

1998



FINANCIAL REPORT

NIPPON
SHOKUBAI



COMPANY PROFILE

Since its establishment in 1941, Nippon Shokubai Co., Ltd. has been supplying a wide range of industries with consistently high quality products such as phthalic anhydride, maleic anhydride, ethylene oxide, acrylic acids and methacrylic acid using its proprietary catalytic oxidation processes.

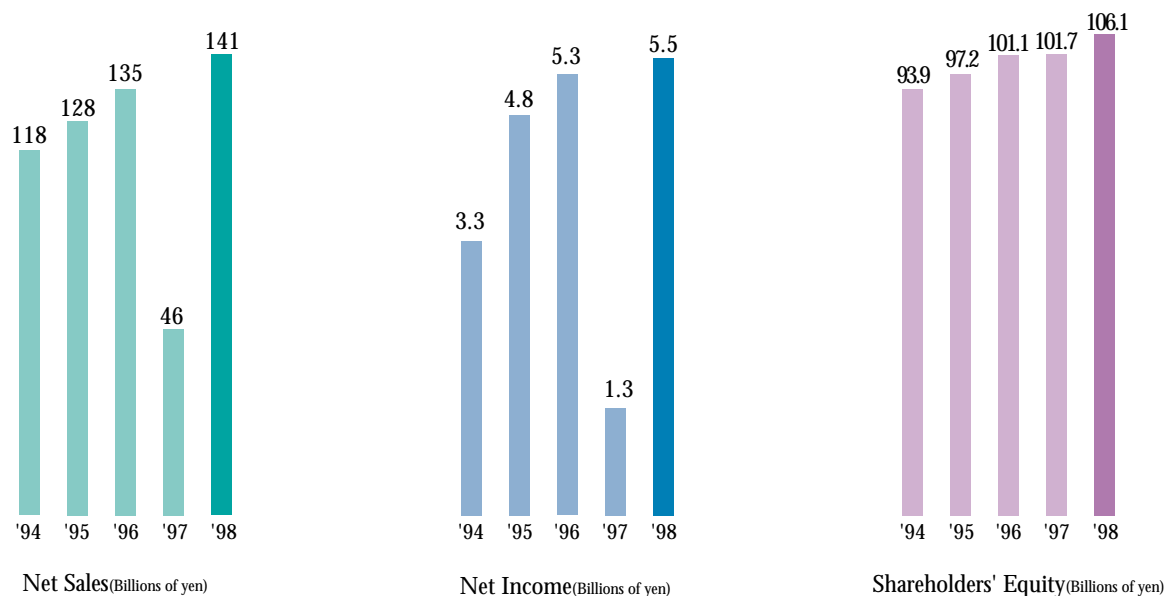
Using its expertise in advanced catalytic processes and polymer technologies, Nippon Shokubai also manufactures a variety of synthetic resins and fine and specialty chemical products, including unsaturated polyester resins, superabsorbent polymers, resins for paint and adhesive production, and intermediates for pharmaceutical and agricultural products. The Company also makes substantial contributions to environmental preservation through development of catalysts for automotive applications, exhaust gas cleaning systems, waste water treatment systems and other pollution control related products and systems.

Nippon Shokubai, operating under a corporate policy of “ We Create Technology for Better Lives ”, recognizes its responsibilities as a corporate citizen and is determined to continue working for the global society.

FINANCIAL HIGHLIGHTS

	Millions of yen			Thousands of U.S.dollars
	1998	1997*	1996	1998
For the Year				
Net Sales.....	¥141,755	¥ 46,782	¥135,006	\$1,073,088
Operating Income.....	7,821	2,358	10,114	59,205
Income before Income Taxes	10,146	3,404	10,169	76,805
Net Income.....	5,546	1,394	5,319	41,983
At Year-End				
Total Assets.....	¥193,178	¥183,600	¥184,303	\$1,462,361
Total Shareholders' Equity.....	106,113	101,743	101,115	803,277
Per Share Amounts				
	Yen			U.S.dollars
Net Income.....	¥ 28.17	¥ 7.08	¥ 27.02	\$ 0.21
Cash Dividends.....	7.00	2.35	7.00	0.05

* The year 1997 covers only four months, from December 1, 1996 to March 31, 1997 since the company has changed its fiscal year and accounting period at the 84th regular shareholders meeting.



TO OUR SHAREHOLDERS

We hope all our shareholders are enjoying good health and prosperity, and would like to thank each of you for your continued support.

The following is a business performance report for Nippon Shokubai's 86th fiscal term, which ended March 31, 1998. Because the previous fiscal term spanned only four months due to a change in our fiscal year and accounting period, we do not numerically compare the term just ended with the previous term.

The Fiscal Year in Review

The Japanese economy slumped in the fiscal year just ended, as domestic demand was held down by such factors as decreased consumer spending, instability in the nation's financial system, and a currency crisis caused by Asia's stagnant economies.

Conditions were extremely harsh in the chemical industry. The prices of raw materials such as naphtha were consistently high, and the latter half of the term saw demand for our main petrochemical products drop, both domestically and in Southeast Asia.

The company's total net sales amounted to 141.7 billion yen. Ordinary profit totaled 9.1 billion yen, thanks to increased production and increased sales by volume, and higher revenues from royalties. Net profit was 5.5 billion yen.

In view of this environment and business performance, the company decided to pay a dividend of ¥3.50 per share. We plan to allocate the retained earnings to construction that will increase production capacity while further streamlining operations, and to research and development. These investments will further boost our competitiveness and promote the continued steady growth of the company.

Prospects in the domestic economy are not promising. If consumer spending and commodity prices continue to drop, many companies will see lower profits and have to cut back production and investment, which will eventually lead to higher unemployment and less income for consumers. This can start a vicious cycle toward further economic recession.

The environment is expected to worsen in the chemical industry, too. The market is likely to suffer from the turmoil in Asia's currencies and economies, and a number of new and expanded manufacturing plants are expected to be in operation, so competition will be tighter.

Future Views

Under these circumstances, we are making companywide efforts to strengthen our management foundation so we can better maintain stable future growth.

We will create and implement new policies for strengthening our core businesses, and we will streamline our systems for developing new products and commercializing new processes. We will also examine our corporate structure and reinforce our ability to respond to change. These efforts will keep us focused on improving the efficiency and effectiveness of all our business operations.

Overseas, in January 1998 we incorporated our representative's office in Singapore in order to extend the scope of our activities. We also expanded the superabsorbent polymer manufacturing facility of our U.S. subsidiary. In joint venture company news, our acrylic acid and ester plant in Indonesia and our methacrylate monomer plant in Singapore are scheduled to begin operation this fiscal year, while our acrylic acid company in the United States is preparing to start construction. These developments are helping us improve our competitiveness and meet needs in the international marketplace.

In these efforts we hope we can count on the continued support of our shareholders.

June, 1998



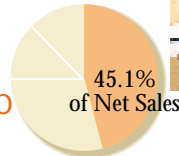
Kenji Aida

Kenji Aida
President

REVIEW OF OPERATIONS

The year 1997 covers only four months, from December 1, 1996 to March 31, 1997 since the company has changed its fiscal year and accounting period at the 84th regular shareholders meeting.

Basic Chemicals Group

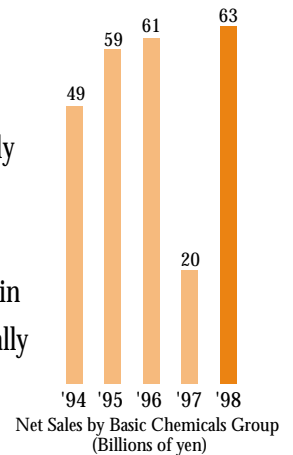


While overseas market conditions for acrylic acid and esters showed signs of weakening, sales held steady due to growing demand for the use of these products in superabsorbent polymers, paints and adhesives. Sales of methacrylic acid and esters were stable in Japan, but they fell in Asia in the latter half of the fiscal year.

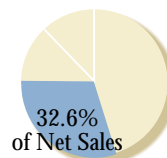
Asian demand for ethylene glycol grew over most of the fiscal year, improving the demand-and-supply balance. Sales rose slightly, then tailed off near year-end when market conditions weakened. Ethylene oxide and its derivatives enjoyed mostly steady overall sales, particularly for use in surface active agents. However, demand became less stable in the latter part of the year.

Sales of phthalic anhydride slumped due to lower domestic demand for their use in plasticizers and paints. Sales of maleic anhydride remained favorable both domestically and overseas, as the demand-and-supply balance tightened in world markets.

As a result, sales in the basic chemicals group amounted to 63.8 billion yen.



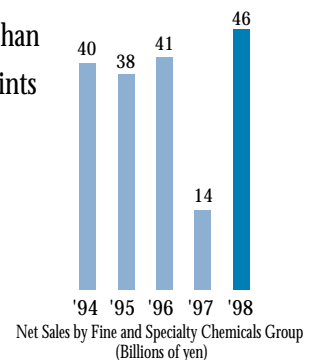
Fine and Specialty Chemicals Group



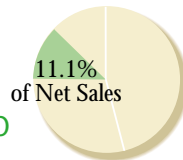
Competition was quite stiff in the end-user superabsorbent polymer market, but demand showed a steady upward trend in world markets. Sales remained favorable which, together with the yen's weakness, led to higher revenues.

In Asia, exports of SOFTANOL™, our higher-alcohol product used as a raw material for detergents, gradually declined. But sales held steady in Japan and overseas of our other fine chemical products, including raw materials for detergents (other than SOFTANOL™), medical intermediates, concrete admixtures, raw materials for paints and resins, and resin additives.

As a result, sales in the fine and specialty chemicals group totaled 46.2 billion yen.



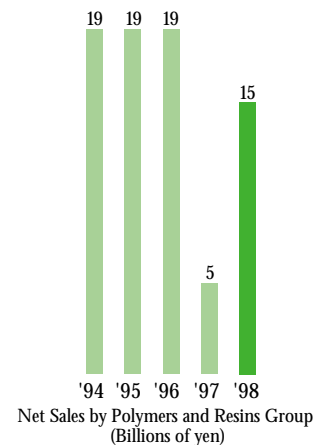
P olymers and Resins Group



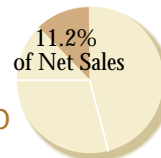
Our EPOLAC™ unsaturated polyester resins saw lower sales for their use in housing and industrial materials, due to a sharp decline in housing investment.

Sales of electrical insulating coatings also fell, as lower overseas demand created extremely tough market conditions, and sales of polymers for paints and adhesives remained sluggish. Sales of polymers for ultra weather-resistant coatings, however, made steady gains.

As a result, sales of the polymers and resins group totaled 15.7 billion yen.

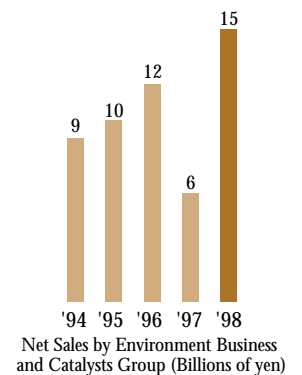


E nvironment Business and Catalysts Group



Sales of catalysts through technical licensing climbed steadily, thanks to strong new demand. Sales of exhaust catalysts for lean-burn automobile engines were also favorable, even though fewer automobiles were sold. Exports of wet-air oxidation catalysts and NSLC™ waste-water treatment systems grew, as did sales of incineration catalysts for waste gases and their systems. Sales of denitration catalysts dropped, however, as demand for new and replacement units weakened and competition stiffened.

Consequently, sales of this group totaled 15.8 billion yen.



TOPICS

New Joint Venture Established in the United States

On June 16, 1997, NA Industries, Inc., our wholly owned U.S. subsidiary, signed a contract to establish a new joint venture company that will produce acrylic acid. The new company, called American Acryl NA LLC, was established exactly one month later and located near Houston, Texas. NA Industries and its joint venture partner, Elf Atochem North America Inc., a U.S. subsidiary of Elf Atochem S.A., a major chemical company in France, each have a 50 percent stake. The agreement was signed at Elf Atochem's head office in Paris.



The signing of the joint venture contract
(June 16, 1997)

By the end of the year 2000, a new plant is expected to have the capacity to produce 120,000 tons of crude acrylic acid and 90,000 tons of refined acrylic acid annually. The product will be used by NA Industries as a raw material for superabsorbent polymers, and by the butyl ester plant that Elf Atochem plans to construct at the new company's 400-acre site in the Bayport industrial district. Land was purchased for the facility in March 1998.

Our company and Elf Atochem have worked together in a variety of areas, including the licensing of acrylic acid technology.



Site of American Acryl's future plant



Catalytic dioxins decomposition system

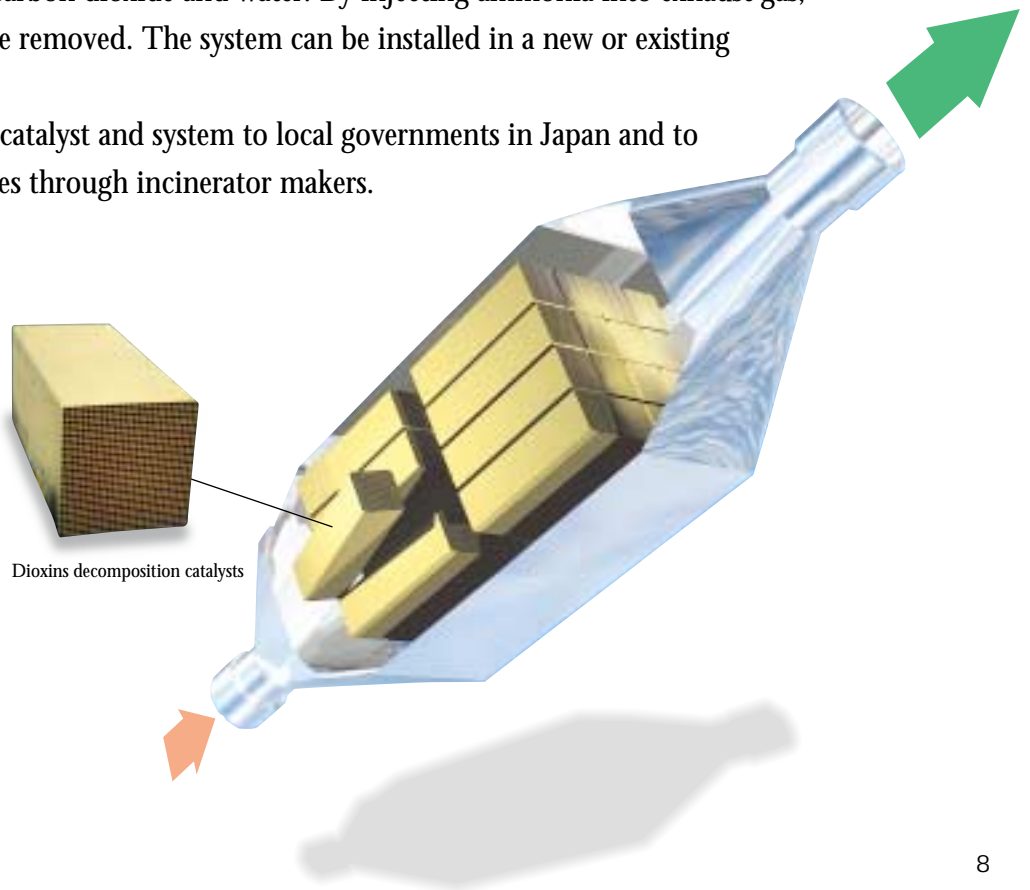
Company Develops Catalytic Dioxins decomposition system

Dioxins (polyhalogenated compounds), which are produced when certain types of garbage and other waste are incinerated, cause considerable harm to the environment and have become a major social issue.

Using technology developed through many years of R&D, we have recently developed a catalyst and system that decompose and remove dioxins at a high rate of over 99 percent.

The system can be installed along the exhaust gas passageway of an incinerator. The catalyst decomposes dioxins into carbon dioxide and water. By injecting ammonia into exhaust gas, nitrogen oxides can also be removed. The system can be installed in a new or existing incinerator.

We plan to market the catalyst and system to local governments in Japan and to waste processing companies through incinerator makers.



NON-CONSOLIDATED BALANCE SHEETS

ASSETS	Millions of yen		Thousands of U.S.dollars(Note 2)
	1998	1997	1998
Current Assets:			
Cash.....	¥ 1,684	¥ 1,526	\$ 12,747
Time deposits.....	15,364	13,229	116,305
Marketable securities.....	527	3,506	3,989
Notes and accounts receivable (Note 1):			
Trade	32,480	32,109	245,874
Subsidiaries and affiliates	8,187	8,198	61,975
Allowance for doubtful accounts (Note 1)	(262)	(369)	(1,983)
	<u>40,405</u>	<u>39,938</u>	<u>305,866</u>
Inventories (Notes 1 and 3).....	23,541	18,180	178,205
Other current assets.....	4,272	4,225	32,339
Total current assets.....	<u>85,796</u>	<u>80,606</u>	<u>649,477</u>
Investments and Other Assets:			
Investments in securities (Notes 1, 4 and 5).....	15,357	15,104	116,252
Investments in and advances to subsidiaries and affiliates (Notes 1 and 4).....	13,916	11,885	105,344
Other.....	4,874	5,055	36,896
Allowance for doubtful accounts (Note 1).....	(769)	(848)	(5,821)
Total investments and other assets.....	<u>33,378</u>	<u>31,197</u>	<u>252,672</u>
Property, Plant and Equipment (Notes 1 and 5):			
Buildings and structures.....	43,363	41,178	328,258
Machinery and equipment.....	151,154	144,781	1,144,239
Accumulated depreciation	(151,108)	(143,998)	(1,143,890)
	<u>43,410</u>	<u>41,961</u>	<u>328,614</u>
Land.....	25,965	26,047	196,555
Construction in progress	4,627	3,788	35,026
Total property, plant and equipment	<u>74,003</u>	<u>71,797</u>	<u>560,204</u>
Total assets	<u>¥193,178</u>	<u>¥183,600</u>	<u>\$1,462,361</u>

See accompanying notes to non-consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S.dollars(Note 2)
	1998	1997	1998
Current Liabilities:			
Short-term bank loans and current portion of long-term debt (Note 5).....	¥ 13,127	¥ 10,967	\$ 99,371
Notes and accounts payable (Note 1):			
Trade	22,338	23,780	169,099
Construction	7,021	7,133	53,149
Subsidiaries and affiliates.....	6,657	5,800	50,393
	<u>36,017</u>	<u>36,714</u>	<u>272,649</u>
Accrued expenses	925	1,326	7,002
Accrued income taxes (Notes 1 and 6)	2,311	2,317	17,494
Other current liabilities.....	4,560	4,080	34,519
Total current liabilities.....	<u>56,942</u>	<u>55,406</u>	<u>431,052</u>
Long-Term Liabilities:			
Long-term debt (Notes 1 and 5)	19,448	15,459	147,221
Accrued severance indemnities (Notes 1 and 8)..	10,504	10,771	79,515
Other long-term liabilities	168	218	1,271
Total long-term liabilities.....	<u>30,121</u>	<u>26,449</u>	<u>228,016</u>
Contingent Liabilities (Note 12)			
Shareholders' Equity:			
Common stock, ¥50 par value:			
Authorized: 426,000,000 shares			
Issued and outstanding:			
1998 —196,881,287 shares			
1997 —196,881,287 shares.....	16,529	16,529	125,124
Additional paid-in capital.....	13,562	13,562	102,664
Legal reserve (Note 11).....	3,393	3,274	25,685
Retained earnings (Note 1).....	72,628	68,377	549,795
Total shareholders' equity.....	<u>106,113</u>	<u>101,743</u>	<u>803,277</u>
Total liabilities and shareholders' equity..	<u>¥193,178</u>	<u>¥183,600</u>	<u>\$1,462,361</u>

NON-CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen			Thousands of U.S.dollars(Note 2)
	1998	1997	1996	1998
Net Sales	¥141,755	¥ 46,782	¥135,006	\$1,073,088
Cost of Sales	109,020	35,943	101,326	825,283
Gross Profit	32,735	10,839	33,680	247,804
Selling, General and Administrative Expenses (Notes 1 and 9)	24,913	8,480	23,565	188,591
Operating Income	7,821	2,358	10,114	59,205
Other Income (Expenses):				
Interest and dividend income	881	424	1,000	6,669
Interest expenses.....	(947)	(344)	(1,148)	(7,168)
Royalty income	2,227	1,033	1,074	16,858
Other, net.....	164	(69)	(871)	1,241
	<u>2,324</u>	<u>1,045</u>	<u>55</u>	<u>17,592</u>
Income before Income Taxes	10,146	3,404	10,169	76,805
Income Taxes (Notes 1 and 6)	4,600	2,010	4,850	34,822
Net Income	5,546	1,394	5,319	41,983
Unappropriated Retained Earnings Carried Forward from the Previous Period	1,097	1,215	1,190	8,304
Interim Cash Dividends Paid	689	—	689	5,215
Transfer to Legal Reserve	68	—	68	514
Unappropriated Retained Earnings Carried Forward to the Next Period ..	¥ 5,886	¥ 2,609	¥ 5,751	\$ 44,557
			Yen	U.S.dollars (Note 2)
Per Share (Note 7):				
Net income.....	¥ 28.17	¥ 7.08	¥ 27.02	\$ 0.21
Cash dividends applicable to the period..	7.00	2.35	7.00	0.05

See accompanying notes to non-consolidated financial statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(1) Basis of presenting financial statements

The original non-consolidated financial statements of Nippon Shokubai Co., Ltd. (the 'Company') are prepared under the generally accepted accounting principles and practices in Japan and the Securities and Exchange Law of Japan. The financial statements mentioned in this financial report have been made for the readers outside Japan, rearranging the original non-consolidated financial statements.

Since amounts less than ¥1 million have been omitted, as permitted by the Securities and Exchange Law of Japan, total or subtotal amounts appearing in the accompanying non-consolidated financial statements and notes there to do not necessarily agree with the sum of the individual account balances.

(2) Valuation of securities and investments in and advances to subsidiaries and affiliates

Marketable and other non-marketable securities are stated at cost, as determined by the periodic-average cost method.

The Commercial Code of Japan requires such investments to be written down where there has been persistent decline in the value of investments. Where considered necessary, the Company has written down the value of such investments.

(3) Valuation of inventories

Inventories are stated at the lower of cost or market. The cost of inventories are determined by the last-in, first-out method.

(4) Depreciation and amortization

Property, plant and equipment is principally computed on the declining-balance method based on the estimated useful lives of assets stipulated by the Japanese Corporation Tax Law. However, a portion of machinery is computed based on useful lives estimated by the Company, equivalent to 75% of statutory useful lives.

Amortization of intangible assets and other assets is computed on the straight-line method over the period stipulated by the Commercial Code of Japan or the Japanese Corporation Tax Law.

Significant renewals and additions of property, plant and equipment are capitalized at cost. Normal repairs and

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

(5) Foreign currency translation

All short-term monetary receivables and liabilities in foreign currency are translated into Japanese yen at appropriate year-end current rates.

All revenues and expenses arising from transactions in foreign currencies are translated into Japanese yen at the rates of exchange prevailing when such transactions are made.

Gains or losses resulting from the translations are credited or charged to income as incurred.

(6) Accrued severance indemnities

An employee whose employment is terminated is entitled, in most cases, to a lump-sum severance payment, the amount of which is determined by reference to the basic rate of pay, length of service and the conditions under which the termination occurs.

The Company is employing the Welfare Pension Plan to cover some portion of the lump-sum severance payment plan. The cost of the pension plan is determined actuarially, and the amortization of prior service costs is charged to income. These prior service costs are amortized over a period of seven years.

Accrued severance indemnities for employees are stated at amounts equivalent to 100% of that which would be required to be paid if all eligible employees covered by the plan mandatorially terminated their employment with the Company at the balance sheet date, less the estimated balances covered by the Welfare Pension Plan at the balance sheet date.

Retirement benefits to directors and corporate auditors are stated at an amount determined by the Company's laws at the end of the fiscal year.

(7) Accounting for allowances and reserves

The Company has provided certain allowances and reserves, including allowance for doubtful accounts and a reserve for employee bonuses, and a reserve for repairs for financial purposes.

Allowance for doubtful accounts

The Company has provided an amount equivalent to the limit stipulated in the Japanese Corporation Tax Law. In addition, regarding individual receivables, the Company has provided the amounts that are expected to be uncollectable.

Reserve for employee bonuses

At fiscal year-end, the Company provided estimated amounts equivalent to those applicable to the current fiscal year to cover employee bonuses to be paid in the next period.

Reserve for repairs

In order to equalize the burden of regular maintenance and repair expenses for large-scale manufacturing equipment over the operating period, the Company has provided the estimated amounts required on a monthly prorated basis.

This reserve is offset by expenses as incurred on completion of maintenance and repair.

(8) Income taxes

Income taxes provided on an accrual basis, but deferred income taxes pertaining to timing differences between financial and tax reporting are not recognized.

(9) Research and development expenses

Research and development expenses are charged to income as incurred and are included in selling, general and administrative expenses.

(10) Net income and dividends per share

Net income per share is based on the weighted average number of common shares outstanding during each fiscal year.

Cash dividends per common share represent the amounts applicable to the respective year, including dividends to be paid after the end of the fiscal year.

(11) Appropriation of retained earnings

Under the Commercial Code of Japan and the Articles of Incorporation of the Company, the appropriation of retained earnings, primarily for cash dividend payments, with respect to a fiscal year is made by resolution of the shareholders at a general meeting to be held within three months after the end of each fiscal year.

Therefore, such appropriation is not reflected in

the respective financial statements.

2. U.S.Dollar Amounts

Amounts shown in U.S.dollars are included solely for convenience and are not intended to imply that yen amounts have been or could be readily converted into, realized in or settled in dollars.

The rate of ¥132.10 to US\$1, being the approximate exchange rate on March 31, 1998, has been used.

3. Inventories

Inventories on March 31, 1998 and 1997, were as follows:

	Millions of yen		Thousands of U.S.dollars
	1998	1997	1998
Merchandise and			
finished products.....	¥ 9,753	¥ 6,888	\$ 73,830
Raw materials.....	5,473	4,639	41,430
Work in process	6,689	5,464	50,635
Supplies.....	1,624	1,188	12,293
	<u>¥23,541</u>	<u>¥18,180</u>	<u>\$178,205</u>

4. Investments in Securities and Investments in and Advances to Subsidiaries and Affiliates

Investments in securities and advances held by the Company at March 31, 1998 and 1997, consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	1998	1997	1998
Investments in securities:			
Corporate shares.....	¥15,197	¥14,940	\$115,041
Bonds and debentures	129	129	976
Investments in portfolios and others.....	30	35	227
	<u>¥15,357</u>	<u>¥15,104</u>	<u>\$116,252</u>
Investments in and advances to subsidiaries and affiliates:			
Non-listed corporate shares.....	¥ 11,333	¥ 9,262	\$ 85,791
Investments in contributions.....	1,093	1,093	8,274
Long-term loans	1,490	1,530	11,279
	<u>¥13,916</u>	<u>¥11,885</u>	<u>\$105,344</u>

5. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans are unsecured and based on an overdraft contract, bearing interest at 1.338% per annum, as of March 31, 1997 and 1.039% per annum, as of March 31, 1998.

At March 31, 1998 and 1997, long-term debt consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	1998	1997	1998
Loans from banks, insurance companies and others due from 1999 to 2008 with interest ranging from 2.19% to 7.6%	¥11,959	¥ 7,524	\$ 90,530
5.9% unsecured debentures due 1999.....	6,000	6,000	45,420
5.7% unsecured debentures due 1999.....	4,000	4,000	30,280
	<u>¥21,959</u>	<u>¥17,524</u>	<u>\$166,230</u>
Less-portion due within one year.....	2,511	2,064	19,008
	<u>¥19,448</u>	<u>¥15,459</u>	<u>\$147,221</u>

The 5.9% debentures were issued at ¥99.75 with a par value of ¥100, and the 5.7% debentures were issued at ¥99.25 with a par value of ¥100.

For both the 5.9% and the 5.7% debentures, after July 28, 1997, the Company may conduct advanced redemption in full for the principal on the interest payment date. In this case, the redemption price will be ¥100.50 per par value of ¥100 on January 27, 1998, and July 27, 1998, and ¥100 per par value of ¥100 on January 27, 1999.

In addition, both the 5.9% and 5.7% debentures may be purchased at the option of the Company anytime from the day after the issuing date.

The aggregate annual maturities of long-term debt are as follows:

Year ending March 31	Millions of yen	Thousands of U.S.dollars
1999.....	¥2,511	\$19,008
2000.....	373	2,823
2001.....	1,938	14,670
2002 and thereafter	7,137	54,027

The assets pledged as collateral for long-term debt at March 31, 1998, were as follows:

	Millions of yen	Thousands of U.S.dollars
Land.....	¥ 451	\$ 3,414
Investments in securities.....	5,468	41,392

6. Income Taxes

Income taxes applicable to the Company comprise a corporation tax, inhabitants' taxes and an enterprise tax, which in the aggregate produced a normal tax rate of approximately 51% in 1998, 51% in 1997 and 51% in 1996. The effective tax rates on the statements of income differ from the normal tax rates primarily because of the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes, the effect of permanent non-deductible expenses, the lower tax rate applied to the portion of income distributed as dividends and tax credit for research and development expenses.

7. Net Income per Share

The computation of net income per share is based on the weighted average number of shares of common stock during the respective fiscal year.

8. Accrued Severance Indemnities

The charges to income for severance indemnities for the three years ended March 31, 1998 and 1997, and November 30, 1996, were as follows:

	Millions of yen			Thousands of U.S.dollars
	1998	1997	1996	1998
	¥864	¥796	¥168	(\$6,540)

The assets of the Welfare Pension Plan at March 31, 1998, were ¥9,427 million (US\$71,362 thousand).

9. Research and Development Expenses

Research and development expenses incurred and charged to income for the years ended March 31, 1998 and 1997, November 30, 1996, were as follows:

	Millions of yen			Thousands of U.S.dollars
	1998	1997	1996	1998
	¥9,214	¥3,149	¥8,556	\$69,750

10. Transactions with Subsidiaries

Transactions with subsidiaries for the years ended March 31, 1998 and 1997, were as follows:

	Millions of yen			Thousands of U.S.dollars
	1998	1997	1996	1998
Net sales.....	¥15,604	¥ 5,573	¥14,834	\$118,128
Purchases.....	27,519	7,827	21,458	208,319
Transactions other than operating transactions.....	2,367	1,405	1,230	17,918

11. Legal Reserve

The Commercial Code of Japan provides that an amount equivalent to at least 10% of appropriations paid in cash be appropriated as a legal reserve until such reserve equals 25% of the stated amount of common stock. This reserve is not available for the payment of dividends, but it may be used to reduce or eliminate a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

12. Contingent Liabilities

At March 31, 1998, the Company had the following contingent liabilities:

	Millions of yen	Thousands of U.S.dollars
As guarantor for indebtedness of subsidiaries and affiliates.....	2,253	17,055
As guarantor for housing loans of employees.....	72	545
	<u>¥ 2,325</u>	<u>\$17,600</u>

13. Subsequent Event

On June 26, 1998, at the general meeting of shareholders, the following appropriations of retained earnings were approved:

	Millions of yen	Thousands of U.S.dollars
Balance at beginning of the year	¥ 5,886	\$44,557
Add:		
Reversal of voluntary reserve.....	66	499
Appropriations:		
Cash dividends (¥3.5-US\$0.026 per share).....	689	5,215
Transfer to legal reserve	80	605
Bonuses to directors and statutory auditors	77	582
Transfer to general reserve.....	4,000	30,280
Carried forward to the next period.....	<u>¥ 1,106</u>	<u>\$ 8,372</u>

CONSOLIDATED BALANCE SHEETS

ASSETS	Millions of yen		Thousands of U.S.dollars(Note 2)
	1998	1997	1998
Current Assets:			
Cash.....	¥ 4,410	¥ 3,264	\$ 33,383
Time deposits.....	16,646	13,981	126,010
Marketable securities.....	629	3,668	4,761
Notes and accounts receivable (Note1):			
Trade	41,547	42,099	314,511
Unconsolidated subsidiaries and affiliates.....	5,807	5,557	43,959
Allowance for doubtful accounts	(399)	(505)	(3,020)
	<u>46,955</u>	<u>47,151</u>	<u>355,450</u>
Inventories (Note 3).....	28,279	22,422	214,072
Other current assets.....	3,964	3,278	30,007
Total current assets.....	<u>100,886</u>	<u>93,766</u>	<u>763,709</u>
Investments and Other Assets:			
Investments in securities.....	14,892	15,254	112,732
Investments in and advances to unconsolidated subsidiaries and affiliates	11,728	9,397	88,781
Other.....	7,819	5,740	59,190
Allowance for doubtful accounts.....	(2,379)	(223)	(18,009)
Total investments and other assets	<u>32,061</u>	<u>30,169</u>	<u>242,702</u>
Property, Plant and Equipment:			
Buildings and structures.....	53,913	51,470	408,122
Machinery and equipment.....	174,732	167,155	1,322,725
Accumulated depreciation	<u>(175,641)</u>	<u>(166,177)</u>	<u>(1,329,606)</u>
	53,004	52,448	401,241
Land.....	26,460	26,378	200,302
Construction in progress.....	6,540	3,856	49,507
Total property, plant and equipment	<u>86,005</u>	<u>82,683</u>	<u>651,059</u>
Foreign Currency Translation Adjustments.....	<u>—</u>	128	<u>—</u>
Total assets.....	<u>¥218,953</u>	<u>¥206,748</u>	<u>\$1,657,479</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S.dollars(Note 2)
	1998	1997	1998
Current Liabilities:			
Short-term bank loans and current portion of long-term debt.....	¥ 18,939	¥ 14,487	\$ 143,368
Notes and accounts payable (Note 1):			
Trade.....	31,433	31,928	237,948
Construction.....	7,541	8,348	57,085
Unconsolidated subsidiaries and affiliates	2,128	2,058	16,109
	<u>41,103</u>	<u>42,335</u>	<u>311,150</u>
Accrued expenses.....	1,411	1,720	10,681
Accrued income taxes	2,982	2,790	22,573
Other current liabilities.....	5,624	4,810	42,573
Total current liabilities.....	<u>70,060</u>	<u>66,144</u>	<u>530,355</u>
Long-Term Liabilities:			
Long-term debt	23,463	18,661	177,615
Accrued severance indemnities (Note 4).....	11,762	11,940	89,038
Other long-term liabilities.....	177	256	1,339
Total long-term liabilities.....	<u>35,403</u>	<u>30,858</u>	<u>268,001</u>
Foreign Currency Translation Adjustments	247	—	1,869
Minority Interests.....	1,568	2,120	11,869
Shareholders' Equity:			
Common stock, ¥50 par value:			
Authorized: 426,000,000 shares			
Issued and outstanding:			
1998— 196,881,287 shares			
1997— 196,881,287 shares.....	16,529	16,529	125,124
Additional paid-in capital.....	13,562	13,562	102,664
Legal reserve.....	3,393	3,274	25,685
Retained earnings.....	78,188	74,260	591,884
Less common stock in treasury, at cost.....	(0)	(1)	(4)
Total shareholders' equity.....	<u>111,673</u>	<u>107,625</u>	<u>845,367</u>
Total liabilities and shareholders' equity..	<u>¥ 218,953</u>	<u>¥ 206,748</u>	<u>\$1,657,479</u>

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen			Thousands of U.S.dollars(Note 2)
	1998	1997	1996	1998
Net Sales	¥171,805	¥ 56,272	¥158,460	\$1,300,567
Cost of Sales	130,450	42,452	117,388	987,509
Gross Profit	41,354	13,820	41,071	313,050
Selling, General and Administrative Expenses	30,251	10,240	28,554	229,000
Operating Income	11,103	3,579	12,517	84,049
Other Income (Expenses):				
Interest and dividend income	757	246	765	5,730
Interest expenses	(1,114)	(397)	(1,323)	(8,433)
Royalty income	1,851	843	875	14,012
Other, net	(2,297)	(356)	(1,558)	(17,388)
	(803)	337	(1,241)	(6,078)
Income before Income Taxes, Minority Interests and Equity in Earnings of Unconsolidated Subsidiaries and Affiliates	10,300	3,916	11,276	77,971
Income Taxes	5,732	2,312	5,843	43,391
Income before Minority Interests and Equity in Earnings of Unconsolidated Subsidiaries and Affiliates	4,568	1,603	5,432	34,579
Minority Interests	533	(130)	(175)	4,034
Equity in Earnings of Unconsolidated Subsidiaries and Affiliates	122	60	170	923
Amortization of Consolidation Adjustments	1	—	52	7
Foreign Currency Translation Adjustments	—	—	9	—
Net Income	¥ 5,226	¥ 1,533	¥ 5,488	\$ 39,560
	Yen			U.S.dollars (Note 2)
Per Share:				
Net income	¥ 26.54	¥ 7.79	¥ 27.88	\$ 0.20
Cash dividends applicable to the period..	7.00	2.35	7.00	0.05

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared on the basis of the same accounting policies as mentioned in Note 1 of the notes to non-consolidated financial statements except for the following principles:

(1) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of Nippon Shokubai Co., Ltd. (the Company) and its nine significant subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

The accounts of the 14 other subsidiaries are not consolidated with the Company. The total assets, net sales, net income and retained earnings of the unconsolidated subsidiaries, in the aggregate, are so small as to have an insignificant effect on the Company's consolidated accounts.

Two unconsolidated subsidiaries and three affiliated companies are accounted for by the equity method.

From this fiscal year, American Acryle NA LLC, established by NA Industries, Inc. and other in June 1997, is added as an affiliated company and accounted for by the equity method.

Consolidated net income includes the Company's equity in the current net income of such companies, after elimination of unrealized intercompany profits.

12 subsidiaries and 11 affiliated companies (20% to 50% owned) are not accounted for by the equity method as the effects of these companies on the Company's consolidated net income and retained earnings are immaterial.

Investments in unconsolidated subsidiaries and in the affiliated companies which are not accounted for on an equity method are carried at cost or less. Where there has been a persistent decline in the value of such investments,

the Company has written down its investments.

The difference between the cost and underlying net equity of investments in consolidated and other companies accounted for by the equity method is charged or credited to income in the year of acquisition.

(2) Balance sheet date

The balance sheet date of all consolidated subsidiaries is the same as the Company's, except NA Industries, Inc. and American Acryl NA LLC, which have a balance sheet date of December 31.

The Companies have made consolidation adjustments for significant transactions between itself and them, incurred up to and including the consolidation date of

March 31.

(3) Foreign currency translation of consolidated foreign subsidiaries

Translation into Japanese yen of the financial statements of the consolidated foreign subsidiaries were made in accordance with the "Accounting Standards for Transactions Denominated in Foreign Currencies," reported in June 1979, revised in May 1995 by Japan's Financial Accounting Deliberation Council.

Translation differences are shown as "Foreign Currency Translation Adjustments" in the accompanying consolidated financial statements.

(4) Tax-effect accounting

Tax-effect accounting pertaining to timing differences on corporation taxes is not applied.

2. U.S. Dollar Amounts

The same method of translating yen amounts as described in Note 2 of the notes to non-consolidated financial statements has been used.

3. Inventories

Inventories on March 31, 1998 and 1997, were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Merchandise and finished products.....	¥13,188	¥10,029	\$ 99,833
Raw materials.....	6,090	5,172	46,101
Work in process	7,178	5,875	54,337
Supplies.....	1,821	1,344	13,785
	<u>¥28,279</u>	<u>¥22,422</u>	<u>\$214,072</u>

4. Accrued Severance Indemnities

The Company has a Welfare Pension Plan, and four of its consolidated subsidiaries have a qualified pension plan. The prior service costs for the Welfare Pension Plan and the qualified pension plan are amortized over a period of seven years and five to ten years, respectively. The assets of the pension plans amounted to ¥11,133 million (US\$84,277 thousand) at March 31, 1998.

5. Subsequent Event

See Note 13 of the notes to non-consolidated financial statements.

CORPORATE DATA

NIPPON SHOKUBAI CO., LTD.

Incorporated

August 21, 1941

Common Stock

Authorized: 426,000,000 shares

Issued: 196,881,287 shares

Capital

¥16,529,413,238

Number of Employees

2,217

Stock Listings

First Section, Tokyo Stock Exchange

First Section, Osaka Securities Exchange

First Section, Nagoya Stock Exchange

Transfer Agent

The Toyo Trust & Banking Co., Ltd.

1-4-3 Marunouchi, Chiyoda-ku,

Tokyo 100-0005, Japan

(as of March 31, 1998)

Board of Directors

President

Kenji Aida

Executive Vice Presidents

Takahisa Sato

Tadashi Kimura

Senior Managing Director

Kiyoshi Nakagawa

Managing Directors

Tetsuji Ono

Kinya Hasegawa

Yasumasa Oba

Yoshinori Sano

Takeo Munehiro

Tatsuo Konishi

Hiroshi Yanagida

Directors

Hisayoshi Jono

Kazunosuke Nagai

Takahiro Toyohama

Keizo Maruyama

Tsumoru Yamada

Yutaka Morimoto

Yuji Noma

Norimitsu Konno

Corporate Auditors

Masaru Abe

Keishi Oyama

Setsuya Kitabatake

Kazuaki Hata

(as of June 26, 1998)

Consolidated Subsidiaries

Name	Paid-in capital (millions of yen, unless otherwise stated)	Equity ownership(%)	Principal business	President
Nippoh Chemicals Co., Ltd.*	¥ 517	62.5	Manufacture and sale of iodine, iodic compounds, and natural gas	Tsuneo Tsubakimoto
Nisshoku Aro Chemicals Co., Ltd.* (Note)	100	100.0	Manufacture and sale of synthetic resins and related additives	Takahiro Ito
Nippon Polyester Co., Ltd.*	100	94.6	Manufacture and sale of FRP and PC products	Yasuji Nakagawa
Daiko Kaiun Co., Ltd.*	100	59.3	Transport	Katsunobu Kaneko
NA Industries, Inc.*	US\$775	100.0	Manufacture and sale of superabsorbent polymers Technical liaison and business development	Yuji Noma
Tokyo Fine Chemical Co., Ltd.*	¥ 80	66.2	Manufacture and sale of stabilizer of vinyl chloride resin and anti-freeze	Masatoshi Tsuchino
Chugoku Kako Co., Ltd.*	75	74.3	Manufacture and sale of synthetic resins and heat insulator	Noboru Shimizu
ICT Co., Ltd.*	60	51.0	Sale of automobile exhaust catalyst	Junzo Senba
Nisshoku Kosan Co., Ltd.*	32	100.0	Management of golf driving range and non-life insurance agent	Goro Kijima

Name	Paid-in capital (millions of yen, unless otherwise stated)	Equity ownership(%)	Principal business	President
Nihon Jyoryu Kogyo Co., Ltd.	¥ 90	46.6	Manufacture and sale of anthraquinone, carbazole, and their derivatives	Kensuke Kumazawa
Nishinippon FRP Shipbuilding Co., Ltd.	30	100.0	Manufacture and sale of FRP ship and finished products	Terumitsu Mimura
Nippon Polymer Ind. Co., Ltd.	100	50.0	Manufacture and sale of acrylic emulsions	Yoshio Yasuda
Nisshoku Schenectady Kagaku, Inc.	40	45.0	Manufacture and sale of insulating varnish and enamel	Kenji Aida

*Included in consolidation
(Note) Nisshoku Aro Chemicals Co., Ltd. was merged into Nippon Shokubai Co., Ltd. on April 1, 1998.

(as of March 31, 1998)

DIRECTORY

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Osaka 541-0043, Japan
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1-24-21 Meiekinami, Nakamura-ku
Nagoya 450-0003, Japan

Fukuoka Sales Office

Hakata Bldg.
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Fukuoka 812-0012, Japan

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Osaka 564-0034, Japan

Kawasaki Chidori Plant

14-1 Chidori-cho, Kawasaki-ku
Kawasaki, Kanagawa 210-0865, Japan

Kawasaki Ukishima Plant

10-12 Ukishima-cho, Kawasaki-ku
Kawasaki, Kanagawa 210-0862, Japan

Himeji Plant

992-1 Aza Nishioki Okihama, Aboshi-ku
Himeji, Hyogo 671-1241, Japan

LABORATORIES

Materials & Functions Research Laboratory

5-8 Nishi Otobi-cho, Suita
Osaka 564-0034, Japan

Tsukuba Research Laboratory

1-25-12 Kannondai, Tsukuba
Ibaraki 305-0856, Japan

Polymer Research Laboratory

5-8 Nishi Otobi-cho, Suita
Osaka 564-0034, Japan

Process Development Laboratory

992-1 Aza Nishioki Okihama, Aboshi-ku
Himeji, Hyogo 671-1241, Japan

Catalyst Research Laboratory

992-1 Aza Nishioki Okihama, Aboshi-ku
Himeji, Hyogo 671-1241, Japan

Resins Research Laboratory

5-8 Nishi Otobi-cho, Suita
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Specialty Polymers Research Laboratory

5-8 Nishi Otobi-cho, Suita
Osaka 564-0034, Japan

OVERSEAS COMPANIES

NA Industries, Inc.

P.O. Box 5407
2651 Riverport Road
Chattanooga, TN 37406, U.S.A.

NIPPON SHOKUBAI GmbH

Niedenau 61-63
60325 Frankfurt am Main, Germany

NIPPON SHOKUBAI (ASIA) PTE LTD

138 Cecil Street, #05-04
Cecil Court Singapore 069538

(as of July 1, 1998)

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**NIPPON
SHOKUBAI**