

NEWS RELEASE

SHOWA DENKO K.K.

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SDK Reports 38.4% Increase in Operating Income for First Half 2004

Showa Denko K.K. (SDK) announces a 38.4% increase in operating income for the first six months of 2004, to ¥22,226 million, on net sales of ¥348,284 million, which increased 0.8% over the same period of last year. Ordinary income rose 54.2%, to ¥16,221 million, and net income was up 66.2%, to ¥6,382 million.

During the first half of 2004, the Japanese chemical industry enjoyed increasing demand for chemical products due largely to steady exports to China and other Asian countries. However, costs of raw materials, including naphtha and aluminum ingot, shot up, resulting in continued severe economic environment for the industry.

Under the circumstances, SDK proceeded with the development of the “strategic growth businesses” as defined in the Sprout Project, while continuing to restructure operations and reduce costs.

The following are summary of the results by business segment:

(Petrochemicals)

Production of ethylene and propylene in the first half of 2004 increased over the same period of last year due to higher demand for petrochemical products from China and other markets. Sales of olefins were up due to increased shipment volumes and higher prices, which reflected higher raw material costs. Sales of organic chemicals were also up, reflecting increased shipment volumes of acetic acid, vinyl acetate and ethyl acetate.

Sales of plastics declined due to the transfer in September 2003 of the polyethylene business to Japan Polyethylene Corporation, to which the equity method was applied. Sales of plastics by Showa Highpolymer Co., Ltd. increased due to an increase in shipment volumes that reflected increasing domestic demand for construction materials. Showa Aluminum Powder K.K. increased its sales of aluminum paste for cellular phone/appliance coating applications. Sales of plastic products by Heisei Polymer Co., Ltd. were maintained at the level of the same period of last year.

As a result, the Petrochemicals segment's sales fell 3.0%, to ¥117,258 million, but operating income rose 30.5%, to ¥7,625 million.

(Chemicals)

Due to a scheduled shutdown that took a considerable time, production of liquefied ammonia fell below the level in the same period of last year. In the gases & chemicals operations, sales of industrial gases increased slightly owing to an increase in the shipment volumes of hydrogen. Full-scale operation began at our facility for processing waste plastics, namely, used containers and wrapping. Meanwhile, we withdrew from the epichlorohydrin business in the second half of 2003. Overall sales of gases & chemicals declined in the first half of 2004.

In the specialty chemicals operations, the shipment volumes of *Shoprene* polychloroprene synthetic rubber increased and those of *Shodex* analytical columns and amino acids remained steady. However, shipment volumes of vitamin C for feed additives and agrochemical intermediates fell. Thus, overall sales of specialty chemicals declined. SDS Biotech K.K. recorded an increase in sales as the rise in export volumes more than offset the decline in selling prices due to the stronger yen.

As a result, the Chemicals segment's sales rose 2.6%, to ¥38,550 million, but operating income fell 35.1%, to ¥1,658 million, due partly to higher feedstock costs.

(Electronics)

Production of hard disks (HDs) increased substantially over the same period of last year as the expanded facility in Singapore began full-scale operation, which resulted in larger shipment volumes of HDs. The shipment volumes of epitaxial wafers for optical pickups and chips for LEDs also increased. Thus, combined sales of HDs and compound semiconductors were up.

In the electronic materials business, shipments of rare earth magnetic alloys were maintained at the level of the same period of last year. Meanwhile, shipment volumes of semiconductor-processing-specialty gases rose due to increased production by customers. Shipment volumes of *VGCF* carbon nanofiber and fine ceramics also increased. Thus, overall sales of electronic materials were up.

As a result, the Electronics segment's sales increased 15.5%, to ¥51,412 million, and operating income soared 80.8%, to ¥6,883 million.

(Inorganic Materials)

Production of graphite electrodes increased slightly. Sales of ceramics were up as both the shipment volumes and selling prices of alumina improved. We withdrew from ferrochrome production in Japan in the first half of 2003. The graphite electrode business of both Showa Denko K.K. and its U.S. subsidiary Showa Denko Carbon, Inc. recorded increased sales due to larger shipment volumes and higher selling prices.

As a result, the Inorganic Materials segment's sales increased 4.7%, to ¥26,698 million, and operating income jumped 156.3%, to ¥2,768 million.

(Aluminum)

Production of automotive heat exchangers increased in Europe, but decreased in Japan and North America. Meanwhile, production of extrusions, rolled products and *Shotite* forged products increased. Sales of aluminum ingot rose due to higher selling prices that reflected rising prices on the international markets.

The shipment volumes increased for rolled products, centering on high purity foils for capacitors, and forged products, centering on car air-conditioner parts, resulting in higher sales for these two areas. Sales of extrusions and specialty products were maintained at the level of the same period of last year. Sales of automotive heat exchangers decreased as shipment volumes fell in Japan and North America although those in Europe rose. Aluminum can sales also fell, as the rise in shipment volumes was not enough to offset the decline in selling prices.

As a result, the Aluminum segment's sales decreased 2.4%, to ¥114,366 million, but operating income increased 20.3%, to ¥6,325 million.

As to the business performance for the full-year period, SDK's projections at this moment are as follows:

Overall projections

Regarding the Japanese economy in the second half of 2004, production and exports are expected to remain steady owing to continued growth of overseas economies. However, prices of oil and other raw materials will continue to rise, resulting in a continued severe business environment. Under the circumstances, the Company will promote the growth strategy as defined in the Sprout Project and pursue thorough cost reductions, thereby striving to improve competitiveness and earning power.

The Showa Denko Group's performance forecast for 2004 is as follows:

(Unit: millions of yen)

	Forecast for the term ending Dec. 31, '04	Results for the term ended Dec. 31, '03	Differ- ence	Rate of change
Net sales	720,000	689,366	30,634	4.4%
Operating income	47,000	38,546	8,454	21.9%
Ordinary income	35,000	23,840	11,160	46.8%
Net income	13,000	10,317	2,683	26.0%

Net sales, operating income and ordinary income will increase over the previous year to ¥720,000 million, ¥47,000 million, and ¥35,000 million, respectively. Net income will increase about ¥2,700 million, to ¥13,000 million, as we expect an extraordinary loss pertaining to restructuring expenses in the second half of 2004. The above forecast is based on the assumption that the exchange rate of the yen will be ¥105 to the U.S. dollar and the naphtha price will be ¥30,000/KL.

(2) Net sales by business segment

(Unit: millions of yen)

	Forecast for the term ending Dec. 31, '04	Results for the term ended Dec. 31, '03	Differ- ence	Rate of change
Petrochemicals	243,000	235,124	7,876	3.3%
Chemicals	83,000	78,232	4,768	6.1%
Electronics	113,000	94,735	18,265	19.3%
Inorganic Materials	53,000	50,969	2,031	4.0%
Aluminum	228,000	230,306	- 2,306	- 1.0%
Total	720,000	689,366	30,634	4.4%

For more detailed information, please visit our web site at:

http://www.sdk.co.jp/index_e.htm

First Half 2004 Financial Results

I. First Half Results 2004

1. Summary

(Unit: billions of yen, except for stockholders' equity/share, net income/share and cash dividends/share)

Items	1st half, 2004		1st half, 2003		Increase	
	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent
Net Sales	348.3	245.4	345.6	227.0	2.6	18.4
Operating Income	22.2	15.5	16.1	9.9	6.2	5.6
Net Income	6.4	5.7	3.8	1.9	2.5	3.8
Stockholders' equity per share	¥153.73	¥164.23	¥137.46	¥150.42	¥16.27	¥13.81
Net Income per share	¥5.61	¥5.03	¥3.37	¥1.71	¥2.24	¥3.32

2. Net Sales and Operating Income by Segment

(Unit: billions of yen)

Segment		1st half, 2004		1st half, 2003		Increase	
		Consolidated	Parent	Consolidated	Parent	Consolidated	Parent
Petrochemicals	Net Sales	117.3	79.9	120.9	70.6	-3.7	9.3
	Operating Income	7.6	6.4	5.8	3.7	1.8	2.7
Chemicals	Net Sales	38.6	28.0	37.6	29.3	1.0	-1.3
	Operating Income	1.7	1.8	2.6	2.4	-0.9	-0.6
Electronics	Net Sales	51.4	41.9	44.5	33.2	6.9	8.7
	Operating Income	6.9	4.6	3.8	2.9	3.1	1.7
Inorganic Materials	Net Sales	26.7	18.8	25.5	18.1	1.2	0.8
	Operating Income	2.8	1.9	1.1	0.7	1.7	1.2
Aluminum	Net Sales	114.4	76.8	117.1	75.9	-2.8	1.0
	Operating Income	6.3	4.0	5.3	2.8	1.1	1.2
HQ costs and other	Net Sales	0	0	0	0	0	0
	Operating Income	-3.0	-3.2	-2.5	-2.7	-0.6	-0.5
Total	Net Sales	348.3	245.4	345.6	227.0	2.6	18.4
	Operating Income	22.2	15.5	16.1	9.9	6.2	5.6

3. Reference (Consolidated)

(Unit: billions of yen)

Items	1st half 2004	1st half 2003	Increase	2003
Capital expenditures	13.5	24.7	-11.2	40.8
Depreciation and amortization	16.2	17.7	-1.5	34.5
R&D expenditures	8.2	8.3	-0.1	17.0
Total assets	937.8	964.6	-26.8	939.9
Interest bearing debt	522.9	568.6	-45.7	527.4
Gap between interest/dividend income and interest expense	-4.2	-4.7	0.5	-9.5
Total number of employees	10,628	11,472	-844	10,623
Exchange rate (yen/US\$)	109	119	-10	116
Domestic naphtha price (yen/kl)	28,350	26,350	2,000	25,400

3. Cash Flow (Consolidated)

(Unit: billions of yen)

Cash Flows from:	1st half 2004	1st half 2003	Increase
Operating Activities	19.0	26.6	-7.6
Investing Activities	-7.6	-13.0	5.4
Free Cash Flow	11.3	13.6	-2.3
Financing Activities	-9.6	-14.4	4.8
Newly Consolidated	0.7	1.0	-0.3
Net increase in Cash	2.5	0.2	2.3

. Forecast for 2004 (full year) :revised on Aug. 10, 2004

1. Summary

(Unit: billions of yen, except for stockholders' equity/share, net income/share and cash dividends/share)

Items	2004 Forecast		2003		Increase	
	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent
Net Sales	720.0	506.0	689.4	462.0	30.6	44.0
Operating Income	47.0	38.0	38.5	22.9	8.5	15.1
Net Income	13.0	13.5	10.3	5.0	2.7	8.5
Net Income per share	¥11.42	¥11.86	¥9.07	¥4.41	¥2.35	¥7.45
Cash dividends per share	¥2.00 - ¥3.00		¥2.00		¥0.00 - ¥1.00	

2. Net Sales and Operating Income by Segment

(Unit: billions of yen)

Segment		2004 Forecast		2003		Increase	
		Consolidated	Parent	Consolidated	Parent	Consolidated	Parent
Petrochemicals	Net Sales	243.0	166.0	235.1	142.6	7.9	23.4
	Operating Income	14.0	11.1	12.0	8.0	2.0	3.1
Chemicals	Net Sales	83.0	58.0	78.2	57.5	4.8	0.5
	Operating Income	6.5	4.8	6.0	4.5	0.5	0.3
Electronics	Net Sales	113.0	91.0	94.7	72.5	18.3	18.5
	Operating Income	14.5	16.8	10.7	6.9	3.8	9.9
Inorganic Materials	Net Sales	53.0	37.0	51.0	35.9	2.0	1.1
	Operating Income	5.0	3.7	2.7	1.9	2.3	1.8
Aluminum	Net Sales	228.0	154.0	230.3	153.5	-2.3	0.5
	Operating Income	13.0	7.9	11.6	6.4	1.4	1.5
HQ costs and other	Net Sales	0	0	0	0	0	0
	Operating Income	-6.0	-6.3	-4.4	-4.7	-1.6	-1.6
Total	Net Sales	720.0	506.0	689.4	462.0	30.6	44.0
	Operating Income	47.0	38.0	38.5	22.9	8.5	15.1

3. Reference (Consolidated)

(Unit: billions of yen)

	2004 Forecast	2003	Increase
Capital expenditures	37.0	40.8	-3.8
Depreciation and amortization	35.3	34.5	0.8
R&D expenditures	17.1	17.0	0.1
Interest bearing debt	515.0	527.4	-12.4
Gap between interest/dividend income and interest expense	-9.2	-9.5	0.3
Total number of employees	11,269	10,623	646
Exchange rate (yen/US\$)	107	116	-9
Domestic naphtha price (yen/kl)	29,175	25,400	3,775

The performance forecast for 2004 is based on the economic conditions and the Company's business policy at this point of time. Please note that actual results may differ materially from the forecast due to a variety of factors, including changes in the market conditions.

Consolidated Balance Sheets

Showa Denko K.K.

(Yen in millions, US\$ in thousands)

	June 30, 2004 (A)	Dec 31, 2003 (B)	(A)-(B)	June 30, 2003	June 30, 2004
Assets	Yen				\$
Current assets					
Cash and deposit	29,147	26,791	2,357	24,046	268,813
Notes and accounts receivable	134,094	136,405	(2,311)	130,690	1,236,687
Inventories	64,357	60,921	3,436	80,194	593,535
Deferred tax assets	6,845	6,718	127	7,206	63,129
Other current assets	35,214	32,721	2,493	30,945	324,764
Allowance for doubtful receivables	(1,185)	(1,254)	69	(1,121)	(10,928)
Total current assets	268,473	262,301	6,171	271,958	2,475,999
Fixed assets					
Tangible fixed assets	529,550	538,154	(8,604)	557,976	4,883,798
Buildings and structures	98,233	100,093	(1,860)	103,797	905,955
Machinery and equipment	127,737	130,532	(2,795)	133,777	1,178,056
Land	285,257	291,469	(6,211)	296,030	2,630,796
Construction in process	9,151	6,535	2,616	13,930	84,397
Other tangible fixed assets	9,173	9,526	(353)	10,443	84,594
Intangible fixed assets	25,957	23,163	2,794	24,017	239,391
Goodwill	14,526	11,336	3,190	11,691	133,967
Other intangible fixed assets	11,431	11,827	(396)	12,326	105,424
Investments and other assets	113,841	116,244	(2,403)	110,641	1,049,899
Investment securities	91,529	83,375	8,154	75,164	844,128
Deferred tax assets	10,276	16,668	(6,392)	20,791	94,767
Other investments	14,586	19,140	(4,554)	17,827	134,516
Allowance for doubtful accounts	(2,549)	(2,939)	390	(3,141)	(23,511)
Total fixed assets	669,348	677,561	(8,213)	692,633	6,173,088
Deferred assets	3	17	(14)	33	30
Total assets	937,824	939,879	(2,055)	964,624	8,649,117
Liabilities					
Current liabilities					
Notes and accounts payable	108,112	113,351	(5,239)	107,508	997,071
Short-term loans payable	102,711	117,729	(15,019)	148,511	947,254
Current portion of long-term loans payable	76,219	73,830	2,389	111,817	702,936
Current portion of corporate bonds	34,384	-	34,384	-	317,108
Reserve for restructuring expenses	4,765	4,214	551	5,401	43,946
Deferred tax liabilities	-	3	(3)	-	-
Other current liabilities	33,471	33,888	(416)	33,853	308,689
Total current liabilities	359,663	343,016	16,647	407,089	3,317,005
Long-term liabilities					
Bonds	60,430	71,814	(11,384)	68,814	557,318
Long-term loans payable	249,108	264,015	(14,908)	239,450	2,297,404
Deferred tax liabilities	5,421	6,353	(932)	6,057	49,996
Employees' severance indemnities	8,470	8,640	(170)	9,569	78,115
Deferred tax liabilities for revaluation	24,052	23,929	123	23,883	221,820
Other long-term liabilities	14,896	14,730	166	13,308	137,377
Total long-term liabilities	362,376	389,481	(27,104)	361,081	3,342,030
Total liabilities	722,039	732,496	(10,457)	768,170	6,659,034
Minority interests	40,849	41,295	(446)	40,032	376,730
Stockholders' equity					
Common stock	110,451	110,451	-	110,451	1,018,643
Capital surplus	8,875	8,175	700	8,174	81,850
Retained earnings	15,993	13,271	2,722	5,212	147,495
Revaluation reserve (Land revaluation)	35,011	34,832	179	34,763	322,889
Securities valuation surplus	7,804	2,501	5,303	(1,077)	71,975
Foreign currency translation adjustments	(3,148)	(3,096)	(52)	(1,057)	(29,031)
Treasury stock	(51)	(47)	(4)	(44)	(469)
Total Stockholders' equity	174,936	166,087	8,849	156,422	1,613,353
Total liabilities and stockholders' equity	937,824	939,879	(2,055)	964,624	8,649,117

Consolidated Statements of Income

Showa Denko K.K.

(Yen in millions, US\$ in thousands)

	Results for the half-year (Jan. 1 - Jun. 30)			
	2004(A)	2003(B)	(A)-(B)	2004
	Yen			\$
Net sales	348,284	345,636	2,648	3,212,064
Cost of sales	284,679	285,041	(362)	2,625,464
Selling, general and administrative expense	41,379	44,536	(3,157)	381,618
Operating profit	22,226	16,059	6,167	204,982
Non-operating income	2,310	3,061	(751)	21,306
Interest and dividend income	743	664	79	6,853
Equity in earnings of non-consolidated subsidiaries and affiliates	664	673	(9)	6,122
Miscellaneous income	903	1,723	(820)	8,331
Non-operating expense	8,315	8,600	(285)	76,686
Interest expense	4,892	5,394	(502)	45,116
Miscellaneous expense	3,423	3,207	216	31,569
Recurring profit	16,221	10,520	5,701	149,602
Extraordinary profit	2,190	884	1,306	20,195
Gain on investment securities sold	1,918	204	1,714	17,689
Other extraordinary profit	272	680	(408)	2,507
Extraordinary loss	6,219	3,641	2,578	57,354
Loss on fixed assets sold or retired	2,302	644	1,658	21,233
Loss on investment securities sold	1	69	(68)	9
Loss on valuation of investment securities	21	214	(193)	196
Special severance pay	783	1,036	(253)	7,218
Reserve for restructuring expenses	1,039	-	1,039	9,582
Prior-period scheduled maintenance expenses	895	-	895	8,251
Other extraordinary loss	1,178	1,677	(499)	10,865
Income before income taxes	12,192	7,763	4,429	112,444
Income taxes (current)	1,976	1,784	192	18,221
Income taxes (deferred)	3,512	2,781	731	32,388
Minority interests	323	(641)	964	2,981
Net income	6,382	3,839	2,543	58,854

Consolidated statements of surplus

Showa Denko K.K.

(Yen in millions, US\$ in thousands)

	Results for the half-year (Jan. 1 - Jun. 30)		
	2004	2003	2004
Capital surplus	Yen		\$
Balance at Jan.1	8,175	8,174	75,393
Net increase	700	-	6,457
Net decrease	-	-	-
Balance at Jun.30 (December.31)	8,875	8,174	81,850
Retained earnings			0
Balance at Jan.1	13,271	1,302	122,390
Net increase	6,387	3,918	58,905
Net income for the half-year	6,382	3,839	58,854
Increase due to changes in consolidated subsidiaries	5	-	51
Reversal of revaluation reserve	-	79	-
Net decrease	3,665	8	33,799
Cash dividends	2,276	-	20,990
Directors' and statutory auditors' bonuses	-	8	-
Decrease due to changes in consolidated subsidiaries	1,210	-	11,158
Reversal of revaluation reserve	179	-	1,651
Balance at Jun.30 (December.31)	15,993	5,212	147,495

Consolidated Statement of Cash Flows

Showa Denko K.K.

(Yen in millions, US\$ in thousands)

	Results for the half-year (Jan. 1 - Jun. 30)		
	2004	2003	2004
Cash flows from operating activities	Yen		\$
Income (loss) before income taxes	12,192	7,763	112,444
Adjustments for:			
Depreciation and amortization	16,158	17,704	149,018
Amortization of excess of cost over equity in net assets acquired	650	568	5,992
Increase (decrease) in reserve for business restructuring expenses	551	(3,617)	5,083
Interest and dividend income	(743)	(664)	(6,853)
Interest expense	4,892	5,394	45,116
Equity in earnings of the non-consolidated subsidiaries and affiliates	(664)	(673)	(6,122)
Loss on sale and write-down of investment securities, net	(1,902)	44	(17,539)
Loss on the disposal of property, plant and equipment, net	1,696	708	15,644
Loss on sale of property, plant and equipment, net	889	236	8,194
Increase (decrease) in trade receivables	2,550	14,771	23,519
Increase in inventories	(3,323)	672	(30,642)
Decrease (increase) in trade payables	(4,677)	(14,743)	(43,132)
Other	(2,508)	5,044	(23,130)
Subtotal	25,762	33,205	237,592
Interest and dividend received	689	841	6,358
Interest paid	(4,880)	(5,618)	(45,009)
Income taxes paid	(2,588)	(1,869)	(23,868)
Net cash provided by operating activities	18,983	26,559	175,074
Cash flows from investing activities			
Proceeds from sales of marketable securities	3	4	31
Payments for purchases of property, plant and equipment	(14,688)	(24,813)	(135,460)
Proceeds from sales of property, plant and equipment	2,175	13,320	20,055
Payments for purchases of investment securities	(464)	(8,284)	(4,284)
Proceeds from sales of investment securities	3,897	637	35,938
Decrease in short-term loans, net	(297)	890	(2,742)
Payments for long-term loans	(9)	(51)	(84)
Proceeds from collection of long-term loans	302	5,393	2,783
Other	1,444	(73)	13,320
Net cash used in investing activities	(7,638)	(12,979)	(70,443)
Cash flows from financing activities			
Decrease in short-term debt, net	(15,007)	(2,373)	(138,404)
Proceeds from long-term debt	28,161	80,025	259,713
Repayments of long-term debt	(40,683)	(91,150)	(375,197)
Proceeds from issuance of bonds	23,000	-	212,118
Redemption of bonds	-	(555)	-
Proceeds from issuance of stock to minority shareholders	81	-	747
Payments of dividends	(2,276)	-	(20,990)
Payments of dividends to minority shareholders	(1,843)	(378)	(17,000)
Other	(1,004)	(1)	(9,259)
Net cash used in financing activities	(9,571)	(14,433)	(88,272)
Effect of exchange rate changes on cash and cash equivalents	20	96	181
Increase (decrease) in cash and cash equivalents	1,793	(757)	16,540
Cash and cash equivalents at beginning of the year	26,485	23,260	244,262
Effect of adjustment of newly consolidated subsidiaries on cash and cash equivalents at beginning of the year	686	968	6,323
Cash and cash equivalents at beginning of the year	28,964	23,472	267,125

NOTES TO FINANCIAL STATEMENTS

Showa Denko. K.K. and Consolidated Subsidiaries

1. BASIS OF REPORTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan and from the consolidated financial statements which had been or will be filed with the Kanto Local Finance Bureau as required by the Securities and Exchange Law of Japan.

Certain items have been reclassified for the convenience of readers who are not familiar with Japanese financial reporting practices. Where appropriate, certain prior year balances have been reclassified to conform to the half-year 2004 presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements for the half-year ended June 30, 2004 and 2003 include the accounts of the Company and its 45 and 41 significant subsidiaries (collectively "the Companies").

For the purposes of the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies are entirely eliminated and the portions attributable to minority interests are credited or charged to income. Accounts of subsidiaries whose business year ends differ by more than three months from 31st December have been included using appropriate interim financial information.

The excess of cost over equity in net assets is amortized on a straight-line basis within a period of 20 years.

(b) Investments in Non-Consolidated Subsidiaries and Affiliates

The Company applies the equity method of accounting for investments in 4 non-consolidated subsidiaries and 29 affiliates for the half-year ended June 30, 2004 and investments in 5 non-consolidated subsidiaries and 31 affiliates, for the half-year ended June 30, 2003.

All underlying intercompany profits obtained from transactions among the Companies and non-consolidated subsidiaries and affiliates to which the equity method is applied are eliminated in the consolidated financial statements.

The amortization charged to income for the half-year ended June 30, 2004 and 2003 was nil.

(c) Translation of Foreign Currency Accounts

Under the new Japanese Accounting Standards for Foreign Currency Translation effective April 1, 2000, all receivables and payables denominated in foreign currencies at the balance sheet date are translated into Japanese yen at the current exchange rates. The resulting exchange gains or losses are charged to income.

The monetary amounts stated in the financial statements of a certain consolidated subsidiary of foreign nationality are translated into Japanese yen at the half-year-end rate for assets and liabilities, at historical rates for other balance sheet accounts exclusive of net income, and at the average annual rate for revenue and expense accounts and net income.

Under the new Japanese Accounting Standards for Foreign Currency Translation, which have been effective for fiscal years beginning on or after April 1, 2000, translation adjustments resulting from the process of translating the financial statements of foreign subsidiaries into Japanese yen are accumulated and reported as a component of stockholders' equity in the consolidated balance sheet.

(d) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposits available for withdrawal on demand and short-term investments with original maturities of three months or less and minor risk of value fluctuation.

(e) Securities

Securities to be owned until due date are stated at cost as determined by the amortization cost method.

Under the Japanese Accounting Standards for Financial Instruments, which have become effective for fiscal years beginning on or after April 1, 2000, securities are classified into one of the following categories based on the purpose of holding, resulting in the different measurement and accounting for the changes in fair value. Debt securities that are intended to be held to maturity ("held-to-maturity debt securities") measured at amortized cost in the balance sheet. Securities other than held-to-maturity debt securities and equity investment in subsidiaries and affiliates ("other securities") are stated at cost except for certain consolidated subsidiaries.

Beginning with the consolidated financial statements for fiscal 2002, the Company has applied the accounting standards for financial instruments contained in the Opinion Regarding the Establishment of Accounting Standards for Financial Instruments (issued by the Corporate Accounting Deliberation Council on January 22, 1999) and has restated the value of other securities with quoted market value at their market prices prevailing at the balance sheet date.

Other securities without quoted market prices were valued at cost by the moving-average method.

(f) Allowance for Doubtful Receivables

To provide for losses from bad debts, the allowance is provided according to the actual rate of non-recovery for ordinary claims, and in view of the probability of recovery for specific doubtful receivables.

(g) Inventories

Inventories are stated mainly at cost as determined by the gross-average method. Part of the inventories owned by certain subsidiaries is stated at cost as determined by the specific identification method or by the final purchasing-price method.

(h) Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is computed principally by the straight-line method with the exception that the declining-balance method is applied to certain factories of the Company and some of the consolidated subsidiaries.

(i) Deferred Charges and Intangible Assets

The Company and some of the consolidated subsidiaries principally apply the straight-line method to amortize deferred charges and intangible assets.

(j) Reserve for Restructuring Expenses

The Company and some of the consolidated subsidiaries record reserve for restructuring expenses on an accrual basis to provide for expenses and losses resulting from their restructuring programs.

(k) Employees' Severance Indemnities

Employee's severance indemnities are provided based on the estimated retirement benefit obligation and the pension assets. The figure is based on the amount of severance benefit obligations at the balance sheet date and the estimated amount of the pension fund. Transition obligations resulting from the initial adoption of the new accounting method for employees' retirement benefits are amortized over 15 years, except for a certain consolidated subsidiary in which the amount is amortized over 5 years. Prior service costs are amortized on a straight-line basis over certain periods (mainly 12 years) within the average remaining service periods. Unrecognized actuarial loss is amortized starting the year after such actuarial loss is determined on a straight-line basis over certain periods (mainly 12 years) within the average remaining service periods. However, a certain consolidated subsidiary recognized such total actuarial loss as one time loss when determined.

The parent company and some of the consolidated subsidiaries obtained an approval, as of April 23, 2002, from the Ministry of Health, Labour and Welfare providing for exemption of payment of future obligations related to the portion of the National Welfare Pension Fund formally managed by these companies. Consequently, the Company has applied the transitional measures specified in Article 47-2 of the Guidelines for Retirement Payment Accounting (Interim Report) (Article 13 of the Report of the Accounting Committee of the Japanese Institute of Certified Public Accountants). Accordingly, as of the date of the portion of pension assets formerly managed by the Company and the pension assets returned to the government have been removed from the Company's accounts. The amount corresponding to the portion returned on a consolidated basis as the end of 2003 was ¥22,607million.

(l) Directors' Retirement Benefits

Some of the consolidated subsidiaries provide for retirement benefits for directors and statutory auditors in an amount determined by those companies' internal guidelines.

(m) Income Taxes

Periodical allocation of corporate tax is being made, in principle, regarding taxes pertaining to all temporary differences (differences between the assets/liabilities on the consolidated financial statements and the assets/liabilities in the calculation of taxable income).

(n) Leases

Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees are principally accounted for by the method that is applicable to ordinary operating leases.

3. TRANSLATION INTO U.S. DOLLARS

The Companies' accounting records are maintained in yen. The U.S. dollar amounts appearing in the accompanying financial statements and notes thereto represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥108.43 to US\$1.00, the approximate rate of exchange at June 30, 2004. The inclusion of such U.S. dollar amounts is solely for the convenience of readers; it does not carry with it any implication that yen amounts have been or could be converted into U.S. dollars at that rate.

4.CASH AND CASH EQUIVALENTS

Cash as of June 30, 2004 and 2003 on the consolidated balance sheet and cash equivalents at June 30, 2004 and 2003 on the consolidated statements of cash flows are reconciled as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Cash	<u>¥29,147</u>	¥24,046	<u>\$268,813</u>
Original maturities more than three months	<u>(183)</u>	(574)	<u>\$(1,688)</u>
Cash and cash equivalents	<u>¥28,964</u>	¥23,472	<u>\$267,125</u>

5. SECURITIES

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of June 30, 2004 and 2003:

Held-to-maturity debt securities:

Half-year ended June 30, 2004	Millions of yen		
	Book value	Fair value	Difference
Government bonds	-	-	-
Total	-	-	-

Held-to-maturity debt securities:

Half-year ended June 30, 2003	Millions of yen		
	Book value	Fair value	Difference
Government bonds	-	-	-
Total	-	-	-

Held-to-maturity debt securities as of June 30, 2004 in thousands of U.S.dollars.:

Half-year ended June 30, 2004	Thousands of U.S.dollars		
	Book value	Fair value	Difference
Government bonds	-	-	-
Total	-	-	-

Other securities:

Half-year ended June 30, 2004	Millions of yen		
	Book value	Fair value	Difference
Corporate bonds	29,624	43,377	13,753
Others	19	15	(4)
Total	29,643	43,392	13,749

Other securities:

Half-year ended June 30, 2003	Millions of yen		
	Book value	Fair value	Difference
Corporate bonds	33,916	32,132	(1,784)
Others	158	130	(28)
Total	34,074	32,262	(1,812)

Other securities as of June 30, 2004 in thousands of U.S.dollars.:

Half-year ended June 30, 2004	Thousands of U.S.dollars		
	Book value	Fair value	Difference
Corporate bonds	273,209	400,046	126,838
Others	175	138	(37)
Total	273,384	400,184	126,801

The following table summarizes book values of securities with no available fair values as of June 30, 2004 and 2003:

	Millions of yen		Thousands of U.S.dollars
	2004	2003	2004
Held-to-maturity debt securities:			
Local bonds	¥21	¥23	\$194
Private placement corporate bonds	1,001	1,001	9,232
Available-for-sale securities:			
Non-listed equity securities	23,172	14,742	213,705
Preferred securities	1,000	1,000	9,223
Private placement local bonds	115	115	1,061
Total	¥25,281	¥11,891	\$233,155

6. EFFECT OF HALF-YEAR-END DATE ON FINANCIAL STATEMENTS

The half-year-end date of 2004 and 2003, namely, June 30, was not a bank holiday. Notes receivable and payable on this date were accordingly settled on the same date.

(If the half-year-end date were a bank holiday, the Companies would have accounted for those notes in their financial statements as if they had been settled on the that date.)

Notes outstanding at June 30, 2004 and 2003 dealt with in the above-mentioned manner were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Notes receivable	-	-	-
Notes payable	-	-	-
Trade notes discounted by banks	-	-	-

7. INFORMATION FOR CERTAIN LEASES

At June 30, 2004 and 2003 assets leased under non-capitalized financial leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Machinery and equipment	¥16,603	¥13,668	\$153,122
Other	1,559	1,527	14,378
Less: accumulated depreciation and amortization	8,019	7,953	73,956
Total	¥10,144	¥7,242	\$93,553

At June 30, 2004 and 2003 future minimum lease payments for the remaining lease periods were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥2,121	¥2,038	\$19,561
Due over one year	8,023	5,204	73,992
Total	¥10,144	¥7,242	\$93,553

At June 30, 2004 and 2003, paid lease fees and equivalent depreciation expense amounts were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Paid lease fees	¥1,226	¥1,157	\$11,307
Equivalent depreciation expense fees	1,226	1,157	11,307

Note: Equivalent depreciation expense amounts are calculated using the straight-line method, with the lease period as the useful life and zero (0) as the residual value.

At June 30, 2004 and 2003, assets leased under non-capitalized operating leases were as follows:

Future minimum lease payments for the remaining lease periods:

	Millions of yen		Thousands of U.S. dollars
	2003	2003	2003
Due within one year	¥1,739	¥1,751	\$16,038
Due over one year	2,987	4,710	27,548
Total	¥4,725	¥6,462	\$43,577

8. CONTINGENT LIABILITIES

At June 30, 2004, the Companies were contingently liable for outstanding trade notes discounted by banks in the ordinary course of business in an aggregate amount of 1,136 million yen (U.S. \$10,477 thousand) .

They were also guarantors for the borrowing below. The guarantees were principally for non-consolidated subsidiaries, affiliate and others.

	Thousands of		
	Millions of yen	U.S. dollars	
	2004	2003	2004
Guarantee	¥18,462	¥18,851	\$170,267

As the amounts include joint and several guarantors' portions as well as the Companies', actual amounts we were contingently liable to pay were smaller than the above.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the half-years ended June 30, 2004 and 2003 were summarised as follows:

	Thousands of		
	Millions of yen	U.S. dollars	
	2004	2003	2004
Freight	¥9,281	¥11,050	\$85,592
Employees' compensation	10,784	9,948	99,455
Sales commission	2,948	3,188	27,186
Other	18,366	20,350	169,385
Total	¥41,379	¥44,536	\$381,618

Research and development expenses included in the above for the half-years ended June 30, 2004 and 2003 were 7,698 million yen (\$70,995 thousand) and 7,650 million yen, respectively.

10. RESEARCH AND DEVELOPMENT

Research and development costs included in cost of sales and selling, general and administration expenses for the half-year ended June 30, 2004 and 2003 were 8,197 million yen (\$75,597 thousand) and 8,347 million yen, respectively.

11.NET INCOME PER SHARE

Basic income per share and diluted income per share for the half-years ended June 30, 2004 and 2003 were as follows:

	Yen		U.S. dollars
	2004	2003	2004
Basic	¥5.61	¥3.37	\$0.052
Diluted	5.26	-	\$0.049

Net income per share has been computed based on the average number of shares of common stock outstanding during the respective fiscal year. Fully diluted net income per share additionally assumes the conversion of the convertible bonds. If any dilution effect is not recognised or amounts per share of common stock represent net loss, fully diluted net income per share shall not be disclosed in accordance with Japanese accounting regulations.

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company and some of the subsidiaries enter into forward exchange contracts, interest rate swaps and commodity forwards for aluminium metal.

They have their basic policies to use derivative financial instruments for risk hedging within the limit of hedged receivables and payables and do not hold or issue derivative financial instruments for trading purpose.

Forward exchange contracts are used to hedge risk arising from future fluctuations of foreign currency exchange with respect to receivables and payables denominated in foreign currencies.

Interest rate swaps are used to hedge risk arising from future fluctuations of interest rate and reduce interest expenses.

Commodity forwards for aluminium metal are used to hedge risk arising from future fluctuations of commodity market price with respect to commodity transactions.

Under the Japanese Accounting Standards for Financial Instruments, which have been effective for fiscal years beginning on or after 1st April, 2000, the Companies have applied hedge accounting.

At June 30, 2004 and 2003 the derivative financial instruments of the Companies were as follows:

Half-year ended June 30, 2004	Millions of yen		Thousands of U.S. dollars	
	2004		2004	
	Contract Amount	Fair Value	Valuation Gain (Loss)	Valuation Gain (Loss)
Related to interest rates				
Interest rate swaps:				
Paying fixed rates and receiving floating rates	¥500	¥(22)	¥(22)	\$(203)

Half-year ended June 30, 2003	Millions of yen		
	2003		
	Contract Amount	Fair Value	Valuation Gain (Loss)
Related to interest rates			
Interest rate swaps:			
Paying fixed rates and receiving floating rates	¥4,136	¥(58)	¥(58)

13. SEGMENT INFORMATION

The operations of the Companies for the half-year ended June 30, 2004 and 2003 were summarised by industry segment as follows:

Half-year ended June 30, 2004	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic materials	Aluminium	Elimination	Consolidated
Sales							
Outside customers	¥117,258	¥38,550	¥51,412	¥26,698	¥114,366	-	¥348,284
Inter-segment	1,003	446	260	128	9,572	(11,409)	-
Total	118,262	38,996	51,672	26,826	123,938	(11,409)	348,284
Operating costs	110,636	37,337	44,789	24,058	117,613	(8,375)	326,058
Operating income	¥7,625	¥1,658	¥6,883	¥2,768	¥6,325	¥(3,034)	¥22,226

Half-year ended June 30, 2003	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic materials	Aluminium	Elimination	Consolidated
Sales							
Outside customers	¥120,929	¥37,588	¥44,499	¥25,492	¥117,129	-	¥345,636
Inter-segment	1,044	605	254	93	9,372	(11,368)	-
Total	121,973	38,193	44,753	25,585	126,501	(11,368)	345,636
Operating costs	116,131	35,640	40,946	24,505	121,242	(8,887)	329,577
Operating income	¥5,842	¥2,553	¥3,807	¥1,080	¥5,259	¥(2,481)	¥16,059

Half-year ended June 30, 2004	Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganic materials	Aluminium	Elimination	Consolidated
Sales							
Outside customers	\$1,081,420	\$355,529	\$474,148	\$246,225	\$1,054,743	-	\$3,212,064
Inter-segment	9,252	4,110	2,398	1,182	88,278	(105,220)	-
Total	1,090,672	359,639	476,545	247,407	1,143,021	(105,220)	3,212,064
Operating costs	1,020,346	344,344	413,066	221,875	1,084,690	(77,239)	3,007,082
Operating income	\$70,326	\$15,295	\$63,479	\$25,531	\$58,331	\$(27,981)	\$204,982

The operations of the Companies for the half-year ended June 30, 2004 and 2003 were summarized by geographic area as follows:

Half-year ended June 30, 2004	Millions of yen			
	Domestic Companies	Overseas Companies	Elimination	Consolidated
Sales				
Outside customers	¥315,587	¥32,697	-	¥348,284
Inter-segment	8,771	2,852	(11,623)	-
Total	324,358	35,549	(11,623)	348,284
Operating costs	300,905	33,572	(8,419)	326,058
Operating income	¥23,453	¥1,978	¥(3,204)	¥22,226

Half-year ended June 30, 2003	Millions of yen			
	Domestic Companies	Overseas Companies	Elimination	Consolidated
Sales				
Outside customers	¥309,735	¥35,901	-	¥345,636
Inter-segment	10,213	1,435	(11,648)	-
Total	319,948	37,337	(11,648)	345,636
Operating costs	302,758	35,745	(8,926)	329,577
Operating income	¥ 17,190	¥ 1,592	¥(2,722)	¥ 16,059

Half-year ended June 30, 2004	Thousands of U.S. dollars			
	Domestic Companies	Overseas Companies	Elimination	Consolidated
Sales				
Outside customers	\$2,910,517	\$301,547	-	\$3,212,064
Inter-segment	80,891	26,307	(107,198)	-
Total	<u>2,991,408</u>	<u>327,854</u>	<u>(107,198)</u>	<u>3,212,064</u>
Operating costs	2,775,113	309,615	(77,645)	3,007,082
Operating income	<u>\$216,295</u>	<u>\$18,239</u>	<u>\$(29,549)</u>	<u>\$204,982</u>

Overseas sales, which represent sales to customers outside of Japan, of the Companies for the half-year ended June 30, 2004 and 2003 were summarised by geographic area as follows:

Half-year ended June 30, 2004	Millions of yen		
	Asia	Others	Overseas sales
Overseas sales	¥63,569	¥26,412	¥89,981
Consolidated net sales			348,284
Ratio of overseas sales to consolidated net sales	18.3%	7.6%	25.8%

Half-year ended June 30, 2003	Millions of yen		
	Asia	Others	Overseas sales
Overseas sales	¥54,427	¥27,115	¥81,542
Consolidated net sales			345,636
Ratio of overseas sales to consolidated net sales	15.7%	7.8%	23.6%

Half-year ended June 30, 2004	Thousands of U.S. dollars		
	Asia	Others	Overseas sales
Overseas sales	\$586,268	\$243,586	\$829,853

14. SHORT-TERM DEBT AND LONG-TERM DEBT

At June 30, 2004 and 2003 short-term debt of the Companies consisted of the following:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Bank loans, interest 0.58% - 3.38%	¥117,729	¥150,506	\$1,085,764
Total	¥117,729	¥150,506	\$1,085,764

At June 30, 2004 and 2003 long-term debt of the Companies consisted of the following:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
2.3% bonds due 2005	¥3,500	¥3,500	\$32,279
TIBOR+0.55% bonds due 2005	10,000	10,000	92,225
TIBOR+0.55% bonds due 2006	15,000	15,000	138,338
1.85% bonds due 2005	2,000	2,000	18,445
1.9% bonds due 2007	8,500	8,500	78,392
TIBOR+1.05% bonds due 2008	3,000	-	27,668
1.7% convertible bonds due 2005, convertible currently at 1,058 yen	28,884	28,884	266,384
0.7% convertible bonds due 2006, convertible currently at 720 yen	930	1,485	8,577
0.58%-5.07% loans, principally from banks and insurance companies due 2004 to 2016	337,846	361,254	3,115,794
	409,660	430,623	3,778,103
Less, current portion	(73,830)	(160,971)	(680,904)
Total	¥335,829	¥269,652	\$3,097,199

At June 30, 2004 and 2003 the following assets were pledged as collateral for short-term and long-term debt:

	Millions of		Thousands of
	2004	2003	U.S. dollars
Assets pledged as collateral			
Investment securities	¥6,600	¥2,073	\$60,869
Property, plant and equipment, less accumulated depreciation	250,018	265,705	2,305,801
Total	¥256,618	¥267,778	\$2,366,670
Secured short-term debt and long-term debt			
Short-term debt	¥669	¥1,560	\$6,170
Long-term debt (includes due within 1 year)	96,138	104,412	886,637
Other debt	2,567	2,801	23,674
Total	¥99,374	¥108,773	\$916,481

The aggregate annual maturities of the non-current portion of long-term debt are as follows:

Years ending December 31	Millions of yen	Thousands of
		U.S. dollars
2005	¥86,523	\$797,962
2006	83,507	770,147
2007	66,312	611,565
2008	21,617	199,364
2009 and thereafter	6,056	55,852
Total	¥264,015	\$2,434,889

15. PENSION AND SEVERANCE PLANS

The Company and its consolidated subsidiaries had a funded qualified retirement pension plan, a funded welfare pension plan and unfunded benefit plans on a lump-sum payment basis, all of which were for all employees as their defined benefit system. However the Company and some of the consolidated subsidiaries terminated such plans at the half-end of 2004.

Since the beginning of 2004, they have adopted a new defined benefit plan as well as a defined contribution plan. The rest of the consolidated subsidiaries still have a funded qualified retirement plan or unfunded benefit plans on a lump-sum basis as their defined benefit system.

The plans' funded status and amount recognized in the accompanying consolidated balance sheet as of June 30, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Benefit obligation at end of year	¥(117,421)	¥(119,588)	\$(1,082,917)
Fair value of plan assets at end of year	51,109	45,450	471,359
Funded status	(66,311)	(74,138)	(611,558)
Unrecognized transition amount under post-employment benefits accounting	39,455	43,395	363,879
Unrecognized actuarial loss	28,784	23,301	265,465
Unrecognized prior service cost	(9,353)	-	(86,258)
Net amount recognized	(7,424)	(7,442)	(68,471)
Prepaid pension expense	1,215	1,657	11,210
Employees' severance indemnities	¥(8,640)	(¥9,099)	\$(79,681)

The components of net pension and severance costs for the year ended June 30, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥3,344	¥3,608	\$30,840
Interest cost	3,485	4,473	32,141
Expected return on planned assets	(1,438)	(2,034)	(13,262)
Amortisation of transition amount under post employment benefits accounting	3,495	3,599	32,233
Recognized actuarial loss	2,191	1,142	20,207
Net periodic cost	¥11,079	¥10,787	\$102,177

The assumptions and basis as of June 30, 2004 and 2003 were as follows:

	2004	2003
Discount rate	Mainly 2.5%	Mainly 3.0%
Expected return rate on planned assets	Mainly 3.5%	Mainly 3.5%
Amortisation period for actuarial loss	Mainly 12 years	Mainly 12 years
Amortization period for unrecognized transition amount under post-employment benefits accounting	Mainly 15 years	Mainly 15 years

16. INCOME TAXES

At June 30, 2004 and 2003 significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Tax loss carryforwards	¥23,445	¥23,788	\$216,222
Write-down of marketable and investment securities	5,522	7,594	50,927
Reserve for restructuring expenses	1,686	3,447	15,549
Unrealised earnings from the sale of fixed assets	1,642	1,818	15,143
Securities valuation surplus	-	1,994	-
Non-deductible expenses:			
Allowance for doubtful accounts	1,087	928	10,025
Employees' severance indemnities	2,786	2,914	25,694
Accrued bonuses	717	768	6,613
Depreciation	610	1,084	5,626
Other	1,934	2,507	17,836
Subtotal of deferred tax assets	39,429	46,841	363,636
Valuation allowance	(9,729)	(10,375)	(89,726)
Total deferred tax assets	<u>29,701</u>	<u>36,467</u>	<u>273,919</u>
Deferred tax liabilities:			
Amount of revaluation from the book value	(7,056)	(7,167)	(65,074)
Special depreciation reserve	(1,794)	(1,624)	(16,545)
Securities valuation surplus	(1,738)	-	(16,029)
Other	(2,083)	(1,472)	(19,211)
Total deferred tax liabilities	<u>(12,670)</u>	<u>(10,264)</u>	<u>(116,850)</u>
Net deferred tax assets	<u>¥17,030</u>	<u>¥26,203</u>	<u>\$157,060</u>

The net deferred tax assets at June 30, 2004 and 2003 are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets—current	¥6,718	¥7,834	\$61,957
Deferred tax assets—non-current	16,668	24,410	153,721
Other current liabilities	(3)	(46)	(28)
Deferred tax liabilities—non-current	(6,353)	(5,995)	(58,590)

On 31st March, 2003, the Japanese Diet approved changes in the Local Tax Laws, which includes a reduction of the standard rate of the enterprise tax effective from 1st April, 2004. As a result deferred tax assets and deferred tax liabilities due to land revaluation were decreased by 560 million yen (U.S.\$5,227 thousand) and 763 million yen (U.S.\$7,122 thousand) respectively.

On the other hand revaluation surplus, land revaluation reserve and deferred income taxes were increased by 56 million yen (U.S.\$523 thousand), 763 million yen (U.S.\$7,122 thousand) and 616 million yen (U.S.\$5,750 thousand) respectively.

17. REVALUATION RESERVE

The Company and some of the consolidated subsidiaries revalued the land they own for business in accordance with the Law Concerning Revaluation of Land. The difference between the revalued amount and the book value, after the deduction of applicable tax, is stated as revaluation reserve. The revaluation was conducted using methods stipulated in the ordinance for enforcement of the law, specifically, the method in Item 4 of Article 2 (reasonable adjustment of the appraised value relating to land price tax), and the method in Item 5 of Article 2 (estimation by experts). Revaluation was performed on 31st December, 2000, March 30, 2001 and March 31, 2002. The difference between the market value and the book value on the revaluated land as of 31st December, 2003 was (33,648)million yen (US\$(314,086) thousand).

18.SUBSIDY FOR WASTE PLASTIC RECYCLE PLANT

A total of 3,737 Million yen (US\$34,883 thousand) of subsidy was received from Government and City of Kawasaki in commencing the operation of waste plastic recycle system, which was designed to produce ammonia mainly, at Kawasaki Plant in 2003.