TOSOH

Evolve

Annual Report 2003

TOSOH CORPORATION

Profile

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Tosoh Corporation evolved from humble beginnings in 1935 as a domestic producer of caustic soda and soda ash—the word Tosoh is a Japanese abbreviation for oriental soda. Today, the Company is a multinational corporation that generates an array of products to suit modern lifestyles and that contribute to the development of cutting-edge products and technologies.

The Tosoh Group comprises more than 130 companies. Almost 40 of those firms are located outside Japan. Together, Group companies employ a multiethnic workforce of almost 9,200 people and generate net sales of ¥472 billion (US$3.9 billion).

Tosoh is a global supplier of inorganic chemicals, petrochemicals, and specialty materials. As a result, the Group's customers include companies in the semiconductor, pharmaceutical, health care and food, and many other industries that produce items used daily by consumers.

What distinguishes the Tosoh Group from its competitors are the following features:

- Japan's largest Vinyl Chain operations, producing caustic soda, vinyl chloride monomer (VCM), and polyvinyl chloride (PVC) resins
- Vinyl Chain integrated petrochemical operations, supplying commodities such as ethylene and polymers, including numerous grades of polyethylene, and precursors for a wide range of organic intermediates
- the world's largest production capacity for high-purity zirconia powders and electrolytic manganese dioxide
- status as a top global producer of quartz products, sputtering targets, and highly sophisticated diagnostic systems

Tosoh continues to evolve. The Company is expanding its manufacturing base for the bulk products that provide the feedstock for the general manufacturing industry. It also is increasingly involved in cutting-edge technological specializations that will further influence our lifestyles. Tosoh Corporation's low profile notwithstanding, the Company's contributions to modern life are ubiquitous and profound.

Sales breakdown 2003

29.0%	28.6%	33.9%	8.5%
Petrochemical Group Olefins Polymers	**Basic Group** Chlor-Alkali Cement	**Specialty Group** Organic Chemicals Specialty Materials Quartz Products Scientific Instruments Environmental Technology	**Service Group** Transportation Warehousing Materials Analysis IT Systems Facilities Maintenance Construction

Tosoh Corporation and Its Consolidated Subsidiaries

Financial highlights

Years ended March 31,	Millions of Yen 2003*	2002	2001	2000	1999	1998	Thousands of U.S. Dollars (Note 1) 2003
SUMMARY OF OPERATIONS:							
Net sales	**¥ 471,921**	¥ 427,487	¥ 426,174	¥ 374,182	¥ 340,229	¥ 396,475	**$ 3,926,131**
Operating income	**28,048**	15,631	27,565	27,330	7,438	25,103	**233,344**
Net income	**4,809**	459	9,392	6,019	533	6,581	**40,008**
Net income per share *(Note 2)*	**7.87**	0.77	15.62	10.02	0.89	10.96	**0.07**
FINANCIAL POSITION AT YEAR-END:							
Total assets	**¥ 545,697**	¥ 572,146	¥ 534,605	¥ 527,989	¥ 527,176	¥ 524,361	**$ 4,539,908**
Short-term bank loans and long-term debt	**298,886**	332,120	325,774	331,180	355,141	340,891	**2,486,572**
Total shareholders' equity	**92,795**	90,557	91,195	91,886	89,283	85,283	**772,005**
GENERAL:							
Capital expenditures	**¥ 12,127**	¥ 16,820	¥ 18,700	¥ 27,600	¥ 34,851	¥ 34,338	**$ 100,890**
Depreciation and amortization	**25,255**	25,392	24,772	24,854	22,613	23,034	**210,108**
Cash dividends per share *(Note 2)*	**5.00**	5.00	5.00	5.00	3.00	5.00	**0.04**
Number of employees	**9,167**	9,404	8,097	7,914	8,080	8,370	—
Common stock prices *(Note 2)*:							
High	**425**	400	650	531	280	420	**3.54**
Low	**211**	195	265	210	148	199	**1.76**
Year-end close	**242**	387	305	501	219	259	**2.01**

NOTES:

1 For reference purposes, U.S. dollar amounts are translated from yen at the rate of ¥120.20 = US$1, the exchange rate in effect on March 31, 2003.

2 Per share figures and common stock prices are in yen and U.S. dollars.

* Tosoh Corporation's fiscal year runs from April 1 to March 31 of the following year. Throughout this report, reference to fiscal year 2003 and fiscal 2003 specifies the period from April 1, 2002, to March 31, 2003.

In this report, the terms "Tosoh" and "the Company" refer to Tosoh Corporation and its consolidated companies in general. Definitions for "the Company" and "the Companies" as used in the Consolidated Financial Statements can be found on page 36.

DISCLAIMER ON FORWARD-LOOKING STATEMENTS

The statements contained in this report are based on the current reasonable expectations of Tosoh Corporation management. Plans, estimates, forecasts, projections, and any opinions stated with regard to business or financial performance in the year ending March 31, 2004, and beyond constitute forward-looking statements. Such statements are subject to a wide range of variables that could cause forecasts and actual results to differ. These include, but are not limited to, fluctuations in prices, exchange rates, interest rates, share prices, and other market variables; changes in business-related expenses; market, credit, environmental, and other financial or business risks; and changes in the business operating climate or in the legal and regulatory environment.

Message to shareholders

From the Chairman & CEO

Takashi Tsuchiya
President & COO

Madoka Tashiro
Chairman & CEO

Fiscal year 2003, ended March 31, 2003, tested our resolve and our strategies. We needed courage to press on with our more aggressive business strategies in the face of faltering global economies and rising raw material prices. The effectiveness of the strategies that we have been implementing to ensure Tosoh's profitability and continued expansion amid increasingly dynamic markets worldwide were sorely tried. Happily, I can report that we did successfully press forward, and Tosoh's profits grew at a respectable level despite market conditions. Moreover, we continued to see emerging benefits from our efforts to consolidate our group operations.

"Tosoh Corporation posted a hard-earned comeback from the previous fiscal year."

Market Conditions in Fiscal 2003 (April 1, 2002–March 31, 2003)

Overall, the global business environment was more favorable than in the previous fiscal year. This came about through positive changes in the North American and European markets along with the further development of Asia's chemical industries. Nevertheless, we faced adversities from the beginning of the fiscal year onward. The annual average per kiloliter price of naphtha rose approximately from ¥22,000 to ¥24,000, while the Japanese yen appreciated roughly from ¥125 to ¥122 against the U.S. dollar. In addition, Asia's markets were cooling, and Japan's economy remained stagnant.

As we entered the second half of the fiscal year, we saw these difficulties compounded by the rumblings of war with Iraq and by concern over incidents in North Korea. The problems in our industry intensified strongly at the end of the fiscal year, with price hikes for crude oil and naphtha. Prices for chemical products in Asia also jumped, driven upward by rising costs and speculation.

In Japan, which continues to be our core market, efforts to get the stalled economy off the ground again met with little success, as deflation continued at around 1.5% and as the stock market posted new lows. In nominal terms, Japan's gross domestic product (GDP) slipped back into the negative in the last quarter of 2002 after three quarters of marginal growth.

Business Results

Tosoh Corporation posted a hard-earned comeback from the previous fiscal year. Increased sales and the complete consolidation of Organo Corporation in our group advanced consolidated net sales to ¥471.9 billion, while our operating income increased to ¥28.0 billion and net income rose from ¥0.5 billion to ¥4.8 billion. The extended recession in Japan, a 20-year low for the Nikkei, and extraordinary geopolitical events all contributed to a total loss on revaluation of investment securities of ¥3.4 billion.

Restructuring Benefits Stabilize Our Performance in Weak Markets

Our ongoing restructuring efforts are key to getting us through the prolonged period of deflation in Japan and to enabling us to cope with the growing dynamism of global markets. We continue to implement further permanent reductions in fixed costs, reducing personnel and spinning off selective services and functions. However, we still have a long way to go in establishing a business structure that guarantees our objective of stable profits no matter what the conditions. We will continue to react to changing markets and operating environment with growth strategies and further cost-cutting efforts.

Over the past few years, we also have exerted every effort to streamline consolidated management to thereby boost profitability and growth. We have taken firmer control of subsidiaries and affiliates through increased capital stakes and other means to capitalize on synergies, better use resources, and apply more-focused business strategies. Examples include Organo Corporation in our eco-business and Nippon Polyurethane Industry Co., Ltd. (NPU), in our Vinyl Isocyanate Chain.*

We also have renamed operations to increase cohesion and brand power, giving birth to Tosoh F-Tech, Inc., in our organic intermediates business and to Tosoh Nikkemi Trading Corporation, a resins and chemical products specialist. Additionally, we unified our affiliated diagnostic and scientific instrument companies under the new brand name Tosoh Bioscience.

Our efforts abroad have principally taken the form of building matrixes around service companies that integrate regional IT, finance, human resource, and logistics activities. We now have regional matrixes in position in North America, Europe, and Asia. Overall, these measures to bolster consolidated management are steadily yielding cost, efficiency, and marketing benefits.

"We are expanding the scale of our basic operations and developing and positioning ourselves in global niche markets."

**Through an increased stake in NPU, Tosoh is broadening the scope of its Vinyl Chain operations. The Vinyl Chain refers to a sequence of integrated manufacturing operations that produce several key vinyl-related chemicals from the basic commodities chlorine and ethylene. Integrated processing facilities will supply chlorine for the production of isocyanates at NPU, and reciprocally Tosoh will receive hydrochloric acid gas to be used in the process that converts ethylene dichloride (EDC) to vinyl chloride monomer (VCM). In this way the Vinyl Isocyanate Chain serves as the infrastructure for the production of isocyanates (raw materials for polyurethane) while making better use of resources and generating further cost savings.*

Our Two-Pronged Strategy of Expanded Scale and Growth Markets

In addition to our cost-cutting and restructuring efforts, management is applying a two-pronged strategy. We are expanding the scale of our basic operations and developing and positioning ourselves in global niche markets, using primarily proprietary technologies to do so.

Targeting Growth as a Leader in Asia

We are increasing the scale and competitiveness of our basic petrochemical and chlor-alkali operations to achieve growth in Asian markets. Our Vinyl Chain operations make us a major player in Asia, and we are positioned to take greater advantage of the projected demand increases for polyvinyl chloride (PVC) resins and vinyl chloride monomer (VCM). The Vinyl Chain is integrated with our operations in petrochemicals, which supply commodities such as ethylene, polymers including numerous grades of polyethylene, and precursors for a wide range of organic intermediates.

"R&D is the driving force of expansion that will take our company to higher planes of prosperity."

To take advantage of the growth in Asian economies, we are strategically increasing our capabilities and competitiveness. In particular, we are further strengthening and expanding our operations by increasing our stake in NPU. Our holdings in NPU were increased to 35%, and additional investment is being undertaken to make NPU's processes more cost-competitive. We decided in fiscal 2003 to invest a combined ¥22 billion in the construction of carbon monoxide and nitric acid and aniline production facilities. Carbon monoxide and aniline serve as raw materials for methylene diphenyl diisocyanate (MDI),* one of NPU's main products. These activities have expanded our Vinyl Chain into Vinyl Isocyanate Chain operations and will position the Tosoh Group more strongly in Asia's rapidly growing polyurethane market.

We also are expanding our PVC resin operations in anticipation of swelling Asian demand. The final stages of planning for PVC production facilities in China are ongoing, clearing the way for us to become the first Japanese producer in that market. In Japan, meanwhile, we took over the PVC business of Kureha Chemical Industry Co., Ltd., in January 2003. This increases PVC sales and expands our market reach while facilitating much-needed restructuring in the domestic market.

In another of our chlor-alkali operations, fiscal 2003 saw us complete a ¥1 billion investment in Rinkagaku Kogyo Co., Ltd. The investment is helping that company double its annual production of its new flame-control additive, red phosphorous, to 700 tons in anticipation of a sharp increase in demand tied to the additive's superior properties.

To enhance our overall competitiveness, we took further steps to more efficiently use the resources of our petrochemical operations. We are constructing a new plant to make tertiary butyl alcohol (TBA) from the relatively underutilized C4 fraction produced in the cracking process. Including the expansion of the port facilities at our Yokkaichi Complex, our investment will total ¥2.5 billion. We also are expanding our petrochemical operations wherever possible. We plan, for example, to begin increasing exports to China in fiscal 2004, where demand is rising for such products as polyphenylene sulfide (PPS), an engineering resin.

Targeting Global Niche Markets

The second part of our two-pronged strategy revolves around our Specialty Group, where we seek leadership positions in the advanced technology fields of key industries for the future, such as electronics, health care, and the environment.

In information technology (IT)-related industries, we are a major supplier of consumables to the global semiconductor and flat-panel display markets. We furnish these markets with products such as quartz glass substrates and fabricated devices and a wide variety of sputtering targets. We also are supporting the industry's needs for next-generation technology to underpin an industry rebound. Despite facing hard times over the last two fiscal years, IT remains a key industry for Tosoh. Restructuring has made us stronger in this area, and we look forward to the IT recovery that is projected for the end of fiscal 2004.

Health care is another important industry where we are positioning ourselves in growth markets. Tosoh has quickly built a reputation as a leading supplier of high-performance liquid chromatography (HPLC) columns and packing materials. To meet burgeoning demand, we doubled our production of TOYOPEARL® bio-separation packing materials at a cost of ¥500 million. We also are developing the diagnostic instrument field, where our automated immunoassay analyzers (AIAs) and other analyzers are carving out important niches in growth markets. Tosoh's automated glycohemoglobin A1c analyzer, HLC-723G7, has achieved a majority share in some markets and continues to make strides worldwide.

Tosoh's organic intermediates business also targets growth segments, notably custom organic synthesis for pharmaceutical and medical research and IT-related applications. We are generating greater operational synergies from parent company cooperation with three key subsidiaries that possess cutting-edge technologies: Tosoh Organic Chemical Co., Ltd. (bromination and chlorination), Tosoh Finechem Corporation (low-temperature organometallic synthesis), and Tosoh F-Tech, Inc. (fluorination). These companies, which are all wholly owned Tosoh subsidiaries, give us a technical edge in the development and production of halogenated compounds.

** MDI serves as one of the raw materials in the production of polyurethane.*

Environmental Commitment

Since 1995, Tosoh has been a member of the Japan Responsible Care® Council, the local chapter of the voluntary environmental action movement in the global chemical industry. Guided by this organization and our environmental plan, we seek to meet and exceed industry and national standards for environmental protection, health, and safety while working with the communities in which we operate to raise awareness.

All of Tosoh's domestic manufacturing sites are ISO 14001 certified for their environmental management systems. In addition to chemical emissions reduction and recycling efforts, we have focused our R&D on developing environmental products and services. These include analytical instruments and catalysts that monitor and clean the environment.

The environment also represents one example of an emerging market where our technologies can be put to good use. At the center of our growing eco-business operations, Organo Corporation —now a consolidated Tosoh subsidiary—retains a global presence in the development and sale of advanced water purification technologies and systems. One of our many goals is the further development of our eco-business operations.

We are now supplying materials for automobile exhaust cleaning systems and see many other niches in the market where our technologies can make a contribution. Utilizing our HPLC and AIA technologies, we are in the process of commercializing new columns and systems that will contribute to our already thriving eco-business in wastewater purification, soil and groundwater remediation, and environmental analysis. Tosoh is dedicated to the principles of sustainable development and will continue to invest for a better future.

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

The year ahead brings few new external factors to the arena. The effects of the war in Iraq were short lived; however, we cannot predict what repercussions will follow. Severe acute respiratory syndrome (SARS) has had a greater dampening effect on Asian economies that may be longer lasting, with the full impact unknown. Additionally, a downturn for the U.S. economy would also have negative repercussions for Asian markets.

Needless to say, the rapid evolution of what we cannot control must be met by a company that is committed to coping with change. Here at Tosoh this is exactly what we are doing. We are executing a strategy that will provide us with a truly "evolving corporation." That means establishing an organization that is strong, lean, and unrelenting in its goal of solid profitability. It means always evolving to meet and surpass the demands of rapid change in our markets. And it means providing a personally challenging environment to give value to employees throughout the diverse Tosoh family. These three pillars will create not only a rewarding corporate culture but also one that provides long-term stable returns on the investment of our stakeholders for years to come.

Tosoh does face many challenges and is susceptible to rapid fluctuations in its markets, in the price of crude oil, and in exchange rates. However, I am optimistic and believe that we should be on the offensive rather than the defensive. Our Vinyl Chain operations are among the largest in Asia and we will benefit from increasing demand. Many of our organic chemicals are enjoying robust sales, and our Tosoh Bioscience products are carving out substantial global niches. At the same time, we continue to strengthen our R&D, which is the driving force of expansion that will take our company to higher planes of prosperity. Japan's economy may be stalled, but the country's advanced technology markets are growing, and Japan remains the world's top exporter of technology.

Global economies, too, may lack vitality, but progress continues and business opportunities abound. We have been through some harrowing times here at Tosoh during our many stages of development. Adversity, though, has always made us stronger, always helped to keep us pointed in the right direction. Guided by our two-pronged business strategy—of expanded scale in our basic operations and of developing and positioning ourselves in highly profitable, advanced technology growth markets—we are a long way toward our goal of stable profitability and growth in today's dynamic markets.

> **"Adversity has always made us stronger, always helped to keep us pointed in the right direction."**

We will head further toward that goal in the years ahead. In two years, we will celebrate the 70th anniversary of the founding of Tosoh Corporation. In anticipation of that milestone, we should reflect on the past achievements that underpin our present success and our commitment to the future. Our evolution reflects determination and careful planning—a tradition that holds us in good stead in these trying times.

May 2003
Madoka Tashiro
Chairman and CEO

Tosoh. It's a name to remember. Increasingly, we're part of your daily life.

An evolving corporation

from caustic soda to electronics and bioscience

"Our evolution in becoming the corporation that we are today is characterized by progressive achievement guided by a strategic plan."

Tosoh Corporation has evolved from humble beginnings in 1935 as a domestic producer of caustic soda and soda ash. Today, it is a multinational corporation that generates an array of products to suit modern lifestyles and that contribute to the development of cutting-edge products and technologies.

Petrochemicals from Tosoh, for example, are essential to the manufacture of a wide range of consumer products in the apparel, food, health care, automotive, and cosmetics industries. Our basic chemicals and materials feed the paper, glass, polymer, and cement industries. And our Specialty Group provides products crucial to the high-tech semiconductor, pharmaceutical, and diagnostics markets.

Our evolution in becoming the corporation that we are today is characterized by progressive achievement guided by a strategic plan. We have built on strength after strength, expanding and fortifying our traditional base in chemicals and materials business while positioning ourselves in growth markets. On occasion, we have, of course, had to adapt to unexpected changes in our markets.

Tosoh's evolution began in earnest in 1975. This was when we merged with a petrochemical company with a similar strong background in electrochemistry. In 1990, we merged with another chemical company that brought us ethylene manufacturing technology. We were also at this time beginning to acquire firms in Japan and overseas with specialties related to our business.

Today, the Tosoh Group comprises more than 130 companies—some 40 of them overseas—that employ a multiethnic workforce of almost 9,200 people and that generate net sales of ¥471.9 billion ($3,926 million). Our strengths as a group are best characterized as balance and integration.

The operations of our Petrochemical and Basic Groups boast fully integrated facilities that exploit economies of scale and scope. We use these facilities to supply our operations and those of other companies, buffering us somewhat against fluctuations in demand.

Balance, meanwhile, aptly describes our product lines. We boast a strong foundation in the bulk chemicals and materials that are the building blocks of the manufacturing and construction industry. In turn, we complement that foundation with a host of high-value-added specialty chemicals, materials, and scientific instruments for high-tech and niche markets.

Balance and integration rank as core management concepts at Tosoh. Management is emphasizing the restructuring of operations, honing in on the weak links while searching for the businesses of the future and for immediate opportunities to expand the Company's operating base. In addition, management is further integrating parent company, subsidiary, and affiliate operations, using consolidation to capitalize on group synergies and to quicken the Group's responses to shifting needs.

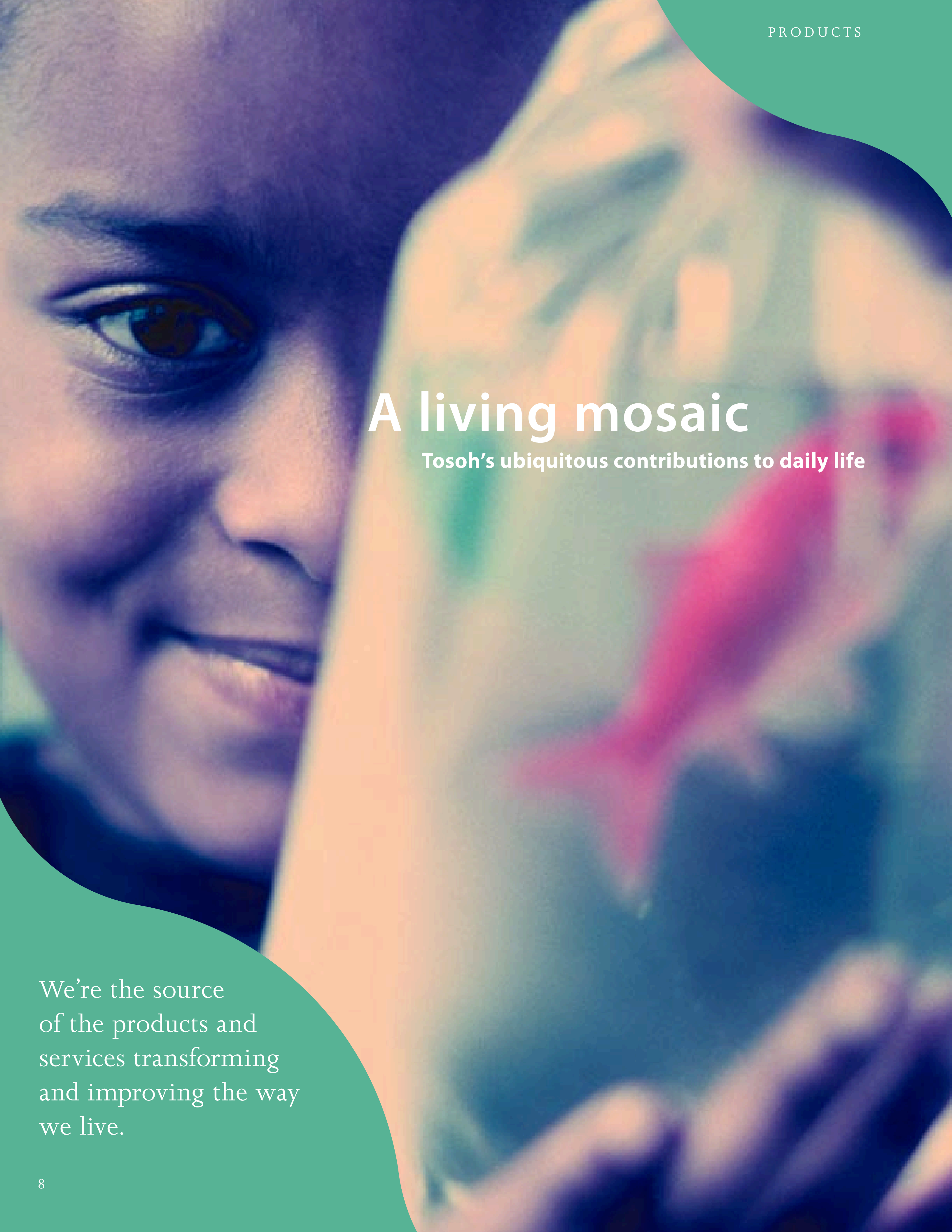
Proprietary technology drives Tosoh's successes. A unique oxychlorination process is behind our maintaining the largest production capacity of vinyl chloride monomer (VCM) in Japan, at over one million metric tons annually. Our BITAC® bipolar membrane electrolyzer ensures our position as Japan's largest producer of chlorine and caustic soda.

"The Tosoh Group comprises more than 130 companies—some 40 of them overseas—that employ a multiethnic workforce of almost 9,200 people and that generate net sales of ¥471.9 billion ($3,926 million)."

Technology also positions us prominently in specialty areas. We are a top global supplier of high-purity zirconia products for the telecommunications and biomedical industries, of sputtering targets for semiconductors and flat-panel displays, and of electrolytic manganese dioxide (EMD) for alkaline dry cell batteries. Also, we are a major player in the global market for semiconductor quartzware, for high-performance liquid chromatography (HPLC), and for HPLC packing materials used for research in the pharmaceutical and biotech industries. We plan to become leaders in many more technological fields.

We are mindful at Tosoh, however, that each of our technological advances is the result of people. Our nearly 9,200 employees offer us wide-ranging ethnic backgrounds and schools of thought. We believe that this diversity strengthens us and broadens our reach. Tosoh, therefore, strives to make its workplaces somewhere people can realize their potential and maybe even move beyond it. As our employees evolve, so do we.

Tosoh. It's a name to remember. Increasingly, we're part of your daily life.



A living mosaic

Tosoh's ubiquitous contributions to daily life

We're the source of the products and services transforming and improving the way we live.

"Our products form a mosaic for modern life. They represent Tosoh's inextricable link to daily living and Tosoh's aspiration to evolve."

Tosoh serves society in two important ways. We supply raw materials and intermediates to the global manufacturers of consumer products. We also provide cutting-edge technology products to the semiconductor, telecommunications, pharmaceutical, medical, and other industries that are the source of the products and services transforming and improving the way we live. The breadth of our product lines gives an immediate sense of the extent to which Tosoh contributes to daily life. Our products form a mosaic for modern life. They represent Tosoh's inextricable link to daily living and Tosoh's aspiration to evolve.

Tosoh manufactures chemical feedstocks and enhancers used to produce or improve a vast number of goods used daily by consumers. The organic chemicals produced by the Petrochemical Group range from ethylene, cumene, and aromatic compounds to polymers, synthetic rubber, PVC paste, and engineering plastics. They find their way into consumers' hands as electronic devices, cosmetics, food packaging, and many other household and industrial goods.

"We are Asia's leading supplier of VCM, with annual production of over one million tons."

Through the Basic Group's production of vinyl chloride monomer (VCM), polyvinyl chloride (PVC), and chlorine and caustic soda, we contribute significantly to the daily lives of people in Japan and other Asian countries. We are Asia's leading supplier of VCM, with annual production of over one million tons. VCM is used to produce PVC, PVC resins, compounds, and rigid films. We also supply global markets with PVC resins for use in a wide range of plastic products, churning out almost one million tons per year. Last but not least, we produce the bulk chemicals chlorine and caustic soda, which are used in so many chemical-manufacturing processes. Our manufacturing complexes produce over a million tons of caustic soda annually.

Our Specialty Group generates products that owe their high visibility to their special features. Zeolites possess strong filtering, adsorption, ion exchange, and catalytic properties that find extensive application in industrial processes. Our zeolite products for automobile mufflers and air filters have strong growth potential in today's environmentally conscious markets. The zirconia we produce likewise has many applications, from machine parts and electronic parts and tools to optical fiber connector ferrules and watchcases. We supply zirconia components for optical connector parts, precision tools, and electrically insulated tools—important markets for the future.

Our custom synthesis business utilizes proprietary technology to target high-growth markets for pharmaceuticals and for specialty electronic materials products. Some representative products include triallyl amine for electron-hole transport in electroluminescent (EL) displays and chiral intermediates, which are used in producing pharmaceuticals. As Asia's only major manufacturer of ethylene amines and their derivatives, Tosoh is ramping up to stay abreast of ballooning demand. Ethylene amines and their derivatives are generally used in compounds with special functional properties, such as catalysts, chelates, epoxy hardeners, rubberizers, smootheners, and strengtheners.

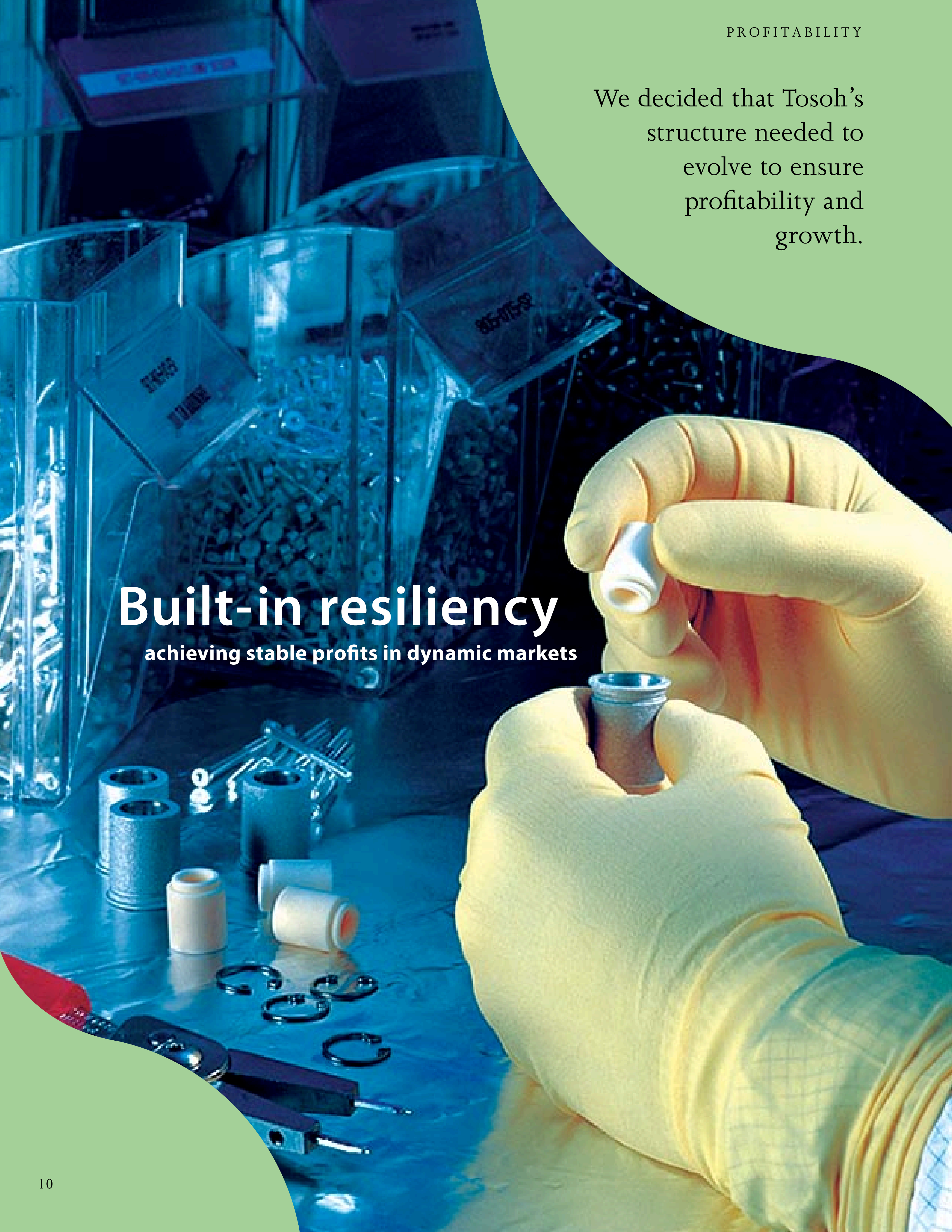
Our quartz (silica glass) business supplies the global semiconductor and optical markets with quartz materials and machined and fabricated quartzware, such as photomasks and liquid crystal display (LCD) substrates. Quartz's superior properties also make it a good candidate for applications in the cutting-edge nanotechnology, new energy, and biotechnology fields. Tosoh's sputtering targets are used to produce semiconductors, magnetic recording media, recording heads, thermal print heads, displays, and thin film resistors. Representing cutting-edge technology in thin film production, they will have a prominent role in emerging nanotechnologies.

Tosoh is a world leader in the development and production of high-performance liquid chromatography (HPLC) systems and bio-separation packing materials, which are experiencing heated demand. We also pioneered the development of highly sophisticated diagnostic systems. Our fully automated immunoassay systems are preferred by many hospitals in Japan, the United States, and Europe. We are steadily developing related diagnostic equipment for the rapid diagnosis of diseases, such as diabetes and certain cancers.

"We also provide cutting-edge technology products to the semiconductor, telecommunications, pharmaceutical, medical, and other industries."

Contributing as widely as we do to general consumer goods and to progressive markets in leading-edge technology ideally positions us to take advantage of growth wherever it may emerge. However, we also are significantly exposed to vast downside risks. Unsurprisingly, profitability is a focus of our determination to evolve into a stronger company.

We decided that Tosoh's structure needed to evolve to ensure profitability and growth.



Built-in resiliency

achieving stable profits in dynamic markets

Over the past decade, Tosoh has been buffeted by change on an unprecedented scale. The Japanese economy has been stagnant and deflationary for a prolonged period. Globally, our Petrochemical and Basic Groups have faced excess capacity and intensifying competition from megacorporations. Deep troughs in the silicon and information technology (IT) cycles have frequently interrupted the growth of our Specialty Group.

In 1999, we decided that Tosoh's structure needed to evolve to ensure profitability and growth. We began to take steps toward a parent-company structure that could produce minimum profits of ¥15 billion under any business conditions. We continue to bolster our operations, to implement cost reductions, to focus on managing on a consolidated basis, and to seek out new business opportunities in the interest of attaining this goal. In doing so, we are keeping our overall business intact—we have carried out no major divestitures or closures.

"We've cut ¥15 billion from the parent company's cost base and reduced the parent's workforce from over 5,000 employees to 2,400."

Cost Cuts and Consolidated Management in Japan

To reduce costs, we scrapped unpromising businesses, reengineered processes, and trimmed our workforce. The results are impressive: ¥15 billion cut from the parent company's cost base and the parent's workforce reduced from over 5,000 employees at the end of fiscal 1993 to approximately 2,400 employees at the end of fiscal 2003. We have, moreover, eliminated more than ¥60 billion in interest-bearing debt to reinforce our balance sheet. Beyond these defensive measures, we have also upgraded and built new production facilities to achieve greater efficiency and thereby realize lower operating costs.

Another aspect of cost reduction at Tosoh was to spin off our peripheral businesses into functional entities to improve their efficiency. Several of the companies that we formed are part of our Service Group and handle logistics, analysis and research, information, and general services.

Our first step in boosting our domestic consolidated management capabilities was to increase our stake in many of our domestic affiliates and subsidiaries to permit us to exercise greater control. Over the past few years, we have upped our shareholdings in more than 15 companies, making them wholly owned or majority-owned subsidiaries to bring them more closely under the Tosoh Group umbrella.

"We are building matrixes around core companies that integrate regional IT, finance, human resources, and logistics activities."

Greater Efficiency and Brand Recognition Overseas

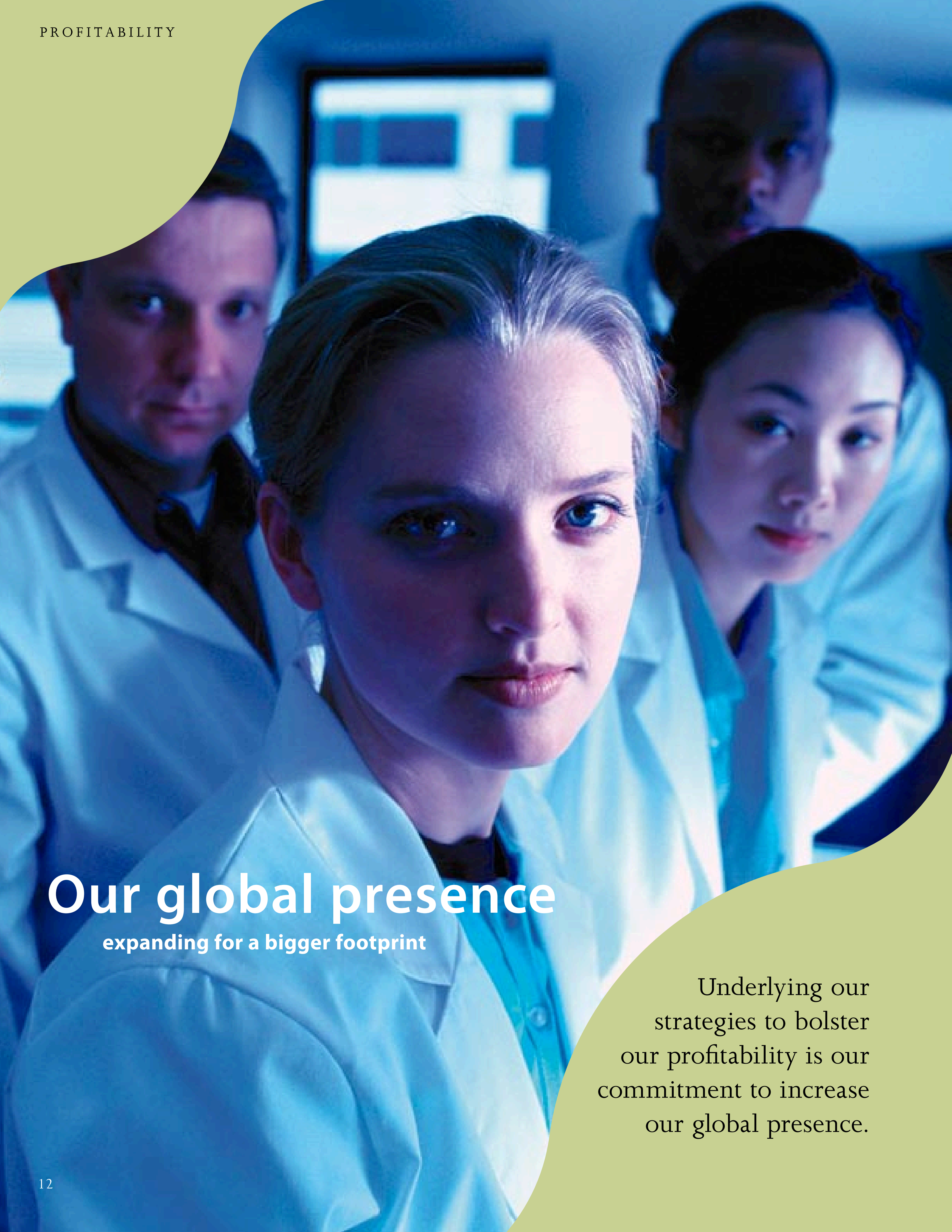
Outside Japan, we are building matrixes around core companies that integrate regional IT, finance, human resources, and logistics activities. By uniting our local efforts in a manner that suits each region, we expect to benefit from cost reductions, heightened efficiency, and improved brand awareness. In the United States, Tosoh America, Inc., has become the shared services company for our North American operations, integrating IT, finance, and human resources. In Europe, we are pooling resources under newly renamed Tosoh Bioscience N.V. This involves streamlining the staff functions and the logistics operations of our European diagnostic and separation businesses. Tosoh's Singaporean companies have had their business activities merged, consolidated, and centralized in Tosoh Singapore Pte. Ltd. We are also examining the viability of establishing a similar matrix center to support our growth strategies in China.

Additionally, we are targeting greater profitability by expanding our earnings base with new businesses. The establishment of companies and business models, equity increases and acquisitions in main strategic areas, and the commercialization of the fruits of our R&D program are the means by which we intend to reap heightened profits at Tosoh.

In environmental business we have tightened our ties to Organo Corporation, which has a global presence in advanced water purification systems, and our Specialty Group has developed diverse environment-related products and services. Tosoh also is utilizing its HPLC and automated immunoassay (AIA) technologies to produce new columns and systems for environmental analysis markets.

Next, we discuss our expansion of our Vinyl Chain* operations and the reorganization of our Specialty Group business. We continue to bolster this strong pillar of Tosoh profitability while increasing its global presence.

** The Vinyl Chain and its expansion into the Vinyl Isocyanate Chain refers to an integrated sequence of manufacturing operations that produce several key vinyl-related chemicals from the basic commodities chlorine and ethylene. For a more detailed explanation, please refer to Review of Operations on page 23.*



Our global presence

expanding for a bigger footprint

Underlying our strategies to bolster our profitability is our commitment to increase our global presence.

“Through a bigger footprint internationally, we strive for growth in overseas markets.”

Underlying our strategies to bolster our profitability is our commitment to increase our global presence. This entails the expansion of our core competency, our Vinyl Chain* operations, and the reorganization and redoubling of our efforts to develop Specialty Group businesses. Through a bigger footprint internationally, we strive for growth in overseas markets where we must be successful to remain viable. This is particularly true for the booming markets of China and other Asian countries.

We have extended our Vinyl Chain operations to include polyurethane and have taken other steps to increase the cost-competitiveness of this new Vinyl Isocyanate Chain.* In building a new plant at our Yokkaichi Complex to make tertiary butyl alcohol (TBA) from the underutilized C4 fraction produced in the naphtha-cracking process, we are making improved use of our resources.

We also are expanding our PVC production capabilities to meet demand in the growing Asian market. In April 2000, we increased to 68% our shareholding in Taiyo Vinyl Corporation, Japan’s largest supplier of PVC. And in November 2002, Taiyo Vinyl agreed to take over the PVC production of Kureha Chemical Industry Co., Ltd., on a commission basis. This increases our PVC sales and is contributing to the recovery of the overcrowded Japanese market.

“We are in the final process of a PVC production facility feasibility study that could position us in the surging Chinese market.”

In conjunction with other joint ventures and overseas affiliates, we boast a worldwide PVC production capacity of nearly a million tons per year. We are in the final process of a PVC production facility feasibility study that could position us in the surging Chinese market.

* The *Vinyl Chain* and its expansion into the *Vinyl Isocyanate Chain* refers to an integrated sequence of manufacturing operations that produce several key vinyl-related chemicals from the basic commodities chlorine and ethylene. For a more detailed explanation, please refer to Review of Operations on page 23.

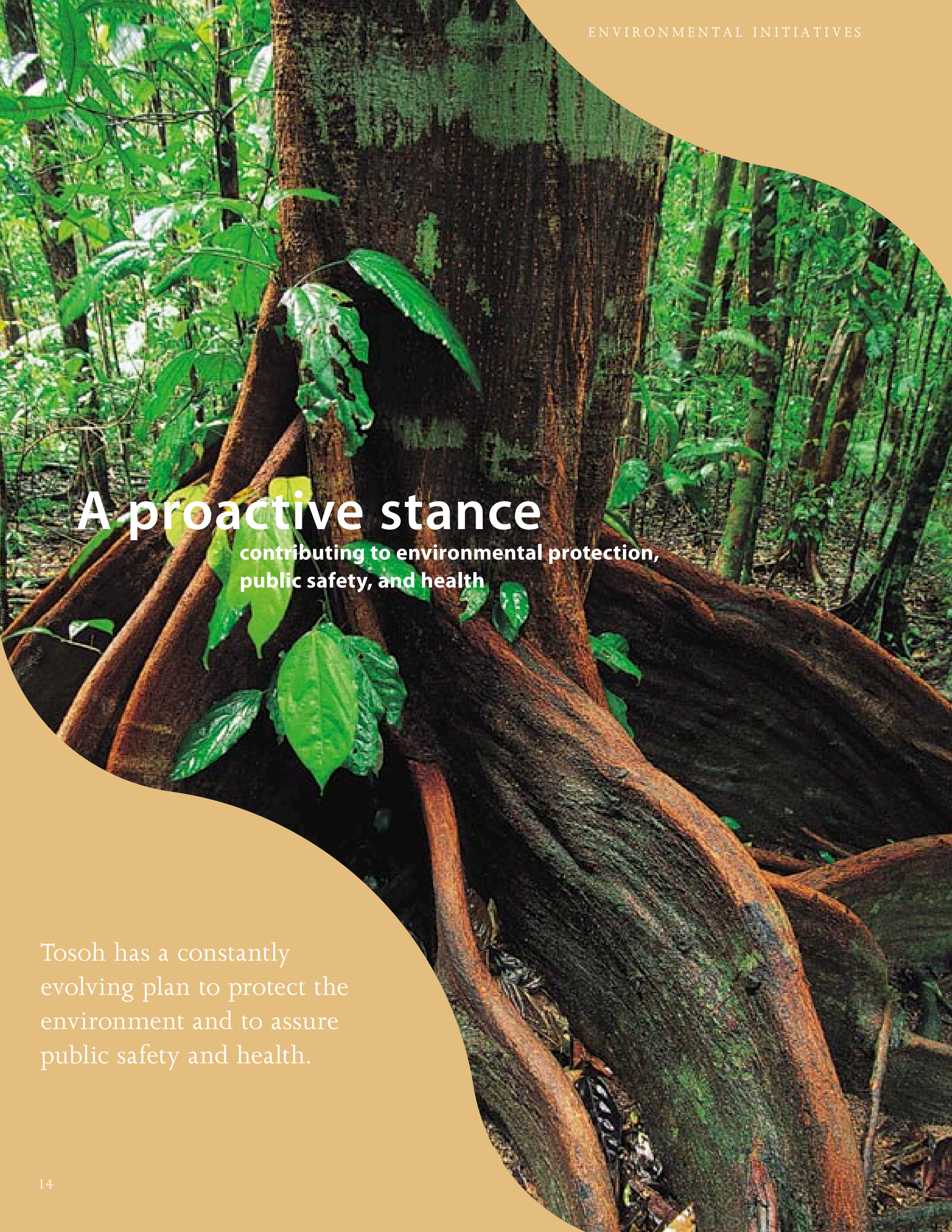
Our Specialty Group has evolved over the years in a multitude of directions as we moved rapidly to take advantage of opportunities for our specialty technologies as they emerged. Now we are reorganizing to form a more cohesive group and a solid vision for the future.

We have unified our affiliated scientific and diagnostic system related companies under the name Tosoh Bioscience. The companies involved were Eurogenetics N.V. and Tosoh Belgium, of Belgium; Eurogenetics Italia Srl., of Italy; E.S. Genetics, S.A., of Switzerland; Eurogenetics U.K., Ltd., of the United Kingdom; Tosoh Biosep GmbH, of Germany; and Tosoh Medics, Inc., and Tosoh Biosep LLC, of the United States. Integration will increase the presence of our operations and raise efficiency while providing benefits for customers.

“Mergers and acquisitions join the other strategies outlined in helping us build foundations in markets outside Japan.“

The semiconductor and flat-panel display industries are principal customers of our Specialty Group. We have taken advantage of our growing ties to these key industries and as of June 27, 2003, our related businesses were integrated into the newly established Electronic Materials Division. This move will strengthen our electronic material businesses and create synergies for related markets worldwide. Tosoh is a major supplier of consumables to the global semiconductor and flat-panel markets and is supporting the need for next-generation technology.

Given the present conditions in Japan, we view the global market as our main source of growth opportunities. We believe that Tosoh has to evolve into a truly global company and that an expanded presence is a requirement. Mergers and acquisitions join the other strategies outlined in helping us build foundations in markets outside Japan.



A proactive stance

contributing to environmental protection, public safety, and health

Tosoh has a constantly evolving plan to protect the environment and to assure public safety and health.

Tosoh has a constantly evolving plan to protect the environment and to assure public safety and health. That plan guides us in reducing emissions and waste and in promoting energy conservation. To prevent accidents with our products, we enforce safety measures that exceed required safety standards, provide essential usage and disposal information, and analyze industrial accidents and close calls to prevent their recurrence.

"All domestic Tosoh plants have been awarded ISO 14001 certification."

Goal-oriented organization

Since 1995, Tosoh has been a member of the Japan Responsible Care® Council (JRCC). Structured for fast decision making and close supervision, Tosoh's RC committee office reports directly to the Company president and has contributed strongly to keeping the Company on track toward the environmental and safety goals set out in its environmental plan.

We achieved several environmental goals in fiscal 2003. We terminated the Group's small garbage incinerators to reduce dioxin emissions, and we were certified by the JRCC Certification Center in three categories: safety and disaster prevention, distribution safety, and environmental conservation.

"Aggregate capital expenditures for environmental protection, safety, and health exceeded ¥15 billion."

Protecting the planet and people

We are reducing emissions flagged for control by the Japanese government under the Pollutants Release and Transfer Register (PRTR) Law. We also are cutting our emissions of benzene; chloroform; vinyl chloride monomer; 1,2 dichloroethane; and 1,3 butadiene, which the government has singled out for voluntary control. In addition, we evaluate the safety and environmental risks of our products throughout their life cycle by looking at such factors as their toxicity and proper use. We then provide tools, such as Material Safety Data Sheets (MSDS), to manage any discernible risks.

Major Environmental and Safety Goals

GOAL	STATUS
Striving for a 75% decrease in PRTR Law substance emissions compared with 1995 by the end of March 2007	57%
Achieving an 80% reduction in our disposal volume of industrial waste compared with 1990 by 2010	64%
Maintaining ISO certification	Achieved
Ensuring zero accidents and disasters	On track
Progressing with high production volume production and taking action on chemical risk assessments	On track
Preparing MSDS for all products and establishing an overall management system	On track
Building a companywide quality assurance organization that can cope rapidly with the occurrence of major risks	On track

Note: *The PRTR Law lists 31 substances used or produced by Tosoh.*

"Our commitment extends to the communities around us."

Heightened awareness and greater commitment

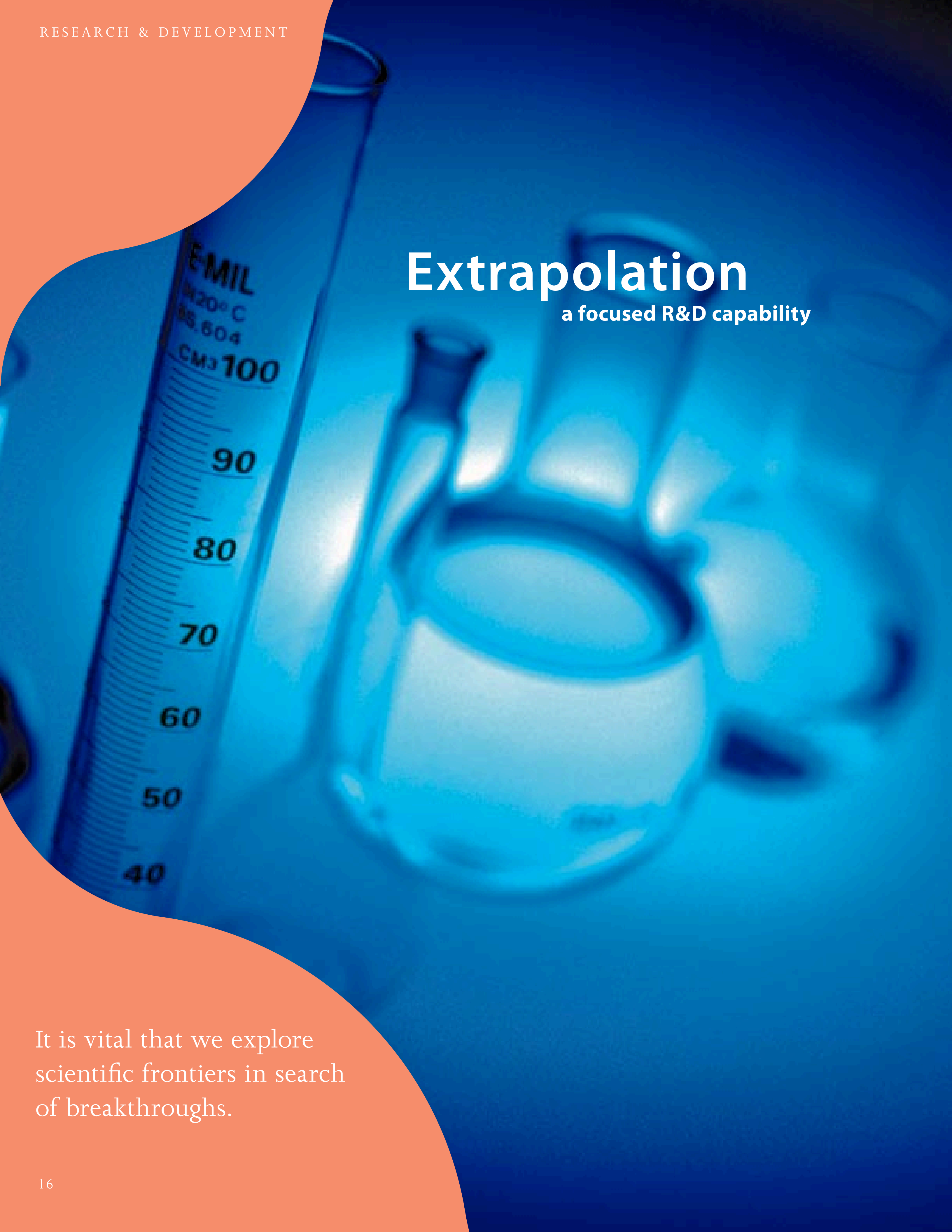
We carry out various activities to communicate our environmental protection efforts to the communities around us and to support their environmental programs where possible. We provide tours of our production facilities; hold regional Responsible Care® meetings with government officials, educators, and community members; and participate in regional volunteer cleanup activities. We believe that our interaction with communities leads to a heightened awareness of the problems and to greater commitment on both sides to protecting the environment.

"Tosoh recycles a vast amount of resources annually."

Eco-business and recycling

Our eco-business principally comprises amine-based heavy metal chelating agents used at municipal incinerators and environmentally friendly, hydrocarbon-based cleaning agents used in the precision machinery and electronics industries, advanced wastewater treatment facilities, and groundwater and soil purification operations. We also market a broad range of analytical equipment for environmental monitoring.

The cement plant at our Nanyo Complex participates in the recycling operations of a nearby town by utilizing solid refuse-derived fuel (RDF) produced from municipal trash. The plant even uses the ash from the burnt RDF pellets, raising its annual recycling of a vast amount of resources.



Extrapolation

a focused R&D capability

It is vital that we explore scientific frontiers in search of breakthroughs.

The mission of our approximately 800 researchers is to apply our experience and knowledge to meet the demands of society's endless evolution. This means more than just pushing the technological envelope. It means developing revolutionary technologies based on scientific discoveries. In areas where we are a market leader, it is vital that we explore scientific frontiers in search of breakthroughs. Close collaboration with research institutions and the academic community aids us in our quest. During fiscal 2003, the Tosoh Group invested approximately ¥10 billion in R&D.

The Communications Revolution

As a leading global producer of sputtering targets, an essential element in the manufacture of thin films for semiconductors and flat-panel displays, we strive to keep pace with expanding applications and the demand for greater precision. Amid the leapfrog growth in semiconductor integration, the manufacturers of semiconductors are looking to new thin film materials, such as chemical vapor deposition (CVD) materials, and new photoresists to achieve heightened degrees of microminiaturization. Tosoh is leveraging its molecular design and thin film formation technology to develop CVD materials with superior properties. Our strengths in fluoro derivatives have facilitated our development of a unique method of synthesis for resist monomers to support the next generation of semiconductors.

"The mission of our approximately 800 researchers is to apply our experience and knowledge to meet the demands of society's endless evolution."

Our molecular design and organic synthesis technologies are central to our cultivation of materials for the organic electroluminescent (EL) displays emerging from the display market. The newly developed technology to synthesize high-efficiency electron hole transport materials, long an industry stumbling block, is one of the fruits of our efforts.

The purity of our quartz notwithstanding, we strive for further improvement. Our researchers are constantly discovering ways to increase heat resistance, durability, and ease of processing. Our inorganic compound refining technologies and ceramic injection molding and fabrication technologies also are playing significant roles in developing higher-performance quartz products for semiconductors.

The ferrules that link optical fibers with the thickness of a human hair require extremely high dimensional precision and durability. We achieve this using yttria-stabilized zirconia, of which we are the world's largest manufacturer. A Tosoh research group is further improving our fabrication technology to produce materials for semiconductors and communications devices for the information-hungry world.

Toward Better Health Care

Our automated immunoassay systems (AIA-series instruments and reagents) based on our monoclonal antibody technology and mechatronics expertise are making a significant contribution in clinical diagnosis. Progress in molecular biology and medicine provides a greater understanding of the roles and interactions of specific substances in the human body. As a result, preventative medicine plays an increasingly important role not only in preventing sickness but also in promoting health. We continue to develop new diagnostic technologies to meet customer needs.

Our know-how and technology in high-performance liquid chromatography (HPLC) has been used to advance the diagnostic field. Tosoh is a leading manufacturer of an HPLC-based glycohemoglobin analyzer, which is an important tool in the long-term care of diabetic patients. We also have launched diagnostic HPLC systems for other applications, such as a system to screen for neuroblastoma in newborn infants. In the works is our development of analyzers for risk factors for health, such as certain lipoproteins that indicate patients are at high risk for arteriosclerosis.

The superior rigidity and separation capabilities of our TOYOPEARL® packing materials have extended their applications beyond the research field. TOYOPEARL® has begun playing a key role in the production process for pharmaceuticals and food products among many manufacturers in those industries. We continue, meanwhile, to research the design of and basis for modifying new base materials.

Chiral intermediates have become increasingly important in the synthesis of pharmaceuticals. Tosoh has a proven record in the asymmetric synthesis of pharmaceutical intermediates using an organometallic catalyst. We also boast technology for enzyme screening for asymmetric synthesis and for altering enzymes using genetic engineering.

"We are further leveraging our fabrication technology to produce materials for semiconductors and communications devices for the information-hungry world."

Environmental Protection and Energy Conservation

Zeolite has been proven to be useful in solving environmental problems. It is especially valued for its ion exchange, adsorption, and catalytic properties. Tosoh has applied those properties to purifying automobile exhaust emissions. We combined our knowledge of zeolite with our synthesis and modifying technologies to achieve catalytic and adsorption functions that work efficiently amid the high temperatures of exhaust systems.

The industrial waste disposal industry has goals that go beyond the mere containment of toxic materials. Today's market demands more-efficient processes, including processes that improve the environment for workers. In response, Tosoh has developed a new chelating agent superior to previous agents in safely removing toxic heavy metals in the ash emitted from municipal incinerators. We are setting up production lines for the newly developed agent and expect soon to launch the product commercially.

Our capabilities for measuring environmental pollutants are divided between two companies. Eco Techno Corporation performs dioxin analysis, and Tosoh Analysis and Research Center Co., Ltd., measures endocrine-disrupting materials and a variety of other pollutants in the environment. The Tosoh Analysis and Research Center's Web site also provides advisory services and analysis information. To increase our contribution in this field, we are developing better analytic methods that provide more precise results.

Our salt electrolysis facility is one of the largest in Japan. As such, it consumes large amounts of electricity. Reducing its power consumption would contribute substantially to energy conservation. Therefore Tosoh is working with Japan's New Energy and Industrial Technology Development Organization (NEDO) to develop a more energy-efficient electrolysis method.

"Our efforts include new catalysts to meet the need for CFC-free and other environmentally friendly processes."

Better Lifestyles through Safer and More Comfortable Products

Because Tosoh is principally a materials manufacturer, it does not produce a host of end-user products. End-users, however, do come in direct contact with many of our polymers and other materials. Therefore, we conduct R&D aimed at improving consumers' lifestyles through better products.

We are improving our main bulk products to more directly match customer needs. Tosoh's bulk products include thermoplastics such as polyethylene, ethylene-vinylacetate copolymer, and polyvinyl chloride, and elastomers such as chloroprene rubber, and chlorosulfonated polyethylene. We are working on ensuring that our polyethylene for use in laminated film food packaging yields to high-speed processing with less odor and have developed chloroprene rubber-based latex for use as a solvent-free adhesive.

Tosoh also produces an important engineering plastic, polyphenylene sulfide (PPS), of which it is developing improved grades for electrical and electronic parts, optical devices, and automotive parts. Recently, demand for PPS has begun emerging from hybrid car manufacturers.

Tosoh's tertiary-amine catalyst for making polyurethane foam is used in a range of products, such as car seats, sofas, insulation, and shoe soles. Our expertise in this area has led to our development of many new catalysts to meet the need for CFC-free and other environmentally friendly processes. In addition, our research center provides technical services in this area worldwide.

REVIEW OF OPERATIONS

29.0%

Petrochemical Group

Olefins
Polymers

28.6%

Basic Group

Chlor-Alkali
Cement

33.9%

Specialty Group

Organic Chemicals
Specialty Materials
Quartz Products
Scientific Instruments
Environmental Technology

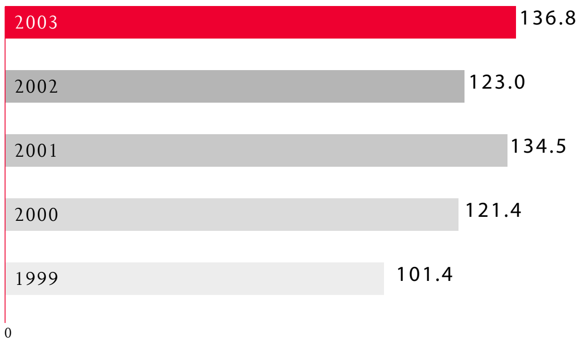
8.5%

Service Group

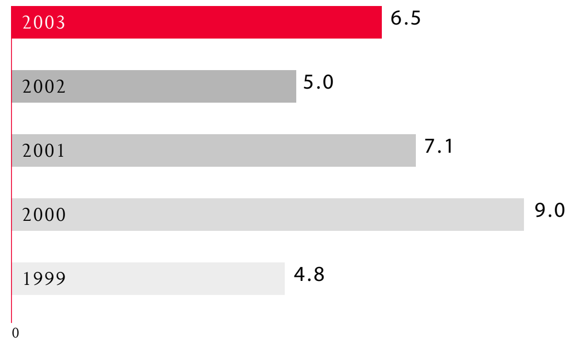
Transportation
Warehousing
Materials Analysis
IT Systems
Facilities Maintenance
Construction

PETROCHEMICAL GROUP

NET SALES *(Billions of Yen)*



OPERATING INCOME *(Billions of Yen)*



FY2003 REVIEW

Petrochemical Group consolidated net sales rose 11.2%, to ¥136.8 billion, with operating income climbing 29.6%, to ¥6.5 billion.

Olefins

Strong demand for various petrochemical derivatives supported brisk shipments of ethylene and other products. Expanding overseas markets for styrene monomer and cumene boosted the exports and prices of those products, contributing to greater profitability. Buoyant markets also ensured that the Yokkaichi Complex's naphtha cracker operated at full capacity throughout the year—adding significantly to the profitability of the group.

Polymers

Softening markets for polymers was the trend especially in the first half of fiscal 2003. Polymer demand weakened overall despite firm demand for polyethylene domestically and despite vigorous exports of polyethylene, chloroprene rubber, PPS, and other products to the thriving Asian market. Solid orders from the automobile and other industries helped to stabilize polymer demand in Japan, but rising raw materials prices resulted in declining margins on bulk chemicals.

STRATEGY & OUTLOOK

Olefins

The petrochemical industry in Japan continues to stagger from the double punch of weak demand and oversupply. A traditional Tosoh strategy that helps to ameliorate this situation is symbiotic reciprocity—the sharing of our production with neighboring petrochemical operations in the Yokkaichi area. This cooperative approach maximizes resources, minimizes distribution costs, and significantly reduces a range of operating risks.

A newer strategy to deal with an unfavorable environment for olefins involves optimizing the output of our naphtha cracker. We are building a new plant at the Yokkaichi Complex to produce tertiary butyl alcohol, a raw material for a key intermediate, methyl methacrylate (MMA). Tertiary butyl alcohol will be extracted from the underutilized C4 fraction left over after extracting butadiene, expanding our product portfolio and making better use of our resources. Total investment for the new plant, including an expansion of our port facilities, will come to ¥2.5 billion, with sales of olefins set to begin in April 2004.

We also are placing strategic emphasis on developing our propylene operations. Although one of our main customers for cumene, an important propylene derivative, is manufacturing its own product, propylene demand will remain steady.

Looking ahead, the increased flow of ethane-based ethylene and its derivatives from production plants in the Middle East will negatively affect our olefin markets. Asian markets overall nonetheless are expected to hold firm. In China, in particular, demand for propylene and C4 fraction should remain strong despite the erection of new, large-scale petroleum plants in that country.



Polymers

Our polymer operations, especially in bulk products, continue to face the pressures of overcapacity, declining domestic demand, and low-price imports. We are responding with a full spectrum of strategies targeting improved competitiveness: implementing thorough cost reductions to boost cost-competitiveness, developing high-margin grades and improving the quality of products to command better prices and to increase profitability, restructuring or eliminating unprofitable product lines, and inventing polymers to open new markets. These efforts overlie our strategy of developing niche markets that leverage our competitive advantages in production processes and finishing technologies.

Our higher-value-added functional polymers help us to emphasize product lines in niche markets in which we have large market shares. Some examples include chloroprene rubber, EVA copolymer resins with 30% or more vinyl acetate, and the adhesive polymer Melthene®. Along with some other resins, these products are part of our strategy to differentiate Tosoh from its competitors by concentrating on developing Tosoh's business in adhesives.

Polymer markets have begun recovering from the downturn in the IT industry that took place in the first half of fiscal 2003. We nonetheless expect domestic demand to be flat throughout fiscal 2004. Overseas markets, in contrast, will continue to expand based on surging demand in China and other Asian countries. In fiscal 2004, we plan to increase our exports of our super-engineering PPS resin to China to supply that growing market.

The clock, however, is ticking on the benefits of the booming Asian market, as major new plants are scheduled to come onstream in Asia in fiscal 2006. We are pushing ahead with the development of specialty and highly functional polymers to keep our business growing in Asia.

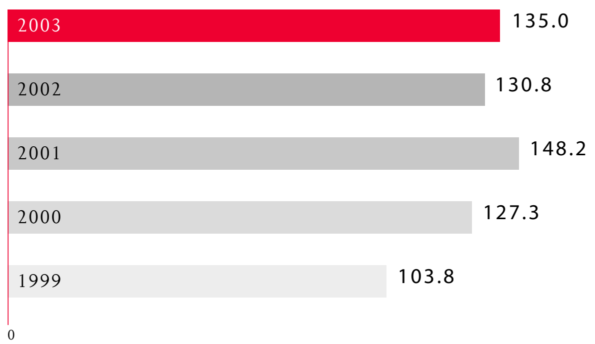
OVERVIEW OF ETHYLENE OPERATIONS

Integrated Vinyl Chain and petrochemical operations make Tosoh unique within the Japanese chemical industry. Tosoh's position as both a purchaser and producer of ethylene helps reduce its exposure to extreme operating conditions. Tosoh's total operational demand for ethylene approaches one million tons a year, while the annual production capacity of the Yokkaichi Complex naphtha cracker is 500,000 tons.

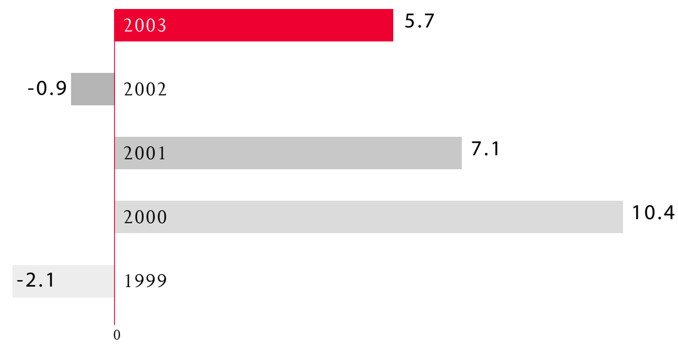
The Company's Vinyl Chain operations absorb 50% of the ethylene annually, and another 30% is used in developing a more self-reliant polymer business in the production of various polyethylene grades. For information and sales networking advantages, our ethylene product portfolio also includes chloroprene rubbers, CSM, PPS, C9 hydrocarbon resins, and PVC paste.

BASIC GROUP

NET SALES *(Billions of Yen)*



OPERATING INCOME *(Billions of Yen)*



FY2003 REVIEW

Basic Group consolidated net sales edged forward 3.2%, to ¥135 billion. The group recovered from an operating loss in the previous fiscal year to post operating income of ¥5.7 billion.

Chlor-Alkali

Tosoh's shipments of caustic soda were firm overall despite falling domestic demand. Rising prices for ethylene dichloride (EDC), however, put downward pressure on exports. Sales of VCM expanded due to continued growth in demand from our major export destination: China.

Cement

Japan's cement industry continued to falter during fiscal 2003 amid ongoing sluggish public- and private-sector demand resulting from prolonged economic stagnation and concerns over rising national debt. Exports were the only bright spot, expanding in step with the vigorous public works and housing markets of Asia, but exports did not account for enough production to stem the overall decline. The price hikes negotiated in fall 2002 are hopeful for the industry, being the first increases in three years. Tosoh manufactures approximately 1.8 million tons of cement annually on a consignment basis for Taiheiyo Cement Corporation, Japan's major player.

STRATEGY & OUTLOOK

Chlor-Alkali

Tosoh's position as one of Asia's most competitive suppliers of VCM and as Japan's largest supplier of VCM and caustic soda can be attributed to the integrated nature of its Vinyl Chain operations, which center on its Nanyo Complex. In addition to economies of scale, the complex enjoys cost advantages resulting from Tosoh's position as Japan's largest buyer of ethylene, an essential feedstock for manufacturing vinyl-related products. Our cost-competitiveness has been significantly upgraded in recent years through capacity expansion, process reengineering, and restructuring.

The chlorine produced by the electrolysis of salt at the Nanyo Complex is in much greater demand than caustic soda. Finding buyers for caustic soda, therefore, is essential to our expansion strategies. We have as a result established long-term business relationships with major purchasers in Asia and Oceania.

Our main strategy for our Vinyl Chain operations is to strengthen and expand our production base to maintain our leading position in Asia. We emphasize business in China, where double-digit growth in demand for VCM and PVC resins should persist beyond the 2008 Beijing Olympics until the 2010 Shanghai Expo. The various steps that we have taken over the past few years are in line with this strategy.

To broaden the scope of our operations, we boosted our stake in Nippon Polyurethane Industry (NPU) to 35% in October 2001 and announced a capital investment of ¥5 billion in December 2002 for our Nanyo Complex. NPU, located near our Nanyo Complex, is the leading domestic supplier of isocyanate, an important raw material in the manufacture of polyurethane derivatives and related intermediates.

The ¥5 billion capital investment will build carbon monoxide production facilities at the Nanyo Complex that will substantially reduce the cost of NPU's products by switching their production from a coke-based to a naphtha-based process by June 2004. Additionally, Tosoh will invest approximately ¥17 billion to build aniline production facilities that will supply NPU, by March of 2005, with a capacity of 150,000 tons. Aniline serves as the raw material for MDI, one of NPU's main products in supplying the rapidly growing polyurethane industry. Demand for polyurethanes is strong in the Asian region, where annual demand is expected to grow almost 10%. Cost reductions will also lead to better use of resources in our Vinyl Chain operations, which have a symbiotic relationship with NPU's production process.

In another area of our operations, we invested approximately ¥1 billion to double the production of the flame-control additive red phosphorous by our subsidiary Rinkagaku Kogyo Co., Ltd., making it the largest producer of red phosphorous in Asia. The superfine red phosphorous particles produced using Rinkagaku's proprietary process have significant advantages over the more traditional halogenated flame-retardant additives. Consequently, demand for red phosphorous in Japan is anticipated to soar.

In January 2003, one of our subsidiaries took over the PVC operations of Kureha Chemical Industry Co., Ltd., after Kureha expressed its wish to divest those operations and concentrate on other areas of its business. Kureha's PVC facilities, which Kureha will now operate on a toll arrangement basis for Tosoh, have an annual capacity of 100,000 metric tons. We expect the acquisition to have marketing benefits and to reinforce our position as one of the dominant PVC players in Asia.

Overseas, we are in the final stages of planning a PVC resin plant in China. We also are looking at opening a new production line at our PVC plant in the Philippines.

Cement

Our Nanyo Complex cement manufacturing operations make optimal use of resources. The facilities boast natural deepwater port facilities and a cheap, on-site power source. We also reuse as raw materials the 150,000 tons of coal ash produced yearly by the power plant boilers. The operations, moreover, yield significant environmental benefits. We contribute to local recycling efforts by consuming a variety of waste products, including more than 12,000 tons of used tires annually and approximately 10 tons of refuse-derived fuel (RDF) daily, a solid fuel produced at a nearby municipal RDF plant.

Tosoh's strong relations with Taiheiyo Cement, Japan's principal cement company, ensure stable demand for its cement. Our entire cement output is consigned for sale to Taiheiyo. To cope with the ongoing weakness in the domestic cement industry, we are seeking to further reduce costs and to boost our industrial waste recycling efforts.

In fiscal 2004, we expect recent trends to repeat themselves. Domestic sales will continue to edge downward, while exports rise.

THE STRENGTHS OF TOSOH'S VINYL CHAIN OPERATIONS

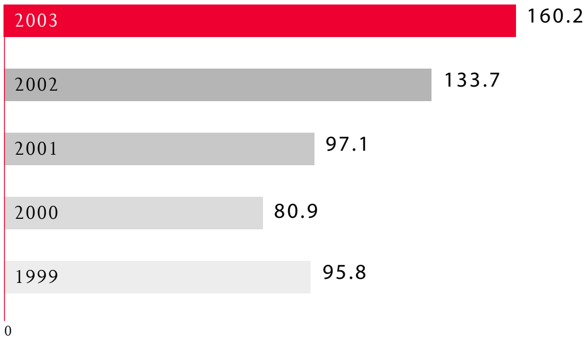
Vinyl Chain refers to an integrated sequence of manufacturing operations that produce several key vinyl-related chemicals from the raw materials salt and naphtha. Salt is electrolyzed to yield chlorine and caustic soda. The chlorine reacts with ethylene to produce ethylene dichloride (EDC), and the balance is used to manufacture other chlorine derivatives. We convert EDC—which can be combined with caustic soda to produce ethylene amines, another major Tosoh product—to VCM by means of a proprietary oxychlorination process. Some of the VCM is converted into various PVC resins, and the rest is sold to other downstream manufacturers.

A high degree of plant integration is required to achieve VCM process efficiencies. Our Nanyo Complex features port facilities where 48,000-ton tankers can dock directly and an on-site 675-megawatt power plant capable of generating the electricity for salt electrolysis at low cost. The complex also is strategically located close to oil refinery and naphtha cracker facilities so that it can benefit from locally supplied ethylene.

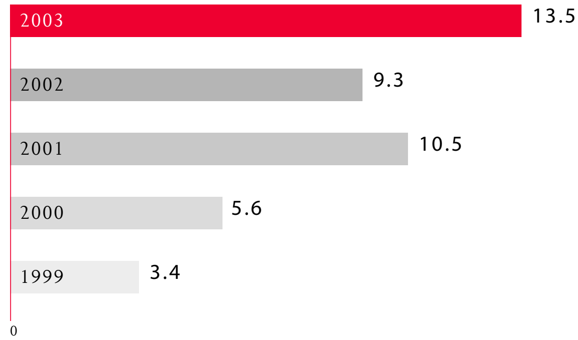
Tosoh has recently expanded its Vinyl Chain operations by supplying chlorine to NPU for the production of isocyanate and urethane products. During these downstream processes, NPU produces hydrochloric acid gas, which is pumped back to the Nanyo Complex for the process of converting EDC to VCM.

SPECIALTY GROUP

NET SALES *(Billions of Yen)*



OPERATING INCOME *(Billions of Yen)*



FY2003 REVIEW

Specialty Group consolidated net sales rose 19.9%, to ¥160.2 billion. The group's operating income jumped 44.2%, to ¥13.5 billion.

Organic Chemicals

Our core organic chemicals products are organic intermediates, bromine and brominated compounds, and ethylene amines and derivatives. In fiscal 2003, our sales of ethylene amines and derivatives; bromine and brominated compounds; and environmental chemicals, such as chelating agents for heavy metals, were favorable.

Specialty Materials*

Sales of sputtering targets, Tosoh's main specialty materials, revived during fiscal 2003 in response to a recovery in the semiconductor industry. Shipments of sputtering targets for LCDs set a new record high only six months into the fiscal year. But demand again tapered off in the second half. Shipments of EMD, though, suffered from continued excess global capacity, and growing production in China disrupted the relative stability of Asia's markets.

Quartz*

Although there were signs of recovery in the semiconductor industry during the first quarter of fiscal 2003 following inventory adjustments, the market again turned downward in summer 2002. This affected our sales of silica glass materials and quartzware. Nevertheless, our shift in emphasis from chip-related products to consumables, such as etcher parts and photo mask substrates, helped to substantially improve our performance compared with the sharp drop posted in the previous fiscal year. Our restructuring efforts in the previous fiscal year and our lean production system also played important roles in this recovery.

Scientific Instruments

Despite the flattening out of the HPLC market's growth curve, sales of our gel permeation chromatography (GPC) columns, for which we hold the top domestic share, expanded. Tosoh is the market leader in Japan for TSK-GEL® HPLC packing materials and packed columns, which enjoy an excellent reputation worldwide. Sales of our TOYOPEARL® bio-separation packing materials, used by major pharmaceutical companies in the United States and Europe, increased because of high demand overseas. And we continued to make progress in the highly competitive ion chromatography system market.

Although the number of immunoassay tests performed in Japan, the United States, and Europe increased, end-user prices for these tests fell. Overall sales of scientific instruments nevertheless grew because of the expanded domestic sales of our rapid result short time (ST) reagents and because of the strong sales of our new AIA-1800. In addition, our proprietary freeze-drying technology remains top class globally for reproducibility. Overseas, our ST reagents and cardiac markers also contributed to our sales growth.

Among other diagnostic equipment, our automated glycohemoglobin A1c analyzer HLC-723G7 continued to build a strong reputation in domestic and overseas markets, attracting many new clients and posting sales growth. This product now retains a majority market share for American laboratories using the chromatograph ion exchange method. Among product launches, we unveiled a VMA/HVA analyzer, the HLC-726VMAIII, that improves on our previous model's capabilities in testing for neuroblastoma in children.

STRATEGY & OUTLOOK

Organic Chemicals

Tosoh's core organic chemical products are positioned strongly in their respective markets. We are the sole domestic manufacturer of bromine and brominated derivatives and Asia's only major manufacturer of ethylene amines and their derivatives. Including the operations of Delamine B.V., our 50–50 joint venture with Dutch firm Akzo Nobel NV, we are a major provider of organic chemicals worldwide.

New applications for our products continue to emerge. A subsidiary, Tosoh F-Tech, Inc., is expanding its trifluoroethanol (TFEA) production because of growing pharmaceutical intermediate applications.

Making organic intermediates relies on technological synergies to generate competitive advantages. To this end, Tosoh cooperates with three wholly owned subsidiaries that possess cutting-edge organic chemical technology: Tosoh Organic Chemical Co., Ltd. (bromination and chlorination); Tosoh Finechem Corporation (low-temperature organometallic synthesis); and Tosoh F-Tech, Inc. (fluorination). We are using these advantages to develop a custom synthesis business.

Profitability remains our greatest concern. Our strategies are to rationalize production while shifting our product mix into high-margin segments. The latter will differentiate our products in the market. Accordingly, we are targeting custom organic synthesis for pharmaceutical and medical research and customizing our TEDA® and TOYOCAT® catalysts to suit our customers' technical needs. Among new, high-value-added products, we have developed catalysts in the polyurethane catalyst market: a reactive catalyst in response to heightened concern with the amine emission-free issue, and a metal substitute catalyst in response to environmental issues.

Specialty Materials

Toward the end of fiscal 2003, IT-related industries began to rebound from the sudden downturn in the market during the year under review. The recovery, however, has not spread to some areas of the market, particularly optical communications. In many of the markets where recovery is evident, production volumes still lag satisfactory profit levels. We expect, though, that the markets for our sputtering targets and zirconia products will continue to recover in the fiscal year ahead.

Excess capacity in the global EMD market and the continued emergence of major EMD producers in China, however, signify another difficult year ahead for EMD.

We are striving to establish a strong profit structure in each of our businesses. This requires various strategies, including reducing costs, achieving optimum use of our production facilities and resources, and developing markets for high-margin products.

To buffer us from the fluctuations of the silicon cycle, we have developed products for high-growth segments in unrelated fields, such as zirconia ceramics for use in fuel cells and biomedical applications, high-silica zeolites for automobile exhaust systems, and higher-performance lithium manganate for battery materials. Moreover, we have targeted a different aspect of the semiconductor business by introducing refurbishing and process kit management services for CVD shielding and related products.

Quartz

The semiconductor industry that supports much of our business in quartz is facing difficulties. New products are needed to take the place of such star products as PCs and mobile phones, for which markets are maturing. Much of this gap may be filled by the ubiquitous computing age, and we are preparing for this.

Specifically, we are adding facilities and upgrading our capabilities to supply 12-inch wafer-related products, materials that meet specifications for nano-level design, and advanced processing technology. We also have shifted our production toward consumables. As protection from the silicon cycle, we are developing applications for our products in such as the cutting-edge nanotech, new energy, and biotech fields and aim to make the quartz business one of Tosoh's core functional material operations.

We remain strongly positioned in the semiconductor market, with a global production and marketing network. Boasting global brands with a strong reputation for quality, our comprehensive production lines are prepared to meet the requirements of next-generation chips.

The nomadic state of semiconductor production has compelled us to constantly restructure our operations to suit. Since substantively restructuring our semiconductor-related operations in Japan in 1999, we closed our San Jose, California, plant at the end of 2001 and our Austin, Texas, plant at the end of 2002.

We are further boosting our quality control by making the Copy Exact technology of Tosoh Quartz Co., Ltd., which began operations during the fiscal year under review, the standard for the group. Employing an ISO 9001 global management system, we intend to resolve all local quality variations that result from differences of country, culture, and language. We also plan to capitalize on our foothold in the gigantic market in Asia that is becoming known as the Silicon Sea Belt for further business development.

Scientific Instruments

Demand for HPLC has quieted somewhat since the initial rush by biotech and pharmaceutical companies into genome-based research. Although we cannot expect the same high growth rates for scientific instruments as in the past, these industries are still investing significantly in genomics and proteomics. Demand in the biotech industry is actually expanding as HPLC applications spread from research laboratories to commercial uses, such as refining pharmaceutical products.

We remain, moreover, one of the few companies that develop, manufacture, and sell columns and reagents and that provide maintenance services. Because of the popularity of our TOYOPEARL® bio-separation packing materials, we doubled our production capacity for that product during the fiscal year under review.

Operating conditions are tough in the AIA market, with the number of tests rising but the individual price of tests falling. There is, however, growing demand for instant testing for emergency situations and for confirming a diagnosis before starting treatment, which should support sales growth as our scope of customers expands from medical institutions to individual doctors.

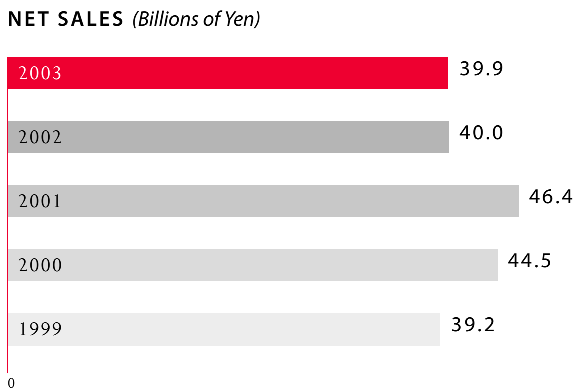
Testing is critical in the treatment of diabetes, ensuring firm demand for our automated glycohemoglobin analyzer, global sales of which we anticipate to grow approximately 5% annually. We received marketing approval for this product in China in January 2003 and will be launching it soon throughout Asia with the help of a leading marketing agent.

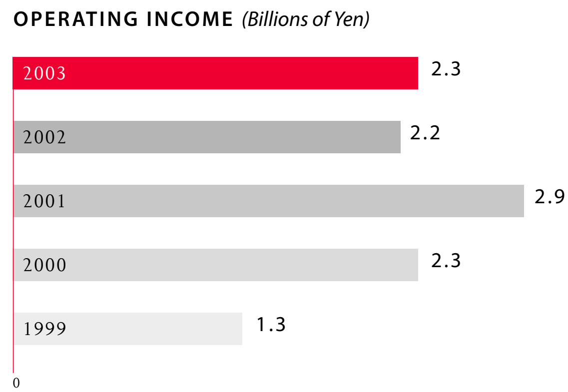
During fiscal 2003, we took a big step toward improved branding by unifying our scientific and diagnostic system companies under the name Tosoh Bioscience. The unification will also bring about the more efficient use of resources and will provide for collaborative research, development, and marketing efforts.

The year under review also saw us reinforce our domestic quality control for scientific instruments. We achieved ISO 9001 and ISO 13485 certification for the Scientific Instruments Division and its domestic subsidiaries. ISO 13485 certification for quality management systems is specifically for medical devices. Certified products in the biomedical fields that comply with international regulations eliminate obstacles to developing more global markets.

* *As of June 27, 2003, Tosoh electronic materials-related businesses were integrated into the newly established Electronic Materials Division. This division consists of two departments: Quartz, covering quartz substrates and quartz fabricated devices, and Thin Film Materials, covering sputtering targets and industry services.*

SERVICE GROUP





FY2003 REVIEW

Service Group consolidated net sales decreased 0.3%, to ¥39.9 billion, but operating income increased 8.2%, to ¥2.3 billion.

The decline in sales was principally due to lower turnover at various Tosoh subsidiaries that provide construction and logistics services. A weak construction market, decreased domestic shipment volumes, and reduced capital spending were the cause of that diminished turnover.

STRATEGY & OUTLOOK

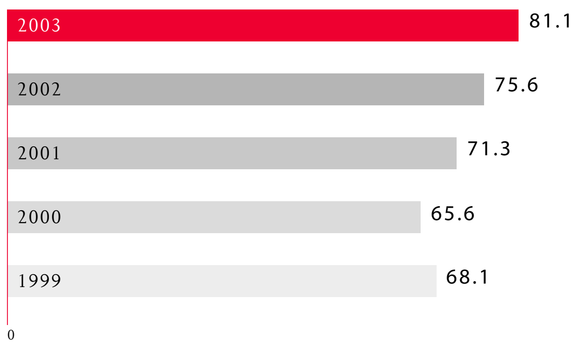
Service Group operations primarily comprise logistics, construction, engineering support, and related services. For the cost-efficient concentration of resources and expertise, these services have been set up under an autonomous group that supports the rest of Tosoh's business groups.

Tosoh's analytical chemistry, information technology, and general administrative operations have also been spun off into independent operating companies to provide the most efficient support to the rest of the Company's operations.

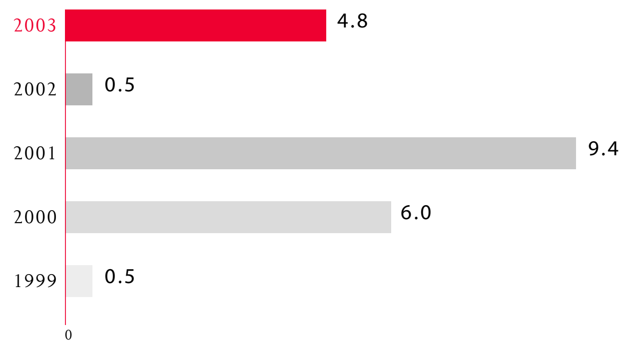
The Tosoh Analysis and Research Center Co., Ltd., specializes in organic, inorganic, and polymer chemistry and in electronic materials and provides a range of sophisticated analytical services to Tosoh Group members. Tosoh Information Systems Co., Ltd., likewise assists Tosoh Group companies as they upgrade and integrate their accounting systems to implement consolidated group management. Tosoh General Services Co., Ltd., provides support for personnel management, employee benefit administration, and training activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SG&A EXPENSES *(Billions of Yen)*



NET INCOME *(Billions of Yen)*



BUSINESS OVERVIEW

Market Conditions

During the fiscal year ended March 31, 2003, Japan continued to wrestle with deflation and the problematic bad debt accumulation in the financial sector. Facing the quandary of the necessity of reforming the financial sector to get the economy back on the road to recovery and the public cry to bring a halt to deflation, the government tread a thin line between reforms and fiscal stimulation that left the economy more or less standing still. Reflecting the lack of progress, Japan's stock markets plummeted toward levels last seen in the 1980s. Exports, the only bright spot in an otherwise gloomy picture, rose during the year, based mainly on the continued high economic growth in China and economic recoveries in some Asian economies. Although not enough to overcome the negative influence of stagnant private-sector capital investment and weak personal consumption, exports did keep the Japanese economy from deteriorating further.

Outside Japan, the economies of the United States and Europe were poised for recovery from the prolonged effects of the bursting of the IT bubble and the series of major accounting scandals that called the integrity of corporations into question around the world. However, these major economies found it hard to gain ground under the shadow of the growing possibility of war with Iraq, which finally materialized at the end of the fiscal year. On the other hand, with the exception of Japan, the major economies of Asia, and China in particular, continued to post growth, albeit growth somewhat dampened by the overall downward trend in the global economy.

For the Japanese chemical industry, this mixed global performance meant weak markets in Japan for many product categories balanced by the continued surge in demand from Asian markets and some improvement in other global markets. Price increases were achieved in some product categories in domestic and overseas markets, and overall conditions could be termed favorable relative to the previous fiscal year.

Tosoh's core sources of earnings—Vinyl Isocyanate Chain operations and specialty products—both posted strong recoveries. Against the backdrop of high demand from Asia and a softening market in Japan, domestic shipments and exports of vinyl chloride monomer (VCM) were robust and shipments of polyvinyl chloride (PVC) were firm. Although some areas of the global semiconductor industry were still suffering, such as quartz glass, there was a general recovery in IT-related industries, and the flat-panel display market continued to expand. Moreover, Tosoh's high-performance liquid chromatography columns and other scientific instruments and related chemical products registered strong growth worldwide.

Significant Events

Management further broadened Tosoh's manufacturing base in strategic industries during the fiscal year. In May 2002, the Company completed a ¥1 billion investment in Rinkagaku Kogyo Co., Ltd., to double the annual production of its new flame-control additive, red phosphorous, to 700 tons in anticipation of higher demand. In January 2003, Tosoh took over the PVC business of Kureha Chemical Industry Co., Ltd., through a subsidiary. This adds to the Company's PVC sales and expands its market reach while facilitating much-needed restructuring in the domestic market. In March 2003, Tosoh doubled the production of its popular TOYOPEARL® bio-separation packing materials.

Among work in progress, Tosoh is constructing a new plant to make tertiary butyl alcohol (TBA), a raw material for the production of methyl methacrylate (MMA) monomer, from the relatively underutilized C4 fraction produced in the cracking process at its Yokkaichi Complex. The Company is also building a carbon monoxide production facility to supply its subsidiary Nippon Polyurethane Industry Co., Ltd., and boost the competitiveness of its products.

As part of management's reorganization to shift its emphasis to consolidated management, Tosoh raised its stake in Nippon Silica Industrial Co., Ltd., making it a wholly owned subsidiary. Nippon Silica manufactures white carbon and silica acid compounds.

In fiscal 2003, in a move similar to that used for its silica glass and quartzware operations, Tosoh completed the unification of its affiliated bioscience companies under the new brand name Tosoh Bioscience as part of its process of strengthening the overall Tosoh Group.

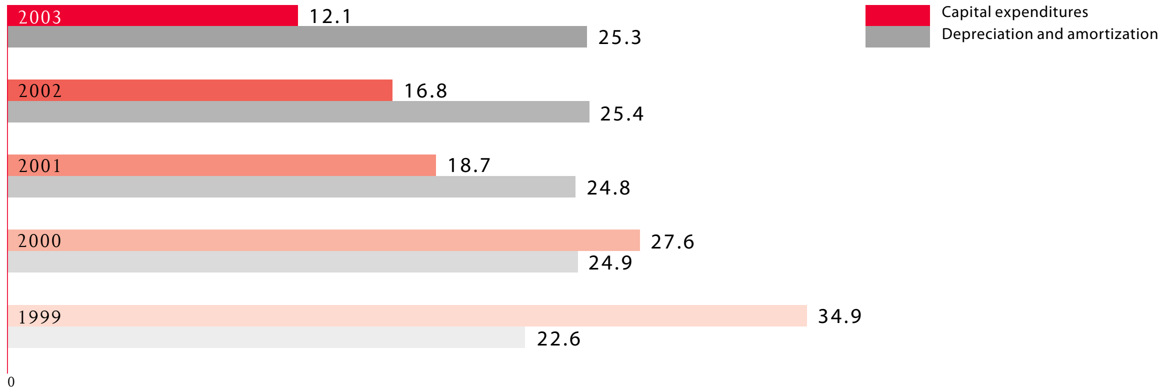
There were no major divestitures by the Tosoh Group during the fiscal year under review.

Net Sales

Consolidated net sales rose 10.4%, to ¥471.9 billion ($3,926 million), supported by growing demand from Asia and varying degrees of recovery in many markets.

By business segment, the Petrochemical Group enjoyed buoyant markets for many of its products during the fiscal year, principally because of the robust Asian market and rising prices in some product lines. Consolidated net group sales rose 11.2%, to ¥136.8 billion ($1,138 million), accounting for 29.0% of consolidated net sales. Our Basic Group faced the most challenges in its operating environment because of weak domestic markets and growing competition outside Japan. Nevertheless, strong sales efforts and firm demand for core products helped Basic Group consolidated net sales advance 3.2%, to ¥135.0 billion ($1,123 million), contributing 28.6% of consolidated net sales. The Specialty Group, our main generator of growth, posted a mixed performance because of the slow recoveries of the semiconductor and information

CAPITAL EXPENDITURES AND DEPRECIATION AND AMORTIZATION *(Billions of Yen)*



technology industries but still managed to boost its sales 19.9%, to ¥160.2 billion ($1,333 million), accounting for 33.9% of consolidated net sales. Consolidated net sales by the Service Group edged down 0.3%, to ¥39.9 billion ($332 million), generating 8.5% of consolidated net sales.

Overseas sales—defined as export sales and sales outside Japan by overseas subsidiaries—totaled ¥128.0 billion ($1,065 million). As a proportion of consolidated net sales, overseas sales increased to 27.1%, from 26.6%, reflecting the vitality of overseas markets and Tosoh's strategy of expansion.

COSTS & EXPENSES

Operating Expenses

Along with sales growth there was a 7.9% rise in the cost of sales, which increased ¥26.5 billion ($220 million), to ¥362.7 billion ($3.0 billion). Nevertheless, the cost of sales ratio improved to 76.9%, from 78.7%, because of continued efforts to curtail expenses.

Similarly, selling, general and administrative (SG&A) expenses increased ¥5.5 billion ($46 million), or 7.3%, to ¥81.1 billion ($675 million). The ratio of SG&A expenses to sales decline to 17.2%, from 17.7%.

Consolidated R&D expenditures totaled ¥10.4 billion ($87 million). The average price of naphtha, one of the Group's major costs, rose to ¥23,900 per kiloliter, from ¥22,050 per kiloliter, during the fiscal year under review. Given that the average exchange rate against the U.S. dollar appreciated from ¥124.98 to ¥121.98, that increase represented a larger jump in global markets. At fiscal year-end, naphtha prices had edged down.

Capital Expenditures, Depreciation and Amortization

Tosoh Group capital expenditures during the fiscal year ended March 31, 2003, totaled ¥12.1 billion ($101 million). Management's policy is to keep capital investment within the scope of depreciation. Depreciation and amortization expenses declined marginally, to ¥25.3 billion ($210 million). Management expects depreciation expenses of a similar level in fiscal 2004.

EARNINGS

Operating Income

Because sales growth, at 10.4%, outstripped the increase in the cost of sales, at 7.9%, gross profit rose ¥18.0 billion ($149 million), or 19.7%, to ¥109.2 billion ($908 million). Consequently, the gross profit margin climbed to 23.1%, from 21.3%. Subtracting the increase in SG&A expenses results in an increase in consolidated operating income of ¥12.4 billion ($103 million), or 79.4%, to ¥28.0 billion ($233 million). The operating profit margin improved to 5.9%, from 3.7%.

All of Tosoh's business segments posted recoveries in profits compared with the previous year. Operating income of the Petrochemical Group surged 29.6%, to ¥6.5 billion ($54 million). Our Basic Group moved back into the black with operating income of ¥5.7 billion ($48 million). The Specialty Group's operating income jumped 44.2%, to ¥13.5 billion ($112 million). Despite a decline in sales, the Service Group recorded an 8.2% increase in operating income, to ¥2.3 billion ($19 million).

Nonoperating Income and Expenses

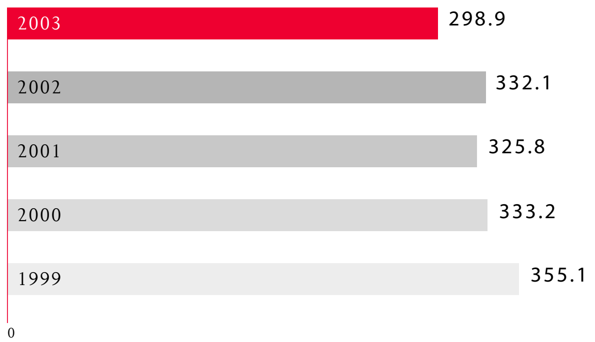
Among nonoperating expenses, interest expense continued to decline in line with the continued low interest climate and Tosoh's efforts to cut its interest-bearing debt, falling 17.6%, to ¥5.5 billion ($46 million). Among other items, there were foreign exchange losses, net of ¥0.9 billion ($7 million), and equity in losses of affiliates totaled ¥0.7 billion ($6 million). Excluding extraordinary items, there was a net nonoperating expense of ¥6.7 billion ($56 million) compared with ¥4.5 billion in the previous fiscal year. Ordinary income (income before extraordinary items, taxes, and minority interests), therefore, rose 92.6%, to ¥21.4 billion ($178 million).

Net Income and Extraordinary Items

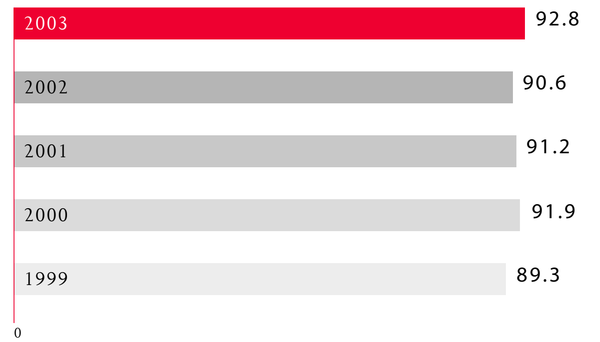
The three major extraordinary items in the fiscal year under review were a gain on return of substituted portion of the government's welfare Pension Insurance Scheme (explained in Note 8 of the notes to the consolidated financial statements) of ¥3.8 billion ($32 million); a loss on revaluation of investment securities of ¥3.4 billion ($28 million), principally because of the continued fall in the Japanese stock market; and amortization of net transition obligation of ¥7.7 billion ($64 million).

Income before income taxes advanced ¥8.9 billion ($74 million), more than quadrupling to ¥11.7 billion ($98 million). Income taxes jumped to ¥5.9 billion ($49 million), reflecting greater profits. Net income, therefore, amounted to ¥4.8 billion ($40 million), compared with ¥0.5 billion the year before. Net income per share was ¥7.87 ($0.07), compared with ¥0.77 in the previous fiscal year, while our return on equity (ROE) bounced back to 5.2%, from 0.5%.

SHORT-TERM BANK LOANS AND LONG-TERM DEBT *(Billions of Yen)*



TOTAL SHAREHOLDERS' EQUITY *(Billions of Yen)*



FINANCIAL POSITION

Assets

Current assets contracted to ¥225.9 billion ($1,879 million), a fall of ¥10.0 billion ($83 million), or 4.2%, from the previous year. This decrease can be mainly attributed to declines in cash and cash equivalents; in inventories, most of which were accounted for by the work-in-process method; and in deferred tax assets. Trade receivables, less an allowance for doubtful accounts, increased 2.0%, to ¥123.8 billion ($1,030 million).

Total investments declined 3.7%, to ¥51.9 billion ($431 million). Property, plant and equipment, less accumulated depreciation, decreased 5.5%, to ¥244.8 billion ($2,037 million). Total assets dropped ¥26.4 billion ($220 million), or 4.6%, to ¥545.7 billion ($4,540 million). At fiscal year-end, our net assets per share amounted to ¥154.93 ($1.29).

Liabilities

Current liabilities rose 7.9% year on year, to ¥273.7 billion ($2,277 million). The increase can be mainly attributed to a significant hike in the current maturities of long-term debt, which grew 52.2%, to ¥67.1 billion ($559 million) because of impending redemptions. Other items also edged up: short-term bank loans advanced 4.9%, to ¥106.0 billion ($881 million); trade payables increased 11.6%, to ¥65.9 billion ($548 million); and income taxes payable jumped to ¥5.6 billion ($47 million). Other current liabilities, however, declined.

The gap between current assets and liabilities widened during the fiscal year, producing a significant increase in our working capital deficit, which rose ¥30.1 billion ($250 million), or 169.9%, to ¥47.8 billion ($398 million). Negative working capital is largely attributable to the Tosoh Group's ongoing expansion of its business.

Long-term debt, less current maturities, decreased 28.8% year on year, to ¥125.8 billion ($1,047 million), reflecting the transfer of debt to the current portion coupled with the lack of significant new issues. Tosoh Corporation, meanwhile, reduced its net short-term bank loans and long-term debt approximately ¥20.1 billion ($167 million), to ¥205.7 billion ($1,711 million), during the fiscal year under review. Management is promoting ongoing debt-reduction programs at the parent and consolidated levels.

At fiscal year-end, the decreases in short-term bank loans and long-term debt resulted in a net decrease in interest-bearing debt of ¥33.2 billion ($276 million), or 10.0%, to ¥298.9 billion ($2,487 million). The decline more than offset increases in retirement and severance benefits and other liabilities, and total liabilities and minority interests fell to ¥452.9 billion ($3,768 million), a drop of ¥28.7 billion ($239 million), or 6.0%, relative to the previous year.

Shareholders' Equity and Dividends

Shareholders' equity at fiscal year-end had increased 2.5%, to ¥92.8 billion ($772 million). Retained earnings, which rose ¥1.6 billion ($13 million), or 6.0%, were the main contributor to this growth. Consequently, the shareholders' equity ratio improved to 17.0%, from 15.8%.

Cash Flows

Tosoh maintained adequate liquidity for operations during the fiscal year under review, with free cash flow for the year rising ¥1.3 billion ($11 million), or 4.4%, to ¥30.3 billion ($252 million). There was an overall net decrease in cash and cash equivalents of ¥4.9 billion ($41 million) related to increased purchases of plant and equipment and investment securities coupled with a large drop in proceeds from long-term debt. The effect of exchange rate changes on cash and cash equivalents was positive but not material.

Net cash provided by operating activities increased 13.9%, to ¥44.9 billion ($373 million). This increase was mainly due to the fact that the greater income before income tax was offset by net trade receivables and payables, which contributed less to cash flow than in the previous fiscal year, partly because of the growth in sales. The increase in trade receivables amounted to ¥3.1 billion ($26 million), and the increase in trade payables was ¥7.1 billion ($59 million).

Net cash used in investing activities rose 40.5%, to ¥14.6 billion ($121 million). Although payments for purchase of property, plant and equipment declined to ¥13.2 billion ($110 million), purchases of investment securities increased to ¥6.9 billion ($58 million).

Net cash used in financing activities totaled ¥35.3 billion ($293 million), an increase of 67.5% over the previous year. This mainly reflected the lack of significant new proceeds from long-term debt, which totaled ¥18.0 billion ($150 million), to offset repayments of long-term debt, which amounted to ¥45.2 billion ($376 million).

CONSOLIDATED STATEMENTS OF INCOME

Tosoh Corporation and Its Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of Yen		*Thousands of U.S. Dollars (Note 1)*
	2003	2002	**2003**
Revenues:			
Net sales (Note 12)	¥ 471,921	¥ 427,487	$ 3,926,131
Interest and dividend income	402	440	3,344
Foreign exchange gains, net	–	1,141	–
Equity in earnings of affiliates	–	919	–
Amortization of prior service cost (Note 8)	–	2,028	–
Gains on return of substituted portion of the government's welfare Pension Insurance Scheme (Note 8)	3,835	–	31,905
Other income	2,949	2,426	24,535
Total	479,107	434,441	3,985,915
Cost and expenses:			
Cost of sales (Note 12)	362,740	336,266	3,017,804
Selling, general and administrative expenses (Note 12)	81,133	75,590	674,983
Interest expense	5,543	6,726	46,115
Foreign exchange losses, net	876	–	7,288
Loss on revaluation of investment securities	3,369	4,156	28,028
Equity in losses of affiliates	697	–	5,799
Amortization of net transition obligation (Note 8)	7,666	4,231	63,777
Other expenses	5,348	4,637	44,492
Total	467,372	431,606	3,888,286
Income before income taxes	11,735	2,835	97,629
Income taxes:			
Current	7,164	4,479	59,601
Deferred (Note 11)	(1,222)	(2,115)	(10,166)
Minority interests	(984)	(12)	(8,186)
Net income	¥ 4,809	¥ 459	$ 40,008
	Yen		*U.S. Dollars*
Per share of common stock:			
Net income per share	¥ 7.87	¥ 0.77	$ 0.07
Cash dividends, applicable to the year	¥ 5.00	¥ 5.00	$ 0.04

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Tosoh Corporation and Its Consolidated Subsidiaries
March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2003**	2002	**2003**
Current assets:			
Cash and cash equivalents	¥ 21,100	¥ 25,881	$ 175,541
Marketable securities (Note 5)	290	229	2,413
Trade receivables, less allowance for doubtful accounts (Note 3)	123,778	121,359	1,029,767
Inventories (Note 4)	64,004	69,117	532,479
Deferred tax assets (Note 11)	4,659	5,185	38,760
Other current assets	12,077	14,148	100,474
Total current assets	225,908	235,919	1,879,434
Investments:			
Investment securities (Notes 5 and 7)	19,546	15,989	162,612
Investments in affiliates	25,799	27,957	214,634
Long-term loans receivable	835	1,361	6,947
Other	5,670	8,524	47,171
Total investments	51,850	53,831	431,364
Property, plant and equipment, less accumulated depreciation (Notes 6 and 7)	244,845	259,151	2,036,980
Other assets:			
Deferred tax assets (Note 11)	15,474	13,951	128,735
Intangible and other assets	7,620	9,294	63,395
Total other assets	23,094	23,245	192,130
Total assets	¥ 545,697	¥ 572,146	$ 4,539,908

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
Current liabilities:			
Short-term bank loans (Note 7)	¥ 105,955	¥ 111,441	$ 881,489
Current maturities of long-term debt (Note 7)	67,134	44,117	558,519
Trade payables	65,880	59,050	548,087
Income taxes payable	5,622	1,105	46,772
Other current liabilities	29,110	37,913	242,180
Total current liabilities	273,701	253,626	2,277,047
Long-term liabilities:			
Long-term debt, less current maturities (Note 7)	125,797	176,562	1,046,564
Retirement and severance benefits (Note 8)	29,237	27,933	243,236
Other liabilities	3,795	2,948	31,572
Total long-term liabilities	158,829	207,443	1,321,372
Total liabilities	432,530	461,069	3,598,419
Minority interests	20,372	20,520	169,484
Contingent liabilities (Note 9):			
Shareholders' equity:			
Common stock:			
Authorized—1,200,000,000 shares; Issued—601,161,912 shares	40,634	40,634	338,053
Capital surplus	29,727	29,637	247,313
Retained earnings	28,028	26,436	233,178
Net unrealized holding gains (losses) on securities	262	(249)	2,179
Foreign currency translation adjustments	(5,000)	(4,582)	(41,597)
Treasury stock, 2,876,490 shares in 2003 and 4,460,877 shares in 2002	(856)	(1,319)	(7,121)
Total shareholders' equity	92,795	90,557	772,005
Total liabilities and shareholders' equity	¥ 545,697	¥ 572,146	$ 4,539,908

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tosoh Corporation and Its Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes	¥ 11,735	¥ 2,835	$ 97,629
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	25,767	25,927	214,368
Increase in retirement and severance benefits	1,294	672	10,765
Interest and dividend income	(402)	(440)	(3,344)
Interest expense	5,543	6,726	46,115
Equity in losses (earnings) of affiliates	697	(919)	5,799
Loss on revaluation of investment securities	3,369	4,156	28,028
(Increase) Decrease in trade receivables	(3,127)	31,602	(26,015)
Decrease in inventories	4,696	3,130	39,068
Increase (Decrease) in trade payables	7,113	(16,945)	59,176
Other, net	(4,209)	(1,484)	(35,017)
	52,476	55,260	436,572
Interest and dividends received	774	1,013	6,439
Interest paid	(5,718)	(6,961)	(47,571)
Income taxes paid	(2,660)	(9,918)	(22,129)
Net cash provided by operating activities	44,872	39,394	373,311
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	(13,217)	(16,476)	(109,958)
Proceeds from sale of property, plant and equipment	5,279	2,085	43,918
Purchases of investment securities	(6,933)	(3,794)	(57,679)
Purchases of newly consolidated subsidiaries	–	4,954	–
Proceeds from sales of investment securities	1,760	1,642	14,642
Other, net	(1,444)	1,228	(12,013)
Net cash used in investing activities	(14,555)	(10,361)	(121,090)
Cash flows from financing activities:			
Net decrease in short-term bank loans	(4,615)	(1,432)	(38,394)
Proceeds from long-term debt	18,045	61,780	150,124
Repayments of long-term debt	(45,209)	(77,672)	(376,115)
Cash dividends paid	(3,282)	(3,489)	(27,304)
Other, net	(206)	(247)	(1,714)
Net cash used in financing activities	(35,267)	(21,060)	(293,403)
Effect of exchange rate changes on cash and cash equivalents	42	374	350
Net increase (decrease) in cash and cash equivalents	(4,908)	8,347	(40,832)
Cash and cash equivalents at beginning of year	25,881	17,534	215,316
Increase in cash and cash equivalents due to newly consolidated subsidiaries	127	–	1,057
Cash and cash equivalents at end of year	¥ 21,100	¥ 25,881	$ 175,541

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Tosoh Corporation and Its Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Common stock:			
Balance at beginning of period	¥ 40,634	¥ 40,634	$ 338,053
Balance at end of period	40,634	40,634	338,053
Capital surplus:			
Balance at beginning of period	29,637	29,637	246,564
Increase due to revaluation of land of affiliates accounted for by the equity method	90	–	749
Balance at end of period	29,727	29,637	247,313
Retained earnings:			
Balance at beginning of period	26,436	28,277	219,933
Net income for the year	4,809	459	40,008
Cash dividends paid at ¥5.00 per share	(3,006)	(3,006)	(25,008)
Bonuses paid to directors and corporate auditors	(40)	(90)	(333)
Increase (Decrease) due to increase in consolidated subsidiaries	(177)	868	(1,472)
Other	6	(72)	50
Balance at end of period	28,028	26,436	233,178
Net unrealized holding gains (losses) on securities:			
Balance at beginning of period	(249)	(755)	(2,072)
Net increase	511	506	4,251
Balance at end of period	262	(249)	2,179
Foreign currency translation adjustments:			
Balance at beginning of period	(4,582)	(6,597)	(38,120)
Net increase (decrease)	(418)	2,015	(3,477)
Balance at end of period	(5,000)	(4,582)	(41,597)
Treasury stock:			
Balance at beginning of period	(1,319)	(1)	(10,973)
Increase due to increase in consolidated subsidiaries	–	(1,302)	–
Reclassifications due to new accounting standard	601	–	5,000
Purchase of treasury stock	(138)	(16)	(1,148)
Balance at end of period	¥ (856)	¥ (1,319)	$ (7,121)

The accompanying notes are an integral part of these statements.

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

Tosoh Corporation (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to U.S. $1.00. The convenience of translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF ACCOUNTING POLICIES

Consolidation and investments

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and accounts have been eliminated in the consolidation.

Investments in unconsolidated subsidiaries and affiliates are, with minor exceptions, accounted for by the equity method. Equity in earnings of unconsolidated subsidiaries and affiliates has been calculated by excluding unrealized intercompany profits.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Translation of foreign currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company.

Cash and cash equivalents

Cash, readily available deposits and short-term highly liquid investments with original maturities of three months or less are considered cash and cash equivalents.

Securities

Securities are classified into one of the following categories based on the intent of holding, resulting in the different measurement and accounting for the changes in fair value. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Other available-for-sale securities with no available fair market values are stated at moving-average cost.

Significant declines in fair market value or the net asset value of held-to-maturity debt securities, equity securities, not on the equity method, issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, judged to be other than temporary, are charged to income.

Allowance for doubtful accounts

The Companies provide the allowance for doubtful trade receivables by individually estimating uncollectible amounts and for normal receivables based on the Companies' historical experience of write-offs of such receivables.

Inventories

Inventories are principally valued at cost as determined by the weighted average method.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation is principally computed over the estimated useful lives of the assets on the straight-line basis. Repairs, maintenance and minor renewals are charged to expense as incurred.

Lease transactions

Finance leases, except those leases for which the ownership is considered to be transferred to the lessee, are accounted for as operating leases.

Retirement and severance benefits

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Companies provide allowance for employees' retirement and severance benefits based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions, and the fair value of the plan assets.

Effective April 1, 2000, the Companies adopted the current method described above in accordance with the new Japanese accounting standard for retirement and severance benefits and decided to recognize net transition obligation primarily over five years by using the straight line method commencing in the year ended March 31, 2001.

In the year ending March 31, 2003, the Company charged to expenses all of the remaining net transition obligation. This was made in light of the substantial reduction in the net transition obligation due to the transfer of the substantial portion of the pension plan and related gain described in Note 8 and the recent increase in unrecognized actuarial losses of the pension plan.

The effect of this change was to decrease income before income taxes by ¥4,151 million ($34,534 thousand).

Prior service cost is recognized as expense (income) as incurred.

Actuarial gain (loss) is recognized as expense (income) using the straight-line method over 10 years commencing in the following period.

Income taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Shareholders' equity

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Japanese Commercial Code.

Bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors are subject to approval by the shareholders and are accounted for by an appropriation of retained earnings.

Amounts per share

Net income per share is computed based upon the weighted average number of shares of common stock outstanding during the period.

Reclassifications

Certain reclassifications have been made in the 2002 financial statements to conform to the 2003 presentation.

3. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade receivables have been reduced by allowances for doubtful accounts of ¥800 million ($6,656 thousand) and ¥585 million, as of March 31, 2003 and 2002, respectively.

4. INVENTORIES

Inventories as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2003	2002	**2003**
Finished products	**¥ 37,677**	¥ 39,380	**$ 313,453**
Raw materials and supplies	**18,366**	19,041	**152,795**
Work-in-process	**7,961**	10,696	**66,231**
Total	**¥ 64,004**	¥ 69,117	**$ 532,479**

5. MARKET VALUE INFORMATION OF SECURITIES

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2003 and 2002.

(1) Held-to-maturity debt securities:

	Millions of Yen					
	2003			2002		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Total	¥ 60	¥ 60	¥ (0)	¥ 163	¥ 162	¥ (1)

	Thousands of U.S. Dollars		
	2003		
	Book value	Fair value	Difference
Total	$ 499	$ 499	$ (0)

(2) Available-for-sale securities:

	Millions of Yen					
	2003			2002		
	Acquisition cost	Book (fair) value	Difference	Acquisition cost	Book (fair) value	Difference
Securities with book values exceeding acquisition costs	¥ 2,322	¥ 3,274	¥ 952	¥ 4,577	¥ 5,585	¥ 1,008
Securities with book values not exceeding acquisition costs	7,684	7,253	(431)	7,464	6,061	(1,403)
Total	¥ 10,006	¥ 10,527	¥ 521	¥ 12,041	¥ 11,646	¥ (395)

	Thousands of U.S. Dollars		
	2003		
	Acquisition cost	Book (fair) value	Difference
Securities with book values exceeding acquisition costs	$ 19,318	$ 27,238	$ 7,920
Securities with book values not exceeding acquisition costs	63,927	60,341	(3,586)
Total	$ 83,245	$ 87,579	$ 4,334

The following table summarizes book values of securities with no available fair values as of March 31, 2003 and 2002.

	Book Value		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Held-to-maturity debt securities	¥ 11	¥ 11	$ 92
Equity securities issued by unconsolidated subsidiaries and affiliated companies	24,060	26,686	200,166
Available-for-sale securities	9,438	5,398	78,519

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Land	¥ 77,130	¥ 77,360	$ 641,681
Buildings and structures	155,120	154,984	1,290,516
Machinery and equipment	511,790	506,305	4,257,820
Construction in progress	2,965	4,520	24,667
	747,005	743,169	6,214,684
Less accumulated depreciation	(502,160)	(484,018)	(4,177,704)
Net property, plant and equipment	¥ 244,845	¥ 259,151	$ 2,036,980

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans (partially secured) bore interest at weighted average annual rates of 0.96% and 1.15% as of March 31, 2003 and 2002, respectively. Such loans are generally renewable at maturity.

Long-term debt as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Loans from banks and other financial institutions, 1.93 % maturing serially through 2022:			
Secured	¥ 24,923	¥ 29,801	$ 207,346
Unsecured	158,144	180,962	1,315,674
Convertible bonds, 2.20% maturing serially through 2004			
Unsecured	9,864	9,916	82,063
	192,931	220,679	1,605,083
Less current maturities	(67,134)	(44,117)	(558,519)
Total	¥ 125,797	¥ 176,562	$ 1,046,564

Assets pledged as collateral to secure short-term bank loans and long-term debt as of March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Property, plant and equipment	¥ 140,607	¥ 155,439	$ 1,169,775
Investment securities	124	174	1,032
Other	–	446	–
Total	¥ 140,731	¥ 156,059	$ 1,170,807

The annual maturities of long-term debt as of March 31, 2003 were as follows:

Years ending March 31,	*Millions of Yen*	*Thousands of U.S. Dollars*
2004	¥ 67,134	$ 558,519
2005	39,108	325,358
2006	25,703	213,835
2007	31,226	259,784
2008	17,379	144,584
2009 and thereafter	12,381	103,003
Total	¥ 192,931	$ 1,605,083

8. RETIREMENT AND SEVERANCE BENEFITS

The liabilities for retirement and severance benefits at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligation	¥ 72,146	¥ 108,683	$ 600,216
Fair value of pension assets	(29,933)	(51,580)	(249,027)
Unfunded benefit obligation	42,213	57,103	351,189
Unrecognized net transition obligation	–	12,679	–
Unrecognized actuarial loss	12,976	16,491	107,953
Retirement and severance benefits	¥ 29,237	¥ 27,933	$ 243,236

Retirement benefit costs for the year ended March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Service costs	¥ 3,297	¥ 2,995	$ 27,429
Interest costs on projected benefit obligation	2,634	3,056	21,913
Expected return on pension assets	(1,082)	(1,426)	(9,001)
Amortization of net transition obligation	7,666	4,231	63,777
Amortization of actuarial loss	1,460	589	12,146
Amortization of prior service cost	–	(2,028)	–
Retirement and severance benefit costs	13,975	7,417	116,264
Gains on return of substituted portion of the government's welfare Pension Insurance Scheme	(3,835)	–	(31,905)
Total	¥ 10,140	¥ 7,417	$ 84,359

Notes: 1. Both of the discount rate and the rate of expected return on pension assets used by the Companies are primarily 3.0% for the year ended March 31, 2003. The discount rate and the rate of expected return on pension assets used by the Companies are primarily 3.0% and 3.5%, respectively, for the year ended March 31, 2002.

2. The estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the estimated number of total service years.

3. The Company obtained approval from Japan's Ministry of Health, Labor and Welfare for return of the future benefit obligation with respect to the portion that the Company acts for the government (the so-called substituted portion) on December 16, 2002. The Company recognized the settlement of the substituted portion at the date of the permission by the Ministry of Health, Labor and Welfare. As a result, in the year ended March 31, 2003, the Company recorded gains on return of the substituted portion of the government's welfare Pension Insurance Scheme amounting to ¥3,835 million ($31,905 thousand), which was calculated based on the amounts of the substituted portion of the projected benefit obligations, the related pension assets, and the related unrecognized items. The amount of pension assets to be transferred back to the government was ¥21,455 million ($178,494 thousand) as at March 31, 2003.

9. CONTINGENT LIABILITIES

Contingent liabilities primarily for loans from banks to unconsolidated subsidiaries and affiliates which are guaranteed by the Companies and for notes receivable discounted at banks with recourse as of March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Loans guaranteed	¥ 13,240	$ 110,150
Notes receivable discounted	357	2,970
Total	¥ 13,597	$ 113,120

10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Companies use interest rate swaps only for the purpose of mitigating future risks of interest rate fluctuations with respect to borrowings.

The Companies also use foreign currency forward exchange contracts only for the purpose of mitigating future risks of exchange rate fluctuations with respect to foreign currency denominated forecasted transactions.

All of the derivative transactions utilized by the Companies are accounted for as hedges.

11. INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 41.7% for the years ended March 31, 2003 and 2002.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2003 and 2002:

	2003	2002
Statutory tax rate	41.7%	41.7 %
Increase (reduction) in taxes resulting from:		
Non-taxable income	(0.2)	(2.0)
Non-deductible expenses	3.7	18.1
Amortization of consolidation difference	3.8	12.8
Equity in earnings of affiliates	1.1	7.1
Other	0.5	5.7
Effective tax rate	50.6%	83.4 %

Due to the revised local tax law, which will go into effect commencing on April 1, 2004, the Companies revaluated deferred tax assets and liabilities. As a result, deferred tax assets decreased by ¥238 million ($1,980 thousand) and deferred income taxes increased by ¥244 million ($2,030 thousand).

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Operating loss carryforwards	¥ 2,474	¥ 2,477	$ 20,582
Unrealized gains on intercompany transactions	6,809	6,964	56,647
Retirement and severance benefits	12,817	12,028	106,631
Other	5,281	6,048	43,935
Total gross deferred tax assets	27,381	27,517	227,795
Less valuation allowance	(767)	(959)	(6,381)
Total deferred tax assets	26,614	26,558	221,414
Deferred tax liabilities:			
Reserve for replacement of property, plant and equipment	(3,468)	(4,123)	(28,852)
Reserve for special depreciation of fixed assets	(1,283)	(1,622)	(10,674)
Other	(2,985)	(2,932)	(24,833)
Total deferred tax liabilities	(7,736)	(8,677)	(64,359)
Net deferred tax assets	¥ 18,878	¥ 17,881	$ 157,055

12. SEGMENT INFORMATION

The operations of the Companies are classified into four business segments—Petrochemical Group, Basic Group, Specialty Group and Service Group.

Operations of the Petrochemical Group include the manufacture and sale of olefins and polymers.

Operations of the Basic Group include the manufacture and sale of caustic soda, vinyl chloride monomer, polyvinyl chloride and cement.

Operations of the Specialty Group include the manufacture and sale of fine chemicals, scientific and diagnostic instruments and systems, electronics, metals, quartz, water treatment equipment and specialty materials.

Operations of the Service Group include transportation, warehousing and construction.

"Operating expenses" used in the following segment information include cost of sales and selling, general and administrative expenses.

Business segment information was as follows:

	Millions of Yen						
Year ended March 31, 2003	Petrochemical Group	Basic Group	Specialty Group	Service Group	Total	Elimination and Corporate	Consolidated
Net sales:							
Outside customers	¥ 136,758	¥ 135,015	¥ 160,246	¥ 39,902	¥ 471,921	¥ –	¥ 471,921
Inter-segment	38,393	11,022	4,305	47,976	101,696	(101,696)	–
Operating expenses	168,612	140,324	151,088	85,545	545,569	(101,696)	443,873
Operating income	¥ 6,539	¥ 5,713	¥ 13,463	¥ 2,333	¥ 28,048	¥ –	¥ 28,048
Identifiable assets	¥ 100,407	¥ 139,239	¥ 207,149	¥ 41,776	¥ 488,571	¥ 57,126	¥ 545,697
Depreciation and amortization	¥ 4,108	¥ 10,098	¥ 8,802	¥ 1,338	¥ 24,346	¥ 909	¥ 25,255
Capital expenditures	¥ 1,589	¥ 3,059	¥ 6,411	¥ 690	¥ 11,749	¥ 378	¥ 12,127

	Millions of Yen						
Year ended March 31, 2002	Petrochemical Group	Basic Group	Specialty Group	Service Group	Total	Elimination and Corporate	Consolidated
Net sales:							
Outside customers	¥ 123,001	¥ 130,819	¥ 133,666	¥ 40,001	¥ 427,487	¥ –	¥ 427,487
Inter-segment	37,852	10,089	6,649	47,127	101,717	(101,717)	–
Operating expenses	155,809	141,816	130,976	84,972	513,573	(101,717)	411,856
Operating income	¥ 5,044	¥ (908)	¥ 9,339	¥ 2,156	¥ 15,631	¥ –	¥ 15,631
Identifiable assets	¥ 99,638	¥ 143,217	¥ 222,384	¥ 44,071	¥ 509,310	¥ 62,836	¥ 572,146
Depreciation and amortization	¥ 4,539	¥ 10,151	¥ 8,369	¥ 1,386	¥ 24,445	¥ 947	¥ 25,392
Capital expenditures	¥ 1,796	¥ 4,111	¥ 9,560	¥ 925	¥ 16,392	¥ 428	¥ 16,820

	Thousands of U.S. Dollars						
Year ended March 31, 2003	Petrochemical Group	Basic Group	Specialty Group	Service Group	Total	Elimination and Corporate	Consolidated
Net sales:							
Outside customers	$1,137,754	$1,123,253	$1,333,161	$ 331,963	$3,926,131	$ –	$3,926,131
Inter-segment	319,409	91,697	35,815	399,135	846,056	(846,056)	–
Operating expenses	1,402,762	1,167,421	1,256,972	711,688	4,538,843	(846,056)	3,692,787
Operating income	$ 54,401	$ 47,529	$ 112,004	$ 19,410	$ 233,344	$ –	$ 233,344
Identifiable assets	$ 835,333	$1,158,394	$1,723,369	$ 347,554	$4,064,650	$ 475,258	$4,539,908
Depreciation and amortization	$ 34,176	$ 84,010	$ 73,228	$ 11,132	$ 202,546	$ 7,562	$ 210,108
Capital expenditures	$ 13,220	$ 25,449	$ 53,336	$ 5,740	$ 97,745	$ 3,145	$ 100,890

The "Elimination and Corporate" column of "Identifiable assets" in the above schedules includes corporate assets of ¥73,939 million ($615,133 thousand) and ¥79,918 million for the years ended March 31, 2003 and 2002, respectively, which mainly consist of cash, time deposits, investment in securities and assets of administrative departments.

Export sales and sales outside of Japan made by overseas subsidiaries were ¥128,006 million ($1,064,942 thousand) and ¥113,916 million for the years ended March 31, 2003 and 2002, respectively, representing 27.1% and 26.6% of consolidated net sales. For the years ended March 31, 2003 and 2002, such sales in Asia were ¥87,906 million ($731,331 thousand) and ¥69,129 million, representing 18.6% and 16.2%, respectively, of consolidated net sales.

Geographic information for the year ended March 31, 2003 and 2002 was as follows:

	Millions of Yen				
Year ended March 31, 2003	Japan	Other	Total	Elimination and Corporate	Consolidated
Net sales:					
Outside customers	¥ 425,662	¥ 46,259	¥ 471,921	¥ –	¥ 471,921
Inter-segment	14,965	2,270	17,235	(17,235)	–
Operating expenses	414,153	46,955	461,108	(17,235)	443,873
Operating income	¥ 26,474	¥ 1,574	¥ 28,048	¥ –	¥ 28,048
Identifiable assets	¥ 452,096	¥ 46,000	¥ 498,096	¥ 47,601	¥ 545,697

	Millions of Yen				
Year ended March 31, 2002	Japan	Other	Total	Elimination and Corporate	Consolidated
Net sales:					
Outside customers	¥ 380,707	¥ 46,780	¥ 427,487	¥ –	¥ 427,487
Inter-segment	12,938	2,102	15,040	(15,040)	–
Operating expenses	379,586	47,310	426,896	(15,040)	411,856
Operating income	¥ 14,059	¥ 1,572	¥ 15,631	¥ –	¥ 15,631
Identifiable assets	¥ 466,480	¥ 49,580	¥ 516,060	¥ 56,086	¥ 572,146

	Thousands of U.S. Dollars				
Year ended March 31, 2003	Japan	Other	Total	Elimination and Corporate	Consolidated
Net sales:					
Outside customers	$ 3,541,281	$ 384,850	$ 3,926,131	$ –	$ 3,926,131
Inter-segment	124,501	18,885	143,386	(143,386)	–
Operating expenses	3,445,532	390,641	3,836,173	(143,386)	3,692,787
Operating income	$ 220,250	$ 13,094	$ 233,344	$ –	$ 233,344
Identifiable assets	$ 3,761,198	$ 382,696	$ 4,143,894	$ 396,014	$ 4,539,908

13. SUBSEQUENT EVENTS

At the general shareholders' meeting of the Company held on June 27, 2003, retained earnings of the Company as of March 31, 2003 were appropriated as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends (¥5.00 per share)	¥ 3,003	$ 24,983
Bonuses to directors and corporate auditors	¥ 60	$ 499

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Tosoh Corporation:

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tosoh Corporation and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our report, we draw attention to Note 2 which explains that, in the year ended March 31, 2003, Tosoh Corporation and subsidiaries charged to expenses all of the remaining net transition obligation with respect to retirement and severance plans.

We have recomputed the translation of the consolidated financial statements as of and for the year ended March 31, 2003 into United States dollars and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Osaka, Japan
June 27, 2003

Asahi & Co.

Asahi & Co.

TOSOH ORGANIZATIONAL STRUCTURE

CHAIRMAN & CEO
MADOKA TASHIRO

PRESIDENT & COO
TAKASHI TSUCHIYA

CORPORATE SERVICES	CORPORATE R&D	MANUFACTURING	SALES BRANCHES
Corporate Strategy and Planning	Tokyo Research Laboratory	Nanyo Complex	Osaka Branch
Corporate Control and Accounting	Nanyo Research Laboratory	Yokkaichi Complex	Nagoya Branch
Finance	Yokkaichi Research Laboratory		Fukuoka Branch
General Affairs	Nanyo Technology Center		Sendai Branch
Purchasing and Logistics			Yamaguchi Branch
Legal and Patents			
Human Resources			
Corporate Communications			
Corporate Secretariat			
Auditing			
Environment, Safety and Quality Control			

BUSINESS GROUPS

OLEFINS DIVISION	Sales and Marketing				
POLYMER DIVISION	Planning and Coordination	Polyethylenes	High-Performance Polymers		
CHLOR-ALKALI DIVISION	Planning and Coordination	Chlor-Alkali Sales and Marketing	Fertilizer Sales and Marketing		
CEMENT DIVISION					
ORGANIC CHEMICALS DIVISION	Planning and Business Development	Amines	Bromine and Organic Intermediates		
SCIENTIFIC INSTRUMENTS DIVISION	Planning and Business Development	Sales and Marketing	Research and Development	Gels Production	Customer Service
SPECIALTY MATERIALS DIVISION*	Planning and Business Development	Battery Manganese Materials	Zeolites	Ceramics	
ELECTRONIC MATERIALS DIVISION*	Quartz	Thin Film Materials			

* *As of June 27, 2003, Tosoh electronic materials-related businesses were integrated into the newly established Electronic Materials Division. This division consists of two departments: Quartz, covering quartz substrates and quartz fabricated devices, and Thin Film Materials, covering sputtering targets and industry services.*

TOSOH PRODUCTS AND PRINCIPAL SUBSIDIARIES

DIVISION	MAJOR PRODUCTS / SERVICES	PRINCIPAL SUBSIDIARIES AND AFFILIATES
Olefins	Ethylene; propylene; aromatic hydrocarbons (benzene, toluene, xylene); C4 fraction (raw material for intermediates used in synthetic rubber production, such as butadiene); cumene (raw material for intermediates used in production of phenol and epoxy resins)	DOMESTIC: Nippon Styrene Monomer Co., Ltd.
Polymers	Polyethylene grades (HDPE, LDPE, LLDPE, ULDPE); ethyl vinyl acetate (EVA) copolymers; adhesive polymers; synthetic rubbers; PVC paste; polyphenylene sulfide (PPS) resins; C9 hydrocarbon resins	DOMESTIC: Hokuetsu Kasei Co., Ltd., Rensol Co., Ltd., Toyo Polymer Co., Ltd., Ace Pack Co., Ltd., Shinomura Chemical Industry Corporation, Sankyo Kasei Industry Corporation (manufacture and sale of synthetic resins)
Chlor-Alkali	Chlorine, caustic soda, vinyl chloride monomer (VCM), calcium hypochlorite, sodium bicarbonate, PVC resins, soda ash, inorganic chemicals	DOMESTIC: Taiyo Vinyl Corporation (PVC resins); Tohoku Tosoh Chemical Co., Ltd. (chlorinated chemicals); Rinkagaku Kogyo Co., Ltd. (phosphorous compounds); Minami Kyushu Chemical Industry Co., Ltd. (fertilizers); Lonseal Corporation (plastic products); Plas-Tech Corporation (PVC compounds); Taihei Chemicals Limited (PVC films, sheets, nitro-cellulose); Tokuyama Sekisui Co., Ltd. (PVC resins); Toei Kasei Co., Ltd. (PVC films, sheets) OVERSEAS: General Chemical (Soda Ash) Partners (U.S.: soda products); Philippine Resins Industries, Inc. (Philippines: PVC resins); Mabuhay Vinyl Corporation (Philippines: caustic soda and chlorine derivatives); Tosoh Polyvin Corporation (Philippines: PVC compounds); P.T. Standard Toyo Polymer (Indonesia: PVC resins); P.T. Satomo Indovyl Polymer (Indonesia: PVC resins)
Cement	Cement	—
Organic Chemicals	Ethylene amines and derivatives, bromine, fluorinated and brominated compounds, polyurethane catalysts, intermediates for organic synthesis, flame-retardant materials, solvents, aspartame	DOMESTIC: Tosoh Finechem Corporation (fine chemicals, custom synthesis); Tosoh Organic Chemical Co., Ltd. (organic intermediates); Tosoh F-Tech, Inc. (fluorochemicals); Nippon Polyurethane Industry Co., Ltd. (urethane products); Hodogaya Chemical Co., Ltd. (fine chemicals, agrochemicals, dyes) OVERSEAS: Delamine B.V. (Netherlands: ethylene amines, fine chemicals); Holland Sweetener Company (Netherlands, U.S.: aspartame)
Specialty Materials	Zirconia products (powders, ceramics, grinding media); electrolytic manganese dioxide (EMD); zeolites (adsorption agents, molecular sieves)	DOMESTIC: Tosoh Ceramics Co., Ltd. (zirconia ceramic products); Tosoh Hyuga Corporation (EMD); Tosoh Zeolum, Inc. (zeolites); Nippon Silica Industrial Co., Ltd. (rubber and plastic silica filler) OVERSEAS: Tosoh Hellas A.I.C. (Greece: EMD)
Electronic Materials	Silica glass (quartz) materials, including various types of natural, synthetic, fused, machined, and fabricated quartzware; sputtering targets; shielding services	DOMESTIC: Tosoh Quartz Corporation (fabricated quartzware); Tosoh SGM Corp. (silica glass materials); Tosoh Speciality Materials Corp. (sputtering targets) OVERSEAS: Tosoh Quartz (U.S., U.K., Taiwan: fabricated quartzware); Tosoh SGM USA, Inc. (U.S.: silica glass); Tosoh SMD (U.S., Taiwan, S. Korea: sputtering targets); Tosoh SET, Inc. (U.S.: physical vapor deposition (PVD) and chemical vapor deposition (CVD) shield refurbishment services)
Scientific Instruments	HPLC systems and packing materials, enzyme immunoassay systems, ion chromatography systems, glycohemoglobin analyzers	DOMESTIC: Tosoh AIA, Inc. (diagnostic reagents); Tosoh Hi-Tec, Inc. (diagnostic and chromatography products and systems); Tosoh Techno-System, Inc. (analytical instrument maintenance) OVERSEAS: Tosoh Bioscience (U.S., Germany: liquid chromatography products; U.S., Belgium, U.K., Italy: clinical diagnostic systems and reagents)
eco-business Operations *(not a division)*	Water purification technology, environmental monitoring analysis and equipment, chelating agents	DOMESTIC: Organo Corporation (water purification systems and engineering services); Eco-Techno Corporation (land survey, reclamation and technological consulting services)

TOSOH GLOBAL NETWORK

JAPAN

Tosoh Corporation, Headquarters
Tokyo

Sales Offices
Osaka Branch, Nagoya Branch, Fukuoka Branch, Sendai Branch, Yamaguchi Branch

Manufacturing
Nanyo Complex, Yokkaichi Complex

Research & Development Facilities
Tokyo Research Laboratory, Nanyo Research Laboratory, Yokkaichi Research Laboratory, Nanyo Technology Center

ASIA

P.T. Standard Toyo Polymer, Jakarta, Indonesia
PVC resins

P.T. Satomo Indovyl Polymer, Jakarta, Indonesia
PVC resins

Philippine Resins Industries, Inc., Makati City, Philippines
PVC resins

Tosoh Polyvin Corporation, Lipa City, Batangas, Philippines
PVC compounds

Mabuhay Vinyl Corporation, Makati City, Philippines
Caustic soda and chlorine derivatives

Tosoh SMD Korea, Ltd., Kyungki-Do, Korea
Thin film deposition materials

Tosoh Singapore, Pte., Ltd., Singapore
Regional sales, marketing, business development center: Fine chemicals, thin film deposition materials, and fabricated quartzware

Tosoh Quartz Co., Ltd., Tainan, Taiwan
Fabricated quartzware

Tosoh SMD Taiwan Co., Ltd., Hsin Chu, Taiwan
Thin film deposition materials

EUROPE

Tosoh Europe B.V., Amsterdam, Netherlands
European sales, marketing, and business development center: Ethylene amines, polyurethane catalysts, zirconia ceramics, zeolites, chloroprene rubber, CSM, and other fine chemicals

Delamine B.V., Amersfoort, Netherlands
Ethylene amines and other fine chemicals

Holland Sweetener Company V.O.F., Geleen, Netherlands
Aspartame

Tosoh Bioscience N.V. (Regional Headquarters), Tessenderlo, Belgium
Clinical diagnostic systems and reagents

Tosoh Bioscience Srl., Torino, Italy
Clinical diagnostic systems and reagents

Tosoh Bioscience, A.G., Littau-Luzern, Switzerland
Clinical diagnostic systems and reagents

Tosoh Bioscience U.K., Worcestershire, U.K.
Clinical diagnostic systems and reagents

Tosoh Bioscience GmbH, Stuttgart, Germany
Liquid chromatography products

Tosoh Hellas A.I.C., Thessaloniki, Greece
Electrolytic manganese dioxide

Tosoh Quartz Ltd., Durham, U.K.
Fabricated quartzware and silica glass materials

UNITED STATES

Tosoh America, Inc., Grove City, Ohio
U.S. subsidiary holding company and regional headquarters

Tosoh USA, Inc., Grove City, Ohio
U.S. sales, marketing, and business development center: Ethylene amines, polyurethane catalysts, organic intermediates, zeolites, CSM, and other fine chemicals

Tosoh Bioscience, Inc., San Francisco, California
Clinical diagnostic systems and reagents

Tosoh Bioscience LLC, Montgomeryville, Pennsylvania
Liquid chromatography products

Tosoh SMD, Inc., Grove City, Ohio
Thin film deposition materials

Tosoh SET, Inc., Dublin, California
PVD and CVD shield refurbishment and process kit management

General Chemical (Soda Ash) Partners, Parsippany, New Jersey
Soda products

Holland Sweetener North America, Inc., Atlanta, Georgia
Aspartame

Tosoh Quartz, Inc.
Portland, Oregon
Fabricated quartzware

Tosoh SGM USA, Inc., Somerville, New Jersey
Silica glass materials

(As of June 2003)
For contact information, visit Tosoh Corporation at www.tosoh.com

TOSOH CORPORATE DATA

BOARD OF DIRECTORS
(As of June 27, 2003)

Chairman & CEO
Madoka Tashiro

President & COO
Takashi Tsuchiya

Senior Managing Directors
Kiyoshi Hino
Yukihiro Tsutsumi

Managing Directors
Ichiro Hiraki
Keiichi Ohtagaki
Hiroo Sasaki
Hiroshige Wagatsuma

Directors
Hideo Yamasaki
Kazuya Hoshi
Shinji Kurata
Yuzo Arima
Masatoshi Inai
Mitsutoshi Fukuda
Hiroyuki Uchida

Corporate Auditors
Katsuhiko Kawamura
Osami Matsuura
Akio Fujita
Yoshio Shibata

INVESTOR INFORMATION
(As of March 31, 2003)

Date of Incorporation
February 11, 1935

Paid-in Capital
¥41 billion

Common Stock
Authorized: 1,200,000,000 shares
Issued: 601,161,912 shares

Number of Shareholders
60,462

Stock Exchange Listings
Tokyo, Osaka
TSE Ticker Symbol: 4042

Transfer Agent for Shares
The Chuo Mitsui Trust & Banking Co., Ltd.
33-1, Shiba 3-chome
Minato-ku, Tokyo 105-0014, Japan

Independent Auditors
Asahi & Co.

Number of Employees
9,167

Head Office
Tosoh Corporation
3-8-2, Shiba,
Minato-ku, Tokyo 105-8623, Japan

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TOSOH CORPORATION

Tosoh continues to execute strategy that realizes its corporate ideal:

THE EVOLVING CORPORATION

Evolving to solid profitability

Evolving to surpass the demands of rapid change

Evolving to a dynamic corporate culture where people can realize their potential

TOSOH

TOSOH CORPORATION

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