

Summary of Consolidated Financial Statements for the Fiscal 2004

May 12, 2005

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, 2005 (April 1, 2004 - March 31, 2005)

(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 2004	237,552	8.3	18,172	37.7	15,338	65.9
Fiscal 2003	219,393	(2.7)	13,195	2.7	9,247	46.1

	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 2004	11,012	82.4	43.01	-	8.5	5.0	6.5
Fiscal 2003	6,038	-	23.52	-	5.1	3.0	4.2

(2) Financial position

	Total assets (millions of yen)	Shareholders' equity (millions of yen)	Equity ratio (%)	Shareholders' equity per share (yen)
Mar 31, 2005	308,924	134,395	43.5	528.35
Mar 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 the end of the year (millions of yen)
Fiscal 2004	25,618	(15,772)	(17,393)	14,800
Fiscal 2003	27,709	(16,281)	(27,852)	22,215

2. Financial forecast for fiscal 2005 (From April 1, 2005 to March 31, 2006)

	Net sales (millions of yen)	Operating Income (millions of yen)	Ordinary Income (millions of yen)	Net income (millions of yen)
First Half Fiscal 2005	123,500	9,500	7,700	5,000
Fiscal 2005	255,000	22,000	18,500	11,500

Reference: Prospected net income per share for fiscal 2005: 45.23 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

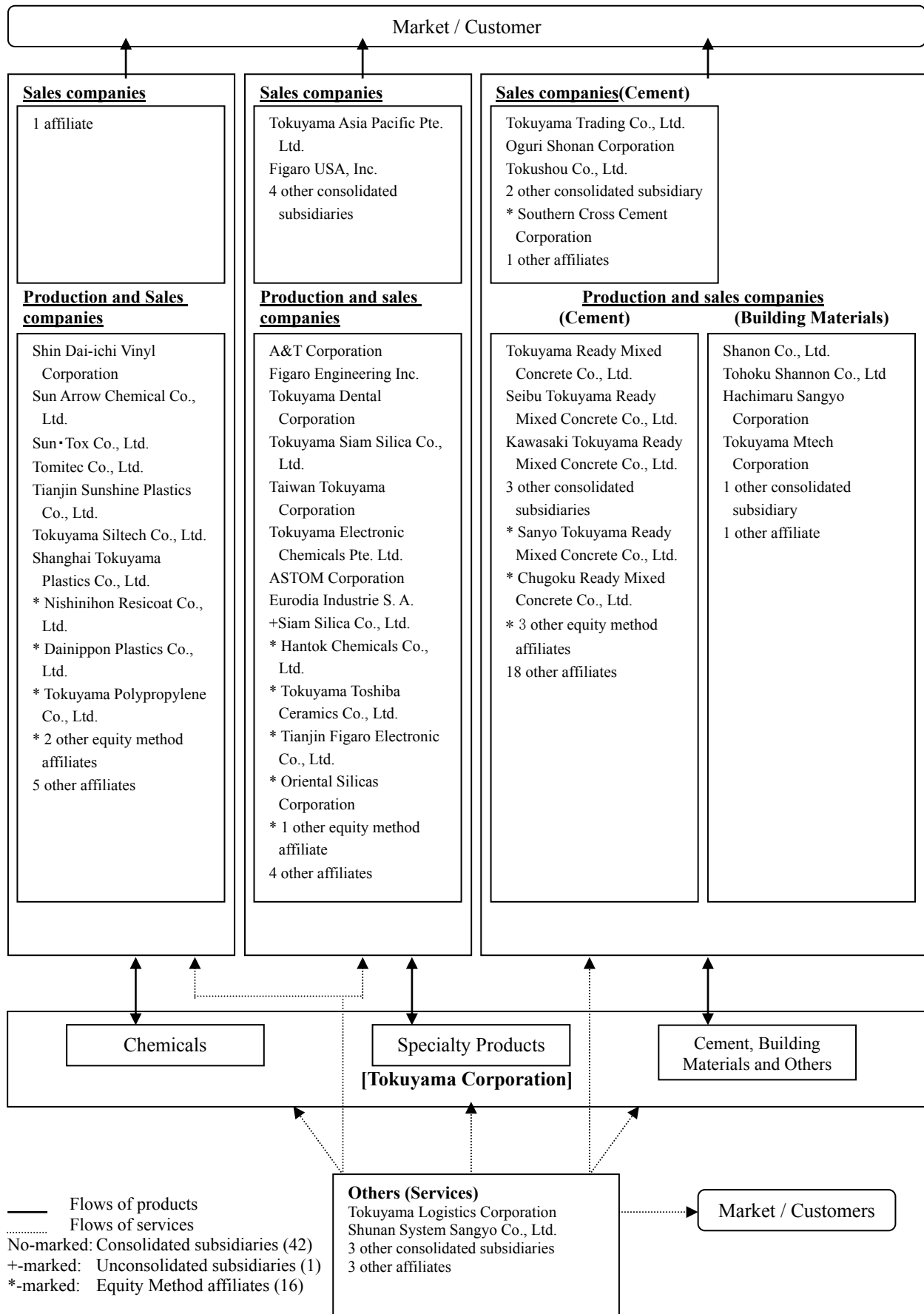
Tokuyama group consists of parent company Tokuyama Corporation, 43 subsidiaries and 49 affiliates. The Group is producing and selling mainly chemical products such as soda ash and caustic soda, vinyl chloride monomer/polymer, film products, fine chemicals, medical materials, electronics materials, cement, 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 Co., Ltd. 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 Eurodia 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 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. 35 other subsidiaries and affiliates (Total: 50 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 consistently remain the preferred choice of its customers and be held in high regard by its stakeholders—including shareholders, customers, employees, and the communities in which it operates. To accomplish this, the Group strives to maximize corporate value, acknowledge and fulfill its corporate social responsibility (CSR), and pursue business activities in harmony with society while improving corporate ethics and ensuring thorough regulatory compliance. In the belief that active involvement in efforts to resolve environmental issues such as global warming is tied to its continuous expansion and enhanced competitiveness, the Group approaches all its business activities from the standpoint of environmental management.

Backed by relationships of trust with customers, accumulated technologies, and a pride in manufacturing, all of which have been nurtured over many years, the Tokuyama Group continues to adopt an aggressive approach to self-innovation and to view changes in its operating environment as opportunities to create new business.

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

In April 2005, the Tokuyama Group introduced a new three-year management plan, covering the period from fiscal 2005 through fiscal 2007, which is a scenario for achieving higher corporate value over the medium to long term. The aim of this plan is to seize the opportunities presented by changes in the business and operating environment. While the Group shares a sense of crisis and urgency brought about by these changes, it will pursue a growth strategy to achieve increases in corporate value over the medium to long term.

Tokuyama recognizes that greater returns on investment lead to greater increases in corporate value. While as a corporate group we are characterized more for our longer-term views, we have positioned the new three-year management plan as an initial step to achieving our goal of higher corporate value over the medium to long term.

This plan is intended to maintain the rising trend in income produced by the successes and strategies of the Group's previous three-year management plan, while at the same time moving forward with the proactive commitment of management resources needed to advance its strategy for further growth.

Measures to advance our strategy for further growth will be taken as follows:

- (1) We will establish aggressive, defensive, and innovative targets depending on the nature and conditions of each business activity. Based on these targets, we will commit management resources in an effort to maximize returns.
- (2) We will achieve qualitative growth as a means of further differentiating all businesses from the businesses of our competitors. In addition, we will achieve quantitative growth in businesses that are expected to assume greater importance and that exhibit stronger potential for increased demand.
- (3) To realize this qualitative and quantitative growth in our businesses, we will work toward growth in functionality and infrastructure.
- (4) We will recreate successful patterns seen in past growth of businesses, and at

the same time create new patterns that are responsive to changes in the business environment.

The final year of the new three-year management plan will mark the Company's 90th anniversary since its founding. Recognizing that our 90th anniversary is a milestone in our medium- and long-term growth scenario, we are pursuing further increases in corporate value.

Targets for the final year of the Tokuyama Group's three-year management plan are for net sales exceeding ¥260billion, an operating income margin of more than 10%, and return on assets (ROA) in excess of 3.0%.

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 March 31, 2005, 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 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 Auditing Department as necessary.

Risk management

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. Legal and Credit Management Department handles daily auditing activities to avoid legal risks and various credit risks. 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, 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. The Law concerning the Protection of Personal Information came into effect in April 2005, and Tokuyama is furthering the protection of personal information by establishing needed systems and working to raise employee awareness of the importance of safeguarding personal information.

(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.

(4) Director and Auditor Compensation

Director and Auditor Compensation

Details of compensation to directors and auditors are as follows:

	Directors		Auditors		Totals	
	Number of Directors	Compensation (¥ million)	Number of Auditors	Compensation (¥ million)	Number of Directors and Auditors	Compensation (¥ million)
Compensation based on the Company's Articles of Incorporation and resolutions of the General Meeting of Shareholders	16	246	6	43	22	289
Retained earnings allocated to bonuses for directors	14	46	—	—	14	46
Retirement bonuses approved by resolution of the General Meeting of Shareholders	3	270	2	25	5	295
Totals	—	562	—	68	—	631

Notes:

1. In addition to the above, ¥61 million was paid in employee salaries and bonuses to employees who are concurrently directors.
2. The numbers of directors and auditors above include directors and auditors who retired during the fiscal year. At the end of the fiscal year under review, the number of directors was 13, and the number of auditors was 4.

Compensation to the Audit Corporation

The following payment was made to Yamaguchi Audit Corporation for the compensation of an independent auditor's report in accordance with the audit agreement.

Item	Total
Compensation of independent auditor's report	¥18 million

IV. Issues Facing the Company

The following issues bear on the execution of the growth strategy that is the core of our new three-year management plan.

1. Business Selection and Concentration

Guided by the basic policy of our growth strategy, “Reinforcing strong businesses” we have classified each of our business activities as aggressive, defensive, or innovative, and are working to efficiently allocate management resources. We are working to maximize corporate value by tailoring these strategies to the nature and conditions of each business activity and then pursuing business strategies for each

business division from the customer's standpoint.

2. Working Toward Four Types of Growth

The Tokuyama Group is striving for qualitative growth, quantitative growth, growth in functionality, and infrastructure growth.

Qualitative growth involves achieving further differentiation from the Group's competitors by engaging in business activities that differ from those of our competitors, employing different methods, and entering new industries on the strength of competitive new products.

Quantitative growth refers to pursuing further differentiation on the basis of business scope in those areas where qualitative growth is already producing differentiation. These two types of growth represent our effort to change the nature and condition of a business, and together represent business growth.

Growth in functionality refers to changes and improvements in organizations and personnel to promote business growth. Specific examples include strengthening the ability to execute a strategy based on the PDCA (Plan-Do-Check-Act) cycle, and seeking to strengthen functions such as ongoing, continuous accident-prevention programs that are imbued with CSR thinking and have a direct impact on a company's sustainability. One of the most important issues is safety in operations at the Tokuyama Factory. In recognition of this, we have ongoing, continuous accident-prevention programs in place.

Infrastructure growth involves building and reinforcing both the manufacturing and information infrastructure needed in a given business environment. At the Tokuyama Factory, we are moving forward with the expansion of the functionality of various types of manufacturing infrastructure, while at the same time positioning it as our main factory. Based on Tokuyama's technology and know-how, the Company is striving to choose optimal locations around the globe in which to pursue expansion. The pressing issue in information infrastructure is the need to build a new system, as the basic system is outdated for the business operations we now have. We are at the same time pushing forward with operational improvements.

3. Creating New Businesses

The key words in the Research & Development Div. are optics and crystals, and they guide the division's efforts. Using the Czochralski method, the division has succeeded in developing large calcium fluoride single crystals that will be needed for the next-generation photo-lithography process for semiconductor production, and is strengthening development and manufacturing systems for the operation stage. Also, in view of the possibility that technological issues may be settled in regard to our new technique for manufacturing polycrystalline silicon for solar cells, we have broken ground for the construction of a new verification plant with a production capacity of 200 tons per year. We will rigorously evaluate technology and quality, and apply what we learn in the construction of a commercial plant with a capacity of several thousand tons per year. In the field of fuel cells, the Company is using one of its basic technologies—hydrocarbon-type ion exchange membrane technology—in the development of electrolyte membranes, and is also developing membrane electrode assembly (MEA). In the future, we will face the issue of the commercialization of these new development themes and turning them into the product lineup for a new

business. The Tokuyama Factory has a comprehensive cooperation agreement with Yamaguchi University, under which we mutually share information and technology with the objectives of improving manufacturing technology, upgrading research and development capabilities, resolving environmental issues, finding applications for research successes that benefit the public, and contributing to the well-being of our communities.

4. 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. The Tokuyama Group is committed to fulfilling an appropriate role in a recycling-based society, and endeavors to earn the high regard of society and its customers. The Group promotes recycling through its resource and environmental businesses, is involved in the reduction of greenhouse-gas emissions in connection with its energy-conservation activities, and energetically advances a wide range of other environmental activities.

5. Reinforcing the Financial Structure

The Tokuyama Group sought through its previous three-year management plan to achieve a more efficient financial structure, reducing cash and cash equivalents, shrinking interest-bearing debt, and enhancing the Group's capital efficiency. As a result, cash and cash equivalents at the end of the year were equivalent to 23 days of net sales, and the ratio of interest-bearing debt to net sales was 37.6%. In addition, the Group's capital efficiency was enhanced through the introduction of a cash management system. To further strengthen our financial position, we are now studying methods of capital procurement suited to the characteristics of our businesses.

Business Performance and Financial Review

I. Business Performance

1. Highlights of the Fiscal Year

(1) Performance Overview

The Japanese economy is on the road to recovery, particularly its petrochemicals and IT industries, buoyed by strong demand in China and the strong American economy. However, the Chinese economy's explosive expansion is now facing increases in the costs of fuels such as petroleum and coal, as well as soaring freightage, and this is seen as grounds for concern.

In this operating environment, the Tokuyama Group endeavored to reach the targets set for the final year of its three-year management plan. There had been no significant reduction in operating costs, but we continued to focus on reductions in fixed costs such as personnel, procurement and distribution, and repairs and maintenance. Together with this, we made a concerted effort to generate profits by maintaining or increasing the prices of our products, and by developing new

customers.

As a result, performance for the fiscal year was as shown below.

(Unit: Millions of yen)

	Net sales	Operating income	Ordinary income	Net income
Fiscal 2004	237,552	18,172	15,338	11,012
Fiscal 2003	219,393	13,195	9,247	6,038
Year-on-year change	8.3%	37.7%	65.9%	82.4%

Net sales: Tokuyama made efforts to increase sales volume and revise prices upward in Chemicals, Specialty Products, and Cement, Building Materials and Others. As a result, net sales rose 8.3%, or ¥18,159 million, to ¥237,552 million.

Cost of sales: Despite ongoing rationalization, the steep rise in raw materials and fuels prices and expanded production volume pushed cost of sales up 8.2%, or ¥12,687 million, to ¥167,432 million.

Selling, general and administrative expenses: Although general expenses such as R&D were higher, efforts to restrain operating costs held the increase in SG&A to 1.0%, or ¥493 million, holding the line at ¥51,947 million.

Operating income: The Company sought to offset steeply rising raw materials and fuels prices with higher sales volume, upward adjustments to product prices, and reductions in a range of costs. These efforts allowed operating income to grow 37.7%, or ¥4,977 million, to ¥18,172 million.

Ordinary income: Non-operating income/expenses improved by ¥1,114 million as a result of increased equity in earnings of unconsolidated subsidiaries and affiliates and the contraction of interest paid. This, together with the increase in operating income, caused ordinary income to jump 65.9%, or ¥6,091 million, to ¥15,338 million.

Net income: The Company posted no gain on amortization of prior service benefit obligations in the fiscal year under review, as it did in the previous fiscal year, and a new accounting standard required that asset impairment of fixed assets be posted and written off promptly. These and other factors caused extraordinary income/loss to deteriorate by ¥2,667 million. However, ordinary income increased and taxes declined, contributing to a surge in net income of 82.4%, or ¥4,973 million, to ¥11,012 million.

(2) Segment Information

Tokuyama adopted a new method of allocating segment operating expenses beginning with fiscal 2004. For purposes of comparison with this fiscal year's information, segment information of the previous fiscal year was recalculated using the new method.

For detailed information on this change, refer to "Segment Information" on pages 18 - 20.

Chemicals

Chemicals Business

Sharply increased prices for raw materials and fuels had an impact on many products,

including caustic soda, propylene oxide(PO), isopropyl alcohol(IPA), soda ash, and Shin Dai-ichi Vinyl Corporation's vinyl chloride polymer. In response, Tokuyama focused on rationalization and upward adjustments to product prices.

Domestic and overseas sales of caustic soda and propylene oxide were healthy. With demand underpinning the market, steady shipments and price adjustments produced revenue growth. However, a significant increase in costs held profit close to the previous fiscal year's level. Adjustments to the price of isopropyl alcohol, supported by flourishing demand both at home and overseas, allowed profit to rally toward the end of the fiscal year. Signs of improvement in the soda ash supply-and-demand environment were seen, and prices were on a recovering trend, but profit failed to recover. Sales of sodium silicate and CULLET(anhydrous sodium silicate) for soil improvement, which is the primary application for these products, were stagnant, and price adjustments were tardy, leading to the continuation of difficult conditions in this business.

Shin Dai-ichi Vinyl Corporation achieved significant recovery, as a result of both its continued efforts to rationalize and solid demand for vinyl chloride polymer in Asian markets.

Film Business

In response to cost increases resulting from high raw-materials prices, Sun-Tox Co., Ltd. continued to rationalize and adjusted its prices. This allowed some recovery in performance. However, the performance of Tianjin Sunshine Plastics Co., Ltd. continued to worsen as a result of high raw-materials prices and the continuing intensification of competition in the Chinese film market.

As a result of the foregoing, net sales in this segment increased by 7.7% to ¥95,771 million, and operating income jumped 54.6% to ¥8,565 million. This segment accounted for 40.3% of total net sales.

Specialty Products

Si Business

Demand for polycrystalline silicon for use in semiconductors and solar cells was brisk, and export prices were adjusted in the 4th quarter of the fiscal year. Its performance has been steadily improving thanks to these factors.

Silica and derivatives also performed strongly, as demand remained healthy for use in automobiles, consumer electronics and home appliances, and residential infrastructure development in Asia, particularly in China. Demand for these materials especially in silicone applications, took an upswing. In the face of a rising yen and more intense competition, however, the Company also turned to rationalization, quality differentiation, and price adjustments to maintain profit levels. These efforts met with a degree of success in the fumed silica business, but were unable to offset the effects of intensifying competition in the amorphous precipitated silica market. As a result, performance was shaky.

Steady demand from tire manufacturers allowed our precipitated silica manufacturing and sales subsidiary in Thailand, Tokuyama Siam Silica Co., Ltd. to

achieve steady performance.

Advanced Materials Business

In high purity chemicals for semiconductors and liquid crystal displays, overall shipments of high purity isopropyl alcohol(IPA-SE) and developers were robust, including shipments from subsidiaries in Singapore and Taiwan. In fine chemical such as pharmaceutical, agricultural chemical bulks and intermediates expanded sales of plastic lens materials offset the delayed launches of new bulks and chemical products. This allowed performance to recover to some extent. In the aluminum nitride business unit, stronger ties with customers have been expected to allow the development of new applications and the reduction of costs. However, the unit was late in developing products for the new generation of DVDs, and the prices of existing products declined. As a result, the performance of this business was weak.

ASTOM Corporation, which is engaged in the ion-exchange membranes business, achieved greater efficiency in its business operations and improved performance through a business alliance with Asahi Kasei Chemicals Corporation. Faced with increasing competition in the gas sensor field, Figaro Engineering Inc. entered new markets with the introduction of new products, and succeeded in reducing costs. These measures put that company's performance on a course to recovery. The computerization of medical equipment continues to advance with A&T Corporation's introduction of electronic clinical charts, and sales of laboratory information system are also growing. However, competition is growing stiffer, and costs are rising as a result of increased human resource requirements. In addition, Tokuyama Dental Corporation is facing tougher competition as a result of its tardiness in introducing new products. As a result, performance in this area was stagnant.

The above factors led to 12.6% growth in this segment's net sales, which rose to ¥67,155 million. Operating income rose 45.0% to ¥9,229 million. This segment's net sales accounted for 28.3% of the Company's total sales.

Cement, Building Materials and Others

Cement Business

Decreased domestic demand for cement was rather more moderate than predicted, with the hint of recovery in private construction demand in major metropolitan areas, as well as restraint in public works spending remaining the order of the day. However, increased costs accruing from the jump in raw materials and fuels prices are also having a significant impact, and the business environment remains adverse. In response to these conditions, the Company worked to adjust prices, maintain sales volume, and expand sales of soil improvement and stabilizer materials, but these measures were inadequate to offset the higher prices of raw materials and fuels, and performance deteriorated. In contrast, the recycling & environmental business turned in a strong performance, as the volume of soil received from construction sites increased.

Building Materials Business

Shanon Group, which is developing the plastic sash window business, is working to expand sales by increasing the number of its sales offices in western Japan and to reduce costs through rationalization. Despite their efforts, the increase in raw materials prices precluded any significant growth in profits.

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, this segment's net sales edged up 5.4% to ¥74,626 million, but operating income dropped 18.7% to ¥3,257 million. The segment's net sales accounted for 31.4% of Tokuyama's total sales.

(3) Dividends

The Company plans to distribute a year-end dividend of ¥3 per share, unchanged from the previous fiscal year. An interim dividend of ¥3 per share has already been distributed, so the annual dividend will remain at ¥6 per share for the current fiscal year.

2. Outlook for Fiscal 2005

Overall performance in the coming fiscal year

Japan's domestic economy is on the road to recovery, lifted by the dramatic expansion of the Chinese market, and particularly their petrochemicals and IT industries.

However, there are areas of opacity in the outlook for the Chinese economy, which are a source of concern for the future of the Japanese economy.

The Tokuyama Group confronts these circumstances with efforts to further improve profitability through additional reductions in fixed costs, together with the energetic implementation of its growth strategy, which is grounded in the basic policy, "Reinforcing strong businesses" and expanding business adapting to the customer's standpoint. Taking these factors into account, our performance forecasts for fiscal 2005 are as follows.

Chemicals

Chemicals Business

In this business we will maintain safety, a high operating ratio and a stable supply of products. We will also continue to work for rationalization and price adjustments as a hedge against increases in raw materials and fuels prices. Various measures will be instituted to strengthen our core chlor-alkali business. In the vinyl chloride business, which is one element of the chlor-alkali business, it is forecast that domestic and overseas shipments of Shin Dai-ichi Vinyl Corporation's vinyl chloride polymer will remain steady, supported by strong demand in China.

Film Business

Sun•Tox Co., Ltd. and Tianjin Sunshine Plastics Co., Ltd. face a difficult operating environment, characterized by the inflation of raw materials prices and the deflation of product prices. They will seek improved profitability through rationalization and expanded sales of high-value-added products.

Specialty Products

Si Business

Demand for polycrystalline silicon is expected to take an upturn as a result of the underlying strength of the semiconductor industry and the steep growth of the solar-cell field. The Company is studying measures to ensure the stability of operations and supply under these conditions, and is focused on development of the manufacturing technology we will need in the future.

The fumed silica business must respond to the strong demand in Asia, particularly in China, and is reinforcing manufacturing and sales capabilities. We are developing new grades of precipitated silica, and intend to increase sales of high-value-added products.

Advanced Materials Business

In the aluminum nitride business, we will continue to seek stronger ties to customers, strengthen R&D capabilities, raise quality, and rationalize costs. The vigor of Asia's IT industry will provide a tail wind for high-purity chemicals for semiconductors and liquid crystal displays, producing steady growth in sales of isopropyl alcohol for electronics industry use, and we will also reinforce developer manufacturing and sales capabilities. A&T Corporation and Tokuyama Dental Corporation will introduce new products in an effort to expand sales and improve their performance.

Cement, Building Materials and Others

Cement Business

Price adjustments must be effected in response to the contraction of domestic demand and the steep rise in raw materials and fuels prices. In the environmental resources business, we are expanding our system of gathering and receiving waste plastic, and expanding our waste collection for material recycling.

Building Materials Business

There is a growing awareness that athermalization of residential structures is important to both an improved residential environment and energy conservation. Shanon Group responds to these societal requirements, and will focus on continued strengthening of marketing activities and rationalization.

Other Businesses

Other businesses, which include transport and property maintenance, will work for cost reductions and enhanced efficiency for the Group as a whole through the consolidation of administrative functions.

Assuming the measures described above, the following forecasts are offered: net sales will grow 7.3%, or ¥17,400 million, to ¥255,000 million; operating income will rise 21.1%, or ¥3,800 million, to ¥22,000 million; ordinary income will increase 20.6%, or ¥3,100 million, to ¥18,500 million; and net income will expand 4.4%, or ¥400 million, to ¥11,500 million.

(Unit: Millions of yen)

	Net sales	Operating income	Ordinary income	Net income
Fiscal 2005	255,000	22,000	18,500	11,500
Fiscal 2004	237,552	18,172	15,338	11,012
Year-on-year Change	7.3%	21.1%	20.6%	4.4%

Note: The aforementioned forecasts are based on the following assumptions: ¥100/\$1 (exports), ¥105/\$1 (imports), and domestic naphtha price ¥35,000/kl.

II. Financial Position

1. Assets, Liabilities, and Equity

Total assets as of March 31, 2005 stood at ¥308,924 million, an increase of ¥108 million from the end of the previous fiscal year. This was primarily because higher net sales produced increases in both trade notes and accounts receivable and trade notes and accounts payable. Cash and cash equivalents were used for the repayment of interest-bearing debt, and capital investment was kept within the scope of depreciation. ROA was 3.6%, an improvement of 1.6% over last fiscal year's figure.

Total liabilities as of March 31, 2005 were ¥170,683 million, down ¥11,562 million from the end of the previous fiscal year. Of this total, interest-bearing debt contracted ¥15,311 million to ¥89,303 million.

Shareholders' equity increased by ¥9,944 million to ¥134,395 billion, primarily as a result of growth in retained earnings and unrealized holding gains on available-for-sale securities.

2. Cash Flows for Fiscal 2004

(Unit: Millions of yen)

	FY2004	FY2003
Net Cash provided by Operating Activities	25,618	27,709
Net Cash used in Investing Activities	(15,772)	(16,281)
Net Cash used in Financing Activities	(17,393)	(27,852)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	24	(16)
Decrease of Cash and Cash Equivalents	(7,522)	(16,440)
Increase in Cash and Cash Equivalents due to Changes in the Scope of Consolidation	108	214
Cash and Cash Equivalents at the End of the Period	14,800	22,215
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 was ¥25,618 million. Major components included income before income taxes of ¥13,728 million (¥10,303 million in the previous fiscal year), depreciation expenses of ¥18,336 million (¥18,874 million in the previous fiscal year), a decline in revenue of ¥6,489 million (compared with an increase in revenue of ¥2,318 million in the previous fiscal year) accruing from higher trade notes and accounts receivable, and a decline in payments of ¥3,642 million (compared with an increase in payments of ¥1,124 million) due to an increase in trade notes and accounts payable.

(2) Cash Flows From Investing Activities

Net cash used in investing activities was ¥15,772 million. Significant outlays included capital investments of ¥16,510 million (compared to the previous fiscal year's investments of ¥14,801 million), and net expenditures for investment securities and loans receivable of ¥1,099 million (compared with net expenditures of ¥1,931 million last fiscal year).

(3) Cash Flows From Financing Activities

Net cash used in financing activities was ¥17,393 million. Significant elements included net expenditures of ¥10,886 million (compared with ¥11,939 million in the previous fiscal year) applied to the repayment of borrowed money for the purpose of shrinking interest-bearing debt, and net expenditures of ¥4,800 million (compared with ¥14,680 million in the previous fiscal year) for the redemption of bonds.

Cash and cash equivalents at the end of the fiscal year were ¥14,800 million, down ¥7,415 million from the end of the previous fiscal year.

3. Transitions of indices about financial position

	As of March 31, 2002	As of March 31, 2003	As of March 31, 2004	As of March 31, 2005
Shareholders' Equity ratio (%)	33.0	35.1	40.3	43.5
Current-value-based Shareholders' Equity ratio (%)	29.6	31.6	37.5	63.5
Debt redemption term (years)	6.3	3.4	3.8	3.5
Interests coverage ratio(times)	6.4	12.1	11.1	13.7

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.

Segment information

Fiscal 2004 (April 1, 2004 – March 31, 2005)

(Millions of yen)

	Chemicals	Specialty products	Cement, building materials and others	Total	Corporate or elimination	Consolidated
I Sales						
Sales						
Sales to customers	95,771	67,155	74,626	237,552	-	237,552
Inter-segment sales/transfer	1,508	114	6,968	8,591	(8,591)	-
Total	97,279	67,269	81,594	246,144	(8,591)	237,552
Operating expense	88,714	58,040	78,337	225,092	(5,712)	219,379
Operating income	8,565	9,229	3,257	21,051	(2,878)	18,172
II Assets						
Assets	91,115	78,154	79,332	248,602	60,322	308,924
Depreciation	6,571	6,673	4,462	17,706	629	18,336
Impairment losses on fixed assets	-	257	30	288	1,112	1,401
Capital expenditures	3,985	7,045	3,590	14,621	452	15,073

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

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, Biaxial-oriented polypropylene film, Multilayer co-extrusion films, Cast polypropylene films, Mircoporus 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 ¥ 2,878 million for this period and ¥ 1,218 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 ¥ 61,842 million for this fiscal year and ¥ 66,712 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.

Change in Method of Allocating Operating Expenses

In the past, basic research and development expenses have been allocated to each segment as operating expenses, and the expenses of the Company's General Affairs and Personnel Div. and Corporate Administration Div. were accounted for under the "Corporate or Elimination" category.

Beginning with this fiscal year, basic research and development expenses will be accounted for under the "Corporate or elimination" category, and the expenses of the Company's General Affairs and Personnel Div. and Corporate Administration Div. will be allocated to each segment.

This change is to achieve better accountability by using the same method of allocating operating expenses in the profit/loss calculations used for business management and for public disclosure. The results of these calculations will now match.

As a result, compared with the previous method, operating expenses of the chemicals segment are ¥132 million lower, those of the specialty products segment are ¥1,324 million lower, those of the cement, building materials and others segment are ¥197 million lower, and the operating income of each is higher by those respective amounts.

Segment information for the previous fiscal year, recalculated according to the new method, is as follows.

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

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.

Overseas sales

Fiscal 2004 (From April 1, 2004 to March 31, 2005)

(Millions of yen)

	Asia	Others	Total
I Overseas Sales	26,657	10,671	37,328
II Consolidated net sales			237,552
III Percentage of overseas sales to consolidated net sales [%]	11.2	4.5	15.7

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

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.