

## Summary of Consolidated Financial Statements for the Fiscal 2003

May 12, 2004

### Tokuyama Corporation

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Stock exchange listings: Tokyo, Osaka

Code number: 4043

Use of U.S. accounting standard: No

### 1. Consolidated results for fiscal year ended March 31, 2004 (April 1, 2003 - March 31, 2004)

#### (1) Performance

Note: All amounts are rounded down to the nearest million yen.

	Net sales		Operating income		Ordinary income	
	(millions of yen)	Year-on-year change [%]	(millions of yen)	Year-on-year change [%]	(millions of yen)	Year-on-year change [%]
Fiscal 2003	219,393	(2.7)	13,195	2.7	9,247	46.1
Fiscal 2002	225,527	(0.6)	12,852	24.8	6,328	67.9

	Net income		Net income per share (yen)	Diluted net income per share (yen)	Return on equity [%]	Ordinary income per total assets [%]	Ordinary income per total sales [%]
	(millions of yen)	Year-on-year change [%]					
Fiscal 2003	6,038	-	23.52	-	5.1	3.0	4.2
Fiscal 2002	316	(60.0)	1.22	-	0.3	1.9	2.8

#### (2) Financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(millions of yen)	(millions of yen)	(%)	(yen)
Mar 31, 2004	308,816	124,451	40.3	488.90
Mar 31, 2003	316,751	111,272	35.1	437.15

#### (3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	(millions of yen)	(millions of yen)	(millions of yen)	(millions of yen)
Fiscal 2003	27,709	(16,281)	(27,852)	22,215
Fiscal 2002	38,400	(15,807)	(19,682)	38,440

### 2. Financial forecast for fiscal 2004 (From April 1, 2004 to March 31, 2005)

	Net sales	Operating Income	Ordinary Income	Net income
	(millions of yen)	(millions of yen)	(millions of yen)	(millions of yen)
First Half Fiscal 2004	110,000	7,000	5,500	3,000
Fiscal 2004	228,000	16,000	13,000	8,000

Reference: Prospected net income per share for fiscal 2004: 31.44 yen

The forecast have been prepared on the basis of information available at this point, and may be different from the actual performance because of various factors that may arise from now on.

### Current Situation of Tokuyama Group

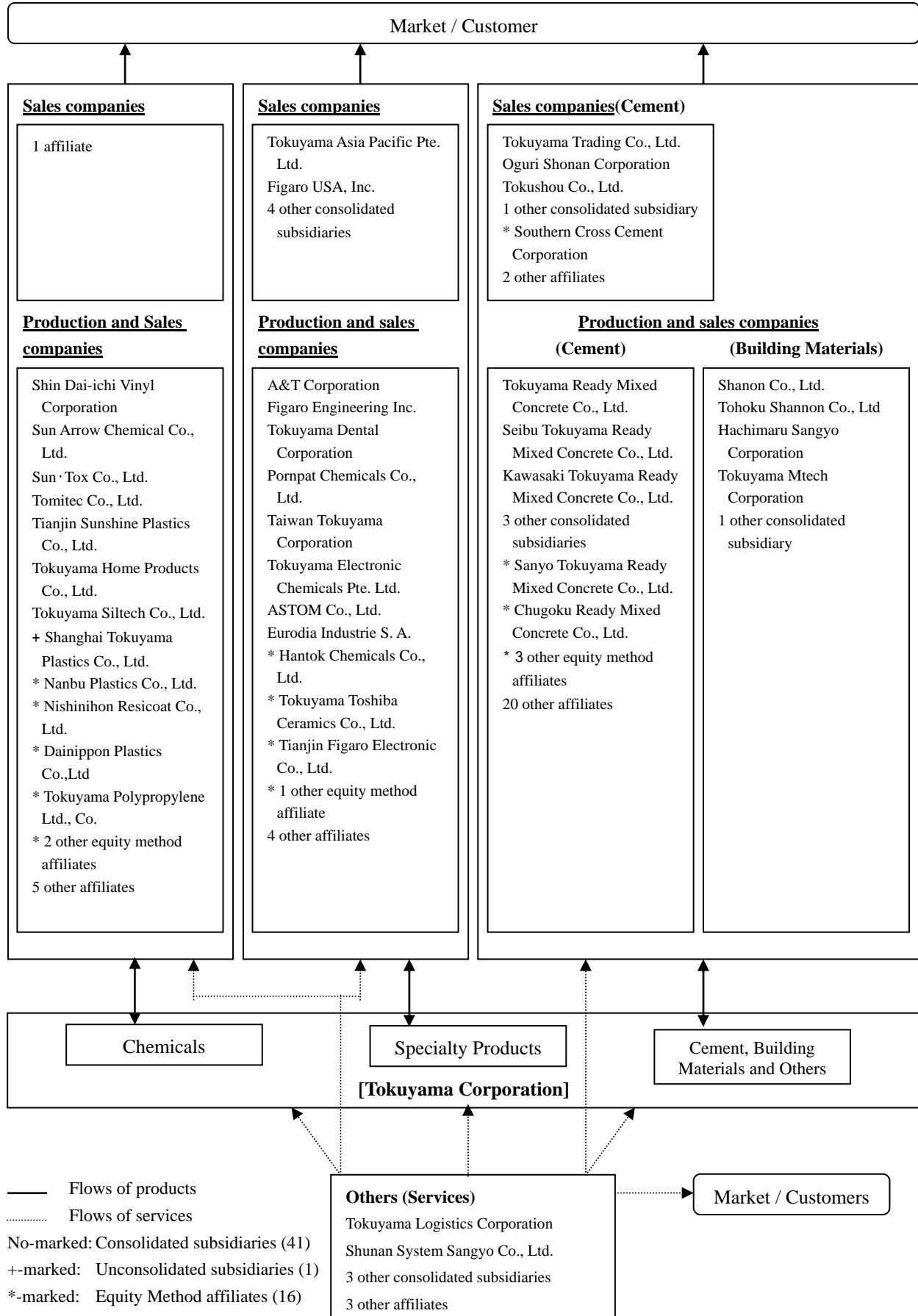
Tokuyama group consists of parent company Tokuyama Corporation, 42 subsidiaries and 51 affiliates. The Group is producing and selling mainly chemical products such as soda ash and caustic soda, vinyl chloride monomer/polymer, film products, fine chemicals, medical materials, electronics materials, cement, plastic window sashes and so, as well as providing services related to those products.

Relationship among the Group's business segments, Tokuyama Corporation's business areas and subsidiaries and affiliates is summarized as a following table.

Business Segments	Business Areas	Major subsidiaries and affiliates
Chemicals	Chemicals Business Film Business	Shin Dai-ichi Vinyl Corporation Sun Arrow Chemical Co., Ltd. Sun·Tox Co., Ltd. Tomitec Co., Ltd. Tianjin Sunshine Plastics Co., Ltd. Tokuyama Home Products Co., Ltd. Tokuyama Siltech Co., Ltd. Nanbu Plastics Co., Ltd. Nishinohon Resicoat Co., Ltd. Dainippon Plastics Co., Ltd. Tokuyama Polypropylene Ltd., Co. 9 other subsidiaries and affiliates (Total: 20 companies)
Specialty Products	Si Business Advanced Materials Business	A&T Corporation Figaro Engineering Inc. Tokuyama Dental Corporation Pornpat Chemicals Co., Ltd. Taiwan Tokuyama Corporation Tokuyama Electronic Chemicals Pte. Ltd. ASTOM Co., Ltd. Eurodia Industrie S. A. Hantok Chemicals Co., Ltd. Tokuyama Toshiba Ceramics Co., Ltd. Tianjin Figaro Electronic Co., Ltd. Tokuyama Asia Pacific Pte. Ltd. Figaro USA, Inc. 9 other subsidiaries and affiliates (Total: 22 companies)
Cement, Building Materials and Others	Cement Business Building Materials Business Other Businesses	Tokuyama Ready Mixed Concrete Co., Ltd. Seibu Tokuyama Ready Mixed Concrete Co., Ltd. Kawasaki Tokuyama Ready Mixed Concrete Co., Ltd. Sanyo Tokuyama Ready Mixed Concrete Co., Ltd. Chugoku Ready Mixed Concrete Co., Ltd. Tokuyama Trading Co., Ltd. Oguri Shonan Corporation Tokushou Co., Ltd. Southern Cross Cement Corporation Shanon Co., Ltd. Tohoku Shannon Co., Ltd. Hachimaru Sangyo Corporation Tokuyama Mtech Corporation Tokuyama Logistics Corporation Shunan System Sangyo Co., Ltd. 36 other subsidiaries and affiliates (Total: 51 companies)

## Business Structure Diagram

The current situation of Tokuyama Group described above can be shown as the following business structure diagram.



## **Business Strategy**

### **I. Management Policy**

Our group's basic corporate principle is to realize "Tokuyama group sustainably chosen by its customers" which is highly evaluated by its stakeholders such as shareholders, customers and employees through efforts to sustain and increase its corporate values as well as synchronize management policies with the movement of our society, while enhancing corporate moral and implementing compliance with laws and other regulations.

Based on the relationship with our customers, accumulated technologies, and our pride on manufacturing, which have been built through our long-time operation, we will try to improve ourselves continuously and respond to environmental changes actively with considering those changes as our business opportunities to enter new business fields.

### **II. Medium- / Long-term Strategy and Performance Target**

Competitions in the market are getting fiercer in world-wide scale. Although domestic economy is showing a clear sign of recovery which is supported by steady export and investment on equipment, difficult condition surrounding Japanese economy is still continuing because of the hike in the prices of raw materials and fuels, the decline of the price of products, and the fluctuating exchange rate. To win the competitions under such difficult economical conditions, we are going to reform profit structure, strengthen business profitability and increase operating cash flows by steadily implementing three-year management plan from Fiscal 2002 to Fiscal 2004 with paying enough attention to maintaining current capital efficiency and financial stability. Three main points of the three-year management plan are as follows,

1. Customer-oriented structural reforms and strategic growth initiatives
2. Cost-cutting initiatives
3. Development of a system to maintain employee spirit and moral

We have chosen ROA (Return on Assets) as a key measure in setting our group's performance target with the aim of improving capital efficiency and increasing cash flows. We are targeting to achieve over 2.5% of ROA at the final year of the current three-year management plan.

### **III. Policy about Corporate Governance and the Progress of its Implementation**

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 reorganized our executive committee meetings to management meetings. Attendees at these meetings will include the president, the heads of each division, and a few designated directors. Meetings will be held twice a month, and coordinated with those of the Board of Directors to facilitate agile decision-making. In addition, we have set Compliance Committee and revised "Tokuyama Charter" from July 2003 to strengthen our compliance system about laws and other regulations. We will continue efforts to create the corporate culture with high standard of morals.

In the Fiscal Year ended March 31, 2004, we have set Corporate Governance Committee and been checking the current corporate governance system. As a result, we have found that most of the management functions of the system meet standards set for each function, however, we have decided to continue the Committee to evaluate the remaining items which did not meet their standards at this time during the next Fiscal Year.

### **IV. Targets and Goals**

Reorganization of Tokuyama Corporation's businesses into four business divisions: Chemicals, Si (Silicon) , Advanced Materials and Cement, which started since April 2002, has well-established, and each division is trying to achieve agile response to customers' needs by strengthening cooperative relationship among business functions such as planning, development, production and selling, and provide customer service that is autonomous and responsive. Furthermore, not only to each business division, we are also delegating more authority throughout the Group and been trying to establish a structure that each business unit serves the needs of its customer quickly and accurately.

More details on the status of the current three-year management plan are outlined as follows;

## 1. Development of Structural Reform

Our structural reform has three main themes; "Reform of the Business Structure", "Reform of the Business Functions", and "Strengthening of Tokuyama Factory's Competitive Edge".

At the "Reform of the Business Structure" we are working on to further strengthen the foundation of each of our business, seeking alliances with other companies.

In August 2003, we have sold our rapping film business to Denki Kagaku Kogyo K. K.. In January 2004, to strengthen and expand our ion-exchange membranes (IEM) operation, we have transferred whole business relating to IEM to ASTOM Co., Ltd., which was a joint production company operated with Asahi Kasei Chemicals Corporation. In April 2004, we have sold toiletry products operation of Tokuyama Home Products Co., Ltd. to OKAMOTO INDUSTRIES, INC.. Through those restructuring, we have strengthen the foundation of Tokuyama group's business.

And regarding "Reform of the Business Functions", as a part of the reform of administrative offices of the headquarters to shared services, we have spun-off our Information System Group to Tokuyama Information Service Corporation in January 2003. We have also launched the team to evaluate the reform of other groups such as accounting and finance, and started the concrete evaluation.

On the other hand, for "Strengthening of Tokuyama Factory's Competitive Edge", we will implement project-wise plans, which include the promotion of zero-emissions operations and energy conservation. We have achieved the further energy cost reduction by switching fuels from heavy oil to coal for No.8 boiler of our own power plant when we renewed the boiler. In addition, we are also planning to increase the capacity of No.9 turbine of our power plant by 24,000 kw when the turbine is renewed. And in April 2004, we launched IA (Infrastructure Arrangement) project group to strengthen Tokuyama Factory's competitiveness through refining the Factory's infrastructures.

## 2. Strategic Growth

The Strategic Growth Initiative focus on the two major fields of "Information & Electronics" and "Environment & Energy". Each business division is creating or expanding their businesses by focusing on identify of needs in the existing markets or around customers.

In the Chemicals Segment, we have launched CAS-PJ (Chlor-Alkali business\* Strategy Project) and started refining strategy of Chlor-Alkali business especially in Asian market. In addition, the production capacity of cullet has been increased 30,000 tons per year to 180,000 tons per year at the timing of renewal of production facility, and the production capacity of vinylchloride monomer has also been increase 30,000 tons per years to 330,000 tons per year. In April 2004, Shanghai Tokuyama Plastics Co., Ltd. , which was established as a company for the sales and production of microporous film in Shanghai, China, has started its commercial operation.

In the Specialty Products Segment, the production capacity of developer for semiconductor and liquid crystal was increased 3,500 tons per year to 5,000 tons per year in January 2003, in response to the growing demand in the markets, and we have established the foundation of precipitated silica (White Carbon) business to develop the business efficiently in Asian market by forming an alliance with Oriental Silicas Corporation in Taiwan in April 2004.

In the Cement, Building Materials and Others Segment, as a part of Recycling & Environmental Business, we have started the operation of the third recycled waste plastic fuel plant, the sewage sludge treatment facility and the liquid waste treatment facility as well as the construction of the recycling plants for soils from construction site. Those operations are largely contributing not only to the expansion of Recycling & Environmental Business but also to the cost reduction of Cement Business. In Building Materials business, Ouchi Factory in Saga prefecture has started its commercial operation to produce plastic window sashes, and more efficient production system has been established by building a production plant in the western part of Japan in addition to Hokkaido area and Tohoku area.

Under the realization that the foundation of the Strategic Growth should root in our R&D, we will be pursuing creation of the growth business fields with strengthening the cooperative relationship with public research institutions or customers.

\* Chlor-Alkali Business: Business relating to caustic soda, chlorine and those derivatives produced from electrolysis of industrial salt.

### 3. Cost Reduction

We are also pursuing cost reduction to rebuild our profit structure. In personnel cost, by not filling the vacancies of retired persons and reducing the new employment, 220 of the reduction of head counts by the final year of the current three-year management plan is just in sight. The progress of other cost reductions regarding repair, distribution/logistics and purchasing, is almost as planned. We are going to build long-lasting low-cost structure instead of short-term measures that we have done so far to reduce cost.

### 4. Personnel Policy

Since we are realizing that the employees and their motivated spirits will support the rebuilding of the profit structure, we are developing a personnel policy so that each employee is encouraged to demonstrate their abilities to the maximum extent. We are also considering the measures to maintain employee spirit and moral.

### 5. Environmentally Responsible Business Development

We are developing Environmentally Responsible Business which place priority on environment at any business activities such as R&D, production or sales on the basis of the understanding that tackling environmental issues proactively and resolving those issues deliberately are our missions in our society and helpful for sustainable growth of both our company and society. In addition, we will do various environmental activities aggressively, such as promotion of material recycling business or keeping emissions of carbon dioxide from our factories flat, to fulfill our responsibilities in sustainable society and become the corporate group which is highly evaluated by society and our customers.

### 6. Strengthening the Financial Position

We will pursue the more efficient financial position by reducing the liquidity on-hand and interest-bearing debt throughout the Group. As of the end of Fiscal 2003, the liquidity on-hand has been reduced to about 37 days of sales, and the ratio of interest-bearing debt to total sales has reach 47.7% which meets our target of less than 50%. We will continue pursuing more sound financial position through the increase of financial efficiency by the introduction of inter-group financing, reduction of cash for operation by optimizing inventories, reduction of fixed assets by utilization of lease and so.

## V. Policy about Appropriation of Earnings

We will provide reasonable dividend to our shareholder with keeping improvement of retained earnings to establish healthy financial position and firm profit structure in our mind as well as considering business performance in each year and future business plans synthetically.

## VI. Policy about Reduction of Investment Unit

Although we realize that the reduction of investment unit by the reduction of the trade unit of stocks or stock splits are effective measures to encourage private investors to participate in the stock markets and make the market more active, we don't think that we should take those actions immediately on the basis on the current price level of Tokuyama's stocks and liquidity of those stocks.

We will give prudent consideration with considering the condition of the stock market and our financial performance from the stand point which put priority on shareholders' interests.

## Business performance and Financial Review

### I. Business Performance

#### 1. Highlights for fiscal 2003

##### (1) Performance overview

Since the demand of IT-related products is showing the sign of full recovery supported by the sales increase of digital consumer products and both export and investment on equipment at manufacturing sector are gradually increasing, Japanese economy looks like having bottomed out. However, despite the cost of raw materials and fuels have been increasing with the rapid growth of Chinese economy, the prices of our products are still falling and drastic change of exchange rate toward yen's appreciation had negative impact on our business performance for the fiscal year 2003.

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 we maximized efforts to maintain and/or correct retail price in order to preserve profits, and to acquire new customers. However, the rising cost of raw materials such as petrochemicals have affected largely on our performance.

As a result of the above, the performance for Fiscal 2003 is as follows.

(Unit: millions of yen)

	Net sales	Operating income	Ordinary income	Net income
Fiscal 2003	<b>219,393</b>	<b>13,195</b>	<b>9,247</b>	<b>6,038</b>
Fiscal 2002	225,527	12,852	6,328	316
Year-on-year change (%)	(2.7)	2.7	46.1	-

**Net sales:** Although there was a revenue increase in both the Specialty Products segment and the Cement, Building Materials and Others segment, it was not enough to cover the decrease from the discontinuation of outsourced manufacturing of polypropylene (decrease of ¥ 7,457 million from the previous fiscal year) in the Chemicals segment, and net sales decreased ¥ 6,134 million to ¥ 219,393 million (2.7% decrease from the previous fiscal year).

**Cost of sales:** The cost of raw materials such as petrochemicals increased, however, both depreciation and cost of personnel decreased as well as the costs for the outsourced manufacturing of polypropylene was not included in this period because of the discontinuation of the operation, cost of sales decreased ¥ 4,881 million to ¥ 154,744 million (3.1% decrease from the previous fiscal year).

**Selling, general and administrative expenses:** Selling, general and administrative expenses decreased ¥ 1,594 million to ¥ 51,453 million (3.0% decrease from the previous fiscal year), because the increase of R&D expenses was absorbed in the decrease of the costs of logistics, sales and corporate.

**Operating income:** Operating income increased ¥ 342 million to ¥ 13,195 million (2.7% increase from the previous fiscal year). In the previous fiscal year, depreciation of polycrystalline silicon was accounted in non-operating expenses(dormant cost), but in this fiscal year, the depreciation was accounted in cost of sales, and the difference affected ¥ 1,176 million negatively.

**Ordinary income:** Other income/expense improved by ¥ 2,576 million and ordinary income increased ¥ 2,919 million to ¥ 9,247 million (46.1% increase from the previous fiscal year) because of both the decrease of interest expenses due to the increase of efficiency of cash flows and the decrease of interest-bearing debt, and the decrease of above-mentioned non-operating expense of polycrystalline silicon.

**Net income:** In addition to the disappearance of loss from revaluation of the listed corporate shares which was accounted in the previous fiscal year because of a sluggish market, there was ¥ 2,103 million of extraordinary gain from the pulling down of expected rate of return of retirement and severance plan. As a result, net income increased ¥ 5,721 million to ¥ 6,038 million.

##### (2) Performance by segment for fiscal 2003

###### <Chemicals>

###### ·Chemicals business

Regarding caustic soda, although the sales volume has increased with the recovery of Japanese economy,

the retail price has declined slightly and the increase of the profit from this operation was small. As the sales of sodium silicate and cullet for the application relating to the soil improvement was less than expected, both revenues and profits from the operation have decreased. In addition to the depreciation from the investment on the production process improvement, the sales amount of soda ash is in the trend of decrease because applications of bottle-production and desulfidation for steel-production and calcium chloride operation was affected by a mild winter this year. As a result, both revenues and profits from those operations decreased within the range of our forecast. Since the price of the export of vinylchloride monomer rose because of the strong demand in Chinese market, the revenue and the profit of the operation has improved. The operating profit of Shin Dai-ichi Vinyl Corporation got in the black because of the success in the price correction of vinylchloride polymer. The other operations such as isopropylalcohol and microporous films moved steadily.

The biggest reason of the sales decrease in this business came from the business transfer of polypropylene to Idemitsu Petrochemical Co., Ltd., but it affected little to profits of the Chemicals segment although the sales decreased ¥ 7,457 million.

Tokuyama Home Products Co., Ltd., which has continued producing and selling our household-use moisture absorbent for more than twenty years (Total sales for this period is ¥ 1,953million), has ended its operation as of March 31, 2004.

#### · Film business

Although Sun·Tox Co., Ltd. has tackled to correct the retail price and the financial performance shown improvement from the previous period, the company could not meet its financial target because there is still a fierce price competition in the domestic film market and the price of raw materials rose further. The performance of Tianjin Sunshine Plastics Co., Ltd. has also deteriorated and the company recorded decrease in revenues and profits because of the fierce competition in the film market in China.

As a result of above factors, the Film business recorded decrease both in revenues and in profits.

The above factors combined to produce the revenue of ¥ 88,927 million (down 8.5% decrease from the previous period) and operation income of ¥ 5,213 million (down 10.6% from the previous period) in Chemicals segment. The sales of Chemicals segment constituted 40.5% of the total sales.

### <Specialty Products>

#### · Si business

In the electronics materials operation, though the sales volume of polycrystalline silicon for silicon wafers and solar panels was good, especially at export, the change in the proportion of the sales for silicon wafers to solar panels and yen's appreciation reduced the average selling price in terms of yen and also the demand of the silicontetrachlorides gas has been weak. Therefore, the increase of the revenue was small. In this period, since the sales of polycrystalline silicon was good, the depreciation of the polycrystalline silicon plant was accounted in the cost of sales instead of non-operating expenses. As a result, despite the sales amount increased and the depreciation decreased, the operating income decreased.

In the silica and derivatives operation, as some markets in Asia such as automobile and electronic appliances as well as investment on public infrastructure were active, export of fumed silica for those areas has increased. Because of the appreciation of yen and the raged competition in those markets, revenues and profits from the operation have decreased. The operation of Pompat Chemicals Co., Ltd., a subsidiary in Thailand, recorded increase both in revenues and profits.

#### · Advanced materials business

The performance of aluminum nitride operation showed recovery with the expansion of demand, especially for the application related to DVD (Digital Versatile Disk). In high purity chemicals for semiconductor and liquid crystal display, the sales of isopropylalcohol and developer for electronics industry, including those of subsidiaries in Singapore and Taiwan, also increased steadily. In the fine chemicals such as pharmaceutical and agricultural chemical bulks and intermediates and materials for plastic lens, the delay of the launch of new products affected the operation negatively. The performance of A&T Corporation showed strong growth with the increase of the introduction of IT technology to medical facilities such as electronic medical record. Because of the delay of the launch of new products and decrease of sales in the U.S. market, Tokuyama Dental Corporation showed decrease in both revenues and profits.

In total among the segment, the total sales is ¥ 59,642 million (up 1.8% from the previous period) and the operating profit is ¥ 5,538 million (up 7.5% from the previous period). The sales of Specialty Products segment constituted 27.2% of the total sales.

#### <Cement, Building Materials and Others>

##### · Cement business

Though the business environment surrounding the cement business was difficult because of the reduction in public works projects and investment on buildings at private sector, we made efforts, such as tunnels and dams in the western part of Japan as well as export, to keep the current level of operating ratio of the plant and also tried to reduce cost and correct the retailing price. In the Recycling & Environmental Business, aggressive investment such as the expansions of the recycled waste plastic fuel plant and the sewage sludge treatment facility as well as the construction of the liquid waste treatment facility contributed to cost reduction and increased both revenues and profits of the Cement business.

##### · Building materials business

Shanon group, which is developing plastic window sashes business, recorded increase in both revenues and profits because of the efforts to increase the sales by expanding the sales offices in the western part of Japan and the cost reduction.

##### · Other businesses

In Other businesses, comprising transport, property maintenance and other operations, efforts were made to increase administrative efficiency throughout the Group.

As a result, the sales is ¥ 70,824 million (up 1.5% from the previous fiscal year) and the operating profit is ¥ 3,661 million (up 20.7% from the previous fiscal year). The sales of Cement, Building Materials and Others segment constituted 32.3% of the total sales.

### (3) Dividends

We will pay ¥ 3 per share of dividend at the end of the second half of this fiscal year as well as at the end of the first half of this fiscal year. As we have already paid ¥ 3 per share of interim dividend, the annual dividend for this fiscal year will be ¥ 6 per share as well as for the previous fiscal year.

## 2. Outlook for Fiscal 2004

### (1) Outlook of overall performance for Fiscal 2004

Although Japanese economy bottomed out and is expected to show slow but steady recovery with being supported by the recovery of investment on equipment and export especially at manufacturing sector, we still need to be apprehensive about the high level of coal price because of the strong demand in Chinese market, delay of recovery of Japanese economy from deflation and international disputes in the Middle-East area, and cannot be optimistic about our future environment.

Toward our futures under such uncertainty, we will continue to reform our profit structure by focusing on reductions in fixed costs, promoting business development centered on our customers and implementing growth strategy.

Considering above conditions, outlook of business performance for Fiscal 2004 is as follows.

#### <Chemicals>

##### · Chemicals business

To strengthen Chlor-Alkali business, which is considered as one of our main businesses, we will build a new business model for future. Regarding vinylchloride operation of the business, we expect that the domestic and oversea sales of vinylchloride polymer, including those of Shin Dai-ichi Vinyl Corporation, will be stable because of the strong demand in Chinese market. Shanghai Tokuyama Plastics Co., Ltd., the production and sales company of microporous film, has started its operation from April 2004, and is expected to develop its business as one of our footholds in China.

##### · Film business

Under the difficult situation such as rise of raw material price and deterioration of retailing price, Sun •Tox Co., Ltd. and Tianjin Sunshine Plastics Co., Ltd. will pursue improvement in profits through correcting

retail price and cost reduction without any exceptions.

#### <Specialty Products>

##### ·Si business

We expect that the demand of polycrystalline silicon will be steady because of the recovery of IT sector with the rapid growth of digital electronics consumer products.

We will expand fumed silica operation in response to the strong demand. Regarding precipitated silica, we will strengthen the competitive edge of the operation in Asian area by the business alliance with Oriental Silicas Corporation.

##### ·Advanced materials business

We will pursue the increase of the sales of aluminum nitride mainly for consumer electronics application such as DVD. In high purity chemicals for semiconductor and liquid crystal display, we will try to increase the sales of isopropylalcohol and developer for electronics industry at the active IT industry. Regarding ion-exchange membrane operation, we will pursue the more efficient operation at ASTOM Co., Ltd..

#### <Cement, Building Materials and Others>

##### ·Cement business

In response to the decrease of domestic demand and the rising price of coal for fuel, we will implement measures to correct the retailing price, reduce the cost and expand the export. Besides, in Environment & Recycling business, we will expand the recycled waste plastic fuel plant and strengthen wastes collecting system.

Based on the above-mentioned measures, we expect to increase total sales ¥ 8,607 million to ¥ 228,000 million (up 3.9 % from this period), increase operating profit ¥ 2,805 million to ¥ 16,000 million (up 21.3 % from this period) in, increase ordinary income ¥ 3,753 million to ¥ 13,000 million (up 40.6 % from this period) and increase net income ¥ 1,962 million to ¥ 8,000 million (up 32.5 % from this period).

(Unit: millions of yen)

	Net sales	Operating income	Ordinary income	Net income
Fiscal 2004	<b>228,000</b>	<b>16,000</b>	<b>13,000</b>	<b>8,000</b>
Fiscal 2003	<b>219,393</b>	<b>13,195</b>	<b>9,247</b>	<b>6,038</b>
Year-on-year change (%)	3.9	21.3	40.6	32.5

In preparing above outlook, we used the following assumption: Exchange rates; 103 yen/\$ (export) and 108 yen/\$ (import), Domestic naphtha price; 26,700 yen/kl.

#### (2) Outlook about appropriation of earnings for Fiscal 2004

We expect ¥ 3 per share of interim dividends for both first and second half of the next period, as well as ¥ 6 per share of dividend for the next period.

### Financial Performance

#### 1. Financial Position and Liquidity for fiscal 2003

Since we spent liquidity on-hand to reduce the interest-bearing debt, reduced the account receivables by liquidation of notes and limited the investment on property, plant and equipment within the range of depreciation, the total assets as of the end of this fiscal year increased ¥ 7,935 million to ¥ 308,816 million from the previous fiscal year. ROA (Return on Assets) showed large improvement from 0.1% for the previous period to 1.9 % for this period.

Liabilities as of the end of period decreased ¥ 21,694 million from the previous period to ¥ 182,246 million for this period, and interest-bearing debt decreased ¥ 26,740 million to ¥ 104,614 million

Shareholders' equity increased ¥ 13,179 million from the previous period to ¥ 124,451 million for this period because of the increase of net unrealized gains on securities and retained earnings.

## 2. Cash Flows for fiscal 2003

(Unit: millions of yen)

	Fiscal ended March 31, 2004	Fiscal ended March 31, 2003
Net cash provided by operating activities	27,709	38,400
Net cash used in investing activities	(16,281)	(15,807)
Net cash used in financing activities	(27,852)	(19,682)
Effect of exchange rate changes on cash and cash equivalents	(16)	(29)
Increase(decrease) of cash and cash equivalents	(16,440)	2,880
Increase (decrease) of cash and cash equivalents due to changes of scope of consolidation	214	(253)
Cash and cash equivalents for fiscal ended March 31, 2004 [Cash and cash equivalents for fiscal ended March 31, 2003]	22,215 [38,440]	38,440 [35,813]

### (1) Cash flows from operating activities

Net cash provided by operating activities during this period was ¥ 27,709 million, mainly coming from ¥ 10,303 million of net income before income taxes, ¥ 18,874 million of depreciation, ¥ 2,318 million of the decrease in trade receivables and ¥ 3,608 million of the income taxes paid.

### (2) Cash flows from investing activities

Net cash used in investing activities was ¥ 16,281 million mainly because of ¥ 14,801 million of the payment for purchases of property, plant and equipment and ¥ 1,931 million of the investment and loan.

### (3) Cash flows from financing activities

Since we have tried to reduce the interest-bearing debt by redemption of corporate bond and effort to contract interest-bearing debt, net cash used in financing activities was ¥ 27,852 million.

As a result, the remaining cash and cash equivalent as of March 31, 2004 decreased ¥ 16,225 million from the amount as of April 1, 2003 to ¥ 22,215 million.

## 3. Transitions of indices about financial position

	As of March 31, 2001	As of March 31, 2002	As of March 31, 2003	As of March 31, 2004
Shareholders' Equity ratio (%)	32.6	33.0	35.1	40.3
Current-value-based Shareholders' Equity ratio (%)	31.6	29.6	31.6	37.5
Debt redemption term (years)	6.5	6.3	3.4	3.8
Interests coverage ratio(times)	5.8	6.4	12.1	11.1

### **Formulas**

Shareholders' Equity ratio: [Shareholders' equity]/[Total assets]

Current-value-based Shareholders' Equity ratio: [Total current value of stocks]/[Total assets]

Debt redemption term: [Interest-bearing debt]/[Operating cash flow]

Interest coverage ratio: [Operating cash flows]/[Interest paid]

\* Each number was calculated by using numbers from consolidated financial results.

\* Total current values of stocks were calculated by following formula:

[Stock price as of the end of the period]\*[Number of outstanding shares (less treasury stocks)]

\* Net cash provided by operating activities of consolidated cash flow statement were used as [Operating cash flows] of the above calculations. Interest paid of consolidated cash flow statement were used as [Interest paid] of the the above calculations.

### III. Business Risks

We are making the effort such as ordinary preventive or preservative activities to minimize the business risks to avoid the occurrence of unfavorable events in business. We also realize that it is very important to set the guideline to cope well with the occurrence of such event in advance to sustain and increase the value of our company.

As sections taking charge of risk management, Responsible Care & Eco-Management Department, Auditing Department and Legal & Credit Management Department have been set and doing daily affairs relating to the business risks systematically. On the other hand, as corporate-wide committees, we have organized RC Administration Committee, Committee for Safety Measure, Committee for Environmental Measure and Committee for Product Safety and Quality Assurance, and built a system to check and improve the company from the view point of management.

Some unexpected events such as troubles in production facilities or quality because of natural disaster like earthquake, bankruptcy of customer or large and quick change in exchange rate may affect our business performance largely.

1. Segment information

Fiscal 2003 (April 1, 2003 – March 31, 2004)

(Millions of yen)

	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
I Sales						
Sales						
Sales to customers	88,927	59,642	70,824	219,393	-	219,393
Inter-segment sales/transfer	1,529	169	6,115	7,815	(7,815)	-
Total	90,456	59,812	76,939	227,208	(7,815)	219,393
Operating expense	85,243	54,273	73,278	212,795	(6,596)	206,198
Operating income	5,213	5,538	3,661	14,413	(1,218)	13,195
II Assets						
Assets	92,900	73,606	76,779	243,287	65,528	308,816
Depreciation	6,612	7,205	4,467	18,285	588	18,874
Capital expenditures	6,627	4,051	5,851	16,529	150	16,680

Fiscal 2002 (April 1, 2002 – March 31, 2003)

(Millions of yen)

	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
I Sales						
Sales						
Sales to customers	97,155	58,574	69,798	225,527	-	225,527
Inter-segment sales/transfer	1,471	79	4,613	6,164	(6,164)	-
Total	98,627	58,653	74,411	231,692	(6,164)	225,527
Operating expense	92,795	53,502	71,377	217,675	(5,000)	212,675
Operating income	5,831	5,151	3,034	14,017	(1,164)	12,852
II Assets						
Assets	96,068	77,833	73,961	247,864	68,886	316,751
Depreciation	7,652	8,155	4,482	20,290	575	20,865
Capital expenditures	5,169	3,890	3,657	12,717	540	13,258

Notes:

1) Method of business segment classification

Business segments have been classified on the basis of type and property of products, similarity of production process or sales method, management accounting units, related assets and so.

2) Main products of each business segment

Business Segment	Main Products and Businesses
Chemicals	Caustic soda, Soda ash, Calcium chloride, Sodium silicate, Vinyl chloride monomer/polymer, Propylene oxide, Isopropyl alcohol, Methylene chloride, Household-use moisture absorbent, Biaxial-oriented polypropylene film, Multilayer co-extrusion films, Cast polypropylene films, Microporus film
Specialty products	Polycrystalline Silicon, Amorphous precipitated silica, Fumed silica, Aluminum nitride, Dental materials, Pharmaceutical and agricultural chemical bulks and intermediates, plastic lens materials, Ion-exchange membranes, Methylene chloride for washing metal, High purity chemicals for semiconductor base materials, Environment-related equipment, 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, Waste recycling

3) The amounts of the non-allocatable operating expenses included in the selling expenses of “Corporate or Elimination” are ¥ 1,218 million for this period and ¥ 1,164 million for the previous period. The costs relating to general and administrative department such as Administrative Department or Finance Department constitute large part of those expenses.

4) The amounts of the total assets included in the assets of “Corporate or Elimination” are ¥ 66,712 million for this fiscal year and ¥ 69,152 million for the previous fiscal year. Main items of the total assets are the

excess cash for operation (cash and cash equivalent), long-term investment (investment in securities) and the asset of administrative department.

## 2. Segment information by geographic area

Since the fractions of Japan exceed 90% in terms of both total sales and total assets, we have omitted the description regarding such information.

## 3. Overseas sales

Fiscal 2003 (From April 1, 2003 to March 31, 2004)

(Millions of yen)

	Asia	Others	Total
I Overseas Sales	22,494	9,560	32,055
II Consolidated net sales			219,393
III Percentage of overseas sales to consolidated net sales [%]	10.3	4.4	14.6

Fiscal 2002 (From April 1, 2002 to March 31, 2003)

(Millions of yen)

	Asia	Others	Total
I Overseas Sales	22,716	10,242	32,958
II Consolidated net sales			225,527
III Percentage of overseas sales to consolidated net sales [%]	10.1	4.5	14.6

Notes:

- 1) Countries and regions are classified on the basis of geographical distance.
- 2) Major countries included in each segment.
  - Asia --- China, Korea, Taiwan
  - Others --- Europe, North America
- 3) Overseas sales is the total sales of Tokuyama Corporation and its consolidated subsidiaries at the countries and regions outside Japan.