responsible for Tokuyama's recycling and resource programs.

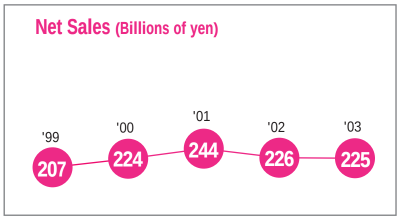
Message from the President

Shigeaki Nakahara, President

Performance Overview

The economic environment fluctuated widely during fiscal 2003 (ended March 31, 2003). Lingering aftereffects of the collapse of the IT bubble made for a rocky start to the year, but a slight recovery was evident as exports picked up following the completion of worldwide inventory adjustments in the electronics materials field. Afterwards, however, uncertainty in the future of the U.S. economy, deepening deflation in Japan and a sharp rise in the price of petrochemicals following the outbreak of war in Iraq created a severe operating environment.

Despite these difficult conditions, we pressed ahead with reforms to our profit structure as dictated by our three-year management plan, and continued working to improve our sales efficiency and cost management. As a result, although sales declined slightly, operating income benefited greatly from the structural reforms, rising 24% from the previous fiscal year. Net income for fiscal 2003, however, declined as a result of a loss on revaluation of securities, recorded in response to falling share prices of capital holdings in financial institutions.



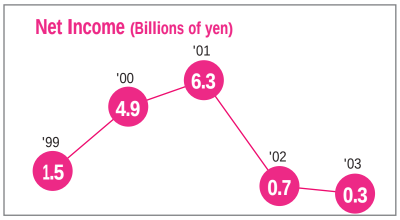
Management Issues during Fiscal 2003, and Future Outlook

Although total sales figures have been slightly decreasing for the last few years, we don't believe this is having a significantly negative impact, because we are now in the process of reorganizing the profit structure to grow on a long-term basis. The decrease in sales for the fiscal year under review was of a non-recurring nature, resulting from a withdrawal from unprofitable business and from forming business alliance with other companies under our reform plan.

Of course, for the Company to sustain its growth, it is necessary for sales to rise. To accomplish this, we are implementing strategies for each business field as part of the profit structure reforms.

Our three business segments are Chemicals; Specialty Products; and Cement, Building Materials and Others. The Chemicals and Cement, Building Materials and Others segments are core businesses, we expect steady profits. The Specialty Products segment, which focuses on IT-related and electronic products, is one of our growth fields. We plan to devote more corporate resources to this field to increase profitability. Even though both sales and operating income from this field were up over the previous fiscal year, we need to use this strategy to significantly increase our profitability.

Another important management issue we face is that we must enhance our cost competitiveness under the circumstances of generally falling product prices. To overcome such challenge, it is necessary to further advance our technological capabilities in R&D and production, which in turn will result in a driving force for the value chain and may lead to creation of new products or new elements of added value. In other words, these measures are not only defensive in nature, aimed at curtailing expenses, but should also be the first step in creating new corporate value.



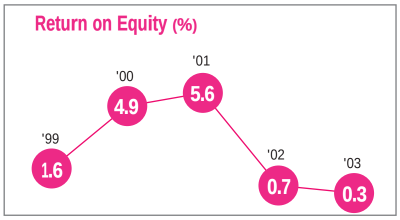
Finally, the biggest issue that we faced during fiscal 2003 was a significant fall in net income. As previously noted, the principal cause of this was a loss on revaluation of securities. This extraordinary loss alone totaled slightly over ¥4,000 million. This was an accounting anomaly in that it was the first time since our initial public offering in 1949 in which the financial statement carried such an extent of profitability risk. We should not look upon this as an unavoidable occurrence that was beyond the control of the business operation, but we should study it from all conceivable angles to restore profitability promptly.

Status of the Three-Year Management Plan

The fiscal year under review is the first of the three-year management plan, launched on April 1, 2002. We think that, for the most part, we have achieved the plan's first-year targets. Details on the status of the plan are outlined in the Features Section of this report, so here we would like to offer management's view of the developments that were significant, and the goals we hope to achieve in the coming years.

First, the resources and environmental businesses in the field of Environment &

Energy, which is one of our strategic growth areas, made good progress. Specifically, our cement plants are now deemed able to serve as giant incinerators for waste materials. Although similar attempts have been made by other companies, our adaptation of our proprietary technology to use waste materials both as raw materials for cement and as fuel for its production is unique. Taking advantage of the singular locations of our cement plants, very large quantities of a wide variety of wastes can be processed, benefiting not only the environment but the cement industry as well.

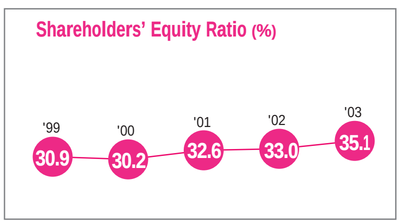


To achieve the goals we have set for ourselves, we must secure our operating income and strengthen our profit-risk management in a deflationary environment. It is important to properly shift the cost rise of raw materials to the product prices or to maintain cost balance by carefully matching market conditions.

In the Specialty Products segment, where mainly IT-related or electronic products are handled, response to market trends is directly reflected in profits. Such market risks will constantly concern our business execution. For this reason, the organizational reforms simultaneously made with the launch of the new three-year management plan enhance our ability to quickly and smoothly respond to market trends by encompassing the whole line from planning and development through production and marketing. Such organizational systems and roles will be established Company-wide.

Commitment to Providing Maximum Added Value

Tokuyama has a long history and a solid reputation as a quality manufacturer. We aim to grow as a corporation, not by pursuing business expansion through diversifying management, but rather through diligent efforts in growth fields founded on technology. Therefore, we believe that we must remain committed to our current business. We firmly believe that if a business of our scale can maintain its unique technologies and competitiveness, it will be a major industry presence. To achieve this, though, we must solidify our position as a material manufacturer that is respected by its customers, and every one of our employees must have a sense of professional pride. The result will be a company that is trusted implicitly, a company that customers turn to first when they need a solution.



In today's business climate, without a close relationship with customers, built on mutual trust, we will not be able to know the true needs of our customers. If we are able to establish that trust, however, we will be able to combine their needs with our technology and skill to create business, allowing us to proceed to the next stage of growth.

Corporate Governance

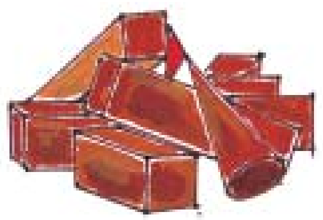
To respond more quickly and flexibly to changes in the economic environment, and to implement management strategies more efficiently and effectively, since July 2002 we have discontinued our executive committee meetings in favor of manager meetings. Attendees at these meetings will include the president, the heads of each division, and a few designated directors. To ensure productive meetings, all participants will be encouraged to present their opinions, and meetings will not adjourn until a decision has been reached. Meetings will be held twice a month, and coordinated with those of the Board of Directors to facilitate agile decision-making. We are also exploring the possibility of introducing a committees system, which would incorporate participation by outside directors.

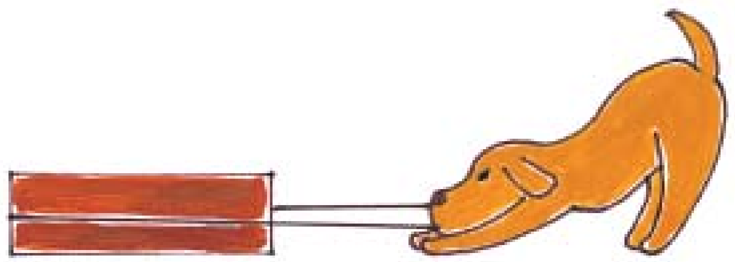
We are consistently implementing the strategies outlined above with the aim of reforming its profit structure. We firmly believe that this is the best way to benefit all of our shareholders, customers and employees. We appreciate your continuous support.

S. Nakahara

Shigeaki Nakahara
President

Platforms for Growth (Overview and Status of the Three-Year Management Plan)





Ⅰ. Customer-Oriented Structural Reforms and Strategic Growth Initiatives

Tokuyama's organizational structure has been reformed to increase the points of contact with customers so that customer-oriented and cross-sectional activities are maximized. Taking advantage of the reinforced functions of the organization, we will further advance structural reforms and promote strategic growth initiatives.

These structural reforms are aimed at three points: reform of the business structure, reform of business functions and strengthening of Tokuyama Factory's competitive edge.

Reform of the Business Structure

Tokuyama is working to further strengthen the foundation of each of its businesses, seeking alliances with other companies.

The polypropylenes film business became independent, effective March 31, 2003, to form Sun·Tox Co., Ltd., a wholly owned subsidiary of the Company, in order to pursue autonomous growth. After the transfer of the business to Idemitsu Petrochemical Co., Ltd. in 2001, polypropylene (PP), which was only being produced on commission, from May 2003, was manufactured at a new facility, the joint manufacturing venture Tokuyama Polypropylene Ltd., Co.

Reform of Business Functions

Administrative offices of the headquarters were reformed as shared services to step up their functional efficiency and maintain competitiveness. In line with that aim, our Information Systems Group was spun off to form Tokuyama Information Services Co., Ltd., effective January 1, 2003. Also, integration of delivery services into a delivery center is underway with adoption of the EDI (electronic data interchange system), with implementation starting at the Chemicals Division first and the Advanced Materials Division to follow.

Strengthening of Tokuyama Factory's Competitive Edge

To bolster the Tokuyama Factory's competitive advantage, the Company will implement project-wise plans, which include the promotion of zero-emissions operations and energy conservation.

The Strategic Growth Initiatives focus on the two major fields of Information & Electronics, and Environment & Energy.

In the field of Information & Electronics, the Company-wide projects being promoted are a new method to produce polycrystalline silicon for solar batteries and the development of single-crystalline calcium fluoride (CaF_2) as an optical material.

In the field of the Environment & Energy, the ongoing projects to expand the recycling and environmental business are facility expansion for utilization of wastes and byproducts as fuels and raw materials in cement production and a recovery system for developer solution.

Ⅱ. Cost-Cutting Initiatives

During the fiscal year ended March 31, 2003, fixed costs were reduced by as much as ¥4 billion. Similar plans will be implemented every year to accumulate benefits and reform the profit structure.

Ⅲ. Development of a System to Maintain Employee Spirit and Morale

Employees and their motivated spirits will support the rebuilding of the profit structure. Personnel policy will focus on the fair evaluation of employees concerning job assignment and achievement so that employees are encouraged to demonstrate their abilities to the maximum extent. More specifically, the Company will practice open application for new job assignment, promotion through fair evaluation, and non-discriminatory, fair and open treatment of employees, which, in turn, will foster motivated spirits among the employees.

Business Strategy

On April 1, 2002, Tokuyama launched its three-year management plan emphasizing the two central themes of further realization of its management principles, and reorganization into a more profitable structure. For the reorganization in particular, four concrete strategies were formulated to maximize customer value. The Company is striving to accomplish these goals, as well as increase its corporate value.

As of March 31, 2003, one year had passed since the launch of the current three-year management plan. In evaluating the plan's progress, it is difficult to be optimistic in terms of performance, but in terms of rebuilding the profit structure — one of the plan's two central themes — much was accomplished during the fiscal year under review. In particular, there were several major successes regarding the achievement of the Structural Reform founded on the premise of a profitable structure, and a focus on the standpoint of the customer.

The Company's former business configuration, as seen from the customer's perspective, has been an aggregation of various unrelated businesses, with a structure centered on suppliers. With the implementation of the current three-year management plan, however, the organization and structure were shifted to focus more on the customer, the first step in a thorough Structural Reform. Specifically, the Company was reorganized into four business divisions: Cement, Chemicals, Si (Silicon) and Advanced Materials. Each business division was also given its own independent organization, complete with planning, R&D, manufacturing and marketing functions. This reorganization has given the Company a stronger customer focus and a structure that allows an agile response to market changes so as to add value to businesses.

In pursuit of more effective and efficient functional management, the Company is also delegating more authority throughout the Group, working to build a structure in which each business division serves the needs of its customers quickly and accurately. This type of management infrastructure will help enhance the degree of collaboration among Group companies, and strengthen the competitiveness of those supporting administrative functions within the Group, further increasing the entire Group's earning capacity.

More details on the status of the current three-year management plan are outlined in the following pages.

Chemicals

The Chemicals Segment is Tokuyama's mainstay business, producing many of the basic industrial chemicals used by businesses throughout Asia and around the world. The most important considerations for this segment are ensuring steady supplies, managing costs for maximum efficiency, and maintaining high standards in terms of both product quality and manufacturing technology. As markets shift and needs change, the ability of the Chemicals segment to assess the market and respond flexibly is of paramount importance.

Segment Performance

The Chemicals Segment has core operations in chlor-alkali, polyvinyl chloride, soda ash and calcium chloride. In fiscal 2003, slower demand and generally weak market conditions led to lower sales of caustic soda. On the other hand, sales of sodium silicate, cullet (anhydrous sodium silicate), propylene oxide and organic solvents were strong, and a recovery in the Asian markets boosted export sales of vinyl chloride monomer, raising the segment's profits.

Shin Dai-ichi Vinyl Corporation, the Company's subsidiary, which handles polyvinyl chloride, experienced a recovery in sales as domestic demand showed signs of improvement in the second half of the fiscal year. However, despite price revision that was made in an effort to improve the profit margin, continued increase in raw material prices prevented the subsidiary from returning to profitability.

Following the transfer of the polypropylene business to Idemitsu Petrochemical Co., Ltd. in July 2001, the Company continued polypropylene production on an outsourced basis for Idemitsu. Such production was discontinued during the period under review, however, following the completion of new facilities at Tokuyama Polypropylene Ltd., Co.

Sun·Tox Co., Ltd., a consolidated subsidiary that produces and sells plastic films, posted lower sales and profits as a result of fierce competition and the resulting deterioration of the market. Moreover, the subsidiary was delayed in adequately raising product prices to keep pace with increases in raw material costs.

The above factors combined to produce sales of ¥97,156 million in the Chemicals Segment, a decline of 6.9% from the previous fiscal year. However, operating income surged 69.7% to ¥5,832 million.

Significant Steps During Fiscal 2003

- Cost reduction of alkalis and chlorine was achieved by installation of new type of large-scale electrolyzers.
- Energy saving and process improvement in the manufacture of soda ash led to further cost reduction.
- The Delivery Center was established, allowing sales staff to concentrate more on marketing.
- Termination of external sales of polypropylene now permits risk hedging against fluctuations of market price.

Targets and Goals

Strengthening the foundations of the mainstay Chemicals Segment is an important consideration for maintaining and improving competitiveness at the Tokuyama Factory, the Company's principal manufacturing base. Implementation of the following measures will allow the Chemicals Segment to maintain the cost competitiveness of industrial basic chemicals in the neighboring Asian regions to maintain constant supplies. The Chemicals Segment thus aims at being a stable profit earner and a core business, and to continue to be trusted by customers at the same time.

- Maintain top global standards in manufacturing technology.
- Ensure a steady stream of orders.
- Practice diligent supply chain management for each product, reduce cost and improve customer satisfaction.

Strategy by Business Area

Chlor-Alkali

Strengthen the business structure on both the alkali and chlorine sides, while enhancing international competitiveness by implementing measure for a low-cost structure.

Polyvinyl Chloride

Improve the profit level by reforming the cost structure at Shin Dai-ichi Vinyl Corporation, and making proactive price adjustments.

Soda and Calcium Chloride

Further enhance the Company's advantageous profit structure in the fields of soda ash, calcium chloride, bicarbonate, cullet and silicates.

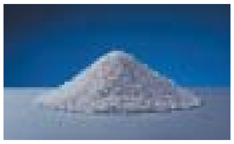
Microporous Film

Improve profitability by bringing high-value-added products to the market, and reducing costs. Continue moving forward with the current plan to develop business in China.

Oriented Polypropylene (OPP) Film

Sun·Tox Co., Ltd., which handles business development of OPP film in Japan, will improve its profitability by enhancing cost competitiveness and by developing and bringing to market high-value-added products. In China, this business is handled by Tianjin Sunshine Plastics Co., Ltd., which is shifting its focus to more high-value-added products to further strengthen its foundations for profitability.

Specialty Products



The Specialty Products Segment leads Tokuyama into new and developing fields, drawing on its resources and experience in markets for high performance and unique products. Its principal considerations are keeping abreast of the latest technologies and market developments, forging close relationships with clients in order to provide optimal solutions, and maintaining communication among planning development, manufacturing and marketing. A growing part of the Tokuyama Group, the Specialty Products Segment is the foremost creator of new markets and a key to the Group's future.

Segment Performance

The Specialty Products Segment consists of the silicon (Si) business, including polycrystalline silicon, precipitated silica and fumed silica, as well as the advanced materials business, which handles various chemical products, medical and dental products, ion-exchange membranes (IEM) and cleaning system.

Sales of polycrystalline silicon increased strongly, as demand recovered in the electronic materials market amid worldwide inventory adjustments, and growing use in solar batteries. However, the negative effects of depreciation on capital expenditures held back profitability. Meanwhile, despite intensified competition in the market for fumed silica, profitability improved with the introduction of new applications, the pioneering of new markets in Asia, and strong sales at overseas subsidiary Pornpat Chemicals Co., Ltd. As a result, sales and profits of the Si business overall grew strongly.

In the advanced materials business, sales growth was seen in ion-exchange membranes and in IEM & cleaning systems. In addition, high-purity chemicals for semiconductors and liquid crystals (IC Chemicals) progressed in a recovery trend with the help of overseas subsidiaries. Increases also were posted in medical diagnosis systems from subsidiary A&T Corporation and dental materials from Tokuyama Dental Corporation. However, the conversion of overseas affiliate Hantok Chemicals Co., Ltd. from consolidated subsidiary to equity-method affiliate had a negative effect, as did weaker sales of pharmaceutical chemical bulks and aluminum nitride. The combination of the above factors led to lower sales and profits overall for the advanced materials business.

Total sales in the Specialty Products Segment increased 9.1% from the previous fiscal year to ¥58,574 million, while operating income fell 1.6% to ¥5,151 million.

Significant Steps During Fiscal 2003

Silicon (Si) Business

- Greater sales and profits were realized through added production capacity for fumed silica.
- Sales volume of polycrystalline silicon improved due to the addition of new users, and the capacity utilization ratio increased.
- Work was begun on development of new manufacturing process for polycrystalline silicon to be used in solar batteries.
- New applications were developed and sales volume grew of the advanced material fumed silica.

Advanced Materials Business

- An increase and upgrade in production capacity was accomplished for IC chemicals to meet rising demand.
- Automated delivery system was introduced for IC chemicals.
- New applications were developed and sales channels opened for aluminum nitride and solvents.
- For photochromic substances, technical foundations were laid for development of new materials and new coating technologies.
- In dental materials, new products were brought to market and exports increased.
- Management efficiency was improved in the medical diagnosis business as a result of the merger of subsidiaries and integration of their offices.

Targets and Goals

The Specialty Products Segment comprises the silicon (Si) and advanced materials businesses.

Implementation of the following measures will allow the Si business to maintain its relative advantage in the face of global competition, and in the fulfillment of its role as a pillar for the Company's strategic growth, it will achieve greater sales and profits as a result of market expansion.

- ●Invest resources to maintain the highest global standard in manufacturing technology.
- ●Improve customer satisfaction through enhanced marketing efforts and technical services.
- ●Strengthen the business activities through intensified alliances with other companies.

Implementation of the following measures will allow the advanced materials business to use its base in specialty, high-performance materials to become a solutions partner for its customers, thereby achieving business expansion and growing to become a large-scale business that contributes to the Company's profitability into the next generation.

- ●Use R&D to continuously create new, high-performance materials.
- ●Build a structure to quickly respond to market changes by strengthening relationships with customers.
- ●Further strengthen the cooperative relationships among planning development, manufacturing and marketing, and provide customer service that is autonomous and responsive.

Strategy by Business Area

Polycrystalline Silicon

Respond flexibly to fluctuations in demand in the semiconductor market, increase international competitiveness through cost reductions and differentiation in manufacturing technology, and retain a share of global demand greater than 20%.

Silica and Derivatives

Build a high-revenue, high-profit structure that is able to quickly adapt to changes in the market, pursue international expansion with an eye to alliances with other companies, and achieve a 30% share of the Asian market.

Cleaning Systems for Metal

Develop ecological businesses such as leachate treatment using membrane technologies, and enter the field of high-performance membranes such as those for fuel cells.

Ion-Exchange Membranes

Achieve business expansion through alliance with Eurodia Industrie SA, which is the Company's subsidiary.

Fine Chemicals

Focus on developing and bringing to market new, high-performance products such as lens materials.

IC Chemicals

Accelerate international expansion in Asia by utilizing the network of subsidiaries in Korea, Taiwan and Singapore, concentrating on developing solutions and high-purity cleaning fluids for semiconductors.

Aluminium Nitride (Shapal)

Develop applications for hibrid cars and industrial machinery such as medical lasers and laser processing equipment.

Tokuyama Dental Corporation (Dental Materials)

Utilize experience with product development to continually develop and bring to market dental materials distinguished by their performance, and increase profitability.

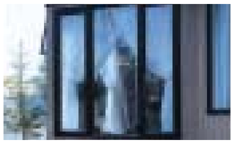
Figaro Engineering Inc. (Gas Sensors)

Attain differentiation and further strengthen the base for profitability in the gas sensor business handled by Figaro Engineering by continuously bringing to market new sensors that are more sensitive and use less energy than conventional products.

A&T Corporation (Medical Diagnosis)

Offer appropriate and well-timed introductions of diagnostic products and devices distinguished by their performance to ensure customer loyalty, in the medical diagnosis business handled by A&T and expand business in response to laboratory needs.

Cement, Building Materials & Others



The Cement, Building Materials and Others Segment, in addition to overseeing the manufacture and sale of the traditional materials and the services that support the Group, is important as Tokuyama's leading edge in recycling of industrial waste as fuel and/or material. Its main considerations are innovation in staid industries like cement, pioneering the latest technologies in resource and environmental management, and providing the Group with competitive, efficient services. The new technologies from this segment in recycling of industrial waste in particular hold great promise for the Company's future.

Segment Performance

As demand for cement continued to decline in Japan as a result of reductions in public works projects and other factors, the cement business focused on reducing costs and adjusting prices. Total volume of exports shipments decreased as well, despite the Company's effort to pursue sales growth and find new customers. Seeking to provide a stable source of profit, from fiscal 2003 the Company is emphasizing the recycling of waste materials in the manufacturing of cement, thereby creating an environmental business.

In building materials operations, subsidiary Shanon Co., Ltd. reported strong sales as a result of its efforts to cut costs and win new customers, despite the slump in housing starts.

In other operations, which include transport and property maintenance, efforts were made to increase administrative efficiency throughout the Group. As part of the Company's efforts to implement shared services, the Computer & Information systems department was spun off to form Tokuyama Information Service Corporation.

Sales in the Cement, Building Materials and Others Segment rose 1.3% to ¥69,798 million, while operating income fell 5.4% to ¥3,035 million.

Significant Steps During Fiscal 2003

- As part of the Company's effort to increase the volume of waste materials processed, the third stage was completed of a plant that uses waste plastics as fuel (processing 80 thousand tons per year upon completion of this stage) which is scheduled to start up in August 2003, and streamlining of the management of the plant was undertaken. The plant will process up to 165 thousand tons of waste per year when completed.
- Maintaining close relationships with customers helped secure Tokuyama's share of the domestic market, and collaboration with overseas manufacturers helped achieve a gradual increase in export volume.
- Technical performance measurements (TPM) helped realize cost reductions through consolidation and scrapping of service stations and ships.

Targets and Goals

Implementation of the following measures will allow the cement department to preserve its cost advantage with regard to neighboring Asian regions, and continue to provide stable profits as a core business within the Tokuyama Group.

- Undertake efforts to further increase the volume of waste materials processed, contributing to the realization of a recycling-oriented society and reducing costs.
- Increase cooperation with customers and pursue strategic increases in exports to ensure steady production volumes.
- Build a lower-cost structure by using TPM to reduce manufacturing costs, consolidating and/or scrapping service stations, and lowering distribution costs by restructuring the distribution system.
- Expand the building materials business, currently being handled by subsidiaries Shanon Co., Ltd. and Tokuyama MTech Corporation, by acquiring new customers and bringing new products to market.

- Other businesses, comprising transport, property maintenance and information systems, are handled by subsidiaries. In these businesses, increase competitiveness in the applied and high-performance fields that are indispensable to expansion of the Tokuyama Group

Strategy by Business Area

Cement

Reduce costs across the board through such measures as further streamlining of sales subsidiaries and ready-mixed concrete companies, and establish a structure that allows the business to operate as an independent company.

Resources and Environment

Reduce the cost of cement by promoting thermal recycling with such materials as waste plastics, sludge, surplus soil waste from construction, and contaminated soil. Also, upgrade the collection system for recyclable products.

Shanon Co., Ltd. (Plastic window sashes)

Strengthen production and marketing of the business of plastic window sashes and doors handled by Shanon, in the Kyushu region, and build a global structure beginning with overseas purchasing of material.

Other Businesses

While continuing to reduce costs, pursue strategic business growth by following the principle of placing first priority on customer satisfaction.

Activities Concerning the Environment, Health and Safety

Tokuyama has committed to environmental management in accordance with the guidelines and principles outlined by the Japan Responsible Care Council, in which health, safety and the environment are considered throughout the lifecycle of chemicals, from development through production, distribution, use, final consumption and disposal.

Eco-management is an integral part of the Company's management strategies. One of the Company's key environmental principles is to achieve a higher degree of environmental awareness in all business activities, and to meet the aim of contributing to the realization of a fully sustainable society.

ISO 14001 Certification

All of the Company's factories have acquired ISO 14001 certification for their environmental management systems. The environmental systems and individual activities at each plant help ensure that they meet their midterm targets for environmental impact reduction, regularly determined and reviewed in accordance with the Company's environmental policy directives.

Environmental Accounting

Environmental accounting is a useful way to measure capital investment related to environmental preservation and other preservation activities.

Total environmental investment made during fiscal 2003 was ¥1,063 million, expenditures there of totaled ¥5,239 million, and the total economic benefit was ¥1,247 million. Capital investment was made for of equipment to process gas emissions, waste liquid and wastewater.

Environmentally Responsible Business Development

Since the Company began manufacturing cement in 1938, it has made use of by-products from its own processes and those of other companies. Waste tires and waste plastics have been used as fuel, while sludge and coal ash have been incorporated as raw materials. Such effective use of waste materials is essential to the realization of a recycling-oriented society.

The Company also participates in the Ecotown Project, sponsored by the Ministry of Economy, Trade and Industry (METI) to promote zero emissions, by reprocessing the ash from waste incinerators in cities and towns, and recycling it into cement.

Other efforts include proactive development of environmentally friendly products, such as silica for energy-saving tires, as well as collection and recycling of used products.

Global Warming Prevention

Energy conservation is being promoted as part of the Company's efforts to reduce carbon dioxide emissions. The majority of reductions in energy consumption have been achieved in the manufacturing processes for cement, caustic soda and polycrystalline silicon. Specific processing measures include heat recovery and the use of waste plastics as fuel for the manufacture of cement, and reduction of electric energy consumption for electrolysis operation. These measures have resulted in a notable improvement in energy consumption, and kept emissions of carbon dioxide flat despite increased production.

Waste Reduction

Industrial waste and by-products generated by the manufacturing process are regularly recycled as raw materials and fuels for making cement. Materials generated in the manufacturing process, such as unreacted limestone, desulfurized gypsum and sludge, are used as raw material, while combustible materials are recycled as fuel. These measures significantly reduce the total amount that must be disposed of in landfills.

Reducing Environmental Burdens

The Company makes regular investments in the facilities necessary to reduce emissions into the environment. Desulfurization equipment, denitration equipment and dust collectors are employed to cut emissions of pollutants such as sulfur oxide and nitrogen oxide, as well as the soot and dust generated by power plants and cement kilns. Effluents containing organic substances are treated in activated sludge treatment facilities to reduce their chemical oxygen demand (COD). Incineration systems capable of removing harmful elements in emission gas are also used to reduce emissions of Pollutant Release and Transfer Register (PRTR) chemical substances.

Waste incinerators are also used to help reduce waste volume, and appropriate measures are taken to limit the emission of dioxins from these incinerators.

Regular surveys of soil contamination are also conducted on plant sites as part of the Company's monitoring of environmental pollution.

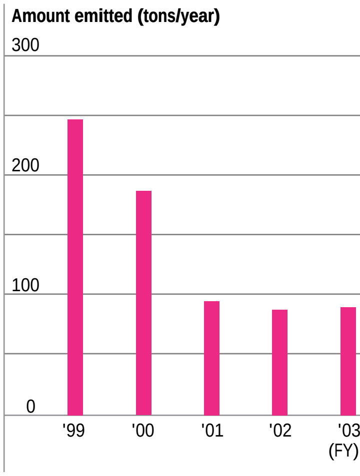
Workplace Safety

The Company recognizes that it has a social responsibility to ensure that its facilities are hazard- and accident-free, and proactively takes steps to ensure a safe workplace. All necessary safety precautions are taken, and disaster prevention facilities are installed at all factories. The work environment in all factories is maintained to ensure the health and safety of all workers, and regular emergency drills are conducted.

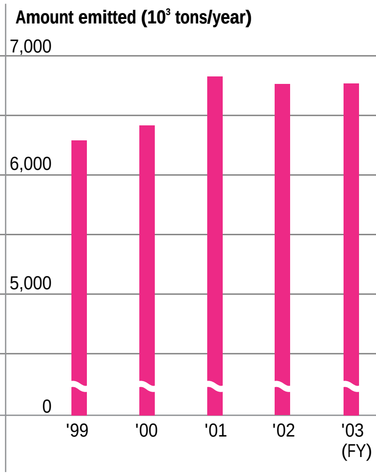
Safety Management of Chemical Substances

Appropriate product safety protocols are observed at all stages, from development through sales, in order to ensure proper management of chemical substances. The Company also provides appropriate handling guidelines for chemical substances during the distribution stages, and actively participates in such industry-wide activities as the High Production Volume (HPV) initiatives.

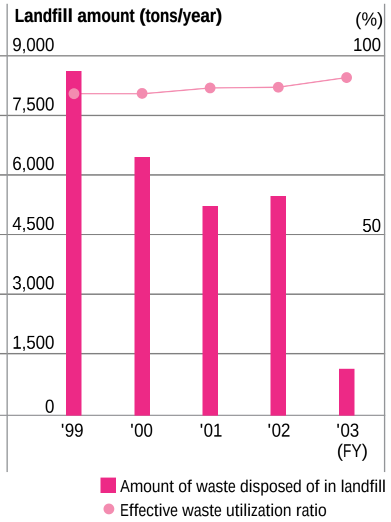
Emissions of PRTR Chemical Substances



CO_2 Emissions



Waste in Landfill & Waste Utilization



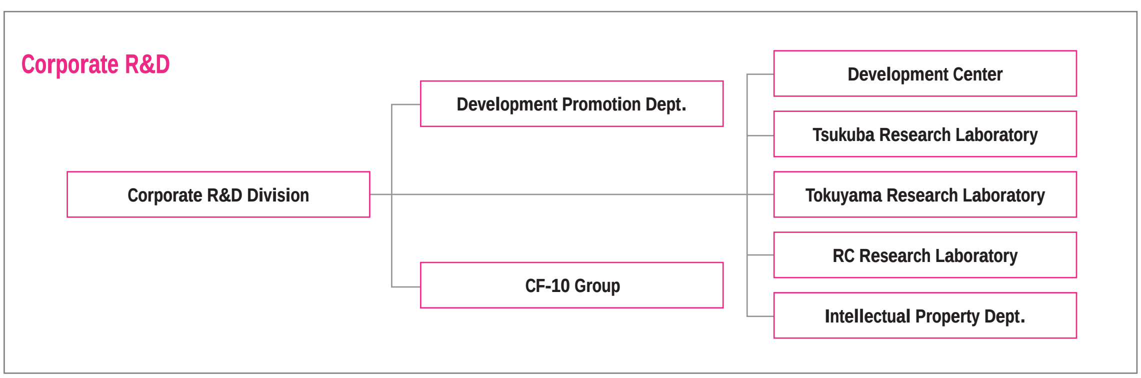
Research & Development

Organization and Focus of the R&D Program

In April 2002, with the start of the three-year management plan, Tokuyama's six business divisions were consolidated and reorganized into four, each with responsibility for its own planning, manufacturing, development and marketing. The new R&D structure consists of four research groups respectively belonging to each division, and the Corporate R&D Division.

The four research groups work closely with the planning and marketing operations within their respective business divisions to develop new products and fields that relate directly to the needs of customers today. Corporate R&D focuses on the medium to long term, concentrating resources in the strategic fields of Information & Electronics and Environment & Energy, the Company's strengths. It also coordinates Company-wide projects and those for which speed is essential.

Organization wise, Tokuyama's corporate R&D organization also includes the Development Center and the CF-10 Group, and supports the RC Research Laboratory (responsible for microchemical and environmental analysis), and the Intellectual Property and Development Promotion Departments. The CF-10 Group is responsible for development of single-crystal calcium fluoride (CaF_2). Although the group operated under the Development Center until recently, since its research project has progressed to the development stage, requiring Company-wide support, it has been placed under the direct supervision of the Director of the Corporate R&D Division for greater flexibility. The principal mission of the Development Promotion Department is to provide comprehensive support for R&D activities throughout the Company, oversee and analyze directions in research, offer project support, handle projects with parties outside the Company, such as collaborations between industry and academia, and search for and investigate new research directions.



During the fiscal year under review, the Group's R&D program consisted of approximately 500 people, and R&D expenses totaled ¥7,780 million. Broken down by segment, R&D expenses for Chemicals was ¥1,374 million, Specialty Products was ¥3,215 million, and Cement, Building Materials and Others was ¥780 million. Expenses for other basic research amounted to ¥2,411 million.

Research Highlights

Single-Crystal Calcium Fluoride

In 2002, the Company successfully grew a large-scale, 8 inch-class single crystal of calcium fluoride (CaF_2) with the Czochralski (CZ) method. This achievement, the first of its kind in the world, was conducted in collaboration with Professor Fukuda of the Institute of Multidisciplinary Research for Advanced Materials, Tohoku University. A developmental and semicommercial plant was installed in October 2002 in the Tokuyama Research Laboratory, and the first samples were shipped in spring of 2003.

Calcium fluoride is a lens material used in the stepper machines for semiconductor manufacturing, and is considered essential to fluorine (F2) laser steppers, the lifeblood of next-generation semiconductor photolithography systems. Prior to Tokuyama's achievement, calcium fluoride could only be manufactured using a directionally solidified method known as the Bridgman-Stockbarger method, which made it difficult to manufacture large crystals of calcium fluoride in a good yield.

A fully operational commercial plant is planned for fiscal 2004, with annual sales of ¥5 billion expected in the following few years.

Single-Crystal Barium Fluoride

The Company has also managed to grow a large-scale, 8 inch-class single crystal of barium fluoride using the CZ method, similarly under the guidance of Professor Fukuda. This achievement was the result of research to develop vacuum ultraviolet spectroscopy materials for next-generation short-wavelength photolightography, a research project of the regional innovation consortium sponsored by the Ministry of Economy, Trade and Industry. The crystalline structure has also shown vast improvement through heat treating.

New Silicon Production Methods

Steady progress was made on the development of new production methods for silicon to be used in solar batteries, a research project which was sponsored by New Energy and Industrial Technology Development Organization (NEDO). A reactor designed utilizing computer simulation technology has doubled the speed of silicon deposition during fusion in the Company's test equipment. Technology development on closed systems such as gas circulation technology and process refinement is also beginning to take shape.

Consolidated Five-Year Summary

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2003	2002	2001	2000	1999	2003
Results of operations:						
Net sales	¥225,528	¥226,950	¥244,182	¥224,110	¥207,391	$1,879,400
Cost of sales	159,627	161,728	170,125	151,930	139,583	1,330,224
Operating income	12,853	10,297	15,665	15,438	13,977	107,106
Net income	317	792	6,321	4,917	1,508	2,640
Per share amounts (in yen, dollars):						
Net income (basic)	¥1.22	¥3.11	¥24.79	¥19.29	¥5.91	$0.010
Net income (diluted)	–	–	24.17	18.92	–	–
Cash dividends	6.00	6.00	6.00	6.00	6.00	0.050
Financial position:						
Property, plant and equipment	¥149,509	¥159,015	¥164,481	¥166,368	¥154,015	$1,245,911
Total assets	316,751	346,600	373,551	351,662	304,736	2,639,592
Interest-bearing debt	131,355	149,919	159,149	164,991	144,089	1,094,627
Total liabilities	203,940	229,503	248,753	243,011	209,432	1,699,503
Total shareholders' equity	111,273	114,365	121,873	105,446	93,925	927,271
Ratios:						
Return on sales (ROS)	0.1%	0.3%	2.6%	2.2%	0.7%	–
Return on equity (ROE)	0.3%	0.7%	5.6%	4.9%	1.6%	–
Return on assets (ROA)	0.1%	0.2%	1.7%	1.5%	0.5%	–
Common stock price range (in yen):						
High	¥454	¥580	¥798	¥548	¥445	–
Low	268	300	390	347	280	–

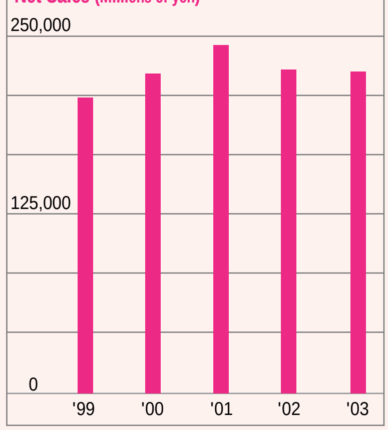
Notes: *1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥120=US$1.*
2. Common stock prices refer to the market price on the Tokyo Stock Exchange.

Financial Review

Income Analysis

In the Japanese economy during fiscal 2003 (ended March 31, 2003) a slight recovery was evident in the first half of the year, as exports picked up following the completion of worldwide inventory adjustments of IT-related products and the U.S. market gave a boost to individual consumption. Afterwards, however, uncertainty in the future of the U.S. economy, deepening deflation in Japan and a sharp rise in the price of such petrochemicals as ethylene and propylene following the outbreak of war in Iraq created a severe operating environment.

Net Sales (Millions of yen)



Sales Composition (%)

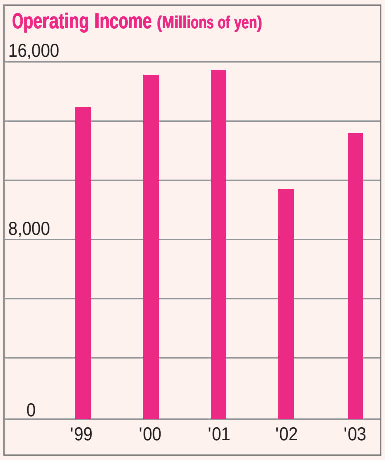
Faced with these difficult conditions, Tokuyama implemented cost-cutting measures, focusing on reductions in fixed costs such as personnel, purchasing, distribution/logistics, maintenance and repair. On the operational side as well the Company maximized efforts to maintain and/or correct retail prices in order to preserve profits, and to acquire new customers. However, the rising cost of petrochemicals and a loss on revaluation of securities, recorded in response to falling share prices of capital holdings in financial institutions, had a significant effect on performance.

Consolidated net sales for the fiscal year totaled ¥225,528 million (US$1,879 million), a slight decline from last year's total of ¥226,950 million. This was due mainly to an overall recovery in demand and healthy shipments of such products as sodium silicate and cullet (anhydrous sodium silicate), which contributed to sales, as well as a shift to outsource production following the transfer of operations of the polypropylene business.

By segment, the Chemical segment declined 6.9% from the previous fiscal year to ¥97,156 (US$810 million), the Specialty Products segment increased 9.1% to ¥58,574 million (US$488 million), and the Cement, Building Materials and Others segment fell 1.3% to ¥69,798 million (US$582 million).

Cost of sales decreased 1.3% from ¥161,728 million the previous fiscal year to ¥159,627 million (US$1,330 million). As a result, gross profit margin increased ¥679 million from ¥65,222 million the previous year to ¥65,901 million (US$549 million). Selling, general and administrative expenses declined 3.4% to ¥53,048 million (US$442 million). As a result, operating income for the year increased 24.8% from ¥10,297 million the previous year to ¥12,853 million (US$107 million). Operating income was 5.7% of net sales, as opposed to 4.5% in the previous year.

Depreciation for the year declined 13.4% to ¥20,866 million (US$174 million). Research and development expenses declined 4.2% to ¥7,780 million (US$65 million).



In other income and expenses a foreign exchange gain of ¥550 million in the previous year was replaced with a ¥475 million foreign exchange loss. Falling share prices of capital holdings in financial institutions also had a significant effect, resulting in an increase in losses on write-down of marketable and investment securities, from ¥207 million the previous year to ¥4,654 million (US$39 million). As a result, net other expenses increased 42.2% from the previous fiscal year to ¥10,789 million (US$90 million).

Income before income taxes fell 23.8% from the previous year's total of ¥2,709 million to ¥2,064 million (US$17 million). Income taxes were ¥1,817 million (US$15 million), and minority interests in losses of consolidated subsidiaries totaled ¥70 million (US$0.6 million). As a result, net income for the fiscal year declined 60.0% from last year's total of ¥792 million to ¥317 million (US$3 million). Return on sales (ROS) fell to 0.1% from the previous year's figure of 0.3%. Basic net income per share fell from ¥3.11 the previous year to ¥1.22 (US$0.010). Dividends per share were ¥6.00 (US$0.050), unchanged from the prior period.

Return on equity (ROE) and return on assets (ROA) were 0.3% and 0.1% respectively, compared to 0.7% and 0.2% the previous year.

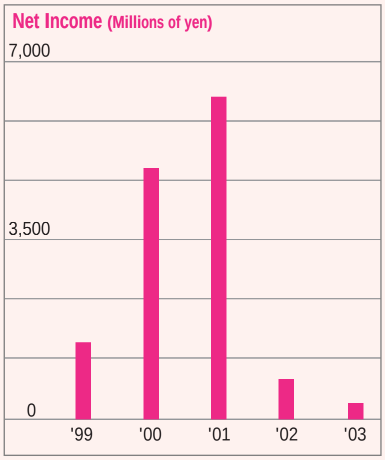
Segment Information

The Tokuyama Group consists of the parent company Tokuyama Corporation, 41 subsidiaries and 53 affiliated firms. Its operations are divided into three segments: Chemicals; Specialty Products; and Cement, Building Materials and Others. For accounting purposes, 40 of the Company's principal subsidiaries are consolidated, and 15 affiliates are accounted for by the equity method.

Chemicals

The Chemicals segment consists of 7 consolidated subsidiaries and 4 equity-method affiliates.

Sales in the Chemicals segment totaled ¥97,156 million (US$810 million), down 6.9% from the previous year's total of ¥104,328 million. Operating income grew 69.8% to ¥5,832 million (US$49 million). The segment's sales constituted 43.1% of total sales, down 2.9% from the previous fiscal year.



In the chemicals businesses, sales of caustic soda fell due to falling demand and a slowdown in the market resulting from the economic slump. However, strong sales of sodium silicate, cullet (anhydrous sodium silicate), propylene oxide (PO) and organic solvents, along with exports of vinyl chloride monomer bolstered by recovery in the Asian markets contributed to a rise in profitability in the business.

At Tokuyama's subsidiary Shin Dai-ichi Vinyl Corporation, indications of a recovery in sales were seen as domestic demand bottomed out in the second half of the period, which along with a price revision, undertaken as a measure to correct its profit margin, produced positive results. However, the further rise in prices for raw material held back restoration of profitability at the subsidiary. As a result of the above, the chemicals businesses recorded an increase in revenues and profits.

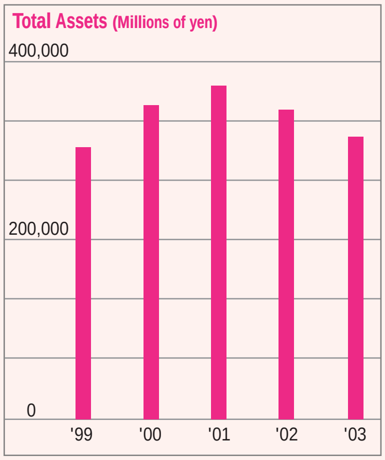
In polypropylene (PP) operations, the Company continued following the transfer of the business to Idemitsu Petrochemical Co., Ltd., outsourced manufacturing on behalf of Idemitsu. With the completion of new facilities being built in parallel at Tokuyama Polypropylene Ltd., Co., however, this outsourced manufacturing was discontinued during the period under review.

In film operations, consolidated subsidiary Sun·Tox Co., Ltd. experienced a decline in revenues and profits caused by fierce competition and deteriorating conditions in the market, as well as that company's hesitation to shift increases in prices of raw materials to finished products.

Specialty Products

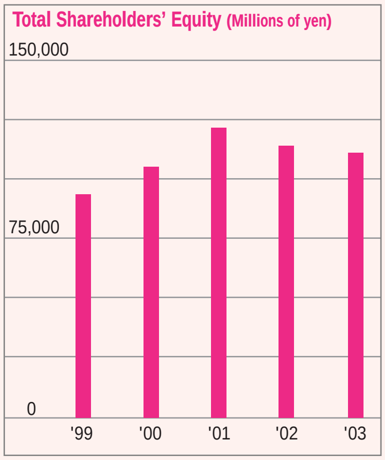
The Specialty Products segment consists of 12 consolidated subsidiaries and 5 equity-method affiliates.

Sales in this segment increased 9.1% from the previous fiscal year to ¥58,574 million (US$488 million), while operating income fell 1.6% to ¥5,151 million (US$43 million). The segment's sales constituted 26.0% of total sales, up 2.4% from the previous fiscal year.



In the silicon (Si) business, sales of electronics materials such as polycrystalline silicon increased considerably due to a recovery of volume following the completion of worldwide inventory adjustments and the switchover to next-generation wafers, as well as to greater shipments for use in solar batteries. However, owing to the negative effects of depreciation, the improvement in profitability for this business was minimal. Also, although the market for functional powders such as silica softened as a result of escalating competition, profitability was boosted by the positive effects of market expansion realized from new applications and the pioneering of new markets in Asia, as well as by strong sales at overseas subsidiary Pornpat Chemicals Co., Ltd. As a result, the Si business overall experienced significant growth in revenues and profits.

In the advanced materials businesses, strong growth was seen in IEM systems such as ion-exchange membranes and in cleaning systems, which along with contributions from high-purity chemicals for semiconductors and liquid crystals (IC Chemicals) at overseas subsidiaries, helped set the tone for a recovery. The switchover of Tokuyama's overseas affiliate Hantok Chemicals Co., Ltd. from consolidated subsidiary to equity-method affiliate led to an accounting decline in sales and profitability. Sales of fine chemicals such as pharmaceutical and agricultural chemical bulks and intermediates, however, declined due to slow sales of pharmaceutical chemical bulks, and profits dropped significantly. Sales of aluminum nitride were also down as a result of slow recovery in the optical communications field. Medical diagnosis systems from subsidiary A&T Corporation showed strong growth as a result of increased sales of laboratory systems, as medical facilities incorporate more technology into their operations. Dental materials from Tokuyama Dental Corporation returned greater revenues and profits due to the introduction of new products and higher exports. As a result of these factors, the overall advanced materials business recorded negative results.



Cement, Building Materials and Others

The Cement, Building Materials and Others segment consists of 21 consolidated subsidiaries and 6 equity-method affiliates. Sales in this segment increased 1.3% from the previous fiscal year to ¥69,798 million (US$582 million), while operating income fell 5.4% to ¥3,035 million (US$25 million). The segment's sales constituted 30.9% of total sales, up 0.5% from the previous fiscal year.

In the cement businesses, as demand in Japan continued to fall due to such factors as a cutback in public works projects, the cement business focused on reducing costs and setting appropriate market prices. For exports as well, although Tokuyama strived to pursue such sales opportunities as the acquisition of new customers, total shipped volume declined. Despite this business environment, recognizing the importance of creating a structure to provide a stable source of profit, from the period under review Tokuyama placed priority on making the processing of waste materials a Company-wide recycling and environment business, resulting in a contribution to segment profitability.

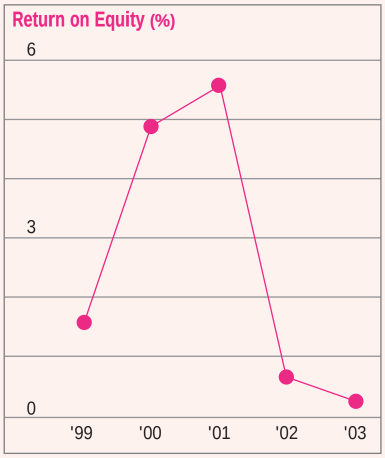
In building materials operations, subsidiary Shanon Co., Ltd. reported strong sales as a result of its efforts to cut costs and win new customers, despite the slump in housing starts.

In other operations, comprising transport, property maintenance and other operations, efforts were made to increase administrative efficiency throughout the Group. As part of the Company's efforts to implement shared services, the computer & information systems department was spun off to form Tokuyama Information Service Corporation.

Financial Position and Liquidity

Total assets as of March 31, 2003 were ¥316,751 million (US$2,640 million), a decline of 8.6% from the previous year's total of ¥346,600 million.

Current assets declined 7.9% from the previous fiscal year to ¥132,143 million (US$1,101 million), due mainly to declines in trade notes and accounts and inventories against increases in cash and cash equivalents. Current liabilities declined 4.5% from the previous year to ¥110,771 million (US$923 million). As a result, the current ratio fell from 1.24 times to 1.19 times. Investments and long-term receivables declined 21.2% to ¥32,671 million (US$272 million), due mainly to a drop in the market value of investment securities.



Net property, plant and equipment was ¥149,509 million (US$1,246 million). Increases in the category were mainly the result of upgrades and renewals of fumed silica manufacturing facilities and other equipment, with decreases primarily the result of depreciation, resulting in a decline from the previous fiscal year of 6.0%. Other assets decreased 9.0% to ¥2,428 million (US$20 million).

Total liabilities at year-end stood at ¥203,940 million (US$1,700 million), a decline of 11.1% from the previous year's total of ¥229,503 million. The principal causes of this decline were decreases in trade notes and accounts payable, and in interest-bearing debt. Interest-bearing debt fell 12.4% from the previous fiscal year as a result of redemption of corporate bonds, from ¥149,919 million to ¥131,355 million (US$1,095 million).

Minority interests fell 43.7% from ¥2,732 million in the previous year to ¥1,538 million (US$13 million). The main reasons for this decline were the switchover of Tokuyama's overseas affiliate Hantok Chemicals Co., Ltd. from consolidated subsidiary to equity-method affiliate, and Sun·Tox Co., Ltd. being made a wholly owned subsidiary.

Total shareholders' equity, due mainly to declines in retained earnings and losses from revaluation of other securities, declined 2.7% from the previous year's total of ¥114,365 million to ¥111,273 million (US$927 million). The equity ratio was 35.1%, up from 33.0% in the previous year. Shareholders' equity per share was ¥437.15, down from ¥448.62 the previous year.

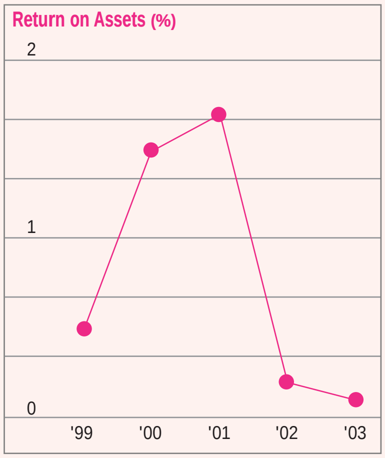
Capital Expenditures

Capital expenditures declined 28.2%, from ¥18,476 million the previous year to ¥13,258 million (US$110million). Although investments were made to increase and improve production facilities and in rationalization, the decline was due mainly to controls on the scope of depreciation allowances.

Cash Flows

Net cash provided by operating activities increased ¥14,734 million from the previous fiscal year's total of ¥23,666 million to ¥38,400 million (US$320 million). Although income before income taxes declined ¥645 million to ¥2,064 million (US$17 million), the increase was due mainly to a decrease in trade receivables and in inventories, as well as a ¥4,654 million (US$39 million) loss on write-down of marketable and investment securities.

Net cash used in investing activities declined ¥2,097 million from the previous fiscal year's total of ¥17,905 million to ¥15,808 million (US$132 million). This was due mainly to controls on the scope of depreciation allowances of capital expenditures, as well as reductions in loans and investments.



Net cash used in financing activities increased ¥8,555 million from the previous fiscal year's total of ¥11,128 million to ¥19,683 million (US$164 million). This was due mainly to ¥20,120 million (US$168 million) in redemption of corporate bonds, a part of the Company's effort to contract interest-bearing debt.

As a result, cash and cash equivalents increased ¥2,627 million from the previous fiscal year to ¥38,440 million (US$320 million).

Consolidated Balance Sheets

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2003 and 2002

ASSETS	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 2) 2003
Current assets:			
Cash and cash equivalents	¥ 38,440	¥ 35,813	$ 320,337
Time deposits	342	483	2,848
Short-term investments	2,273	2,475	18,944
Marketable securities (Note 4)	57	134	475
Receivables:			
Trade notes and accounts	60,747	68,060	506,223
Others	3,344	6,888	27,874
Less allowance for doubtful accounts	(468)	(530)	(3,902)
	63,623	74,418	530,195
Inventories (Note 5)	23,818	26,662	198,481
Deferred tax assets (Note 7)	3,096	2,869	25,799
Other current assets	494	583	4,111
Total current assets	132,143	143,437	1,101,190
Investments and long-term receivables:			
Investment securities (Note 4)	18,122	24,745	151,021
Investments in unconsolidated subsidiaries and affiliates	9,144	7,876	76,204
Long-term receivables	1,548	1,763	12,900
Others	7,100	10,745	59,161
Less allowance for doubtful accounts	(3,243)	(3,650)	(27,028)
	32,671	41,479	272,258
Property, plant and equipment (Note 6):			
Land	28,109	28,144	234,244
Buildings and structures	92,028	91,657	766,902
Machinery and equipment	386,959	385,109	3,224,660
Construction in progress	8,118	6,344	67,648
	515,214	511,254	4,293,454
Less accumulated depreciation	(365,705)	(352,239)	(3,047,543)
	149,509	159,015	1,245,911
Other assets:			
Intangible assets	1,776	2,170	14,803
Deferred tax assets (Note 7)	450	348	3,751
Excess of investment cost over equity in net assets acquired	202	151	1,679
	2,428	2,669	20,233
Total assets	¥316,751	¥ 346,600	$2,639,592

See notes to consolidated financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 2) 2003
Current liabilities:			
Short-term bank loans (Note 6)	¥ 26,323	¥ 26,667	$ 219,356
Current portion of long-term debt (Note 6)	23,906	26,631	199,217
Notes and accounts payable:			
Trade notes and accounts	32,417	39,539	270,144
Others	8,747	5,580	72,893
	41,164	45,119	343,037
Accrued income taxes (Note 7)	2,858	632	23,818
Accrued expenses	8,393	9,560	69,940
Guarantee deposits received from dealers	4,669	4,708	38,907
Other current liabilities	3,458	2,706	28,819
Total current liabilities	110,771	116,023	923,094
Long-term liabilities:			
Long-term debt, less current portion (Note 6)	81,126	96,621	676,054
Accrued retirement and severance benefits (Note 8)	8,947	10,453	74,558
Deferred tax liabilities (Note 7)	432	2,387	3,596
Other long-term liabilities	2,664	4,019	22,201
Total long-term liabilities	93,169	113,480	776,409
Minority interest in consolidated subsidiaries	1,538	2,732	12,818
Contingent liabilities (Note 16)			
Shareholders' equity (Note 13):			
Common stock, ¥50 par value:			
Authorized: 700,000,000 shares			
Issued: 254,971,876 shares	19,274	19,274	160,616
Additional paid-in capital	23,495	23,495	195,792
Retained earnings	66,377	67,783	553,141
Unrealized holding gains on available-for-sale securities	3,363	4,684	28,020
Foreign currency translation adjustments	(1,088)	(854)	(9,065)
	111,421	114,382	928,504
Less treasury stock, at cost	(148)	(17)	(1,233)
Total shareholders' equity	111,273	114,365	927,271
Total liabilities and shareholders' equity	¥316,751	¥346,600	$2,639,592

Consolidated Statements of Income

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	2003
Net sales	¥225,528	¥226,950	¥244,182	$1,879,400
Cost of sales	159,627	161,728	170,125	1,330,224
Gross profit	65,901	65,222	74,057	549,176
Selling, general and administrative expenses (Note 10)	53,048	54,925	58,392	442,070
Operating income	12,853	10,297	15,665	107,106
Other income (expenses):				
Interest and dividend income	393	517	731	3,275
Interest expenses	(3,187)	(3,649)	(4,275)	(26,558)
Gain on sale (loss from disposal) of property, plant and equipment	(115)	(250)	1,158	(961)
Gain on sale of marketable and investment securities	0	314	855	1
Loss on write-down of marketable and investment securities	(4,654)	(207)	(198)	(38,785)
Foreign exchange gain (loss)	(475)	550	585	(3,959)
Seconded employee labor cost	(1,309)	(1,315)	(988)	(10,907)
Gain on contribution of securities to an employee retirement benefits trust (Note 8)	–	–	3,549	–
Amortization of net transition obligation (Note 8)	(113)	(134)	(4,249)	(942)
Amorization of prior service cost	63	–	–	523
Casualty loss of earthquake	–	–	(763)	–
Costs of idle operations	(1,885)	(2,359)	(371)	(15,705)
Loss on valuation allowance for investments	–	(836)	–	–
Equity in earnings (loss) of unconsolidated subsidiaries and affiliates	307	(70)	500	2,556
Other—net	186	(149)	(1,035)	1,555
	(10,789)	(7,588)	(4,501)	(89,907)
Income before income taxes	2,064	2,709	11,164	17,199
Income taxes (Note 7):				
Current	3,012	1,339	5,822	25,100
Deferred	(1,195)	839	(430)	(9,957)
	1,817	2,178	5,392	15,143
Minority interests in losses of consolidated subsidiaries	70	261	549	584
Net income	¥ 317	¥ 792	¥ 6,321	$ 2,640

	Millions of yen			U.S. dollars (Note 2)
	2003	2002	2001	2003
Per share amounts:				
Net income (basic)	¥1.22	¥3.11	¥24.79	$0.010
Net income (diluted)	–	–	24.17	–
Cash dividends	6.00	6.00	6.00	0.050

See notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	2003
Common stock				
Balance at beginning of year	¥19,274	¥19,274	¥19,274	$160,616
Balance at end of year	¥19,274	¥19,274	¥19,274	$160,616
Additional paid-in capital				
Balance at beginning of year	¥23,495	¥23,495	¥23,495	$195,792
Balance at end of year	¥23,495	¥23,495	¥23,495	$195,792
Retained earnings				
Balance at beginning of year	¥67,783	¥68,709	¥64,024	$564,859
Net income	317	792	6,321	2,640
Cash dividends paid	(1,529)	(1,530)	(1,530)	(12,744)
Bonuses to directors and statutory auditors	(52)	(58)	(59)	(434)
Decrease due to change in equity of consolidated subsidiaries	(7)	–	–	(60)
Adjustment due to increase of consolidated subsidiaries	0	–	–	(4)
Decrease due to exclusion of consolidated subsidiaries and affiliates	(135)	(130)	(47)	(1,116)
Balance at end of year	¥66,377	¥67,783	¥68,709	$553,141
Unrealized holding gains on available-for-sale securities				
Balance at beginning of year	¥ 4,684	¥11,592	¥ –	$ 39,033
Increase (decrease)	(1,321)	(6,908)	11,592	(11,013)
Balance at end of year	¥ 3,363	¥ 4,684	¥11,592	$ 28,020
Foreign currency translation adjustments				
Balance at beginning of year	¥ (854)	¥ (1,196)	¥ (1,312)	$ (7,114)
Increase (decrease)	(234)	342	116	(1,951)
Balance at end of year	¥ (1,088)	¥ (854)	¥ (1,196)	$ (9,065)
Less treasury stock, at cost				
Balance at beginning of year	¥ (17)	¥ (1)	¥ (35)	$ (142)
(Increase) decrease	(131)	(16)	34	(1,091)
Balance at end of year	¥ (148)	¥ (17)	¥ (1)	$ (1,233)
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, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	2003
Cash flows from operating activities:				
Income before income taxes	¥ 2,064	¥ 2,709	¥ 11,164	$ 17,199
Adjustments to reconcile net cash provided by operating activities:				
Depreciation	20,866	24,096	20,811	173,880
Increase (decrease) in provision	(1,974)	(2,258)	96	(16,449)
Interest and dividend income	(393)	(517)	(731)	(3,275)
Gain on sale of marketable and investment securities	0	(314)	(855)	(1)
Foreign exchange (gain) loss	133	(323)	(324)	1,112
(Gain) loss on sale and disposal of property, plant and equipment	115	250	(1,158)	961
Equity in loss (earnings) of unconsolidated subsidiaries and affiliates	(307)	70	(500)	(2,556)
Interest expenses	3,187	3,649	4,275	26,558
Loss on write-down of marketable and investment securities	4,654	207	198	38,785
Gain on contribution securities to an employee retirement benefits trust	–	–	(3,549)	–
Amortization of net transition obligation	113	134	4,249	942
(Increase) decrease in trade receivables	6,999	8,087	(4,664)	58,327
(Increase) decrease in inventories	2,677	(731)	1,412	22,305
Decrease in trade payable	(729)	(785)	(708)	(6,078)
Payment for bonuses to directors and statutory auditors	(55)	(58)	(59)	(458)
Other	1,936	(471)	1,960	16,131
Sub total	39,286	33,745	31,617	327,383
Interest and dividend received	707	613	781	5,892
Interest paid	(3,165)	(3,675)	(4,252)	(26,376)
Income taxes (paid) refunded	1,572	(7,017)	(3,687)	13,103
Net cash provided by operating activities	38,400	23,666	24,459	320,002
Cash flows from investing activities:				
Increase in time deposits	(155)	(494)	(577)	(1,295)
Decrease in time deposits	292	589	367	2,433
Payments for purchases of marketable securities	(57)	(148)	(167)	(475)
Proceeds from sales of marketable securities	64	208	107	534
Payments for purchases of property, plant and equipment	(15,048)	(17,731)	(18,094)	(125,402)
Proceeds from sales of property, plant and equipment	440	1,524	2,239	3,670
Payments for purchases of investment securities	(2,050)	(849)	(1,352)	(17,086)
Proceeds from sales of investment securities	1,564	982	908	13,029
Increase in loans receivable	(429)	(132)	(1,096)	(3,575)
Decrease in loans receivable	680	547	736	5,664
Other	(1,109)	(2,401)	658	(9,227)
Net cash used in investing activities	(15,808)	(17,905)	(16,271)	(131,730)
Cash flows from financing activities:				
Increase (decrease) in short-term loans	(441)	(9,450)	4,550	(3,671)
Proceeds from long-term debt	9,326	8,530	8,296	77,721
Repayments of long-term debt	(6,893)	(8,159)	(10,693)	(57,438)
Redemption of bonds	(20,120)	(500)	(10,452)	(167,667)
Cash dividends paid	(1,529)	(1,530)	(1,530)	(12,744)
Cash dividends paid to minority interest	(16)	(14)	(22)	(133)
Increase in treasury stock	(131)	(15)	(33)	(1,092)
Other	121	10	145	1,000
Net cash provided by (used in) financing activities	(19,683)	(11,128)	(9,739)	(164,024)
Effect of exchange rate changes on cash and cash equivalents	(29)	194	190	(243)
Net increase (decrease) in cash and cash equivalents	2,880	(5,173)	(1,361)	24,005
Cash and cash equivalents at beginning of the year	35,813	41,392	42,256	298,443
Increase (decrease) in cash and cash equivalents due to changes of scope of consolidation	(253)	(406)	497	(2,111)
Cash and cash equivalents at end of year	¥38,440	¥ 35,813	¥ 41,392	$ 320,337

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 ¥120=US$1, the approximate exchange rate on March 31, 2003. 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 40 significant subsidiaries (41 in 2002 and 43 in 2001). Significant intercompany transactions and accounts have been eliminated in consolidation.

In total, 10 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 15 unconsolidated subsidiaries and affiliates (14 in 2002 and 11 in 2001) 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:

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):

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:

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:

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:

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:

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share. Under the new accounting standard, basic net income per share is computed by dividing net income available to commoon stockholders by the weighted average number of common shares outstanding during each year. 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, 2003 and 2002 was not presented because there was no dilutive effect on any assumed conversion of convertible bonds for the year ended March 31, 2003 and 2002.

4. Market value information

The market values and net unrealized gains of quoted securities at March 31, 2003 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	¥9,529	¥15,166	¥5,637
Bonds and others	–	–	–
Total	¥9,529	¥15,166	¥5,637

	Millions of yen
	Carrying amount
Non-quoted main securities:	
Held-to-maturity debt securities	¥ –
Other securities	4,512
Total	¥4,512

	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	$79,410	$126,384	$46,974
Bonds and others	–	–	–
Total	$79,410	$126,384	$46,974

	Thousands of U.S. dollars
	Carrying amount
Non-quoted main securities:	
Held-to-maturity debt securities	$ –
Other securities	37,599
Total	$37,599

5. Inventories

Inventories at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Finished products and merchandise	¥14,050	¥16,398	$117,083
Work in progress	3,570	3,558	29,745
Raw materials and supplies	6,198	6,706	51,653
Total	¥23,818	¥26,662	$198,481

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

Short-term bank loans at March 31, 2003 represent loans, which principally bear interest at rates ranging from 0.40% to 5.04% per annum.

A summary of long-term debt at March 31, 2003 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans principally from banks and insurance companies, due through 2020 with interest rates ranging from 0.92 percent to 7.20 percent	¥50,952	¥ 48,852	$424,603
2.2 percent unsecured convertible bonds in yen due September 30, 2003	9,280	9,400	77,333
2.75 percent unsecured bonds in yen due June 14, 2002	–	10,000	–
2.9 percent unsecured bonds in yen due February 15, 2003	–	10,000	–
2.45 percent unsecured bonds in yen due March 26, 2004	5,000	5,000	41,667
2.575 percent unsecured bonds in yen due August 19, 2004	9,800	10,000	81,667
2.9 percent unsecured bonds in yen due January 9, 2008	5,000	5,000	41,667
2.6 percent unsecured bonds in yen due April 28, 2005	5,000	5,000	41,667
2.24 percent unsecured bonds in yen due April 27, 2006	5,000	5,000	41,667
2.65 percent unsecured bonds in yen due September 2, 2009	5,000	5,000	41,667
2.35 percent unsecured bonds in yen due March 29, 2010	10,000	10,000	83,333
	105,032	123,252	875,271
Less current portion	(23,906)	(26,631)	(199,217)
	¥81,126	¥ 96,621	$676,054

The aggregate annual maturities of long-term debt at March 31, 2003 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31		
2004	¥ 23,906	$199,217
2005	14,959	124,658
2006	8,307	69,226
2007	11,185	93,204
2008	14,295	119,124
Thereafter	32,380	269,842
	¥105,032	$875,271

Assets pledged as collateral for certain loans and other liabilities at March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Pledged Assets			
Property, plant and equipment	¥54,003	¥62,051	$450,025
Other	755	289	6,295
	¥54,758	¥62,340	$456,320

Additional information with respect to the Company's convertible bonds outstanding at March 31, 2003 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, 2003, approximately 11,959 thousand additional shares of common stock would have been issued.

7. 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, 2003. 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, 2003 and 2002 were summarized as follows:

	2003	2002
Statutory tax rate	41.7%	41.7%
Increase (decrease) in income taxes resulting from:		
Loss carried forward without deffered tax assets	30.4	32.1
Permanent differences	9.6	7.0
Lower tax rates of overseas consolidated subsidiaries	(5.9)	(6.4)
Per capita inhabitant tax	4.3	3.4
Effect of future tax rate reduction	3.9	–
Other	4.1	2.6
Effective income tax rate	88.1%	80.4%

Significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Allowance for repairs	¥1,607	¥ 1,856	$13,395
Fixed assets	766	951	6,382
Accrued retirement and severance benefits	1,998	1,330	16,646
Investment securities	1,458	605	12,150
Deficits	6,952	5,130	57,934
Others	2,442	3,048	20,353
Subtotal	15,223	12,920	126,860
Less valuation allowance	(6,871)	(5,178)	(57,254)
Total deferred tax assets	8,352	7,742	69,606
Deferred tax liabilities:			
Unrealized holding gains on available-for-sale securities	(2,284)	(3,361)	(19,030)
Special depreciation reserve	(1,087)	(1,412)	(9,055)
Appropriations for advanced depreciation	(1,788)	(1,836)	(14,905)
Others	(79)	(303)	(662)
Total deferred tax liabilities	(5,238)	(6,912)	(43,652)
Net deferred tax assets (liabilities)	¥3,114	¥ 830	$25,954

8. 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 $ 30 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, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
Project benefit obligation	¥(32,477)	$(270,646)
Fair value of plan assets	14,562	121,358
Funded status	(17,915)	(149,288)
Unrecognized net transition obligation	220	1,831
Unrecognized actuarial loss	8,749	72,903
Unrecognized prior service cost	–	–
Net amount shown on balance sheet	(8,946)	(74,554)
Prepaid pension expense	1	4
Accrued retirement and severance benefits	¥ (8,947)	$ (74,558)

Benefit costs for the year ended March 31, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥1,202	$ 10,017
Interest cost	938	7,818
Expected return on plan assets	(237)	(1,975)
Amortization of net transition obligation	113	942
Recognized actuarial loss	201	1,676
Amortization of prior service cost	(63)	(523)
Benefit cost	¥2,154	$ 17,955

Assumptions used in the actuarial calculation were as follows:

Discount rate	2.5%
Expected rate of return on plan assets	2.0%

9. Leases

Lease payments on finance lease contracts that do not transfer ownership for the year ended March 31, 2003 amounted to ¥727 million (US$6,060 thousand). Lease payments corresponding to depreciation expenses for the year ended March 31, 2003, 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 ¥727 million (US$6,060 thousand).

If the leases were capitalized, the cost of assets and accumulated depreciation at March 31, 2003 and 2002 would be as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Machinery, equipment and vehicles	¥ 410	¥ 376	$ 3,417
Other	2,678	2,914	22,317
Less accumulated depreciation	(1,617)	(2,038)	(13,474)
Total	¥1,471	¥ 1,252	$12,260

The future lease payments on finance leases at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 533	¥ 471	$ 4,444
Due beyond one year	938	781	7,816
Total	¥1,471	¥1,252	$12,260

10. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Carriage and shipping	¥24,361	¥26,973	¥29,800	$203,006
Salaries and bonuses	7,835	7,262	7,864	65,292
Research and development expenses	6,481	6,625	6,126	54,010
Rent	2,132	2,604	2,636	17,767
Traveling expenses and postage	1,888	1,844	1,831	15,737
Welfare expense	1,364	1,362	1,265	11,367
Other	8,987	8,255	8,870	74,891
Total	¥53,048	¥54,925	¥58,392	$442,070

11. Depreciation

Depreciation for the years ended March 31, 2003, 2002 and 2001 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Depreciation	¥20,866	¥24,096	¥20,811	$173,880

12. Research and development expenses

Research and development expenses for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Research and development expenses	¥7,780	¥8,123	¥7,570	$64,829

13. Shareholders' equity

Effective October 1, 2001, the Commercial Code of Japan provides that an amount equal to at least 10% of appropriations of retained earnings to be paid in cash shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and capital reserve equals 25% of stated capital.

The 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. On condition that the total amount of legal reserve and capital reserve remains being equal to or exceeding 25% of common stock, they are available for distributions and certain other purposes by the resolution of shareholders' meeting.

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

14. 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, 2003, 2002 and 2001 was summarized as follows:

	Millions of yen					
2003	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
1. Sales						
Sales to customers	¥97,156	¥58,574	¥69,798	¥225,528	¥ –	¥225,528
Inter-segment sales/transfer	1,472	79	4,614	6,165	(6,165)	–
Total sales	¥98,628	¥58,653	¥74,412	¥231,693	¥ (6,165)	¥225,528
Operating expense	92,796	53,502	71,377	217,675	(5,000)	212,675
Operating income	5,832	5,151	3,035	14,018	(1,165)	12,853
2. Assets						
Assets	¥96,069	¥77,833	¥73,962	¥247,864	¥68,887	¥316,751
Depreciation	7,653	8,155	4,482	20,290	576	20,866
Capital expenditures	5,170	3,890	3,657	12,717	541	13,258

2002	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
	Millions of yen					
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

2001	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
	Millions of yen					
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)	¥224,182
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

2003	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
	Thousands of U.S. dollars					
1. Sales						
Sales to customers	$809,631	$488,119	$581,650	$1,879,400	$ –	$1,879,400
Inter-segment sales/transfer	12,266	658	38,448	51,372	(51,372)	–
Total sales	$821,897	$488,777	$620,098	$1,930,772	$ (51,372)	$1,879,400
Operating expense	773,297	445,852	594,812	1,813,961	(41,667)	1,772,294
Operating income	48,600	42,925	25,286	116,811	(9,705)	107,106
2. Assets						
Assets	$800,575	$648,611	$616,350	$2,065,536	$574,056	$2,639,592
Depreciation	63,773	67,960	37,354	169,087	4,793	173,880
Capital expenditures	43,080	32,420	30,479	105,979	4,506	110,485

Overseas sales information

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Asia	¥22,716	¥20,585	$189,301
Others	10,243	7,736	85,356
Total	¥32,959	¥28,321	$274,657

15. 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, 2003 and 2002 were as follows:

	Millions of yen		
2003	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
To sell foreign currencies:			
U.S. dollars	¥ –	¥ –	¥ –
To buy foreign currencies:			
U.S. dollars	–	–	–
Interest rate swap contracts:			
To receive floating and to pay fixed rates	¥5,000	¥(537)	¥(537)

	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)

	Thousands of U.S.dollars		
2003	Contract amount	Fair value	Unrealized gain (loss)
Forward exchange contracts:			
To sell foreign currencies:			
U.S. dollars	$ –	$ –	$ –
To buy foreign currencies:			
U.S. dollars	–	–	–
Interest rate swap contracts:			
To receive floating and to pay fixed rates	$41,667	$(4,471)	$(4,471)

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.

16. Contingent liabilities

At March 31, 2003 and 2002, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Notes discounted or endorsed	¥1,314	¥1,634	$10,949
Loans guaranteed	918	1,396	7,647
Commitments to guarantee	1,492	1,716	12,429
Letters of awareness	161	171	1,343

17. Subsequent events

At the annual shareholders' meeting of the Company held on June 27, 2003, the appropriation of retained earnings for the year ended March 31, 2003, was approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.00 per share)	¥764	$6,363

The meeting of the Board of Directors held on April 10, 2003, approved the issue of unsecured bonds. The detail of this issue is as follows:

	Millions of yen	Thousands of U.S. dollars
0.47% bonds due 2008, issued on June 19, 2003	¥5,000	$416,667

The meeting of the Board of Directors held on May 12, 2003, approved the assumption agreement with the banking facility that recognized the extinction of the financial debt. The detail of this issue is as follows:

	Millions of yen	Thousands of U.S. dollars
2.6% bonds due 2007, issued on April 30, 2000	¥5,000	$416,667

18. 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.

Independent Auditors’ Report

The Board of Directors
Tokuyama Corporation

We have audited the accompanying consolidated balance sheets of Tokuyama Corporation and subsidiaries as of March 31, 2003, and 2002, and the related consolidated statements of income, shareholders’ equity and cash flows for each of the three years in the period ended March 31, 2003, all expressed Japanese yen. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tokuyama Corporation and subsidiaries as of March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for conveniences. 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, 2003

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Fax: +49-211-357379

Major Subsidiaries and Affiliates

(As of March 31, 2003)

Company	Capital (millions of yen, local currency in thousands)	Ownership (%)	Scope
Chemicals			
· Shin Dai-ichi Vinyl Corporation	8,000	71	Production and sale of polyvinyl chloride
· Sun Arrow Chemical Co., Ltd.	98	100	Production and sale of polyvinyl chloride compounds
· Sun·Tox Co., Ltd.	1,600	100	Production and sale of plastic films
· Tomitec Co., Ltd.	100	60	Production of plastic molding and moisture absorbing agents, as well as components for gas sensors and office equipment
· Tianjin Sunshine Plastics Co., Ltd.	RMB132,885	71.25	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
◊ Shanghai Tokuyama Plastic Co., Ltd.	US$3,300	100	Production and sale of microporous film
* 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 2 equity method affiliates and 8 affiliates)			
Specialty Products			
· Tokuyama Dental Corporation	100	100	Production and sale of dental and medical materials
· A&T Corporation	437	62.4	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.	RMB23,670	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
· Kyusyu Tokuyama Ready Mixed Concrete Co., Ltd.	50	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 window sashes and doors
· Tohoku Shannon Co., Ltd.	300	72	Production of plastic window sashes
· Hachimaru Sangyo Corporation	10	100	Production of plastic window 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	Import and sale of cement
(Category also includes another 9 consolidated subsidiaries, 2 equity method affiliates and 27 affiliates)			

*· Consolidated subsidiary * Affiliate accounted for by the equity method ◊ Unconsolidated subsidiaries*

Overseas

Company	Capital (thousands)	Ownership (%)	Scope
Tokuyama America Inc.	US$300	100	Sale of Tokuyama's products
Tokuyama Europe GmbH	EUR256	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	71.25	Production and sale of plastic films
Southern Cross Cement Corporation	PP342,000	50	Sale of cement
Tianjin Figaro Electronic Co., Ltd.	RMB23,670	40.70	Production and sale of sensor devices
Shanghai Tokuyama Plastic Co., Ltd.	US$3,300	100	Production and sale of microporous film

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)
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 metal
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

Board of Directors

(As of June 27, 2003)

Chairman
Yuichi Miura

President
Shigeaki Nakahara

Executive Managing Director
Kazuhiko Nishimura
Assistant to the President, Overseeing of all Affiliates

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

Hiroaki Masaki
General Manager of Corporate Administration Dept., Overseeing of Auditing Dept., Secretarial Dept. and all branch and local sales offices

Hisami Tanimoto
General Manager of Tokuyama Factory

Yoshikazu Mizuno
General Manager of Chemicals Business Div.,

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

Kazuo Ikeda
General Manager of Manufacturing Technology Div.

Masao Kusunoki
General Manager of Cement Business Div.

Directors
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.

Seiichi Shiraga
Deputy General Manager of Tokuyama Factory
General Manager of Steam & Power Generation Dept.

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):
4,615

Shares Authorized:
700,000,000

Shares Issued:
254,971,876

Shareholders:
29,387

Major Shareholders:

(As of March 31, 2003)

	Number of Shares Held (Thousands)	Percentage of Total Shares
Nippon Life Insurance Company	15,689	6.26
The Master Trust Bank of Japan, Ltd.	15,316	6.11
Japan Trustee Services Bank, Ltd.	13,314	5.31
Mizuho Corporate Bank, Ltd.	8,987	3.59
UFJ Bank Ltd.	8,417	3.36
The Yamaguchi Bank, Ltd.	7,798	3.11
UFJ Trust Bank Ltd.	7,790	3.11
The Meiji Mutual Life Insurance Company	7,486	2.99
The Tokio Marine & Fire Insurance Co., Ltd.	6,904	2.76
J.P. Morgan Trust Bank Ltd.	6,686	2.67

Composition of Shareholders:

	Number of Shares Held (Thousands)	Percentage of Total Shares
Financial Institutions	139,634	54.7
Individuals/Other	64,528	25.3
Other Domestic Corporations	37.767	14.8
Non-Japanese Corporations/Foreigners	11,361	4.5
Securities Companies	1,680	0.7

Corporate Data

(As of March 31, 2002)

Established:
February 16, 1918

Capital:
¥19,274 million

Employees (consolidated):
4,615

Shares Authorized:
700,000,000

Shares Issued:
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(As of March 31, 2003)

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