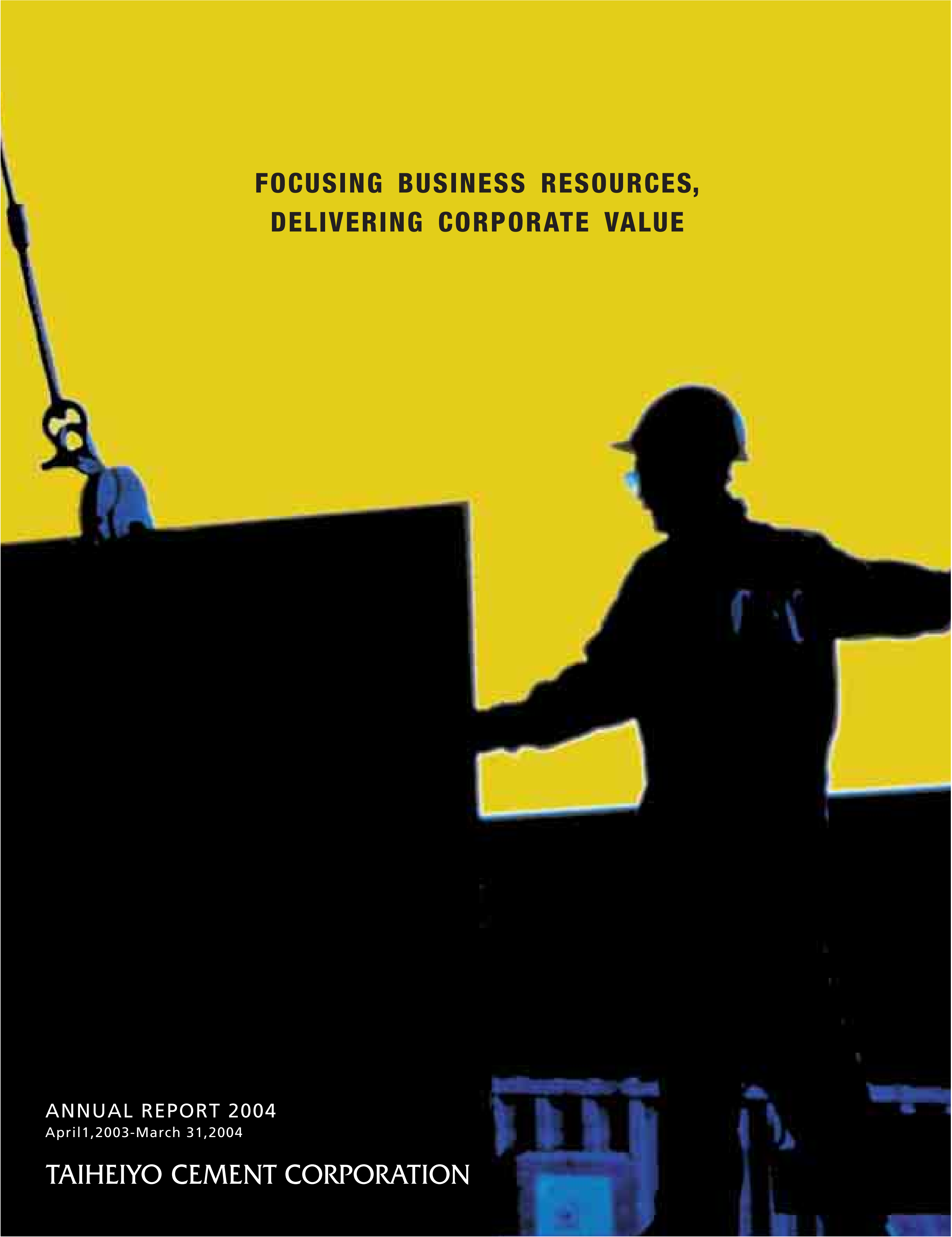
EXHIBIT B



FOCUSING BUSINESS RESOURCES, DELIVERING CORPORATE VALUE

ANNUAL REPORT 2004

April1,2003-March 31,2004

TAIHEIYO CEMENT CORPORATION

TAIHEIYO CEMENT

Corporate Profile

The Taiheiyo Cement Group is founded on the world's fifth largest cement business in production capacity. It comprises 531 group companies, organized into seven in-house companies encompassing cement, mineral-resources, environmental, real-estate, construction-materials, ceramics and electronics, and international businesses.

Our mission is to contribute to social infrastructure development by providing solutions that are environmentally efficient, enhance our competitive position and bring value to our stakeholders. Based on this philosophy, we seek to integrate management resources and use them effectively, minimize costs and risks, enhance profitability and reinforce our financial structure, and maximize enterprise value. At the same time, we are committed to protecting the global environment and playing an active role in building a recycling based society by exploiting the recycling technologies we have developed over our many years in the cement business.

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Forward-Looking Statements

Descriptions of future business results, projections and business plans contained in this annual report are forecasts based on assumptions about the future business environment made on data available at that time. This annual report is not a guarantee of the Company's future business performance.

Note:"Ton" as used in this report refers to metric tons.

Financial Highlights

CONSOLIDATED	(Millions of yen) 2004	2003	(Thousands of U.S. dollars) 2004
For the Year :			
Net Sales	¥ 879,485	¥ 927,956	$ 8,321,364
Income from Operations	44,847	46,025	424,326
Income before Income Taxes	27,946	16,799	264,415
Net Income	16,519	6,262	156,297
At Year-End :			
Total Shareholders' Equity	222,179	207,204	2,102,176
Total Assets	1,303,997	1,410,143	12,337,941

NON-CONSOLIDATED	(Millions of yen) 2004	2003	(Thousands of U.S. dollars) 2004
For the Year :			
Net Sales	¥ 299,177	¥ 330,162	$ 2,830,703
Income from Operations	9,344	12,993	88,409
Income before Income Taxes	8,782	6,007	83,092
Net Income	641	3,166	6,065
At Year-End :			
Total Shareholders' Equity	239,649	230,319	2,267,471
Total Assets	736,293	783,397	6,966,534
Amounts per Share of Common Stock:			
(in yen and U.S. dollars)			
Net Income	0.68	3.33	0.006
Cash Dividends	2.50	2.50	0.024

Note: US dollar amounts have been translated from Japanese yen at the rate of ¥105.69 to US$1, the approximate effective rate of exchange prevailing on 31 March 2004.

TO OUR SHAREHOLDERS

To Our Shareholders

In-house Company Corporate Structure Launched to Maximize Business Value in Respective Business Segments

Michio Kimura (left)
Fumio Sameshima (right)

Chairman and Representative Director

Michio Kimura

President and Representative Director

F. Sameshima

In fiscal 2004 (the year to 31 March 2004), the Taiheiyo Cement Group achieved record-high consolidated ordinary income despite lower sales. We are making steady progress in reducing interest-bearing debt by ¥200 billion, a goal in our Taiheiyo 04 Medium-Term Management Plan, by enhancing profitability, selling off and liquidating assets, and other measures.

Business Results for Fiscal 2004

Though economic conditions in Japan remained challenging due to the depressed employment situation and sluggish consumer spending during fiscal 2004, the year's second half saw long-awaited signs of recovery, including an increase in exports, improvement in corporate earnings, and a rise in stock prices.

Nevertheless, with ongoing cutbacks and reductions in domestic public-sector investment, demand in our mainstay cement as well as our minerals and aggregates businesses continued to decline. In particular, domestic cement demand fell below 60 million tons for the first time in 32 years.

In overseas business, demand in the US was up slightly, while the overall Asian market was buoyant thanks to continued expansion in China and a recovery in all but a few Southeast Asian countries.

The zero emissions business benefited from progresses in moving society closer to the ideals of a recycling based society and advances in proper waste disposal because of the adoption of recycling legislation and policies. The ceramics and electronics business also performed well on a recovery in the semiconductor and IT industries.

As a result, consolidated net sales declined 5.2% year-on-year to ¥879,485 million and income from operations declined 2.6% to ¥44,847 million in fiscal 2004. Ordinary income rose 50.3% to ¥35,142 million while net income jumped 163.8% to ¥16,519 million thanks to earnings improvement at equity-method subsidiaries and other factors. Further, as part of efforts to improve our financial structure—a primary goal of the Taiheiyo 04 Medium-Term Management Plan, we reduced interest-bearing debt by ¥104.8 billion, due partly to the sale of the Toyosu ON Building, a large Company-owned property in Koto-ku, Tokyo.

New In-house Company Corporate Structure, Downsized Headquarters

We introduced a new “in-house company” corporate structure on 1 April 2004 after deciding that an organizational format appropriate to consolidated management methods was urgently required (see pages 4–5 for more information). As part of our work to maximize business value, the Company’s main business operations have been grouped together into single “companies” (specialized units that will ultimately have to stand on their own two feet) which will encompass group companies in related areas. The objective of this change is to define ownership of responsibility in each of our respective businesses and to expedite the making and the execution of management decisions. As a natural progression from this new corporate structure, we will continue to rigorously identify unprofitable and profitable areas of activity and concentrate on those in which we excel while consolidating and integrating group companies. In parallel, we reorganized the Company’s headquarters into a group headquarters with three function-based divisions. We are downsizing our organization to achieve a “small headquarters” in an effort to raise operational efficiency going forward.

Further Cost Reductions, Strengthened Overseas Cement Business

As a measure to reduce costs and raise efficiency, we discontinued cement production and dissolved Kawara Taiheiyo Cement Corporation, a domestic cement manufacturing subsidiary, at the end of March 2004.

Moreover, in addition to ongoing cost-cutting measures, we established the General Logistics Department by integrating the distribution units in each business segment to optimize logistics and cut distribution costs. We set the goal of reducing distribution costs by ¥10 billion during the three-year period from fiscal 2004 to fiscal 2006. As noted earlier, we downsized our headquarters to help lower fixed costs, and—with cement demand forecast to decline going forward—we are implementing uncompromising cost-cutting measures to transform fixed costs into variable ones.

At the same time, previous efforts in the overseas cement business are now bearing fruit and the segment is beginning to reap the benefits. In addition to business operations in the US remaining favorable, Dalian Onoda Cement Co., Ltd. in China is paying stock dividends for the first time, and conditions at Qinhuangdao Asano Cement Co., Ltd. and Jiangnan-Onoda Cement Co., Ltd. as well as at Nghi Son Cement Corporation in Vietnam lead us to expect the payment of dividends in the near future.

Global cement demand is increasing, and the cement industry in Asia in particular is positioned as a growth industry. While considering the improvement in our company-wide financial structure, we are looking to seize opportunities and invest in areas promising high returns. With cement demand is growing in the West Coast region of the US, we plan to expand production capacity at our Arizona plant.

Outlook for Fiscal 2005 and Message to Shareholders

In fiscal 2005, despite expectations for gradual economic recovery mainly in the manufacturing sector, the outlook remains uncertain in the absence of clear signs of improvement in the income and employment environment.

For the Taiheiyo Cement Group, we believe a decline in cement demand is inevitable as a result of cutbacks and reductions in domestic public-sector investment. Given these circumstances, we forecast consolidated net sales of ¥865 billion, income from operations of ¥43 billion, ordinary income of ¥31 billion, and net income of ¥16 billion.

We expect to achieve the target in the Taiheiyo 04 Medium-Term Management Plan of reducing interest-bearing debt by ¥200 billion.

Considering some of the recent corporate scandals around the world, strengthening the framework for corporate governance and promoting corporate social responsibility is a key issue for all organizations. As part of management restructuring in April 2004, we separated the management and operating functions of the Board of Directors to strengthen corporate governance and clarify operating responsibility. The Board of Directors will draft management policies and monitor and supervise operations while executive officers will focus on company operations. We are also working to reinforce our management supervisory system through an auditing system composed of five auditors, including two outside auditors.

Furthermore, while implementing organizational reform we established the Legal Department and Corporate Social Responsibility Department to provide support in supervising management. We also established the Risk Management Committee and determined risk management guidelines for the purpose of comprehensive risk management.

Going forward, we will redouble our efforts to raise management transparency and increase shareholder value.

We look forward to the continued support and understanding of our shareholders.

Management Restructuring and Organizational Reform

Strengthen and Raise the Efficiency of Group Management through Introduction of Executive Officer System and In-house Company Corporate Structure

We carried out management restructuring and organizational reform by introducing an executive officer system and an In-house Company Corporate Structure on 1 April 2004, with the aim of strengthening and raising the efficiency of group-wide consolidated management.

Management Restructuring

We introduced an executive officer system with the aim of strengthening corporate governance and clarifying operating responsibility by separating the management and operating functions of the Board of Directors.

In this system, the Board of Directors will draft management policies and monitor and supervise operations while executive officers will focus on company operations. We also reduced the number of board members from 22 to ten at the General Meeting of Shareholders in June 2004 as a result of introducing the executive officer system.

1 Establishment of Executive Committee

We established the Executive Committee as a body to provide support to the decision making of the Board of Directors. The Executive Committee deliberates and decides on matters pertaining to the policies and direction of group management. Committee members comprise the representative directors, presidents of each in-house company, and the executive officers in charge of the Corporate Staff Division, Professional Staff Division, and Research & Development Division.

2 Executive Officer System

Executive officers are selected by the Board of Directors from among the executives and employees of Taiheiyo Cement and group companies and are appointed for a term of two years. Executive officers are divided into senior executive officers, managing executive officers, and executive officers, and their rank and responsibilities are determined by the Board of Directors. Executive officers have authority and responsibility according to their rank and separately determined operating responsibilities.

Organizational Reform

1 Establishment of Seven In-house Companies

We established in-house companies with the aim of strengthening group management in our respective business segments and maximizing business value. We seek prompt decision making by delegating substantial authority to each in-house company and to increase our ability to respond to changes in the business environment.

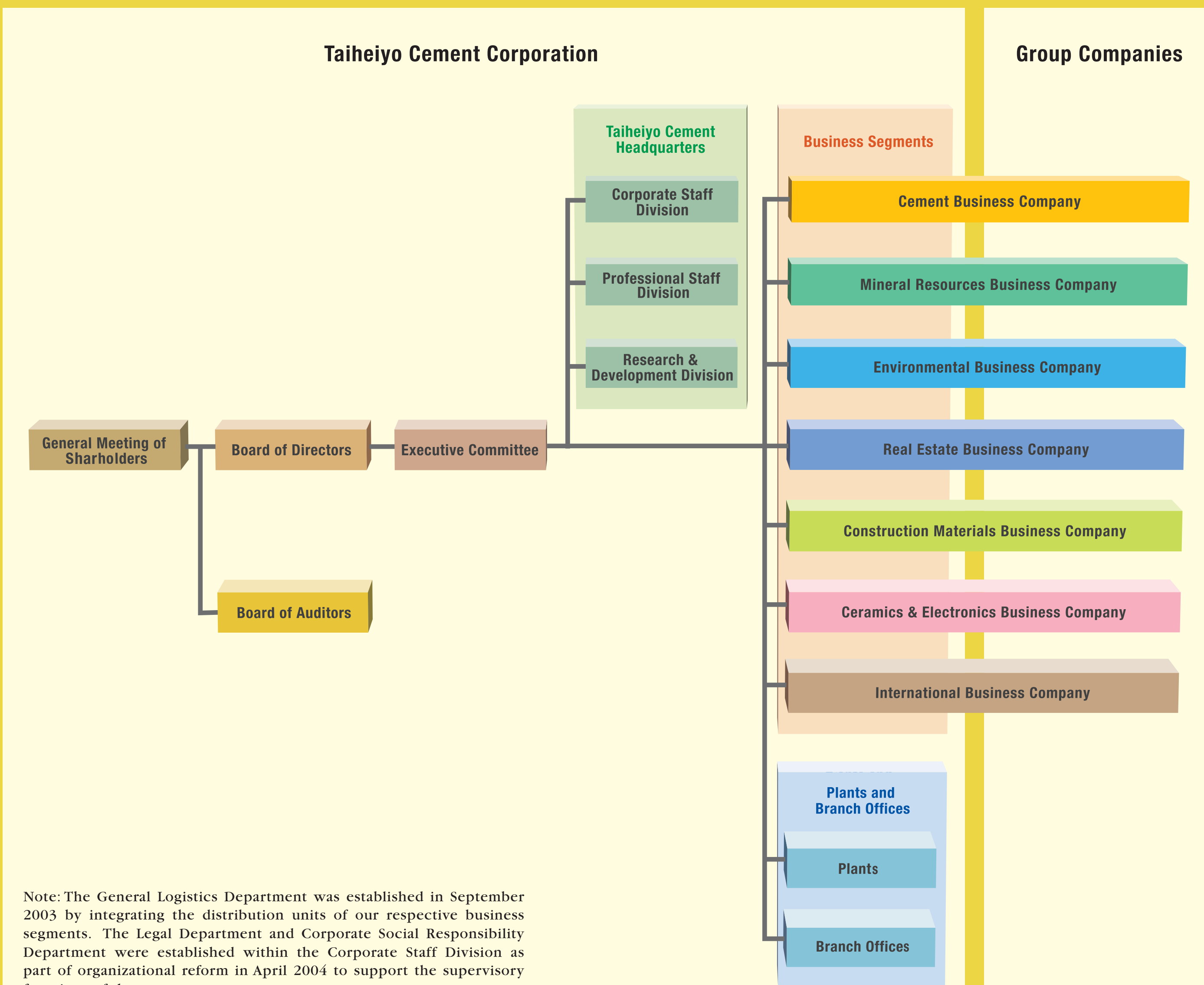
Each in-house company encompasses the pertinent business segment of Taiheiyo Cement and group companies, and a company president is appointed for each from among the executive officers.

❷ Downsizing Headquarters Organization

Taiheiyo Cement's head office is positioned as the headquarters for group management and has been reorganized into the three function-based divisions listed below. This reorganization is intended to raise operating efficiency and advance organizational downsizing to help us achieve a "small headquarters" moving forward.

1) Corporate Staff Division: Responsible for management support and in-house company coordination and monitoring
2) Professional Staff Division: Responsible for providing services based on its expertise and cost consciousness and for management and control of segments in its purview
3) Research & Development Division: Responsible for group-wide research and development

Taiheiyo Cement Group Management Structure



Note: The General Logistics Department was established in September 2003 by integrating the distribution units of our respective business segments. The Legal Department and Corporate Social Responsibility Department were established within the Corporate Staff Division as part of organizational reform in April 2004 to support the supervisory functions of the management.

SPECIAL TOPICS 2004

Special Topics 2004

Chihayamaru cement carrier

Cement shipment truck

Launch General Logistics Department

Aim to Optimize Distribution Across All Business Segments

We established the General Logistics Department in September 2003 by integrating the distribution units in our respective business segments to create a distribution system that transcends the boundaries between business segments. We make efforts to minimize distribution costs by building an optimal distribution system for the entire Taiheiyo Cement Group.

Target ¥10 Billion in Cost Reductions in Three Years

We established the General Logistics Department by separating sales from distribution and by integrating the distribution units in each business segment. This move was intended to create an optimal distribution system for the entire Taiheiyo Cement Group and reduce distribution costs. As a specific cost reduction target, we are looking to reduce domestic distribution costs at the parent company, which totaled approximately ¥70 billion in fiscal 2003, by 15%, or ¥10 billion, over the three-year period through fiscal 2006. We are also pursuing restructuring and cost reductions in our distribution operations overseas and at group companies.

Specifically, we plan to raise efficiency by promoting return ship and truck transport, integrating shipping bases and converting them to other uses, and strengthening cooperation among group companies. Going forward, we will enhance our group-wide distribution service capabilities and provide robust distribution support to assist the development of each business segment.

WBCSD logo mark

Protecting rare plants-chichibu-iwazakura

Corporate Social Responsibility—Group Management Awareness

Forging Ahead with Management Awareness of Corporate Social Responsibility

We established the Corporate Social Responsibility Department along with the introduction of the In-house Company Corporate Structure in April 2004. Going forward, we are stepping up corporate social responsibility (CSR) activities and seek to win the admiration of all our stakeholders and raise the enterprise value of the Taiheiyo Cement Group.

Building a Framework for Implementing CSR Programs

We have long since pursued a management direction that emphasizes CSR. As part of these efforts in recent years, we have aspired to meet the challenges of sustainable development and have been a member of the World Business Council for Sustainable Development (WBCSD) since 1999. More specifically, we aim for a "cement industry capable of continuous development with a view toward a sustainable society." We launched and declared the "Agenda for Action" to the public in 2002.

Our Group management philosophy as well as our code of conduct also incorporates the concept of sustainable development. Our management is guided by a triple bottom line—one having economic, environmental, and social dimensions—and we are committed to making this approach permeate our entire organization to serve as the standard for day-to-day operations.

Going forward, we plan to establish a CSR Management Committee along with three subcommittees as vehicles for forging ahead with CSR-aware management. This committee will examine day-to-day operations and carry out activities from the perspective of corporate social responsibility. The Global Environment Conservation Committee and the SD Steering Committee will be integrated with the CSR Management Committee to facilitate a more comprehensive approach. Subcommittees will examine specific actions in a variety of areas, including corporate ethics, compliance, environmental conservation, and communications. We also plan to conduct an awareness survey and carry out training in order to deepen understanding about corporate social responsibility.

Ceremony for signing the
Tokyo Tama Ecocement contract

Artist's perspective of the
Tokyo Tama Ecocement plant

Shipping surplus
construction soil

Building a Recycling Based Society

Promote Recycling and Reuse of Wastes and By-products

Amid efforts to create a recycling based society, waste recycling is one area in which the cement industry can actively contribute. Taiheiyo Cement is helping to develop such a society based on recycling through an environmental business that recycles coal ash, waste plastics, sewage sludge, municipal waste incineration ash, blast furnace slag, waste plaster, and other waste materials and byproducts as raw material and fuel for making cement.

Orders in Ecocement Business (Environmental Business Company)

In June 2003, a consortium between Taiheiyo Cement and Ebara Corporation was awarded a “construct and operate” contract by the waste treatment association of Tama, Tokyo, to build and operate a facility that will convert waste from western Tokyo’s Tama district.

The project entails construction of an Ecocement plant on the grounds of the Futatsuzuka Waste Disposal Plant in Hinode-cho, Nishitama-gun, Tokyo, and the manufacture of ordinary Ecocement using the incineration ash discharged from waste incinerators operated by local municipalities (25 cities and one town) in the Tama area as the main raw material.

Construction work began in fiscal 2004 with completion expected in fiscal 2006. The construction contract is worth approximately ¥17.7 billion to Taiheiyo Cement. The operation contract is for a 20-year period commencing April 2006 and is valued at approximately ¥53 billion.

This marks the Company’s first comprehensive business project encompassing everything from construction of a public-sector facility to its operation on consignment.

Anticipating a stronger demand for recycling of surplus construction soil, Taiheiyo Cement intends to use its recycling technologies to recycle surplus construction soil as a raw material for cement.

Launching the Surplus Construction Soil Recycling Business

In conjunction with the Soil Contamination Control Law taking effect in February 2003, the Taiheiyo Cement Group launched its surplus construction soil recycling business to provide support for a wide range of activities from soil sampling to recycling surplus soil as a raw material in cement. We also intend to increase the reprocessing and recycling capabilities in all the Taiheiyo Cement Group’s plants. This business is expanding favorably, and we anticipate significant growth in fiscal 2005.

REVIEW OF OPERATIONS

Review of Operations Fiscal 2004


Tsukumi plant (Oita prefecture)


Jiangnan Onoda Cement Co., Ltd. (China)

Cement Business

Profit Growth Despite Lower Sales Volume on Cost Reductions

Cement demand in Japan fell below the 60 million ton level to 59.68 million tons in fiscal 2004, representing a decrease of 6.0% year-on-year. In contrast, total export volume grew 15.4% to 9.87 million tons. In this environment, the Company's cement sales volume, including consignment sales, fell 5.6% to 25.41 million tons. Domestic sales volume was down 7.6% at 21.62 million tons while exports rose 7.6% to 3.79 million tons.

Domestic cement prices increased as a result of negotiations for higher prices since the second half of fiscal 2003. Going forward, we are working to raise prices further as well as pass on the increase in costs from soaring coal prices.

Export prices maintained an upward trend on a US dollar basis.

In overseas business, though sales in the US were firm on a slight increase in demand, surging electricity prices and other factors had an impact. Demand continued to expand in China thanks to infrastructure development, and it recovered in all but a few Southeast Asian countries. As a result, demand in the overall Asian market increased. Business in China and Vietnam was especially strong. At Ssangyong Cement Industrial Co., Ltd., an equity-method subsidiary in South Korea, the cement and ready-mixed concrete businesses performed well, and the company is moving forward with management restructuring based on its management rationalization plan.

Consolidated sales down 4.8% year-on-year at ¥286,883 million

Consolidated income from operations up 4.0% year-on-year at ¥26,340 million


Tosayama mine (Kochi prefecture)


Hollow ceramic spheres (E-spheres)

Minerals and Aggregates Business

Sharply Lower Profits on Decline in Demand

Aggregate sales decreased year-on-year due to the ongoing decline in demand for use in ready-mixed concrete. Mineral product sales were also down as relatively strong sales to the steel and other industries was unable to compensate for a decline in limestone and other products.

For landfill material, demand for the Central Japan International Airport ended in fiscal 2003, while shipment volume for the second phase of Kansai International Airport was down sharply.

In response to the Soil Contamination Control Law taking effect in February 2003, we launched the surplus construction soil recycling business and have received orders from numerous construction sites within Japan and have been processing it in all of our plants.

Consolidated sales down 13.7% year-on-year at ¥98,913 million

Consolidated income from operations down 54.8% year-on-year at ¥2,591 million

Ceraart trimming material
(A&A Material Corporation)

Construction and Construction Materials Business

Continued Profit Growth on Streamlining Efforts

In the autoclaved lightweight concrete (ALC), slate, and construction-materials businesses, though sales decreased as a result of slumping demand and depressed market prices, profits improved thanks to cost cutting and other factors.

The ready-mixed concrete business also continued to face a difficult operating environment, but due to ongoing streamlining measures, such as the consolidation of ready-mixed concrete subsidiaries, the business remained profitable.

Consolidated sales down 9.0%
year-on-year at ¥357,761 million

Consolidated income from operations up 54.7%
year-on-year at ¥6,312 million

Kiyosumi golf club
(Saitama prefecture)

Real Estate Business

Lower Revenue on Market Slump and Asset Liquidation

We continued to operate the real estate leasing and sales businesses to effectively use property owned by the Group across Japan. However, conditions remained difficult on the back of the continuing slump in the real estate market and deterioration in the operating environment for the office building business.

Both sales and profits decreased year-on-year as a result of a decline in leasing revenue due to the liquidation of leasing properties as part of prioritizing efforts to improve the financial structure.

Consolidated sales down 23.4%
year-on-year at ¥13,742 million

Consolidated income from operations down 42.2%
year-on-year at ¥3,317 million

Tokyo Tama Ecocement plant
ground-breaking ceremony

Other Businesses

Construction of Ecocement Plant in Nishitama-gun, Tokyo; EMS Business Strong

The other-businesses segment continued to expand, driven by the mainstay zero emissions business and the ceramics and electronics business. The zero emissions business enjoyed favorable growth in the recycling of industrial waste such as coal ash, as well as municipal waste. We also received an order from the waste treatment association of Tama, Tokyo, in July 2003 to build and operate a facility that converts incineration ash from the Tama region into Ecocement. Plant construction started in January 2004.

In the ceramics and electronics business, the Electronics Manufacturing Service (EMS) business performed well both in Japan and overseas and contributed to earnings.

Consolidated sales up 9.0%
year-on-year at ¥234,601 million

Consolidated income from operations up 19.9%
year-on-year at ¥8,385 million

Fiscal 2005 Business Strategy for In-house Companies

Saitama plant

Tokyo cement terminal

Cement Business Company

Teiji Matsuda, President

Pursue a Robust Profit Structure and Higher Value Added Business

As the main business of the Taiheiyo Cement Group, the Cement Business Company comprises 324 group companies and is involved in the manufacture and sales of cement and ready-mixed concrete.

Prioritize Profit Margins

Domestic cement demand is decreasing as a result of shrinking public-sector investment and other factors, but from a global perspective, the cement market is growing, and we have an opportunity for growth through global expansion. Moreover, Japan's cement industry is a global leader in responding to environmental issues through waste treatment, recycling technologies, and other means. The Taiheiyo Cement Group's cement business can therefore grow and develop by applying the Group's advanced technologies and expertise to its global business.

We are committed to increasing profits going forward, and, in particular, to raising the ratio of ordinary income to sales. We are also working to achieve a robust business structure that can secure earnings while balancing supply and demand.

Normalize Prices and Raise Value Added

Our basic management stance is to pursue management practices that earn the trust of all our stakeholders, including shareholders, customers, local communities, industry, group companies, and company employees.

To secure stable earnings, we need to normalize cement prices while gaining the understanding of our customers in an effort to optimize balance in supply and demand. It is imperative that we be able to maintain price hikes carried out to date while working toward a new round of price increases.

At the same time, based on the theme of enhancing market competitiveness, we are focusing on reducing costs further while providing high value-added services that leverage group synergies through collaboration with other in-house companies in order to not be affected by price competition.

Shin kansai Asano Mining Co., Ltd.
(Hyogo prefecture)

Ofunato mine (Iwate prefecture)

Mineral Resources Business Company

Kazushige Kitamura, President

Expand Business by Maximizing Management Resources

The Mineral Resources Business Company comprises 64 group companies and is primarily engaged in the mining, processing, and sale of mineral products, notably limestone.

Enhance Efficiency Through Integrated Manufacturing and Sales System

The Mineral Resources Business Company seeks to enhance the efficiency of operations through an integrated manufacturing and sales system. Going forward, we aim to further develop and expand this business by effectively using the Group's wealth of management resources, including personnel, mineral resources, and information.

Aggregate demand continues to decrease annually along with the decline in cement demand. Landfill material demand has compensated sales decreases in aggregates for several years and is approaching an end. To survive in this challenging business environment, we are working to cut manufacturing costs further, expand existing businesses, and actively pursue new business such as the recycling of surplus soil generated during construction.

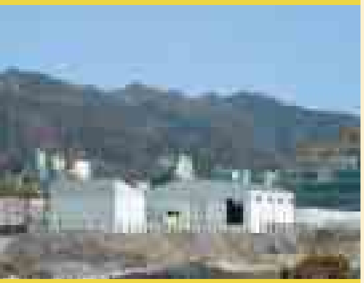
Expand Surplus Construction Soil Recycling Business

In sales, we are working to normalize aggregate prices by focusing on deepening relationships with current customers and developing new customers. For mineral products, because sales volume is firm, buoyed by strong limestone demand from the steel industry, we continue to work on restoring prices as a priority issue. The surplus construction soil recycling business, launched in April 2003, is doing well thanks to the receipt of large orders, and we target volume of 500,000 tons in fiscal 2005.

In the landfill material business, shipments to Kansai International Airport are in the final phase. Going forward, there are plans to expand Haneda Airport and, though construction methods are still undecided, we are making every effort to participate in this project.

In overseas business, we are exporting limestone to the steel industries in Taiwan and South Korea and, with numerous plans to construct steel mills and power plants afoot, we are also considering the future possibilities of business in China.

RATEGY FOR IN-HOUSE COM



Wood biomass recycling unit
(Oita prefecture)

Environmental Business Company
Kazushige Kitamura, President

Expanding Waste Recycling

The Environmental Business Company is comprised of six group companies and is engaged in the recycling of waste materials and byproducts and in the development, manufacture, and sale of environmental products such as flue gas desulfurization products.

Growing the Recycling Business
The objective of the environmental business is to expand the recycling of waste at cement factories and other recycling businesses. The Company used a total of 322kg of waste and byproducts per ton of cement in fiscal 2004, but a report by an investigative committee established by the Ministry of Economy, Trade and Industry recommended that the cement industry use 400kg by 2010. To this end, we are developing a more efficient regional distribution system and expanding waste recycling, especially at our mainstay Kamiiso Plant (Hokkaido) and Tsukumi Plant (Oita). We are also considering entry into new environmental businesses that address social needs, including the treatment of contaminated soil and illegally dumped waste.

Stepping Up Activities of Group Companies
NACODE Corporation is augmenting its wood chip processing business and is currently building facilities to launch a new waste plasterboard processing business. Taiheiyo Soil Corporation is expanding sales and developing new customers for its powder-based compound products and liquefied soil stabilization method, which are produced at the Kanto Ash Center. Tokyo Tama Ecocement Inc. is working hard to lay the groundwork to begin operations at its Ecocement plant in fiscal 2007.

Kiyosumi golf club
(Saitama prefecture)

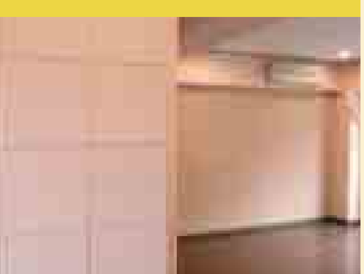
Real Estate Business Company
Tadaharu Kamei, President

Effectively Use Real Estate Owned by Group Companies

The Real Estate Business Company comprises eight group companies and is engaged in real estate, non-life insurance, sports facility management, and other areas of business.

Aspire to Non-asset Business
We aspire to achieve a non-asset business from the perspective of “using” rather than “owning” assets. Further, we take full advantage of newly created business opportunities while seeking to employ securitization, liquidation and other techniques.

Pursue Optimal Management of the Real Estate Business Company
The Real Estate Business Company is actively assuming its role as a real estate management hub for the Taiheiyo Cement Group as a means of putting real estate owned by group companies to effective use. The group companies comprising the Real Estate Business Company are engaged in a variety of businesses, including real estate, sports facility management, and non-life insurance, and we are strengthening cooperation among group companies with the aim of optimal management.



HARMONITE SEIZE
trimming material
(Clion Co., Ltd.)

Construction Materials Business Company
Takashi Shimoda, President

Combine Group Power to Achieve the Fastest Results

The Construction Materials Business Company comprises 35 companies and is engaged in the manufacture and sale of construction and civil engineering materials and concrete products and in concrete diagnostics and repair.

Keywords: Speed, Efficiency, Results
Our primary objective is to achieve customer satisfaction by providing high-performance, high-quality construction and civil engineering materials and by performing construction and civil engineering work with superior cost performance. In seeking cooperation among group companies, we have established the action guidelines of “speed, efficiency, and tangible results” and are pursuing “results management” based rigorous time and figures to achieve profit targets.

Fiscal 2005 Business Strategy for In-house Companies

ALC Clion tile panel

Move Aggressively in Growth Markets

In our construction materials-related businesses, the concrete diagnostic and repair business is performing well, and we are focusing on renovation construction such as the conversion of office buildings into residential condominiums. Additionally, we have growing expectations for the future use of Ductal® with companies concluding sublicensing agreements and developing variety of products. Going forward, we seek to offer one-stop shopping by creating a single package for the products and construction methods of group companies targeting the same market, and to strengthen businesses that target growth markets.

Ceratec Porefree, an epoch-making ceramic material (NIHON CERATEC Co., Ltd.)

Ceramics & Electronics Business Company

Takashi Shimoda, President

Highlight Strengths that Differentiate Us from Competitors in Advanced Areas

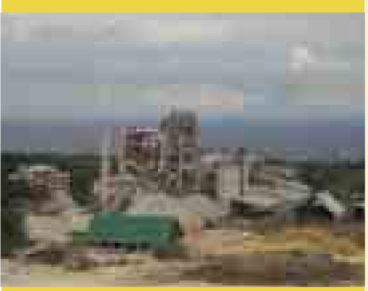
The Ceramics & Electronics Business Company comprises eight companies and is engaged in the manufacture and sale of semiconductor and LCD manufacturing equipment components and piezoelectric ceramic products and in the Electronics Manufacturing Service (EMS) business.

Accelerate Growth Through the Unifying Force of Technology

We are accelerating growth by pursuing technology as a unifying force for group companies comprising the Ceramics & Electronics Business Company. Nihon Ceratec Co., Ltd., a manufacturer of a variety of ceramic products, including semiconductor and LCD manufacturing equipment components, is enjoying extremely strong growth. CELANX KK which manufactures metal matrix composites (MMC) is also strong, and we are raising our ability to respond to the increasingly sophisticated needs of our customers in terms of larger products and other requirements. At Sanshin Electric Co., Ltd., which manufactures car tuners and measurement and control equipment and operates the EMS business (outsourced electronics production), we aim to increase earnings further by enhancing management efficiency.

Promote Cooperation Among Businesses and Expand Business Scope

Nihon Ceratec and CELANX KK are involved in complementary businesses. We are therefore combining their areas of specialty, separating components based on size and required features, and emphasizing the strengths that differentiate them from their competitors. We also seek to link ceramics and electronics and develop business in areas that are expected to grow. Moving forward, we are looking to enhance our market presence by broadening the scope of our business.



TAIHEIYO CEMENT PHILIPPINES, INC. (Philippines)

International Business Company

Keiji Tokuue, President

New Growth Trajectory for Overseas Cement Business

The International Business Company comprises 43 group companies and is engaged in the overseas manufacture and sale of cement and ready-mixed concrete and in exporting cement.

Searching for the Next Growth Opportunity

The International Business Company aims to be internationally competitive and a leading player in global markets. Our first basic policy is to achieve stable growth and maximizing earnings in existing businesses by reforming our general growth platform for overseas business. We are also promoting localization. Our second basic policy is to continuously strive to rapidly expand overseas business. We previously prioritized the reduction of interest-bearing debt and held off on large-scale investment, but starting in fiscal 2005, we plan to lay the groundwork for the next round of growth.

Establish an In-house Company with a Competitive Advantage

Our third basic policy is to sharpen our focus on overseas business and introduce a more effective risk management system. We are pursuing rigorous "selection and consolidation" of our businesses, working to improve unprofitable businesses within one to two years, and developing measures to avoid the risks associated with launching new businesses. Our fourth basic policy is internal reform. We seek to establish an in-house company with a competitive advantage and are working to toward quick and efficient decision making, the ability to adapt flexibly in problem solving, and a streamlined organization.

Financial Section

CONTENTS

Consolidated Balance Sheets

Taiheiyo Cement Corporation and Subsidiaries
As of 31st March, 2003 and 2004

Assets	(Millions of yen) 2003	2004	(Thousands of U.S. dollars) (Note 5) 2004
Current assets:			
Cash and time deposits (Notes 6 and 9)	¥ 96,716	**¥ 85,851**	**$ 812,291**
Notes and accounts receivable (Note 9)	185,043	**188,360**	**1,782,193**
Less: allowance for doubtful accounts	(2,468)	**(2,643)**	**(25,007)**
	182,575	**185,717**	**1,757,186**
Inventories	69,096	**66,218**	**626,530**
Deferred income taxes (Note 17)	1,709	**2,904**	**27,477**
Other	36,820	**23,378**	**221,194**
	386,916	**364,068**	**3,444,678**
Investments, advances and other assets:			
Investments in securities (Notes 7 and 9)	145,559	**159,375**	**1,507,951**
Long-term loans	8,556	**9,582**	**90,661**
Other (Note 9)	71,682	**65,304**	**617,883**
	225,797	**234,261**	**2,216,492**
Less: allowance for doubtful accounts	(18,150)	**(15,856)**	**(150,024)**
	207,647	**218,405**	**2,066,468**
Property, plant and equipment, at cost (Note 9):			
Buildings and structures	577,386	**504,691**	**4,775,201**
Machinery and equipment	895,752	**813,654**	**7,698,495**
Other	55,575	**52,630**	**497,966**
	1,528,713	**1,370,975**	**12,971,662**
Less: accumulated depreciation	(1,042,970)	**(959,243)**	**(9,076,005)**
	485,743	**411,732**	**3,895,657**
Land (Note 13)	228,118	**222,279**	**2,103,122**
Construction in progress	18,966	**20,815**	**196,944**
	732,827	**654,826**	**6,195,723**
Goodwill and other intangibles	53,920	**50,965**	**482,212**
Deferred income taxes (Note 17)	28,833	**15,733**	**148,860**
Total assets	¥ 1,410,143	**¥1,303,997**	**$12,337,941**

The accompanying notes are an integral part of these statements.

Liabilities, minority interests and shareholders' equity	(Millions of yen) 2003	2004	(Thousands of U.S. dollars) (Note 5) 2004
Current liabilities:			
Short-term bank loans (Notes 8 and 9)	¥ 297,288	**¥ 279,165**	**$ 2,641,357**
Commercial paper (Note 8)	8,000	**–**	**–**
Current portion of long-term debt (Notes 8 and 9)	154,596	**102,132**	**966,336**
Notes and accounts payable (Note 9)	119,399	**116,287**	**1,100,265**
Income taxes payable (Note 17)	3,630	**7,208**	**68,199**
Deferred income taxes (Note 17)	3,670	**161**	**1,523**
Other (Note 9)	71,789	**61,422**	**581,152**
	658,372	**566,375**	**5,358,832**
Non-current liabilities:			
Long-term debt (Notes 8 and 9)	383,513	**357,224**	**3,379,922**
Deposits received from retailers (Note 8)	19,204	**18,304**	**173,186**
Deferred income taxes (Note 17)	34,253	**31,160**	**294,825**
Accrued retirement benefits to:			
Employees (Note 10)	36,183	**35,690**	**337,686**
Directors and corporate auditors	2,714	**3,071**	**29,056**
	38,897	**38,761**	**366,742**
Other (Note 9)	40,813	**40,887**	**386,858**
	516,680	**486,336**	**4,601,533**
Minority interests in consolidated subsidiaries	27,887	**29,107**	**275,400**
Contingent liabilities (Note 11)			
Shareholders' equity (Note 12):			
Common stock:			
Authorized:			
1,977,308,000 shares as of 31st March, 2003 and 2004			
Issued:			
950,300,586 shares as of 31st March, 2003 and 2004	69,499	**69,499**	**657,574**
Additional paid-in capital	58,229	**58,490**	**553,410**
Retained earnings	74,610	**88,769**	**839,900**
Revaluation excess (Note 13)	7,615	**5,374**	**50,847**
Unrealized gain on other securities	2,293	**16,403**	**155,199**
Foreign currency translation adjustments	(1,406)	**(13,312)**	**(125,953)**
Less: treasury stock, at cost			
(24,684,936 shares as of 31st March, 2003 and 19,633,970 shares 31st March, 2004)	(3,636)	**(3,044)**	**(28,801)**
Total shareholders' equity	207,204	**222,179**	**2,102,176**
Total liabilities, minority interests and shareholders' equity	¥ 1,410,143	**¥1,303,997**	**$12,337,941**

Consolidated Statements of Income and Retained Earnings

Taiheiyo Cement Corporation and Subsidiaries
For the years ended 31st March, 2003 and 2004

	(Millions of yen)		(Thousands of U.S. dollars) (Note 5)
	2003	2004	2004
Net sales	¥ 927,956	¥ 879,485	$ 8,321,364
Cost of sales	734,053	688,443	6,513,795
Gross profit	193,903	191,042	1,807,569
Selling, general and administrative expenses (Notes 14 and 15)	147,878	146,195	1,383,243
Income from operations	46,025	44,847	424,326
Other income (expenses):			
Interest and dividend income	2,497	5,827	55,133
Interest expenses	(16,543)	(15,011)	(142,029)
Gain on sales/disposal of property, plant and equipment	9,233	2,761	26,123
Gain on sale of investments in securities	598	2,945	27,865
Liquidation of unconsolidated subsidiaries and affiliates	(2,044)	(2,006)	(18,980)
Write-off of investments in securities	(7,032)	(183)	(1,731)
Special allowance to employees retired under early retirement scheme	(1,702)	(2,153)	(20,371)
Provision for allowance for doubtful accounts	(4,992)	(1,305)	(12,347)
Gain on exemption from payment of future benefit obligation (Note 4(8))	2,099	–	–
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	(6,436)	504	4,769
Loss on discontinued operation	(1,647)	–	–
Gain on dilution of ownership in affiliated companies	–	2,875	27,202
Loss on closure of a cement plant (Note 16)	–	(5,603)	(53,014)
Other, net	(3,257)	(5,552)	(52,531)
	(29,226)	(16,901)	(159,911)
Income before income taxes	16,799	27,946	264,415
Income taxes (Note 17):			
Current	7,597	12,191	115,347
Deferred	1,652	(3,165)	(29,946)
	9,249	9,026	85,401
Minority interests in net income of consolidated subsidiaries	1,288	2,401	22,717
Net income	6,262	16,519	156,297
Retained earnings			
Balance at beginning of year	70,440	74,610	705,932
Increase:			
Changes in scope of consolidation and application of equity method of accounting	513	–	–
Merger of consolidated subsidiaries	98	–	–
Reversal of revaluation excess	129	2	19
Decrease:			
Cash dividends	(2,756)	(2,299)	(21,752)
Directors' and corporate auditors' bonuses	(76)	(63)	(596)
Balance at end of year	¥ 74,610	¥ 88,769	$ 839,900
Per share (Note 4(11)):	(Yen)		(U.S. dollars) (Note 5)
Net income	¥ 6.64	¥ 17.71	$ 0.17
Cash dividends	2.50	2.50	0.02

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Taiheiyo Cement Corporation and Subsidiaries
For the years ended 31st March, 2003 and 2004

	(Millions of yen)		(Thousands of U.S. dollars) (Note 5)
	2003	2004	2004
Cash flows from operating activities			
Income before income taxes	¥ 16,799	¥ 27,946	$ 264,415
Depreciation and amortization	54,006	45,228	427,931
Amortization of difference between equity in net assets of consolidated subsidiaries and investment cost	1,198	943	8,922
Equity in losses (gains) of unconsolidated subsidiaries and affiliates	6,436	(504)	(4,769)
Disposal of investments in unconsolidated subsidiaries and affiliates	(598)	(2,945)	(27,865)
Liquidation of unconsolidated subsidiaries and affiliates	2,044	2,006	18,980
Write-off of investments	7,032	183	1,731
Decrease (increase) in accrued retirement benefits	(1,206)	529	5,005
Decrease in allowance for doubtful accounts	(630)	(2,104)	(19,907)
Interest and dividend income	(2,497)	(5,827)	(55,133)
Interest expenses	16,543	15,011	142,029
(Gain) loss on sale/disposal of property, plant and equipment	(9,233)	1,280	12,111
Decrease (increase) in notes and accounts receivable	24,465	(6,037)	(57,120)
Decrease in inventories	978	1,884	17,826
Decrease in notes and accounts payable	(22,799)	(612)	(5,791)
Other, net	(11,604)	(177)	(1,674)
Subtotal	80,934	76,804	726,691
Interest and dividends received	2,350	2,648	25,054
Interest paid	(16,666)	(16,483)	(155,956)
Income taxes paid	(7,436)	(7,293)	(69,003)
Net cash provided by operating activities	59,182	55,676	526,786
Cash flows from investing activities			
Decrease in time deposits	1,288	57	539
Purchase of property, plant and equipment	(35,587)	(32,111)	(303,822)
Proceeds from sale of property, plant and equipment	36,408	46,514	440,098
Purchase of investments in securities	(4,487)	(1,583)	(14,978)
Proceeds from sale of investments in securities	5,686	10,438	98,761
Proceeds from sale (payment for purchase) of subsidiaries' stock resulting in changes in the scope of consolidation	974	(194)	(1,836)
Long-term loans made	(25,964)	(22,954)	(217,182)
Collections of long-term loans receivable	25,868	26,732	252,929
Other, net	(2,165)	4,686	44,337
Net cash provided by investing activities	¥ 2,021	¥ 31,585	$ 298,846
Cash flows from financing activities			
Decrease in short-term borrowings	¥ (47,407)	¥ (21,241)	$ (200,975)
Decrease in commercial paper	(13,000)	(8,000)	(75,693)
Proceeds from long-term borrowings	79,764	56,259	532,302
Repayment of long-term borrowings	(67,276)	(77,527)	(733,532)
Proceeds from issuance of bonds	11,650	27,600	261,141
Redemption of bonds	(10,108)	(72,562)	(686,555)
Repayment of treasury stocks	(172)	(84)	(795)
Issue of shares	–	1,096	10,370
Cash dividends paid	(2,852)	(2,594)	(24,543)
Disposal of treasury stock	–	1,049	9,925
Net cash used in financing activities	(49,401)	(96,004)	(908,355)
Effect of exchange rate changes on cash and cash equivalents	(1,118)	(1,884)	(17,826)
Increase (decrease) in cash and cash equivalents	10,684	(10,627)	(100,549)
Cash and cash equivalents at beginning of year	80,808	91,235	863,232
Increase in cash and cash equivalents resulting from merger of consolidated subsidiaries	151	16	151
Cash and cash equivalents at beginning of year resulting from changes in the scope of consolidation	(408)	(90)	(851)
Cash and cash equivalents at end of year (Note 6)	¥ 91,235	¥ 80,534	$ 761,983

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

Taiheiyo Cement Corporation and Subsidiaries
For the years ended 31st March, 2003 and 2004

<Yen in millions and U.S. dollars in thousands, except Note 2 (1) and (2) and share capital amounts in Note 2, conversion price of convertible bonds and per share amounts and unless otherwise indicated.>

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Taiheiyo Cement Corporation (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

For preparing the accompanying consolidated financial statements, certain items presented in the consolidated financial statements filed with the Directors of Kanto Finance Bureau in Japan have been reclassified and/or recapitulated in these accounts and certain notes have been added for the convenience of readers outside Japan and to comform to the current year presentation.

2. Scope of Consolidation and Investments in Unconsolidated Subsidiaries and Affiliates

Under Japanese accounting standards, a subsidiary and an affiliate are defined as follows:

- a subsidiary : a company in which the reporting entity directly or indirectly holds more than 50% of the voting rights thereof or which is deemed to be controlled directly or indirectly by the reporting entity; and

- an affiliate : a company in which the reporting entity directly or indirectly holds 20% or more of the voting rights thereof or in which the reporting entity is deemed to exercise significant influence directly or indirectly on its decision making

(1) Scope of Consolidation

The number of subsidiaries the Company had for the year ended 31st March, 2003 and 2004 were 383 and 356, respectively, of which 201 and 189, respectively, were consolidated in the respective years.

The significant subsidiaries which have been consolidated with the Company are listed below:

Consolidated subsidiaries	Equity ownership* (%)	Share capital* (Millions of yen)
(Domestic)		
NM Cement Co., Ltd.	70.0	¥ 8,650
CLION Co., Ltd.	94.5	5,489
Chichibu Onoda Fudousan Co., Ltd.	100.0	3,600
Mitsui Wharf Co., Ltd.	100.0	3,500
Myojo Cement Co., Ltd.	100.0	2,500
Taiheiyo Material Corporation	100.0	1,631
Teihyu Co., Ltd.	100.0	1,498
(Overseas)		(Millions of U.S. dollars)
Taiheiyo Cement U.S.A., Inc. (USA)	100.0	$ 63.5
California Portland Cement Company (USA)	100.0	24.2
Jiangnan-Onoda Cement Co., Ltd. (China)	80.8	134.3
Dalian Onoda Cement Co., Ltd. (China)	77.2	82.8
Qinhuangdao Asano Cement Co., Ltd. (China)	71.9	93.1
Nghi Son Cement Corporation (Vietnam)	65.0	108.1

* as of 31st March, 2004

The remaining 167 unconsolidated subsidiaries for the year ended 31st March, 2004 (182 for the year ended 31st March, 2003) have not been consolidated with the Company since the total assets, net sales and net income of those companies in the aggregate were not significant in light of those of the consolidated financial statements of the Companies.

(2) Investments in Unconsolidated Subsidiaries and Affiliates

For the year ended 31st March, 2004, the Company had 174 affiliates (188 for the year ended 31st March, 2003), of which 65 affiliates (72 for the year ended 31st March, 2003) were accounted for by the equity method as are 19 unconsolidated subsidiaries (25 for the year ended 31st March, 2003).

Investments in the remaining 148 unconsolidated subsidiaries and 109 affiliates (157 and 116, respectively, for the year ended 31st March, 2003) were carried at cost due to the immateriality of the effect to the consolidated financial position and the results of operations of the Companies.

The unconsolidated subsidiaries and significant affiliates, to which the equity method was applied, include:

Unconsolidated subsidiaries/affiliates	Equity ownership* (%)	Share capital* (Millions of yen)
(Domestic)		
NIPPON HUME CORPORATION	30.9	¥ 5,251
A&A Material Corporation	43.0	3,889
DC Co., Ltd.	33.4	3,402
ORIENTAL Construction Co., Ltd.	19.9	2,985
Fuji P.S Corporation	21.4	2,379
Magu Co., Ltd.	45.8	2,217
Yakushima Denko Co., Ltd.	49.5	2,006
Asahi Concrete Works Co., Ltd.	21.5	1,204
(Overseas)		(Billions of Korean Won)
Ssangyong Cement Industrial Co., Ltd. (Korea)	27.7	1,810.8

* as of 31st March, 2004

For subsidiaries and affiliates which are accounted for by the equity method and of which net assets are negative, ¥5,879 ($55,630) has been directly deducted from "Investments in and advances to unconsolidated subsidiaries and affiliates" in the accompanying consolidated balance sheet as of 31st March, 2004 by taking into account the amounts of loans to and guarantees for those companies (¥7,395 as of 31st March, 2003).

3. Consolidation Policies

For consolidation, all significant inter-company transactions, account balances and unrealized profit / loss arising from inter-company transactions have been eliminated.

Where the year-end dates of consolidated subsidiaries and unconsolidated subsidiaries and affiliates accounted for by the equity method are different from that of the Company, necessary adjustments have been made to any significant transactions that took place between such different year-end dates.

Adjustment is made to computation of depreciation of assets carrying unrealized profits incurred from inter-company transactions among the Companies.

Difference between the cost of an investment in a consolidated subsidiary and the amount of underlying equity in net assets at fair value of such subsidiary is directly charged/credited, as the case may be, against income for the year unless such difference is material. If the difference is material and the effective period is able to be estimated, the difference is amortized over the relevant estimated effective period.

4. Summary of Significant Accounting Policies

Significant accounting policies employed by the Company and its consolidated subsidiaries in preparing the accompanying consolidated financial statements are outlined below:

(1) Inventories

Generally, inventories are stated at cost, which is determined by the moving average method. Appropriate write-downs are recorded for inventories which are deemed impaired in value. Inventories held by the consolidated subsidiaries in the U.S.A. are valued at the lower of cost or market, cost being determined by the average method.

(2) Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Depreciation is computed generally based on the declining-balance method by the Company and its domestic consolidated subsidiaries at rates based on the estimated useful lives of assets. The depreciation of buildings, excluding leasehold improvements, purchased on and after 1st April, 1998 is computed based on the straight-line method.

Depreciation of property and equipment held by the subsidiaries in foreign countries is calculated by the straight-line method in accordance with accounting standards generally accepted in the respective countries.

The range of useful lives is summarized as follows:

Buildings and structures	10 – 75 years
Machinery and equipment	4 – 15 years

Normal repairs and maintenance including minor renewals and improvements are charged to income as incurred.

(3) Financial Instruments

(a) Derivatives

All derivatives, except for derivatives that are designated as "hedging instruments" (see (c) Hedge Accounting below), are stated at fair value, and the changes in fair value are included in the determination of net profit or loss for the period in which they arise.

(b) Securities

Securities are classified in accordance with Japanese accounting standards into four categories, namely, trading securities, held-to-maturity securities, shares in equity of subsidiaries and affiliates and other securities.

Trading securities and certain financial instruments which meet strict conditions are categorized as current assets, and all other securities other than investments in consolidated subsidiaries are shown as "Investments in securities" and included in "Investments in and advances to unconsolidated subsidiaries and affiliates" in the accompanying consolidated balance sheets, as the case may be.

Valuation of securities is as follows:

Trading securities are valued at fair market value at the year-end and the resulting valuation gain/loss is charged to income;

Held-to-maturity debt securities are valued by applying amortization/accumulation unless impairments in value are to be recognized;

and

With respect to other securities, such securities with market value are valued at market value and those without market value are valued at cost unless impairments in value of those investments are to be recognized. The unrealized gain/loss resulting from the valuation on other securities at the year-end is shown as "Unrealized gain on other securities" in the amount after netting deferred income taxes thereon in the accompanying consolidated balance sheets. Cost of securities sold is determined by the moving-average method.

Where market values of other securities are 50% of the carrying value or lower at the end of the financial year, such securities are written off to such market value. With respect to other securities of which market values have declined between 30% and 50% of the respective carrying values, amounts to be written off are determined by considering the recoverability of the respective securities.

(c) Hedge Accounting

Gains or losses arising from changes in fair value of the derivatives designated as hedging instruments are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments are principally interest swaps and forward exchange contracts. The related hedged items are trade accounts receivable and payable, long-term bank loans, and debt securities.

The Company has a policy to utilize the above hedging instruments in order to reduce the exposure to the risk of interest rate fluctuation. Thus, the purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items. Effectiveness of hedging activities is evaluated by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(4) Foreign Currency Translation

(Translation of foreign currency financial statements of overseas subsidiaries and affiliates)

Exchange rates at the balance sheet date are applied for all assets and liabilities and the historical rates are applied to shareholders' equity whereas profit and loss items are translated at the average exchange rates prevailing during the year. Items related to inter-company transactions with the Company which are subject to elimination on consolidation are translated in the amounts the Company recorded.

The difference in the debits and credits in the balance sheets resulting from translation in the above manner is shown as "Foreign currency translation adjustments" in the shareholders' equity in the amounts after netting the amount attributable to the minority interests in consolidated subsidiaries in the accompanying consolidated balance sheets.

(Translation of foreign currency items)

Receivables and payables denominated in foreign currencies were translated into Japanese yen at the exchange rates at the balance sheet date. Gains or losses arising from transactions in foreign currency receivables and payables are credited or charged to income as incurred.

(5) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of cash flows consist of cash in hand, bank deposits always available, and short-term investments with a maturity of three months or less when purchased.

(6) Income Taxes

Deferred tax accounting is applied for the preparation of the accompanying consolidated financial statements. The asset and liability approach is used to recognize deferred tax assets and liabilities in respect of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

(7) Amortization of Goodwill and Software

(Goodwill)

In accordance with SFAS No. 142, goodwill recorded in the consolidated subsidiary in the U.S.A. is no longer subject to amortization effective from the year ended 31st March, 2003 but is tested for impairment annually and when symptom of impairment thereon is recognized.

(Software)

Capitalized software is amortized by the straight-line method based over the estimated useful lives (basically 5 years).

(8) Recognition of Certain Accrued Expenses

In general, the accrual basis of accounting for all income and expense items are followed for the preparation of the accompanying consolidated financial statements.

(i) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the estimated uncollectible amounts for doubtful receivables in addition to a general provision for normal receivables computed by applying past credit loss experience. Consolidated overseas subsidiaries mainly provide for such allowance at the estimated amounts of credit losses.

(ii) Accrued retirement benefits

(Retirement benefits to employees)

Employees are generally entitled to lump-sum retirement and/or annuity upon termination of services to a company, the amount of which is determined in light of the regulations set forth within the relevant companies of the Group. As a part of such employees retirement benefit scheme, the Company and certain subsidiaries have non-contributory pension funds.

Accrued retirement benefits to employees are provided in the amount of projected benefit obligation less fair value of fund assets at the end of the financial year.

A part of the Japanese national pension scheme had been run by the Company with permission granted by the Minister of Health, Labor and Welfare, but on 1st August, 2002, the Company obtained an approval from the Minister of Health, Labor and Welfare for exemption from the payment of future benefit obligation by returning relevant pension fund assets to the government. Consequently, the projected benefit obligation and the corresponding fund assets under that scheme were accounted for as deemed extinguished on that date in accordance with the Japanese accounting standards.

The actuarial gains and losses and prior service cost are being amortized by the straight-line method over a certain number of years within the expected remaining years of service of the then-active employee participants (mainly 10 years) corresponding the year following the year in which they arise and effective the period in which they arise, respectively.

The Company established a retirement benefit trust by contributing a certain shares of stock.

The Company revised its lump-sum payment plan and changed its retirement benefit plan to a tax-quantified pension plan ("cash balance plan") in June 2003.

On 31st March, 2004, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for a return of past obligation for benefits related to employees' services under the substitutional portion of the welfare pension fund plan ("WPFP"). In accordance with the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company accounted for the change in retirement benefit obligation as prior service cost. The unrecognized actuarial gain or loss as of and prior to this revision are accounted for by the previous method and with in the previous number of years.

The effect of this change and the transition was not significant.

(Retirement benefits to directors and corporate auditors)

As is customary practice in Japan, the Company pays lump-sum retirement benefits to retiring directors or corporate auditors, the amount of which is determined by the internal rules similar to those for employees. The payment of such retirement benefits is subject to approval by shareholders at the annual general meeting. The Company recognizes 100% of the amounts the Company would have paid if all directors and statutory auditors had retired at the year-end.

(9) Appropriation of Retained Earnings

Under the Japanese Commercial Code (the "Code"), the appropriations of retained earnings including year-end cash dividends are subject to shareholders' approval at the annual general meeting to be held within three months after the respective periods. The board of directors is allowed to make interim cash distribution ("interim cash dividends") with certain strict conditions stipulated in the Code.

The appropriation of retained earnings shown in the accompanying consolidated statements of income and retained earnings reflects the results of the appropriation of retained earnings applicable to the immediately preceding year and approved at the shareholders' meeting and the interim cash dividends made during the current year.

(10) Accounting for Treasury Stock

Due to the recent amendments to Japanese accounting standards effective from 1st April, 2002, the shares of the Company held by consolidated subsidiaries are recognized as treasury stock after netting off the amounts attributable to minority interests. With respect to those shares held by affiliates to which an equity method applied, the amounts attributable to the Group are also recorded as treasury stock in the accompanying consolidated balance sheets and debit/credit differences (gain/loss) incurred from transactions involving treasury stocks are charged to additional paid-in capital instead of charging to income as previously required.

(11) Per Share Information

Net income per share is computed based on the weighted-average number of shares of common stock outstanding during the respective periods.

The amount of cash dividends is the total of interim cash dividends paid during the respective periods and such dividends declared as applicable to the respective periods.

5. United States Dollar Amounts

The accompanying consolidated financial statements are prepared in Japanese yen. The U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating Japanese yen to U.S. dollars on a basis of ¥105.69 = U.S.$1, the approximate effective rate of exchange prevailing at 31st March, 2004. The inclusion of such U.S. dollar amounts is solely for convenience of the readers and is not intended to imply that yen amounts have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

Notes to the Consolidated Financial Statements

Taiheiyo Cement Corporation and Subsidiaries
For the years ended 31st March, 2003 and 2004

6. Cash and Cash Equivalents

"Cash and time deposits" in the accompanying consolidated balance sheets as of 31st March, 2003 and 2004 are reconciled to cash and cash equivalents in the accompanying consolidated statements of cash flows as follows:

	2003	2004	
Cash and time deposits	¥ 96,716	¥ 85,851	$ 812,291
Time deposits with a maturity of over three months	(5,481)	(5,317)	(50,308)
Cash and cash equivalents	¥ 91,235	¥ 80,534	$ 761,983

7. Investments in Securities

Investments in securities shown in the accompanying consolidated balance sheets as of 31st March, 2003 and 2004 comprises;

	2003	2004	
Investments in and advances to unconsolidated subsidiaries and affiliates	¥ 79,835	¥ 78,126	$ 739,200
Others	65,724	81,249	768,748
	¥145,559	¥159,375	$1,507,951

At 31st March, 2003 and 2004, information with respect to "other securities" for which market prices were available is summarized as follows:

	As of 31st March, 2004					
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Securities with fair value exceeding their acquisition cost:						
Equity securities	¥16,321	¥43,918	¥27,597	$154,423	$415,536	$261,113
Bonds:						
Government bonds	20	21	1	189	199	10
Corporate bonds	36	39	3	341	369	28
Other securities	42	44	2	397	416	19
	16,419	44,022	27,603	155,350	416,520	261,170
Securities with fair value not exceeding their acquisition cost:						
Equity securities	3,360	3,037	(323)	31,791	28,735	(3,056)
Bonds:						
Government bonds	64	64	0	606	606	0
Corporate bonds	-	-	-	-	-	-
Other securities	11	8	(3)	104	75	(29)
	3,435	3,109	(326)	32,501	29,416	(3,085)
	¥19,854	¥47,131	¥27,277	$187,851	$445,936	$258,085

	As of 31st March, 2003		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Securities with fair value exceeding their acquisition cost:			
Equity securities	¥ 9,118	¥17,834	¥ 8,716
Bonds:			
Government bonds	92	93	1
Corporate bonds	27	28	1
Other securities	23	23	0
	9,260	17,978	8,718
Securities with fair value not exceeding their acquisition cost:			
Equity securities	13,736	12,075	(1,661)
Bonds:			
Government bonds	64	64	(0)
Corporate bonds	442	438	(4)
Other securities	32	22	(10)
	14,274	12,599	(1,675)
	¥23,534	¥30,577	¥ 7,043

Other securities without market value as of 31st March, 2003 and 2004 were as follows:

	2003	2004	
Shares other than listed shares and shares traded on the OTC market	¥19,182	¥18,637	$176,336
Other equity securities	245	204	1,930

Gain and loss incurred from sale of other securities included in the accompanying consolidated statements of income and retained earnings for the years ended 31st March, 2003 and 2004 were as follows:

	2003	2004	
Sale amounts	¥4,380	¥6,917	$65,446
Gain	675	2,048	19,377
Loss	1,154	385	3,643

The aggregated maturities of other securities with maturity at 31st March, 2004 were as follows:

Within 1 year	1 - 5 years	5 - 10 years	Over 10 years
¥71	¥62	¥ -	¥ -
$668	$588	$ -	$ -

8. Short-Term Bank Loans, Commercial Paper and Long-Term Debt

Weighted average interest rates on short-term bank loans, and deposits received from retailers to secure trade receivables outstanding at 31st March, 2004 were 1.01% and 1.88%, respectively.

Interest bearing liabilities as of 31st March, 2003 and 2004 were analyzed as follows:

	2003		2004		
		Weighted average interest rates (%)		Weighted average interest rates (%)	
Long-term debt					
Long-term bank loans	¥367,232	2.18	¥333,476	2.20	$3,155,223
Bonds	170,876	0.45 - 7.0	113,880	0.45 -2.975	1,077,493
Convertible bonds *	–		12,000	0.00	113,542
	538,108		459,356		4,346,258
Less: due within one year					
Long-term bank loans	68,918	1.96	71,562	1.93	677,094
Bonds	85,677	0.45 - 7.0	30,570	0.450 -2.900	289,242
	154,595		102,132		966,336
	¥383,513		¥357,224		$3,379,922

*: Zero coupon convertible bonds were issued on 5th November, 2003 with maturity on 5th November, 2013 in the principal amount of ¥12,000 with the conversion price of ¥382 per share.

Aggregate annual maturities of long-term bank loans and bonds outstanding as of 31st March, 2004 for the next five years are as follows:

	Bonds		Long-term bank loans		Total	
Year ending 31st March,						
2005	¥30,570	$289,242	¥71,562	$677,094	¥102,132	$ 966,336
2006	20,770	196,518	69,947	661,813	90,717	858,331
2007	60,870	575,930	78,729	744,905	139,599	1,320,835
2008	1,070	10,124	29,811	282,061	30,881	292,185
2009	600	5,677	38,512	364,386	39,112	370,063

9. Assets Pledged as Collateral and Secured Payables

Assets pledged as collateral and secured payables as of 31st March, 2003 and 2004 were as follows:

(1) Assets pledged as collateral

	2003	2004	
Cash and time deposits	¥ 1,471	¥ 1,534	$ 14,514
Notes and accounts receivable	615	255	2,413
Investments in securities	54,062	50,698	479,686
Other assets	1,414	984	9,310
Buildings and structures	54,277	62,628	592,563
Machinery and equipment	40,324	52,510	496,830
Land	73,727	75,205	711,563
Other property, plant and equipment	193	256	2,422
Total	¥226,083	¥244,070	$2,309,301

(2) Secured payables

	2003	2004	
Notes and accounts payable	¥ 1,796	¥ 2,098	$ 19,850
Short-term bank loans	53,406	40,952	387,473
Long-term bank loans	115,479	103,670	980,888
Bonds	2,650	2,800	26,493
Other liabilities	5,168	4,662	44,110
Total	¥178,499	¥154,182	$1,458,814

10. Accrued Retirement Benefits to Employees

Accrued retirement benefits to employees as of 31st March, 2003 and 2004 were analyzed as follows:

	2003	2004	
Projected benefit obligations	¥ 114,672	¥102,108	$966,108
Plan assets	27,752	50,338	476,279
	86,920	51,770	489,829
Unrecognized actuarial differences	50,738	16,080	152,143
	¥ 36,182	¥ 35,690	$337,686

Expenses related to the retirement benefits to employees incurred for the year ended 31st March, 2003 and 2004 were as follows:

	2003	2004	
Service cost	¥ 5,897	¥ 4,653	$44,025
Interest cost	2,662	2,150	20,342
Expected return on plan assets	(898)	(306)	(2,895)
Amortization of actuarial loss	4,425	5,641	53,373
Gain on exemption from payment of future benefit obligation	(2,099)	–	–
Amortization of unrecognized prior service cost	–	(146)	(1,381)
Expenses for the year	¥ 9,987	¥11,992	$113,464

Assumptions used in calculation of the above information were as follows:

Discount rate	Mainly 2.5%
Expected rate of return on plan assets	Mainly 2.5%
Method of attributing the projected benefits to periods of services	Straight-line basis
Amortization of actuarial differences	Mainly 10 years from the year following of recognition

11. Contingent Liabilities

(1) As at 31st March, 2004, the Companies were contingently liable for notes discounted by banks in the aggregate amount of ¥16,376 ($154,951) (¥25,648 as of 31st March, 2003), notes endorsed for payments in the aggregate amount of ¥844 ($7,988) (¥1,286 as of 31st March, 2003), and assignment of receivable with recourse ¥484 ($4,579) (¥2,300 as of 31st March, 2003).

(2) The Companies were also contingently liable as guarantors of bank loans and trade payables for certain companies (including guarantee forward commitments), the balance of which as of 31st March, 2003 and 2004 were as follows:

	2003	2004	
Guarantees for bank loan payables	¥19,830	¥25,049	$237,004
Guarantees for account payables to			
Ready-mixed Cooperative Association	2,266	2,180	20,626
Guarantees (forward commitments)			
for bank loans payables	1,551	1,378	13,038

(3) The Company and a consolidated subsidiary have invested the aggregate amount of ¥63,512 since October 2000 in Ssangyong Cement Industries Co., Ltd. ("Ssangyong"), which is undergoing a rehabilitation process. The Company has been jointly managing Ssangyong under a joint management contract. The Company, Ssangyong and its financial creditors committee agreed on the acceleration of the restructuring of Ssangyong in November 2001. In August 2003, the Company, Ssang Yong, and its financial creditors committee additionally agreed to an extension of the reschedule of debt repayment, additional financial support, a type of debt-equity swap and to a lowered interest rate. The Company recognizes that the rehabilitation of Ssang Yong is an important issue. With respect to the investment in Ssangyong, the equity method of accounting has been applied for preparation of the accompanying consolidated financial statements.

12. Shareholders' Equity

Under the Code, at least 50% of the issue price of new shares is required to be designated as stated capital, which is determined by a resolution of the Board of Directors. Proceeds in excess of the amount designated as stated capital are credited to additional paid-in capital.

Under the Code, an amount equivalent to 10% of interim cash distribution (interim cash dividends) and at least 10% of cash distribution including cash dividends made as a result of the appropriation of retained earnings is required to be transferred to the legal reserve until the balance of that reserve reached 25% of the stated share capital. The balance of legal reserve is included in retained earnings, use of which is strictly limited under the Code.

In October, 2002, the Code was amended and transfer to the legal reserve is no longer required if the balance of the total of the additional paid-in capital and the legal reserve stated above reaches 25% of the stated share capital. The amount in excess of 25% of the stated share capital is allowed to be distributed as dividends when certain conditions specifically stipulated in the Code are satisfied.

The legal reserve included in retained earnings in the accompanying consolidated balance sheets was ¥15,261 ($144,394) at 31st March, 2004 and 2003.

13. Revaluation of Land

Chichibu Railway Co., Ltd., a domestic consolidated subsidiary, revalued land on 31st March, 2000 in the aggregate book value of ¥1,065 at the fair value of ¥15,867 in accordance with the Law for Land Revaluation.

With respect to the amount of unrealized profit less deferred taxes thereon, the amount attributable to minority interests is credited to "Minority interests in consolidated subsidiaries" and the rest is recorded as "Revaluation excess" in the accompanying consolidated balance sheets.

With respect to the land revalued as mentioned above, the difference between the aggregate book value of such land (after revaluation) and the aggregate fair value thereof was ¥3,616 ($34,213) at 31st March, 2004 (¥2,315 at 31st March 2003).

During the year ended March 31, 2002, A&A Material Corporation and DC Co., Ltd., domestic affiliates accounted for by the equity method, revalued their land in accordance with the Law for Land Revaluation. With respect to the amount of unrealized profit less deferred taxes thereon, the amount attributable to the Company is included in "Revaluation excess" in the accompanying consolidated balance sheets.

14. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended 31st March, 2003 and 2004 are summarized as follows:

	2003	2004	
Labor and payroll cost	¥ 43,843	¥ 41,835	$ 395,827
Freight and transportation/distribution expenses	55,051	51,900	491,059
Provision for accrued bonuses to employees	2,382	1,906	18,034
Expenses related to accrued retirement benefits	8,011	9,682	91,608
Amortization of difference between equity in net			
assets of consolidated subsidiaries and investment cost	1,198	944	8,932
Others	37,393	39,928	377,783
Total	¥147,878	¥146,195	$1,383,243

15. Research and Development Costs

Research and development costs charged to selling, general and administrative expenses and manufacturing costs for the year ended 31st March, 2003 and 2004 were ¥6,849 and ¥6,019 ($56,950), respectively.

16. Loss on Closure of a Cement Plant

Kawara Taiheiyo Cement Corporation, a consolidated subsidiary, ceased its operation at 31st March, 2004. Loss incurred in conjunction therewith is shown as loss on closure of a cement plant in the accompanying consolidated statements of income and retained earnings, which includes loss on disposition of fixed assets in ¥4,040 ($38,225).

17. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitants' taxes and enterprise tax. Enterprise tax is deductible when paid as expenses for the purpose of the calculation of other income taxes. The effective statutory tax rate is approximately 40.87% for the year ended 31st March, 2003 and 2004.

The effective tax rate reflected in the consolidated statements of income and retained earnings for the years ended 31st March, 2003 and 2004 is reconciled to the effective statutory tax rate as follows:

	2003	2004
Effective statutory tax rate	40.87%	40.87%
Effect of:		
Entertainment expenses	13.07	4.31
Tax-exempt income including certain dividends	(6.21)	(0.82)
Per capita	2.37	1.22
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	15.66	(0.74)
Valuation allowance for deferred tax assets	(9.77)	(1.89)
Dilution gain of affiliated company	-	(4.20)
Differences of tax rates between Japan and overseas	(2.80)	(8.12)
Amortization of difference between equity in net assets of consolidated subsidiaries and investment cost	2.93	1.38
Others	(1.06)	0.29
Effective tax rate in the consolidated statements of income and retained earnings	55.06%	32.30%

The significant components of deferred tax assets and liabilities as of 31st March, 2003 and 2004 were as follows:

	2003	2004	
Deferred tax assets:			
Nondeductible portion of:			
- provision for doubtful accounts	¥ 3,761	¥ 4,215	$ 39,881
- provision for bonus to employees	2,075	2,238	21,175
- accrued retirement benefits to employees	24,560	24,006	227,136
Unrealized loss of property, plant and equipment	18,511	18,488	174,927
Others	7,638	10,116	95,714
Loss carried forward	10,585	2,376	22,480
Subtotal	67,130	61,439	581,313
Valuation allowance	(30,424)	(26,071)	(246,674)
Total deferred tax assets	36,706	35,368	334,639
Deferred tax liabilities:			
Special tax reserve on property, plant and equipment	(27,572)	(22,786)	(215,593)
Other reserves under Special Taxation Measures Law	(558)	(525)	(4,967)
Depreciation	(5,706)	(5,609)	(53,070)
Difference between the cost of investments and their underlying net equity at fair value	(2,025)	(1,814)	(17,163)
Unrealized holding gain on other securities	(2,140)	(11,263)	(106,566)
Land revaluation	(5,950)	(5,949)	(56,287)
Others	(135)	(106)	(1,004)
Total deferred tax liabilities	(44,086)	(48,052)	(454,650)
Net deferred tax liabilities	¥ (7,380)	¥(12,684)	$(120,011)

18. Leases

The Companies have various lease agreements whereby the Companies act both as lessees and lessors. Finance lease contracts other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method that is applicable to ordinary operating leases.

(1) As lessees

(a) Assumed data as to acquisition costs, accumulated depreciation and net balance of the leased assets

	31st March, 2004		
	Acquisition costs	Accumulated depreciation	Net balance
Buildings and structures	¥ 59	¥ 25	¥ 34
Machinery and equipment	57,902	23,629	34,273
Other tangible assets	3,918	1,896	2,022
Total	¥ 61,879	¥ 25,550	¥ 36,329
Buildings and structures	$ 558	$ 237	$ 321
Machinery and equipment	547,847	223,569	324,278
Other tangible assets	37,071	17,939	19,132
Total	$585,476	$241,745	$343,731

	31st March, 2003		
	Acquisition costs	Accumulated depreciation	Net balance
Buildings and structures	¥ 49	¥ 32	¥ 17
Machinery and equipment	55,187	18,514	36,673
Other tangible assets	3,991	2,106	1,885
Total	¥59,227	¥20,652	¥38,575

(b) Future minimum lease payments and lease rental expenses

	31st March, 2004	
The scheduled maturities of future		
Lease rental payments on such lease:		
Due within one year	¥ 7,340	$ 69,451
Due over one year	28,989	274,287
	¥36,329	$343,738
Lease rental expenses for the year	¥ 7,523	$ 71,184

(c) Operating lease payments

	31st March, 2004	
Due within one year	¥ 395	$ 3,737
Due over one year	1,316	12,455
	¥1,711	$16,192

(2) As lessors

Certain assets of the Companies including buildings and structures with aggregated acquisition costs of ¥786 ($7,442) as of 31st March, 2004 (¥935 for 2003) were leased out, from which lease rental income of ¥77 ($732) was recorded for the year ended 31st March, 2004 (¥94 for 2003).

19. Derivative Transactions

Derivative financial instruments are utilized for the purpose of hedging exposure to adverse fluctuations in foreign currency exchange rates and interest rates, but no such transactions for speculation or trading purposes were entered into.

The Companies are exposed to market risks such as volatility of foreign currency exchange rates and interests rates, but use these derivative financial instruments to hedge the related risk effectively. Accordingly, these risks would not be material.

Credit loss in the event of nonperformance by the counterparties to the derivative financial instruments may incur, but any such loss from such event would not be material because the Company enters into transactions only with financial institutions with high credit ratings. The notional amounts of the derivative financial instruments do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's risk exposure in connection with derivative financial instruments.

Summarized below are the notional amounts and the estimated fair value of the derivative transactions outstanding at 31st March, 2003 and 2004:

Interest related transactions

	2004					
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
(Interest rate swaps)						
Receive/ fixed and pay /floating	¥ 1,500	¥ (37)	¥ (37)	$ 14,192	$ (350)	$ (350)
Receive/ floating and pay/ fixed	12,305	(277)	(277)	116,425	(2,621)	(2,621)
Receive/ floating and pay/ floating	238	0	0	2,252	(9)	(9)
(Options)						
Caps	2,262	0	0	21,403	9	9
Total	¥16,305	¥(314)	¥(314)	$154,272	$(2,971)	$(2,971)

	2003		
	Notional amount	Fair value	Unrealized gain (loss
(Interest rate swaps)			
Receive/fixed and pay/floating	¥ 1,000	¥ (19)	¥ (19)
Receive/floating and pay/fixed	15,480	(489)	(489)
Receive/floating and pay/ floating	406	(2)	(2)
(Options)			
Caps	2,418	0	0
Total	¥19,304	¥(510)	¥(510)

20. Segment Information

(1) Industry segments

	2004							
	Cement	Minerals and aggregates	Construction and construction material	Real estate	Other	Total	Eliminations or corporate assets	Consolidated total
Net sales:								
(1) Net sales to outside customers	¥ 249,439	¥ 75,517	¥ 348,680	¥ 9,377	¥ 196,472	¥ 879,485	¥ (-)	¥ 879,485
(2) Inter-segment net sales	37,444	23,396	9,081	4,365	38,129	112,415	(112,415)	-
Total	286,883	98,913	357,761	13,742	234,601	991,900	(112,415)	879,485
Operating costs and expenses	260,543	96,322	351,449	10,425	226,216	944,955	(110,317)	834,638
Income from operations	¥ 26,340	¥ 2,591	¥ 6,312	¥ 3,317	¥ 8,385	¥ 46,945	¥ (2,098)	¥ 44,847
Assets	¥ 523,959	¥ 146,828	¥ 253,400	¥ 111,358	¥ 278,777	¥ 1,314,322	¥ (10,325)	¥ 1,303,997
Depreciation	¥ 22,107	¥ 5,808	¥ 5,649	¥ 3,268	¥ 5,401	¥ 42,233	¥ 2,995	¥ 45,228
Capital expenditures	¥ 11,457	¥ 4,336	¥ 6,577	¥ 662	¥ 7,741	¥ 30,773	¥ 3,476	¥ 34,249
Net sales:								
(1) Net sales to outside customers	$ 2,260,100	$ 714,514	$ 3,299,082	$ 88,722	$ 1,858,936	$ 8,321,354	$ (-)	$ 8,321,354
(2) Inter-segment net sales	354,281	221,364	85,921	41,300	360,763	1,063,629	(1,063,629)	-
Total	2,714,381	935,878	3,385,003	130,022	2,219,699	9,384,983	(1,063,629)	8,321,354
Operating costs and expenses	2,465,162	911,363	3,325,281	98,638	2,140,373	8,940,817	(1,043,789)	7,897,028
Income from operations	$ 249,219	$ 24,515	$ 59,722	$ 31,384	$ 79,326	$ 444,166	$ (19,840)	$ 424,326
Assets	$ 4,957,508	$ 1,389,233	$ 2,397,578	$ 1,053,629	$ 2,637,686	$ 12,435,634	$ (97,693)	$ 12,337,941
Depreciation	$ 209,168	$ 54,953	$ 53,449	$ 30,921	$ 51,102	$ 399,593	$ 28,338	$ 427,931
Capital expenditures	$ 108,402	$ 41,026	$ 62,229	$ 6,264	$ 73,243	$ 291,164	$ 32,898	$ 324,062

	2003							
	Cement	Minerals and aggregates	Construction and construction material	Real estate	Other	Total	Eliminations or corporate assets	Consolidated total
Net sales:								
(1) Net sales to outside customers	¥ 263,101	¥ 92,783	¥ 381,892	¥ 13,463	¥ 176,717	¥ 927,956	¥ (-)	¥ 927,956
(2) Inter-segment net sales	38,437	21,840	11,462	4,476	38,448	114,663	(114,663)	-
Total	301,538	114,623	393,354	17,939	215,165	1,042,619	(114,663)	927,956
Operating costs and expenses	276,209	108,890	389,276	12,198	208,177	994,750	(112,819)	881,931
Income from operations	¥ 25,329	¥ 5,733	¥ 4,078	¥ 5,741	¥ 6,988	¥ 47,869	¥ (1,844)	¥ 46,025
Assets	¥ 547,552	¥ 155,068	¥ 278,687	¥ 135,834	¥ 283,766	¥ 1,400,907	¥ 9,236	¥ 1,410,143
Depreciation	¥ 25,491	¥ 6,622	¥ 6,624	¥ 5,694	¥ 7,172	¥ 51,603	¥ 2,403	¥ 54,006
Capital expenditures	¥ 20,464	¥ 5,184	¥ 3,517	¥ 710	¥ 7,870	¥ 37,745	¥ 1,480	¥ 39,225

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(2) Geographic segments

	2004						
	Domestic (in Japan)	North America	Asia	Other	Total	Eliminations or corporate assets	Consolidated total
Net sales:							
(1) Net sales to outside customers	¥ 713,617	¥ 71,568	¥ 89,532	¥ 4,768	¥ 879,485	¥ (–)	¥ 879,485
(2) Inter-segment net sales	1,790	744	5,226	135	7,895	(7,895)	–
Total	715,407	72,312	94,758	4,903	887,380	(7,895)	879,485
Operating costs and expenses	682,715	66,237	87,689	4,675	841,316	(6,678)	834,638
Income (loss) from operations	¥ 32,692	¥ 6,075	¥ 7,069	¥ 228	¥ 46,064	¥ (1,217)	¥ 44,847
Assets	¥ 1,074,867	¥ 128,959	¥ 97,509	¥ 4,446	¥ 1,305,781	¥ (1,784)	¥ 1,303,997
Net sales:							
(1) Net sales to outside customers	$ 6,751,982	$ 677,150	$ 847,128	$ 45,104	$ 8,321,364	$ (–)	$ 8,321,364
(2) Inter-segment net sales	16,936	7,039	49,446	1,277	74,698	(74,698)	–
Total	6,768,918	684,189	896,574	46,381	8,396,062	(74,698)	8,321,364
Operating costs and expenses	6,459,599	626,710	829,681	44,233	7,960,223	(63,185)	7,897,038
Income (loss) from operations	$ 309,319	$ 57,479	$ 66,893	$ 2,148	$ 435,839	$ (11,513)	$ 424,326
Assets	$ 10,169,997	$ 1,220,163	$ 922,594	$ 42,066	$ 12,354,820	$ (16,879)	$ 12,337,941

	2003						
	Domestic (in Japan)	North America	Asia	Other	Total	Eliminations or corporate assets	Consolidated total
Net sales:							
(1) Net sales to outside customers	¥ 781,273	¥ 76,618	¥ 65,832	¥ 4,233	¥ 927,956	¥ (–)	¥ 927,956
(2) Inter-segment net sales	2,383	859	1,079	11	4,332	(4,332)	–
Total	783,656	77,477	66,911	4,244	932,288	(4,332)	927,956
Operating costs and expenses	750,068	68,208	62,303	4,552	885,131	(3,200)	881,931
Income from operations	¥ 33,588	¥ 9,269	¥ 4,608	¥ (308)	¥ 47,157	¥ (1,132)	¥ 46,025
Assets	¥ 1,146,117	¥ 107,937	¥ 143,473	¥ 4,092	¥ 1,401,619	¥ 8,524	¥ 1,410,143

(3) Export sales

Export sales by the Company and its domestic subsidiaries plus the sales of overseas consolidated subsidiaries for the year ended 31st March, 2003 and 2004 are presented below:

	2003	2004	
Export sales and sales by overseas subsidiaries:			
North America	¥ 82,009	¥ 76,150	$ 720,503
Asia	71,207	97,003	917,807
Others	9,371	11,727	110,957
Total (a)	¥ 162,587	¥ 184,880	$ 1,749,267
Net sales of the Companies (b)	¥ 927,956	¥ 879,485	$ 8,321,364
(a) / (b)	17.5%	21.0%	21.0%

21. Subsequent Event

1. In May 2004, the Company issued ¥22,000,000,000 zero coupon convertible bonds due 2014 with the conversion price of ¥506 per share based on the resolution at the board of directors meeting held on 13th April, 2004.

2. Shareholders of the Company approved at the annual general meeting held on 29th June, 2004 as the appropriation of the retained earnings the year end cash dividends of ¥2.5 (¢2.4) per share in the total amount of ¥2,373 ($22,449).

Report of Independent Auditors

To the Board of Directors
Taiheiyo Cement Corporation

We have audited the accompanying consolidated balance sheets of Taiheiyo Cement Corporation and consolidated subsidiaries as of 31st March, 2003 and 2004, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiheiyo Cement Corporation and consolidated subsidiaries at 31st March, 2003 and 2004, 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 11(3), Taiheiyo Cement Corporation and its consolidated subsidiary have invested in Ssang Yong Cement Industrial Co., Ltd., a Korean company which has been under rehabilitation process.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Shin Nihon & Co.

Shin Nihon & Co.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

27th June, 2004

Taiheiyo Cement Network

Domestic Network

Taiheiyo Cement's facilities include our head office and Central Research Laboratory, 10 branch offices, 16 sales offices, 8 cement plants and 152 cement distribution terminals.

Overseas Network

Taiheiyo Cement U.S.A., Inc.
2025 East Financial Way, Glendora, CA 91741, U.S.A.
Tel : +1-626-852-6200
Fax : +1-626-852-6217

Taiheiyo Cement (China) Investment Co., Ltd.
No. 1806, E-Tower, C12
Guang Hua Road, Chao Yang District, Beijing 100020, China
Tel : +86-10-6586-2711
Fax : +86-10-6586-2782

Taiheiyo Singapore Pte. Ltd.
16 Raffles Quay, #41-03 Hong Leong Building,
Singapore 048581
Tel : +65-6220-9495
Fax : +65-6225-5853

Vietnam Representative Office
Suite 801, 8th F1., Sun Red River Building, 23 Phan
Chu Trinh Street, Hoan Kiem District, Hanoi, Vietnam
Tel : +84-4-9330912
Fax : +84-4-9330921

Bangkok Representative Office
5 Sitthivorakit Building, 12th. F1., Soi Pipat, Silom Road
Bangrak, Bangkok 10500, Thailand
Tel : +66-2-266-8741
Fax : +66-2-266-8742

Taipei Representative Office
5F, 139, Cheng-Chou Road, Taipei 103, Taiwan
Tel : +886-2-2557-8098
Fax : +886-2-2553-9853

Major Subsidiaries and Affiliates

CEMENT AND READY-MIXED CONCRETE

Bay Frontier Onoda Co., Ltd.
Chichibu Taiheiyo Cement Corporation
DC Co., Ltd.
Kokusai Kigyo Co., Ltd.
Myojo Cement Co., Ltd.
Sanyo White Cement Co., Ltd.
Tsuruga Cement Co., Ltd.

CONSTRUCTION AND CONSTRUCTION MATERIALS

A&A Material Corporation
Chichibu Concrete Industry Co., Ltd.
Clion Co., Ltd.
FUJI P.S CORPORATION
ILB Co., Ltd.
Onoda Chemico Co., Ltd.
ORIENTAL Construction Co., Ltd.
Taiheiyo Materials Corporation
Taiheiyo Precast Concrete Industry Co., Ltd.

MINERAL RESOURCES

Abekawa Kaihatsu Co., Ltd.
Buko Mining Co., Ltd.
Chichibu Mining Co., Ltd.
Ishizaki Co., Ltd.
Kansai Matech Co., Ltd.
Kosyu Saiseki Co., Ltd.
Okutama Mining Co., Ltd.
Ryushin Mining Co., Ltd.
Shin Kansai Asano Mining Co., Ltd.
Tsukumi Mining Co., Ltd.
Yuko Mining Co., Ltd.

CERAMICS AND ELECTRONICS

CELANX KK
Nihon Ceratec Co., Ltd.
Sanshin Electric Co., Ltd.
Sanshin (Hungary) KFT
Sanshin (Malaysia) Sdn. Bhd.

ENVIRONMENT

Ichihara Ecocement Corporation
NACODE Corporation
Taiheiyo Soil Corporation

TRANSPORTATION

Azuma Shipping Co., Ltd.
Chichibu Railway Co., Ltd.

OTHERS

Asano Real Estate Co., Ltd.
Onoda Chemical Industry Co., Ltd.
PACIFIC SYSTEMS CORPORATION
Taiheiyo Accounting & Financial Service Corporation
Taiheiyo Engineering Corporation

OVERSEAS ACTIVITIES

Beijing Asano Cement Co., Ltd. (CHINA)
California Portland Cement Company (USA)
Dalian Onoda Cement Co., Ltd. (CHINA)
Glacier Northwest, Inc. (USA)
Jiangnan Onoda Cement Co., Ltd. (CHINA)
Nghi Son Cement Corporation (VIETNAM)
NM Cement Co., Ltd. (VIETNAM)
PNG-Taiheiyo Cement Limited (PAPUA NEW GUINEA)
Qinhuangdao Asano Cement Co., Ltd. (CHINA)
Shanghai Sanhang Onoda Cement Co., Ltd. (CHINA)
Shenzhen Haixing Onoda Cement Co., Ltd. (CHINA)
Ssangyong Cement Industrial Co., Ltd. (SOUTH KOREA)
Taiheiyo Cement (China) Investment Co., Ltd. (CHINA)
Taiheiyo Cement Philippines, Inc. (PHILIPPINES)
Taiheiyo Cement U.S.A., Inc. (USA)

Directors and Corporate Auditors

(As of 29th June, 2004)

Board of Directors

Chairman and Representative Director

Michio Kimura

President and Representative Director

Fumio Sameshima

Director, Senior Executive Officer

Tadaharu Kamei

Director, Managing Executive Officer

Takashi Shimoda

Kazushige Kitamura

Teiji Matsuda

Hideya Goto

Kazuo Morikawa

Yukio Anzai

Keiji Tokuue

Executive Officers

Kanzaburo Suto
Hiroto Murata
Hisahiko Higano
Noriyoshi Terui
Ryohei Kaminishi
Norio Mori
Jin Kanoda
Toshiyuki Hiwatashi
Rokurou Tomita
Nobuyoshi Kano
Hideo Fukushima

Corporate Auditors (Standing)

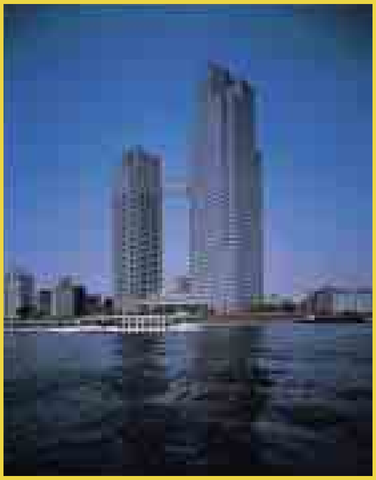
Yasumasa Mihara
Norikazu Noguchi

Corporate Auditors

Sadayoshi Fujikawa
Haruhisa Kawasaki
Hiromichi Tsuda

Corporate Data
(As of 31st March, 2004)

Taiheiyo Cement Corporation



Head Office
St.Luke's Tower, 8-1, Akashi-cho, Chuo-ku, Tokyo 104-8518
JAPAN

Branches
Hokkaido, Tohoku, Tokyo, Kanto, Hokuriku, Chubu, Kansai, Shikoku, Chugoku and Kyushu

Cement Plants
22 (including four at domestic and Ten at
overseas subsidiaries, affiliates)

Central Research Laboratory
2-4-2, Osaku, Sakura, Chiba 285-8655, JAPAN

Date Established
May, 1881

Paid-in Capital
¥ 69,499 million

Fiscal Year-End
31st March

Annual Meeting
The annual meeting of shareholders is normally held in June in Tokyo, Japan.

Common Stock
Authorized : 1,977,308 thousand
Issued : 950,301 thousand

Number of Shareholders with More Than One Unit of Shares
50,213

Stock Exchange Listings
Tokyo Stock Exchange, Fukuoka Stock Exchange in Japan.

Transfer Agent and Registar
The Chuo Mitsui Trust and Banking Company, Limited.

Independent Auditors
ChuoAoyama PricewaterhouseCoopers
Shin Nihon & Co.

Major Shareholders

	Shares held (Thousand)	Percentage of total (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	101,657	10.69
The Master Trust Bank of Japan, Ltd. (Trust Account)	88,433	9.30
Nippon Life Insurance Company	33,197	3.49
Mizuho Corporate Bank, Ltd.	31,523	3.31
The Dai-Ichi Mutual Life Insurance Company	20,033	2.10
Meiji Yasuda Life Insurance Company	16,623	1.74
Sumitomo Mitsui Banking Corporation	14,987	1.57
The Bank of New York Europe Limited Lux Branch 131800	14,472	1.52
Mitsui Mutual Life Insurance Company	12,100	1.27
The Chuo Mitsui Trust and Banking Company, Limited	11,258	1.18