

Summary of Consolidated Financial Statements for the First Half Fiscal 2004

Nov. 10, 2004

Tokuyama Corporation

Shibuya Konno Bldg. 3-1 Shibuya 3-chome,
Shibuya-ku, Tokyo 150-8383, Japan

(URL <http://www.tokuyama.co.jp/>)

Representative: Shigeaki Nakahara
President

Contact: Kunihisa Yutani
General Manager, Corporate Communication Dept.
+81-3-3499-8023

Stock exchange listings: Tokyo, Osaka

Code number: 4043

Use of U.S. accounting standard: No

1. Consolidated results for fiscal half ended September 30, 2004 (April 1, 2004 - September 30, 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 [%]
First Half Fiscal 2004	111,860	3.2	7,018	15.8	5,535	41.8
First Half Fiscal 2003	108,359	(2.6)	6,061	(1.4)	3,903	73.1
Fiscal 2003	219,393		13,195		9,247	

	Net income		Net income per share	Diluted net income per share
	(millions of yen)	Year-on-year change [%]	(yen)	(yen)
First Half Fiscal 2004	2,296	76.1	9.03	-
First Half Fiscal 2003	1,303	76.3	5.12	-
Fiscal 2003	6,038		23.52	-

(2) Financial position

	Total assets (millions of yen)	Shareholders' equity (millions of yen)	Equity ratio (%)	Shareholders' equity per share (yen)
Sept. 30, 2004	304,039	124,099	40.8	487.87
Sept. 30, 2003	306,602	117,039	38.2	459.91
March 31, 2004	308,816	124,451	40.3	488.90

(3) Cash flows

	Cash flows from operating activities (millions of yen)	Cash flows from investing activities (millions of yen)	Cash flows from financing activities (millions of yen)	Cash and cash equivalents at end of period (millions of yen)
First Half Fiscal 2004	10,272	(9,363)	(5,238)	17,993
First Half Fiscal 2003	14,242	(7,399)	(18,731)	26,580
Fiscal 2003	27,709	(16,281)	(27,852)	22,215

2. Projected performance for Fiscal 2004 (From April 1, 2004 to March 31, 2005)

	Net sales (millions of yen)	Operating Income (millions of yen)	Ordinary Income (millions of yen)	Net income (millions of yen)
Fiscal 2004	233,000	16,000	13,000	7,500

Reference: Prospected net income per share for fiscal 2004 : 29.48 yen

※ The prospects 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

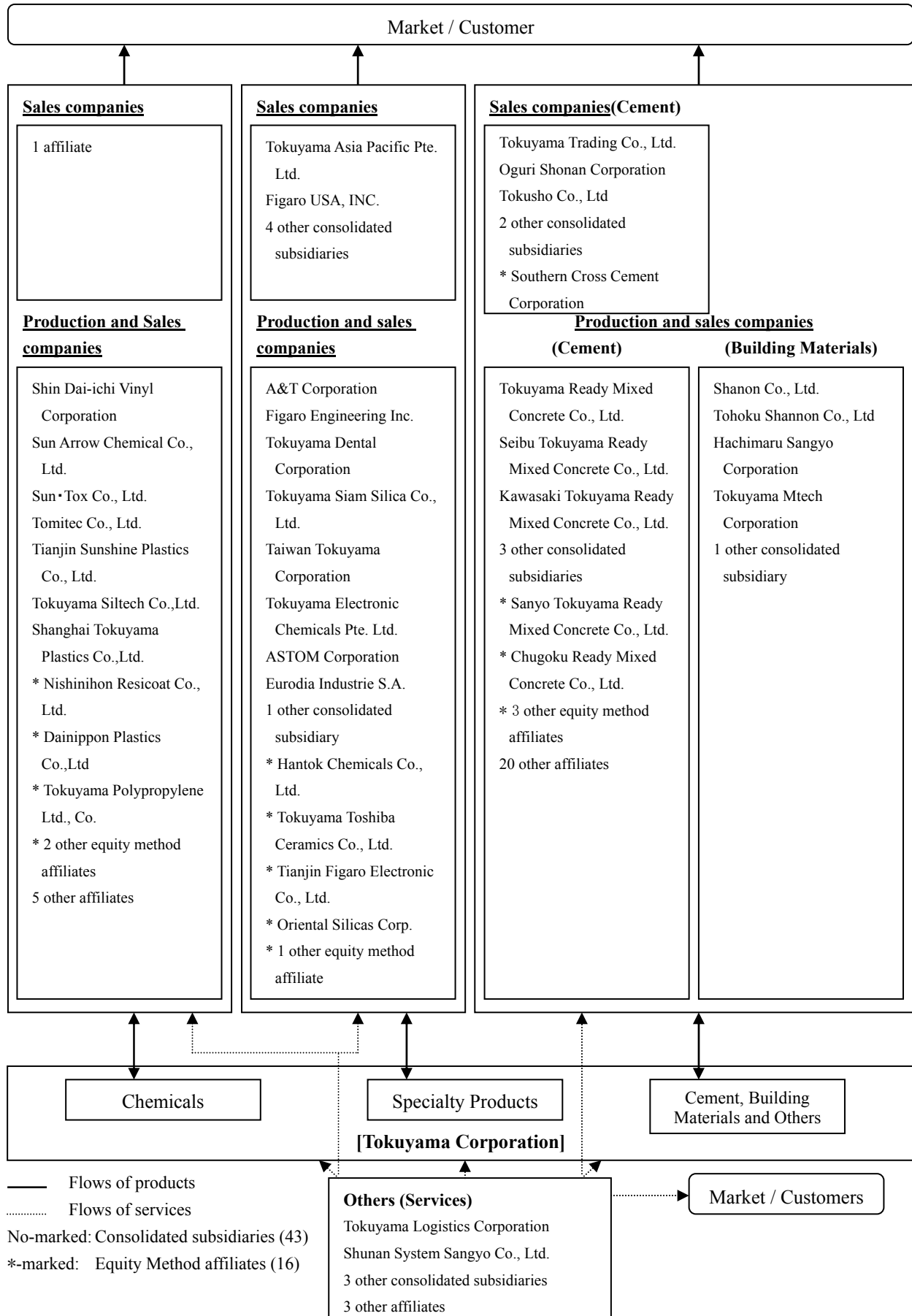
Tokuyama group consists of parent company Tokuyama Corporation, 43 subsidiaries and 51 affiliates. The Group is producing and selling mainly chemical products such as soda ash and caustic soda, vinyl chloride monomer/polymer, film products, fine chemicals, medical materials, electronics materials, cement, 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 Siltech Co., Ltd. Shanghai Tokuyama Plastics Co., Ltd. Nishinohon Resicoat Co., Ltd. Dainippon Plastics Co., Ltd. Tokuyama Polypropylene Ltd., Co. 8 other subsidiaries and affiliates (Total: 18 companies)
Specialty Products	Si Business Advanced Materials Business	A&T Corporation Figaro Engineering Inc. Tokuyama Dental Corporation Tokuyama Siam Silica Co., Ltd. Taiwan Tokuyama Corporation Tokuyama Electronic Chemicals Pte. Ltd. ASTOM Corporation Euroia Industrie S.A. Hantok Chemicals Co., Ltd. Tokuyama Toshiba Ceramics Co., Ltd. Tianjin Figaro Electronic Co., Ltd. Oriental Silicas Corporation Tokuyama Asia Pacific Pte. Ltd. Figaro USA, INC. 10 other subsidiaries and affiliates (Total: 24 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 Tokusho 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. 37 other subsidiaries and affiliates (Total: 52 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

The Tokuyama Group's basic management policy is to remain the preferred choice of its customers and be held in high regard by its stakeholders—including shareholders, customers, employees and local communities—through management that coexists with society with a view to the future and aims to sustain and maximize corporate value while improving corporate ethics and thoroughly instilling compliance.

Backed by relationships of trust with customers, accumulated technologies and our pride in manufacturing, all of which have been built up over many years, we are taking an aggressive approach to self innovation and viewing changes in the operating environment as opportunities to create new businesses.

II. Medium- and Long-Term Management Strategies and Targets

Amid intensifying competition in global markets, backed by special demand in China, the Japanese economy has staged a recovery centered on petrochemicals and IT-related fields. However, strong demand in China is causing prices for crude oil, coal and other fuel sources to rapidly increase, putting downward pressure on corporate earnings. In order to prosper amid this challenging operating environment, the Tokuyama Group aims to increase capital efficiency and reinforce its financial position through the following three measures:

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

Based on these measures, our management strategy is to bolster cash flow from operating activities and strengthen business revenues by reforming our earnings

structure through the steady implementation of the three-year management plan from fiscal 2002 to fiscal 2004.

From the perspective of increasing capital efficiency and reinforcing its financial position, the Tokuyama Group emphasizes return on assets (ROA) as a management benchmark. We aim to achieve ROA of 2.5% or higher in fiscal 2004, the final year of the three-year management plan.

III. Corporate Governance Policy and Implementation

Corporate Governance Policy

We believe corporate governance is integral to sustaining and increasing corporate value, and carry out inspections on a daily basis and implement the measures necessary to ensure an appropriate corporate governance structure.

Corporate Governance Implementation

(1) Corporate Governance Structure

Tokuyama uses a corporate auditors system. Directors are in charge of both business execution and oversight. Tokuyama does not employ external directors. Of the four auditors, two are external auditors. Tokuyama's management organization and conditions are as follows:

1. Board of Directors

The Board of Directors meets at least once per month to deliberate and decide on matters related to business execution, and to oversee business execution. As of September 30, 2004, the Board of Directors comprised 13 directors with the President serving as chair. Including external auditors, four auditors attend the Board of Directors meeting and voice their opinions as necessary.

2. Management Committee

Comprising the President, the heads of the four business divisions and directors chosen by the President, the Management Committee serves as an advisory body to

the President, meets twice a month and executes business decisions in accordance with the Board of Directors.

3. Board of Auditors

Comprising four auditors including two external auditors, the Board of Auditors deliberates, decides and reports on important matters pertaining to auditing. Auditors regularly attend Board of Directors meetings and important internal meetings to observe business execution and to oversee the activities of directors.

(2) Implementation of Corporate Governance

Corporate governance policies are based on the three points of management efficiency, internal control and accountability. Tokuyama examines its progress on each of these fronts and implements necessary measures to advance them.

1. Management Efficiency

Tokuyama has defined its basic philosophy as “creating value beneficial to people across national boundaries over the long term”. The Company aims to create new value while responding to changes in the business environment. In 2002, the Company changed from an executive committee structure that met once a month to the current management committee system that meets twice a month. At this time the Company also integrated formerly independent development and manufacturing departments into new divisions that view customers as the wellspring of value. As a result, Tokuyama restructured its business divisions into an integrated whole combining planning, development, manufacturing and marketing functions. Moreover, the Company delegated authority to individual business divisions to enhance its responsiveness to both customers and changes in the business environment. We believe these moves are leading to increased management efficiency.

2. Internal Control

Tokuyama’s internal control functions are centered on internal auditing, risk management and compliance.

Internal auditing

Tokuyama implements internal audits through the Auditing Department to check that internal control systems are functioning effectively as employees conduct business activities, and that operations are efficiently and appropriately executed throughout the Company, in a systematic manner. Tokuyama also establishes communications among the Board of Auditors, external auditing firms and the Auditing Department as necessary.

Risk management

The Auditing Department, Legal and Credit Management Department, and Responsible Care and Eco-Management Department implement risk management. In addition to the aforementioned duties, the Auditing Department supervises the auditing of business and accounting activities from the perspective of legality, accuracy, efficiency and social norms. The Legal and Credit Management Department handles daily auditing activities to avoid legal risks and various credit risks. The Responsible Care and Eco-Management Department checks on actual conditions through on-site inspections of management and provides daily guidance on issues related to the environment, safety and quality management. In the event of a companywide crisis, the General Affairs Department will act in cooperation with relevant departments to establish a Risk Management Committee to quickly and accurately deal with the situation.

Compliance

Set in 1989, the Tokuyama Group's basic philosophy prioritizes as an important management policy the pursuit of mutual prosperity with society. With regard to our compliance structure, in 1997 we formulated the Tokuyama Code of Behavior, which was subsequently revised in 2003 in light of recent social changes. We established a new compliance committee, created the Tokuyama Behavior Guidelines and opened a help line to address employees' concerns in order to further instill compliance within

the Tokuyama Group.

3. Accountability

To achieve sustainable corporate growth as a member of society, Tokuyama believes it is vital to maintain accountability, and is implementing measures necessary to ensure transparency in management and appropriate information disclosure.

Since 2003, Tokuyama has held recent business condition report meetings following the closure of the general meeting of shareholders in order to establish a venue for communicating with shareholders. As a part of our investor relations activities, we hold results meetings twice annually, and the President reports on current business progress to shareholders and investors. In addition, we participate in RC community meetings to explain our efforts at responsible care to local communities. Tokuyama will continue to make every effort to disclose information through the publication of annual reports and environmental reports.

IV. Issues Facing the Company

In April 2002, Tokuyama reorganized into four business divisions comprising Chemicals, Si (Silicon), Advanced Materials, and Cement. Through this new organization, we aim to speedily respond to customer needs by effectively combining product planning, development, manufacturing and marketing functions. Tokuyama is forging stronger relationships with Group companies by expanding their authority, as well as advancing the creation of a framework for swiftly and precisely meeting customer needs throughout all businesses of the Tokuyama Group.

Progress on current management issues is as follows:

1. Promoting Structural Reform

Our structural reform program identifies three main themes, they are, “Reform of the Business Structure,” “Reform of Business Functions,” and “Strengthening Tokuyama Factory’s Competitive Edge.”

Regarding Reform of the Business Structure, we are working to further

strengthen the foundation of our businesses, with possible alliances with other companies kept in our vision. In August 2003, our wrapping film business was transferred to Denki Kagaku Kogyo K.K. In January 2004, our ion exchange membrane business was transferred to ASTOM Corporation, a joint production company operated with Asahi Kasei Chemical Corporation, to allow the subsidiary to completely integrate and strengthen the business concerned. Formerly an affiliate, ASTOM Corporation became a subsidiary in January 2004. In addition, the household goods business of Tokuyama Home Products Co., Ltd. was transferred to OKAMOTO INDUSTRIES, INC. in April 2004. We intend for these transactions to successfully strengthen as well as streamline Tokuyama Group's business structure.

Regarding the Reform of Business Functions, our Information System Group was spun off in January 2003 to form Tokuyama Information Service Corporation to share in some of the administrative services of our headquarters. Other functions such as our finance, accounting and personnel groups are also under review for sharing administrative services.

Regarding Strengthening Tokuyama Factory's Competitive Edge, we have implemented initiatives on a project-by-project basis to bolster competitiveness with specific targets focused on zero emissions and labor saving innovations. The Company launched in April 2004 a project group for Infrastructure Arrangement (IA) that aims to systematically upgrade factory infrastructure, which in turn will further fortify our competitive edge. In July 2003, our No. 8 oil-fired boiler was replaced with a coal-fired one to cut down on power-generating costs. In addition, we revamped the power plant's No. 9 turbine to increase output by 24 megawatts. In April 2003, with the creation of a special environmentally responsible industrial zone, we started supplying electricity to facilities in Shunan City from March 2004. While deepening our relationships with companies in the Shunan industrial zone, we aim to improve our international competitiveness by increasing the efficiency of energy that is

friendly to the environment.

2. Promoting Strategic Growth

Our strategic growth initiative focuses on the two major fields of Information & Electronics and Environment & Energy. Tokuyama's business divisions work to discover and develop related market needs to create business opportunities.

In the Chemicals segment, we launched in 2003 the Chlor-Alkali Business* Strategy Project (CAS-PJ) to reexamine our business strategy for the Asian market. In April 2004, we launched the Chlor-Alkali Business Strategy Examination Task Force Project (CE-PJ) to examine in greater detail our business strategies. In addition, we have increased production capacity for sodium silicate and cullet by 30,000 tons per year to total 180,000 tons, and raised production capacity for vinyl chloride monomer (VCM) by 30,000 tons per year to total 330,000 tons. In April 2004, we started operations at Shanghai Tokuyama Plastics Co., Ltd. as a production and sales company for microporous film in Shanghai, China.

In the Specialty Products segment, the production capacity for developer used for semiconductors and liquid crystal displays was increased by 3,500 tons per year to total 5,000 tons in January 2003, in response to growing demand. The Company plans to increase production capacity by a further 5,000 tons to total 10,000 tons by the start of 2005. In addition, Tokuyama plans to increase annual production capacity at its polycrystalline silicon plant by 400 tons to total 5,200 tons, eliminating a production bottleneck. The Company also began construction on a new process verification plant, to be completed in the winter of 2005, with a capacity of 200 tons to produce polycrystalline silicon for solar cells. To meet robust demand for fumed silica, Tokuyama plans to increase annual production capacity by 5,000 tons to total 20,000 tons by March 2005. Tokuyama also formed an alliance with Oriental Silicas Corporation in Taiwan in April 2004, laying the foundation for the efficient business

development of precipitated silica (White Carbon) throughout the Asian market.

In the Cement, Building Materials and Others Segment, we operate a third recycled plastic fuel plant, a sewage sludge treatment facility, a photo-waste liquor treatment facility and a facility to treat soil excavated from construction sites. We expect all of these initiatives to expand environmental recycling operations and reduce cement production costs significantly. In the Building Materials business, affiliate Shanon Co., Ltd. started commercial operations at the Ouchi Factory in Saga Prefecture to produce plastic window sashes in April 2004. By establishing a production base in Kyushu in addition to Hokkaido and Tohoku, we have established a more efficient production structure.

In the R&D division, we succeeded in the production of 300mm-class ultra-large diameter calcium fluoride single crystals in April 2004, and are stepping up user evaluations. Based on the keywords optics and crystals, we aim to commercialize products outside our existing businesses, such as the development of optical and functional materials. The source of our growth is found in our R&D capabilities. Accordingly, we are pursuing alliances among academia, industry and customers to create new growth fields.

* Chlor-Alkali Business: Refers to the business unit involving caustic soda and chlorine produced through electrolysis of industrial salt and their derivatives.

3. Cost Reductions

Tokuyama aims to reduce costs on all fronts while rebuilding its earnings structure. By the conclusion of the fiscal year ending March 31, 2005—the final year of our three-year management plan—we expect to have reduced the number of employees by 220 people, slightly more than planned. This will be achieved by leaving positions vacated by retirees unfilled and by restricting new hiring. We are also making steady progress toward our targets in reducing maintenance costs as well as distribution and purchasing expenses. Tokuyama aims to revert to a lasting low-cost structure instead

of relying on short-term measures that we have taken in the last two years.

4. Personnel Policy

In rebuilding our earnings structure, we believe a strong personnel policy is essential to create a framework for personnel allocation and advancement that draws out the abilities of each employee. We are examining various frameworks to enhance employee motivation.

5. Environmental Management

The Tokuyama Group believes that one of its missions is to tackle environmental issues and systematically solve them. We promote environmental management in all of our business processes, including development, manufacturing and marketing, from the standpoint of contributing to the sustainable development of the Company and society. In 2003, we invested ¥1 billion in environmental initiatives and incurred ¥5.8 billion in environmental-related costs for an economic benefit of ¥1.4 billion. The Tokuyama Group aims to be highly regarded by society and its customers in fulfilling its role in promoting a recycling-based society. To this end, we energetically promote a wide range of activities to increase recycling and restrict the emission of greenhouse gasses through our environmental operations.

6. Reinforcing the Financial Structure

Aiming for a more efficient financial structure, during the interim fiscal period we continued to promote reductions in cash and cash equivalent and interest-bearing debt. Moreover, to further enhance the capital efficiency of the Group, we introduced a cash management system in October 2004. We aim for a continuous strengthening of our financial structure in order to increase corporate value.

V. Dividend Policy

Tokuyama's dividend policy is to provide an appropriate dividend to its shareholders while at the same time retaining sufficient earnings to maintain a sound financial

position and a robust earnings structure in light of recent business performance and future business plans.

VI. Policy for Reducing Investment Units

We believe that reducing investment units is an effective measure for encouraging individual investors to participate in the stock market and invigorate markets. At this time, however, we believe current conditions do not warrant a reduction in investment units, considering the current share price and liquidity of Tokuyama stock.

In the future, we plan to reexamine this policy from a shareholders' point of view and in consideration of stock market trends and our business performance.

Business Performance and Financial Review

I. Business Performance

1. Highlights for the First Half of Fiscal 2004

(1) Performance Overview

In the six-month period ended September 30, 2004, the Japanese economy experienced mixed conditions. On the one hand, there were clear signs of an economic recovery, primarily in the petrochemicals and IT-related fields, driven by increased demand in China. On the other hand, there was a sharp rise in raw material and fuel prices such as crude oil and coal reflecting the significant growth in the Chinese economy, which placed downward pressure on corporate earnings.

Faced with these difficult conditions, Tokuyama implemented cost-cutting measures, focusing on reductions in fixed costs such as personnel, distribution/logistics, purchasing, repairs and maintenance. At the same time, on the operational side, we made every effort to maximize profits through efforts to correct retail prices and to cultivate new customers.

As a result of the above, results for the first half of fiscal 2004 were as follows:

(Unit: Millions of yen)

	Net sales	Operating income	Ordinary income	Net income
1st Half FY2004	111,860	7,018	5,535	2,296
1 st Half FY2003	108,359	6,061	3,903	1,303
Y-o-Y Change (%)	3.2%	15.8%	41.8%	76.1%

Net sales: The Company experienced an increase in sales across each of its operating segments: Chemicals; Specialty Products; and Cement, Building

Materials and Others. Net sales for the period increased 3.2% compared with the corresponding period of the previous fiscal year, to ¥111,860 million.

Cost of sales: Despite a drop in depreciation expense, the cost of sales climbed ¥2,356 million, or 3.1%, to ¥79,283 million, impacted by the sharp rise in raw material and fuel prices.

Selling, general and administrative expenses: Against the backdrop of an increase in sales, selling, general and administrative expenses only increased 0.7% year on year to ¥25,559 million due to successful efforts to curtail operating costs such as distribution/logistics.

Operating income: In the period under review, the sharp increase in raw material and fuel prices and R&D expenses were offset by reductions in operating and other costs and corrections to retail prices. Accordingly, operating income increased 15.8%, to ¥7,018 million.

Ordinary income: In line with the increase in operating income, ordinary income surged 41.8% year on year, to ¥5,535 million. This can be attributed to the improvement in non-operating income/expenses by ¥675 million reflecting the drop in interest expenses, buoyed by the efficient use of cash flows and the decrease in interest-bearing debt.

Net income: Extraordinary gains/losses deteriorated ¥749 million due to the implementation of asset impairment accounting during the period under review. This, however, was offset by the increase in ordinary income. As a result, net income jumped 76.1% compared with the corresponding period of the previous fiscal year, to ¥2,296 million.

(2) Segment Information

In the fiscal year under review, Tokuyama presents the performance of its business segments using a new method for allocating operating expense to

those segments. Segment information for the corresponding period of the previous fiscal year has been recalculated under this new method for comparative purposes. For further details regarding the change in accounting method, please refer to the “Segment Information” section located on pages 23 through 24.

Chemicals

Chemicals Business

Sales of caustic soda increased, due to a recovery in the Japanese economy and a growth in demand. Profits on the other hand were impacted by the jump in raw material and fuel costs. Price corrections for propylene oxide and isopropyl alcohol trailed the increase in petrochemical material prices, leading to lower profits. Sales of sodium silicate and cullet for applications relating to soil improvement were still stagnant from the effects of the steep rises in fuel prices and the increased depreciation costs associated with enhanced capacity and operative reform.

In contrast, sales of chlorinated solvent were strong. Due to robust demand in China, overseas prices for vinylchloride monomer increased, pushing up profits. The business environment gradually improved for Shin-Dai-ichi Vinyl Corporation, supported by strong Asian markets and domestic demand despite higher prices for monomer raw materials.

As a result, the Chemicals Business recorded increased sales and profits.

Film Business

Sales at Sun•Tox Co., Ltd. grew as a heat wave increased demand, but

frequent and significant rises in raw material prices could not be sufficiently passed on to product prices and thus profit margins deteriorated. The performance of Tianjin Sunshine Plastics Co., Ltd. also worsened because of the continuing intense competition in the Chinese film market and the effect of high prices for raw materials.

As a result, revenues for the Film Business increased but profits decreased.

As a result of the above factors, the Chemicals segment recorded revenues of ¥44,726 million, up 0.9% compared with the corresponding period of the previous fiscal year, and operating income of ¥3,220 million, an increase of 29.8% year on year. Sales in the Chemicals segment constituted 40.0% of total sales.

Specialty Products

Si Business

In the electronic materials business unit, there was favorable demand for polycrystalline silicon for both silicon wafers and solar panels. In the silica and derivatives business unit, demand for fumed silica expanded alongside continued growth in the Asian market centered on China in the fields of automobiles, consumer electronics and public infrastructure development. Revenues from precipitated silica, an additive used in tires and shoe soles, etc., showed sluggish growth amid intense competition throughout Asia.

Advanced Materials Business

In high purity chemicals for semiconductors and liquid crystal displays, overall

shipments including subsidiaries in Singapore and Taiwan were robust for isopropyl alcohol and developer used in the electronics industry. ASTOM Corporation, whose business is based on ion exchange membranes, also performed favorably.

In the aluminum nitride business unit, sales stagnated in thin-film metallized grades for consumer electronics. Sales were slow in fine chemicals, such as pharmaceutical and agricultural intermediates and plastic lens materials, owing to the delayed launches of new products. A&T Corporation recorded declines in both revenues and profits due to lower sales of diagnostic reagents.

As a result of the above, total sales for the Specialty Products segment were ¥31,723 million, an increase of 7.2% compared with the corresponding period of the previous fiscal year, and operating income was ¥3,929 million, an increase of 19.7% year on year. Specialty Products segment sales amounted to 28.4% of total sales.

Cement, Building Materials and Others

Cement Business

Although there was a hint of recovery in private construction demand in major metropolitan areas, stagnation in public works continued, resulting in an overriding trend of retrenchment in Japan. Furthermore, the business environment became more severe due to steep rises in coal prices.

Under such circumstances, Tokuyama focused efforts on maintaining capacity utilization by expanding exports and acquiring orders for dam and tunnel construction projects. At the same time, we concentrated on reducing

costs and adjusting prices. However, revenues declined.

In the recycling & environmental business unit, we completed a facility to treat soil excavated from construction sites, and made cost reductions in the cement business for a significant contribution to revenues.

As a result of these factors, the cement business recorded an increase in revenues and a decline in profits.

Building Materials Business

Shanon Group, which is developing the plastic sash window business, endeavored to expand sales in western Japan by increasing the number of its sales offices. However, the rising costs of both raw materials and marketing adversely affected earnings.

Other Businesses

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

As a result of the above, Cement Business segment sales were ¥35,410 million, an increase of 2.9% from the corresponding period of the previous fiscal year, and operating income was ¥1,314 million, a decrease of 17.0% year on year. The Cement, Building Materials and Others segment accounted for 31.6% of total sales.

(3) Dividends

The Company plans to distribute an interim dividend of ¥3 per share, and expects to implement an annual dividend of ¥6 per share for the current fiscal

year, the same as in the previous fiscal year.

2. Outlook for Fiscal 2004

Financial performance prospects for the full year

The Japanese economy is showing clear signs of a recovery, supported by special demand in China in the petrochemical and IT-related fields. However, rising prices for fuels such as crude oil and coal, as well as their impact on the economy, are a cause for concern, dampening optimism for business conditions.

Under such circumstances, the Company plans to improve revenues by working to further reduce fixed costs and adjust product prices. With due consideration of these factors, our business performance outlook for fiscal 2004 is as follows:

(Unit: Millions of yen)

	Net sales	Operating income	Ordinary income	Net income
FY2004	233,000	16,000	13,000	7,500
FY2003	219,393	13,195	9,247	6,038
Y-o-Y Change (%)	6.2%	21.3%	40.6%	24.2%

Note: The aforementioned forecasts are based on the following assumptions: ¥106/\$1 (exports), ¥111/\$1 (imports), and domestic naphtha price ¥35,000/kl.

II. Financial Position

1. Cash Flows for the First Half Period Ended September 30, 2004

(Unit: Millions of yen)

	1 st Half FY2004	1 st Half FY2003
Net Cash Provided by Operating Activities	10,272	14,242
Net Cash Used in Investing Activities	(9,363)	(7,399)
Net Cash Used in Financing Activities	(5,238)	(18,731)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0	28
Decrease of Cash and Cash Equivalents	(4,329)	(11,859)
Increase in Cash and Cash Equivalents Due to Changes in the Scope of Consolidation	108	-
Cash and Cash Equivalents at the End of the Period	17,993	26,580
Cash and Cash Equivalents at the Beginning of the Period	22,215	38,440

(1) Cash Flows from Operating Activities

Net cash provided by operating activities declined 27.9% compared with the corresponding period of the previous fiscal year, to ¥10,272 million.

Major components were income before income tax, which totaled ¥4,409 million, an increase of 25.0% year on year, and increases in major balance sheet items such as trade receivables, inventories and other current assets.

(2) Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥9,363 million, a year-on-year increase of 26.5%.

In the period under review, the Company undertook additional purchases relating to property, plant and equipment and other investments and loans.

(3) Cash Flows from Financing Activities

Net cash used in financing activities fell 72.0% year on year, to ¥5,238 million.

Principal items include the redemption of bonds and repayments of

debt.

As a result of the aforementioned activities, cash and cash equivalents at the end of the period under review was ¥17,993 million, a decline of ¥4,221 million compared with the balance as of the beginning of the period.

2. Financial Position Indices

	1 st Half FY2002	FY2002	1 st Half FY2003	FY2003	1 st Half FY2004
Equity Ratio (%)	33.9	35.1	38.2	40.3	40.8
Current-Value-Based Shareholders' Equity Ratio (%)	28.3	31.6	35.4	37.5	45.3
Debt Redemption (Years)	3.5	3.4	4.0	3.8	4.9
Interest Coverage Ratio (Times)	12.4	12.1	10.5	11.1	9.9

Notes:

1. Shareholders' Equity Ratio: Shareholders' equity/Total assets
2. Current-Value-Based Shareholders' Equity Ratio: Total current value of stocks/Total assets
3. Debt Redemption (Years): Interest-bearing debt/(Operating cash flows x 2)
(Interest-bearing debt / operating cash flows as of March 31 annually)
4. Interest Coverage Ratio (Times): Operating cash flows/Interest paid
5. All financial figures and indices are calculated on a consolidated basis.
6. Total Current Value of Stocks: Stock closing price as of the end of the period x the number of shares issued (less treasury stock)
7. Consolidated cash flows from operating activities are used for calculations. Consolidated interest paid (Statement of Consolidated Cash Flows) is used for calculations.

Segment information

First Half Fiscal 2004 (April 1, 2004 – September 30, 2004)

(Millions of yen)

	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
I Sales						
Sales						
Sales to customers	44,726	31,723	35,410	111,860	—	111,860
Inter-segment sales/transfer	699	84	3,067	3,851	(3,851)	—
Total	45,425	31,808	38,477	115,712	(3,851)	111,860
Operating expense	42,205	27,879	37,163	107,247	(2,405)	104,842
Operating income	3,220	3,929	1,314	8,464	(1,446)	7,018
II Assets						
Assets	88,660	76,203	78,823	243,686	60,352	304,039
Depreciation	3,105	3,205	2,139	8,450	291	8,742
Asset impairment	—	257	30	288	1,112	1,401
Capital expenditures	2,324	2,299	2,195	6,819	91	6,910

First Half Fiscal 2003 (April 1, 2003 – September 30, 2003)

(Millions of yen)

	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
I Sales						
Sales						
Sales to customers	44,343	29,588	34,427	108,359	—	108,359
Inter-segment sales/transfer	761	90	2,984	3,836	(3,836)	—
Total	45,104	29,679	37,411	112,196	(3,836)	108,359
Operating expense	42,788	26,851	35,889	105,529	(3,231)	102,297
Operating income	2,316	2,827	1,522	6,667	(605)	6,061
II Assets						
Assets	92,514	74,265	76,114	242,894	63,707	306,602
Depreciation	3,106	3,430	2,084	8,620	269	8,890
Capital expenditures	3,049	1,582	2,893	7,524	28	7,553

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

In fiscal 2004, Tokuyama presents the performance of its business segments using a new method for allocating operating expense to those segments. The performance of those segment using the previous method are as follows.

As a result, compared with previous accounting methods, this change in allocation of operating expenses decreased operating expenses by ¥91 million in the Chemicals segment, ¥718 million in the Specialty Products segment, ¥47 million in the Cement, Building Materials and Others segment, and increased operating income by the same amounts, respectively.

First Half Fiscal 2003 (April 1, 2003 – September 30, 2003)

(Millions of yen)

	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
I Sales						
Sales						
Sales to customers	44,343	29,588	34,427	108,359	—	108,359
Inter-segment sales/transfer	761	90	2,984	3,836	(3,836)	—
Total	45,104	29,679	37,411	112,196	(3,836)	108,359
Operating expense	42,624	26,396	35,827	104,848	(2,551)	102,297
Operating income	2,480	3,282	1,583	7,347	(1,285)	6,061
II Assets						
Assets	92,514	74,265	76,114	242,894	63,707	306,602
Depreciation	3,106	3,430	2,084	8,620	269	8,890
Capital expenditures	3,049	1,582	2,893	7,524	28	7,553

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	84,914	53,447	72,934	211,297	(5,098)	206,198
Operating income	5,541	6,364	4,005	15,911	(2,716)	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