

TOSOH Corporation

Consolidated Financial Results for Fiscal Year 2004 (April 1, 2004 – March 31, 2005)

I. Summary

1. Consolidated Results

	Net Sales		Operating Income		Ordinary Income*	
	JPY millions	%**	JPY millions	%	JPY millions	%
FY 2004	588,331	21.5	56,898	89.3	55,757	119.8
FY 2003	484,388	2.6	30,054	7.2	25,372	18.8

* Based on standard accounting practices in Japan, "Ordinary Income" represents income before extraordinary items and taxes. Extraordinary items include, for example, gain (loss) on the sale of fixed assets and gain (loss) on the sale of stock.

** Net Sales, Operating Income, Ordinary Income, and Net Income percentages indicate increases over the previous fiscal year.

	Net Income		Net Income Per Share	
	JPY millions	%	JPY	
FY 2004	29,533	304.8	49.09	
FY 2003	7,296	51.7	11.96	

Notes: 1. Equity income: FY 2004: JPY 776 million
 FY 2003: (JPY 1,004 million)
 2. Average number of shares issued: FY 2004: 597,997,873 shares
 FY 2003: 598,207,033 shares
 3. Changes in accounting methods: Present

2. Consolidated Financial Position

	Total Assets	Shareholders' Equity	Ratio of Shareholders' Equity to Total Assets	Shareholders' Equity Per Share
	JPY millions	JPY millions	%	JPY
FY 2004	603,208	127,992	21.2	213.79
FY 2003	549,212	99,237	18.1	165.67

Note: Consolidated outstanding shares at end of FY 2004: 597,867,102; at end of FY 2003: 598,128,643

3. Consolidated Cash Flow

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash & Cash Equivalents at End of Period
	JPY millions	JPY millions	JPY millions	JPY millions
FY 2004	44,779	(36,093)	(7,192)	18,572
FY 2003	33,920	(19,515)	(18,401)	16,949

4. Scope of consolidation

Consolidated subsidiaries: 89

Unconsolidated subsidiaries with equity method applied: 2

Affiliates with equity method applied: 26

5. Forecast for Fiscal Year 2005 (April 1, 2005 - March 31, 2006)

	Net Sales	Operating Income	Ordinary Income	Net Income
	JPY millions	JPY millions	JPY millions	JPY millions
Mid-year	300,000	20,000	20,000	9,000
Year-end	625,000	48,000	47,000	23,000

TOSOH CORPORATION

Consolidated Results for Fiscal Year 2004

This summary of business and financial results abides by a presentation format employed by publicly listed corporations in Japan for financial reporting. Tosoh has modified the phrasing in translation and added commentary for the benefit of readers outside Japan. Management has prepared the U.S. dollar translations solely for the convenience of readers at the rate of \$1 = ¥107.39 (US dollar to Japanese yen), the exchange rate at fiscal year-end (March 31, 2005). These translations do not imply that the yen amounts have been or could have been converted into dollars at that rate or at any other rate.

II. Management Policy

A. Management Principles

Based on a medium-to-long-term perspective, the Tosoh Group is working toward a corporate structure that can achieve stable and high income, supporting its goal of being a truly international competitor. The corporate image that the Group is striving for can be described by the following three statements:

- evolving to react effectively to a dynamic operating environment,
- exhibiting broad earning power,
- employees realizing their full potential in contributing to operations.

B. Issues and Strategy

The Tosoh Group implemented various measures during fiscal 2004 to firm up the business bases of its petrochemical and basic operations by expanding scope and improving competitiveness. Among measures to strengthen its vinyl isocyanate chain, Tosoh completed an expansion of caustic soda production facilities at the Nanyo operations in June 2004 and is scheduled to complete adding capacity to its vinyl chloride monomer (VCM) production facilities in fall 2005. To supply affiliate Nippon Polyurethane Industry Co., Ltd. (NPU), with raw materials for the production of urethane, Tosoh completed construction of a naphtha-based carbon monoxide production facility in June 2004. The Company completed aniline production facilities to supply NPU's methylene diphenyl diisocyanate (MDI) production in March 2005.

To strengthen the cooperative efforts of the Group, Tosoh made Plas-Tech Corporation and Philippine Resins Industries, Inc. consolidated subsidiaries in the previous fiscal year. In December 2004, the Company also established a company to manufacture and sell PVC resin in Guangzhou, China. Among other plant construction, in April 2004, Tosoh completed a plant for tertiary butyl alcohol (TBA), an intermediate raw material used in the production of acrylic resins.

In the Specialty Group, Tosoh's efforts during the fiscal year were aimed at building technological capabilities and developing product lines that are leaders in global or Asian markets. Specifically, in April 2004, Tosoh established a trading company in Shanghai to market the Group's products in China. In addition, the Company began expanding its ethylene amine and diagnostic reagent production capacities, with completion scheduled for fall 2005. The Group will continue its efforts to develop and strengthen its high-value added product lines based on its basic technologies in organic and inorganic chemistry.

Guided by its basic environment, safety, and health principles, the Tosoh Group undertakes a variety of environmental activities aimed at contributing to the communities around it through careful consideration of environment and safety as a member of a recycling-oriented society.

C. Dividends

In determining dividend levels, Tosoh's management considers the overall picture, including their commitment to returning profits to shareholders, profitability trends, financial position, and capital needs for future business development. They also believe in retaining a sufficient portion of earnings to fortify the company's financial position and to fund investment in core businesses. A sound balance between dividend payouts and retained earnings will help maximize aggregate shareholder value over the long term.

D. Share Lots

Like most publicly listed Japanese corporations, Tosoh employs a lot system for the trading of its shares. Investors buy and sell Tosoh shares in lots of 1,000 shares, which is the most common lot size.

Several Japanese corporations have reduced the size of their share trading lots to make their shares more

accessible to individuals, and similar reductions are under consideration at numerous other companies in Japan. Management at Tosoh also has analyzed the potential benefits of adopting a smaller share lot. Their conclusion is that the benefits would be minimal and would not justify the administrative costs entailed. That conclusion emerged from thorough consideration of the company's recent share price, the number of Tosoh shareholders, the liquidity of the company's shares outstanding and other pertinent factors. Management remains strongly committed to serving the interests of Tosoh shareholders, and they will continue to consider any and all measures—including revisions in the company's share lot—for maximizing shareholder value.

E. Corporate Governance Policy and Measures

To ensure the continued viability of the Company, Tosoh is building an efficient organization that can quickly respond to changes in the business environment. At the same time, it strives to achieve sound operations that demonstrate fair business practices and are highly transparent.

The Board of Directors meets, in principle, at least once a month to make decisions on important matters concerning the operation of the business. In addition, the Board oversees the business activities of directors in charge of operations. Moreover, to enable quick decision-making, the Executive Committee meets, in principle, once a week, to decide on important business proposals.

The Company employs a corporate auditor system under which four corporate auditors—two of which are non-standing auditors—monitor the business activities of directors. Furthermore, to strengthen the Auditors' Committee, an Auditors' Committee Office was established last year. Each of the companies in the Group also conducts business audits through their corporate auditing departments. Neither of the Company's non-standing auditors has a vested interest in Tosoh.

The three certified public accountants in charge of Tosoh's independent audit during the fiscal year under review were Minoru Matsumoto (16 years auditing experience), Masahiro Nishio, and Yoshiaki Uezaka. All three CPAs are partners of KPMG AZSA & Co., the contracted certified public accounting firm. The breakdown of auditors used during the public audit was 7 CPAs, 6 trainees, and 1 other assistant.

Tosoh has Anti-monopoly, Export Management, and Compliance committees and a guidance manual for compliance activities to ensure compliance with legal regulations. When deemed necessary, the Company also consults with its legal advisors.

To increase the transparency of its business activities, Tosoh is making efforts, such as earlier reporting of performance announcements, to proactively and quickly disclose information. The Company provides a broad range of disclosure-related information on its web site at www.tosoh.com.

Corporate Directors and Auditors Remuneration in Fiscal 2004

	Amount (millions of yen)
Total remuneration paid to directors	293
Total remuneration paid to corporate auditors	42

Certified Public Accounting Firm Remuneration in Fiscal 2004

	Amount (millions of yen)
Remuneration paid for audit opinion	39
Other remuneration	--

III. Business Results and Financial Position

A. Business Results and Outlook

1. Results in the fiscal year from April 1, 2004 to March 31, 2005

Tosoh's net sales increased 21.5% year on year, to ¥588.3 billion (\$5,478 million). Although soaring oil prices drove up the costs of naphtha and other raw materials, there was a sharp improvement in the demand-supply gap for most petrochemical and basic chemical products caused by strong global demand, especially from China, and a reduction in excess production capacity due to restructuring within the industry. Because of these favorable conditions, the Company achieved price increases for caustic soda, polyvinyl chloride (PVC) resin, and other bulk chemicals in domestic markets as well as substantial price hikes in overseas markets. The Specialty Group also had a good year, posting significant growth in shipments. Reflecting these circumstances, net income advanced to ¥29.5 billion (\$275 million), up 304.8% from the previous fiscal year.

By business segment

• Petrochemical Group

Sales of the Petrochemical Group increased 28.2%, to ¥179.3 billion (\$1,669 million), while operating income jumped 256.5%, to ¥10.7 billion (\$100 million).

Shipments of olefins, including ethylene, propylene, and benzene and their derivatives climbed against the backdrop of robust demand from China and the United States. Because of the rising cost of naphtha combined with the tight demand-supply gap, prices of benzene and such derivatives as cumene and styrene monomer rose sharply in overseas markets as well as increasing in domestic markets.

Similar conditions prevailed for polyethylene, which saw domestic shipments expand and prices rise in its domestic and overseas markets. Exports of chloroprene rubber were favorable, especially to China, and domestic shipments also increased to the automobile and other industries. PVC paste achieved price increases in domestic and overseas markets.

• Basic Group

Basic Group sales increased 24.1%, to ¥1,717 billion (\$1,599 million) and operating income expanded 128.7%, to ¥20.4 billion (\$190 million).

Shipments and prices of caustic soda rose domestically and overseas. The domestic price increase steadily spread through the market during the fiscal year while overseas prices climbed particularly for shipments to alumina producers in Australia.

Due to a halt in production for regularly scheduled maintenance and the impact of several typhoons, exports of vinyl chloride monomer (VCM) declined in fiscal 2004. Shipments of polyvinyl chloride (PVC) fell at home as well as abroad. PVC-related sales were given a boost in the fiscal year under review by the inclusion of Plas-Tech Corporation and Philippine Resins Industries, Inc., as consolidated subsidiaries.

Although exports of cement increased in fiscal 2004, domestic shipments continued to be flat.

• Specialty Group

Sales of the Specialty Group increased 16.3%, to ¥191.7 billion (\$1,785 million), while operating income advanced 43.5%, to ¥22.7 billion (\$212 million).

Exports of ethylene amines rose against the backdrop of robust demand in Asia. The company also achieved ethylene prices increases in the domestic market. Among other products, domestic shipments and prices of bromine-based flame retardants were higher.

Tosoh recorded growth in exports of packing materials for high-performance liquid chromatography columns. Among diagnostic equipment, exports of a recently launched compact automated immunoassay analyzer and diagnostic reagents increased sharply.

Shipments of grinding media zirconia products used for producing ultrafine materials for electronic components expanded in domestic and overseas markets. Exports of electrolytic manganese dioxide (EMD) to Asian and European markets rose notably, while shipments of high-silica zeolite for the exhaust systems of automobiles and for other applications also increased.

Reflecting booming conditions in such core markets of the IT industry as semiconductors and flat panel displays, shipments of sputtering targets, quartz glass, and other electronics materials increased substantially.

Greater investment by industry in electronics production facilities boosted sales of water treatment plants and chemicals.

• Service Group

Sales of the Service Group increased 10.4%, to ¥45.6 billion (\$425 million), and operating income climbed 32.8%, to ¥3.0 billion (\$28 million).

The Group's overall improvement can be attributed to good performances by construction and logistics services subsidiaries as well as trading subsidiaries.

By geographical segment

Sales of the parent company and Japanese subsidiaries rose 20.1%, to ¥528.8 billion (\$4,924 million). Operating income advanced 79.8%, to ¥52.1 billion (\$485 million).

Sales in Japan grew due to overall growth in shipments and increases in domestic prices for caustic soda, PVC resins, VCM, and other products.

At non-Japanese subsidiaries, sales increased 34.8%, to ¥15.4 billion (\$143 million), while operating income surged 344.4%, to ¥4.8 billion (\$45 million). In Europe, shipments of EMD, scientific instruments, and diagnostic products expanded. Asian sales were boosted by the inclusion of Philippine Resins Industries, Inc., as a consolidated subsidiary and higher prices for PVC resin. In North America, shipments were firm for sputtering targets and quartz

glass.

2. Outlook for the fiscal year to March 31, 2006

Tosoh's projections call for net sales for the fiscal year ending March 31, 2006, to increase 6.2%, to ¥625 billion, and net income to decline somewhat, to ¥23 billion because of rising costs and because the company will be changing its method of accounting for depreciation from the straight line to declining balance method. Management plans to recommend increasing the dividend by ¥1 per share to ¥6 per share for the fiscal year. Business projections reflect concerns about a slowdown in Chinese markets, rising material costs, and inventory adjustments in the IT industry. In making its forecasts, the company has used the following assumptions: naphtha prices in Japan, ¥37,000 per kiloliter and a currency exchange rate of ¥105 to the U.S. dollar.

B. Financial Position

Overall, the company maintained a strong financial position in the past fiscal year. Free cash flow (net cash generate by operating activities less net cash used in investing activities) declined 39.7%, to ¥8.7 million (\$81 million). Cash and cash equivalents at fiscal year-end totaled ¥18.6 billion (\$173 million), up 9.6% over the previous year-end.

Net cash provided by operating activities increased 32.0%, to ¥44.8 billion (\$417 million). Overall growth was achieved despite increases in trade receivables and inventories because of a large increase in income before income taxes.

Net cash used in investing activities rose 84.9%, to ¥36.1 billion (\$336 million) due to increased payments for purchase of fixed assets.

Net cash used in financing activities decreased 60.9%, to ¥7.2 billion (\$67 million), reflecting the decline in free cash flow.

Cash Flow Indices

	FY2000	FY2001	FY2002	FY2003	FY2004
Equity ratio	17.1%	15.8%	17.0%	18.1%	21.2%
Market value equity ratio	34.2%	40.5%	26.5%	45.2%	52.5%
Average debt repayment period	10.0 years	8.4 years	6.7 years	8.5 years	6.4 years
Interest coverage ratio	4.4 times	5.7 times	7.8 times	7.2 times	10.6 times

Note: Equity ratio: shareholders' equity/total assets
Market value equity ratio: total market capitalization/total assets
Average debt repayment period: interest-bearing debt/operating cash flow
Interest coverage ratio: operating cash flow/interest payments

C. Risk Factors

The items discussed below are the major business and accounting factors that management has deemed to have a potential impact on the investment decisions of investors. However, these business risks are only those recognized as of the end of the fiscal year under review and do not represent complete coverage of all business risks.

Fluctuation in global markets for products and raw materials

The performance of the Tosoh Group, particularly the petrochemical and basic businesses, could be significantly affected by fluctuations in global prices for crude oil, naphtha, petrochemical products, and others.

Exchange rate fluctuations

The Tosoh Group is developing its businesses on a global basis, and overseas sales accounted for 28.5% of consolidated net sales in the fiscal year under review. In addition, sourcing of the Group's core raw materials, such as naphtha, coal, and salt, is done in international markets. Fluctuations in exchange rates, therefore, could have a significant impact on the business performance or financial condition of the Group.

3. Others

Among the other factors that might have an impact on the business performance or financial condition of the Tosoh Group are economic conditions in Japan and overseas, changes in demand, quality issues, environmental regulations, accidents, disasters, interest rate movements, and procurement of raw materials.