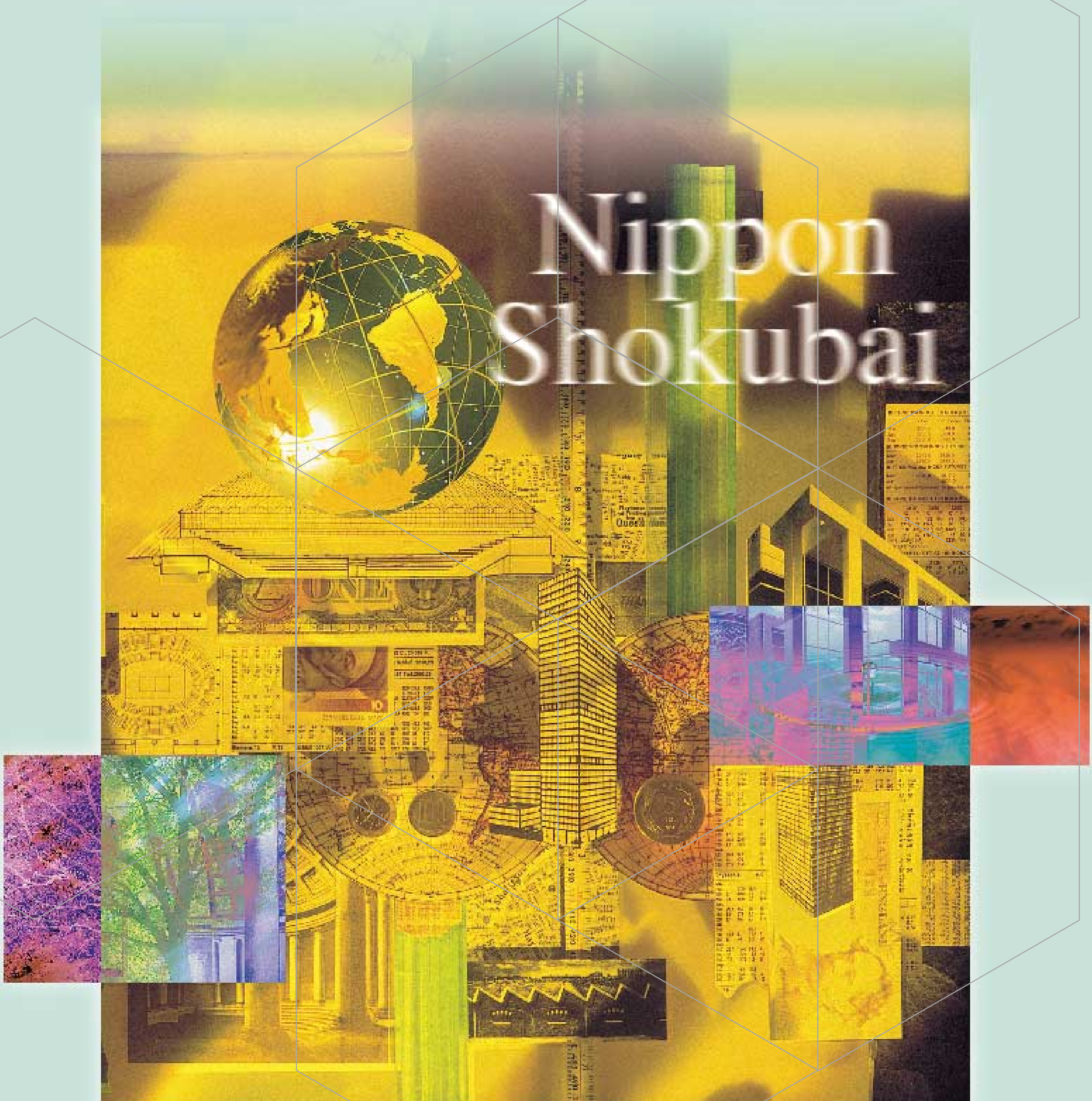
NIPPON
SHOKUBAI

2001
Annual Report



Profile

Since its foundation in 1941, Nippon Shokubai has been engaged in R&D activities in search of original technical solutions in four major fields: catalyst technology, polymer synthesis, environment preservation systems, and organic synthesis. Our major products are basic chemicals, including acrylic acid, methacrylic acid and ethylene oxide; fine and specialty chemicals, including superabsorbent polymers and higher alcohols; synthetic resin, including unsaturated polyester resins; and catalysts/environment preservation systems, including catalysts for cleaning automobile exhaust gases, process catalysts and dioxins decomposition/elimination equipment. Created through our proprietary technology and know-how, these products have made various contributions to our society and people's daily lives.

In addition, our various chemical product manufacturing technologies have been highly appreciated overseas, as well as our diverse line of products. A wide variety of chemicals manufacturing technologies, including those related to acrylic acid/esters and many other process technologies, have been exported to Europe, Asia, the USA, and elsewhere.

In recent years, we have been making efforts to develop our business at global basis by establishing production bases for acrylic acid and acrylic esters in Southeast Asia and North America and for superabsorbent polymers in North America and Europe.

Under our corporate philosophy of "TechnoAmenity," which seeks to harmonize "Technology" and "Natural Environment," and focusing on our ultimate objective, "making human life richer and more comfortable through technological innovations," we are working to meet emerging global changes and to enhance our potential for commercial competition.

Contents

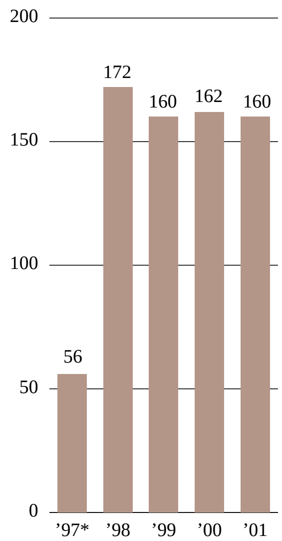
Financial Highlights

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries
Year ended March 31

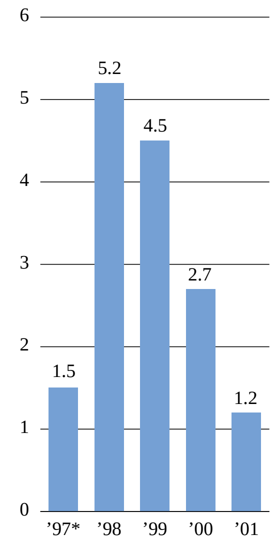
	Millions of yen			*Thousands of U.S. dollars*
	2001	2000	1999	**2001**
For the Year				
Net Sales	**¥160,585**	¥162,461	¥160,190	**$1,296,085**
Operating Income	**5,379**	6,622	8,906	**43,414**
Income before Income Taxes	**3,178**	5,349	7,925	**25,650**
Net Income	**1,242**	2,659	4,450	**10,024**
At Year-End				
Total Assets	**¥230,468**	¥216,896	¥231,081	**$1,860,113**
Total Shareholders' Equity	**117,340**	118,820	114,658	**947,054**
	Yen			*U.S. dollars*
Per Share Amounts				
Net Income	**¥6.37**	¥13.54	¥22.61	**$0.05**
Cash Dividends	**7.00**	7.00	7.00	**0.05**

Foreign Exchange Rate: US$1.00 = ¥123.90

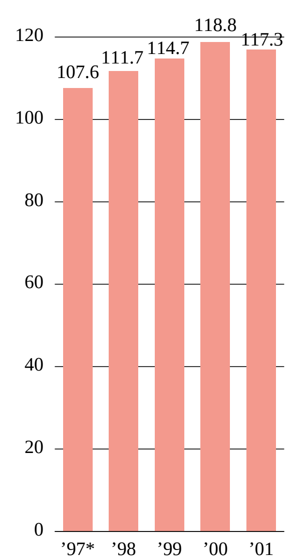
Net Sales (Billions of yen)



Net Income (Billions of yen)



Shareholders' Equity (Billions of yen)



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

To Our Shareholders

Performance

In fiscal year 2000, which ended on March 31, 2001, capital investment, the current driving force in the Japanese economy, remained firm. Personal consumption, however, continued to show little sign of genuine recovery, reflecting difficult employment conditions, such as an unemployment rate, which remained at a high rate. Moreover, the improvement in the Japanese economy ground to a halt in the wake of the slowdown in the U.S. economy, and concern remained high over the future direction of the economy.

In the chemical industry, domestic demand was favorable during the fiscal year, but the ballooning demand from Asian economies reached a limit in the second half of the fiscal year. The high prices of naphtha and other raw materials placed negative pressure on corporate profits, producing a less than rosy business climate.

Performance Highlights

(Unit: millions of yen)

	Fiscal Year		Change	
	2000	1999	Amount	%
Net sales	160,585	162,461	(1,876)	(1.2)
Operating income	5,379	6,622	(1,242)	(18.8)
Ordinary income	4,303	5,088	(784)	(15.4)
Net income	1,242	2,659	(1,417)	(53.3)
Net income per share	¥6.37	¥13.54	(¥7.17)	(52.9)
ROE (Return on Equity)	1.1%	2.3%	—	(1.2points)
ROA (Return on Assets)	1.9%	2.3%	—	(0.4points)
Exchange rate	\$=¥110.60 DM=51.36	\$=¥111.62 DM=59.00		(¥1.02) (¥7.64)
Naphtha price	¥23,550/kl	¥17,950/kl		¥5,600/kl

In this business environment, consolidated net sales declined by ¥1,876 million (1.2%), to ¥160,585 million, due to a decrease in the sales volumes of core products and appreciation in the yen.

Operating income declined by ¥1,242 million (18.8%), to ¥5,379 million. The decline in operating income occurred despite an upward revision in the prices of some products and cost reduction benefits from rationalization because of a drop in actual income received under the impact of the rising cost of raw materials and the appreciation in the yen.

Although equity in losses of unconsolidated subsidiaries and affiliates declined as did bond interest paid, ordinary income still declined by ¥784 million (15.4%), to ¥4,303 million.

Consolidated net income declined by ¥1,417 million (53.3%), to ¥1,242 million because of the generation of a substantial retirement benefits expense and the recording of a loss on devaluation of investments in securities.

Net income per share amounted to ¥6.37 while Return on Equity (ROE) was 1.1%, down 1.2 points. Return on Assets (ROA) was 1.9%, down 0.4 points from the previous fiscal year.

Sales by Business Group and Region

(Unit: millions of yen)

	Fiscal Year 2000		Fiscal Year 1999		Change	
Business Group	Chemicals	Others	Chemicals	Others	Chemicals	Others
Sales	158,230	2,355	159,907	2,554	(1,676)	(199)
Operating income	4,738	505	5,681	808	(942)	(302)
Regional	Japan	Overseas	Japan	Overseas	Japan	Overseas
Sales	142,021	18,564	143,363	19,097	(1,342)	(533)
Operating income	5,397	(54)	5,399	1,119	(1)	(1,174)

Cash Flow

Cash and cash equivalents (“Net cash”) at the end of the fiscal year under review contracted by ¥8,021 million (35.1%), to ¥14,806 million from the end of the previous fiscal year. This decline was attributed to the lack of proceeds from sales of marketable securities and investments in securities as recorded in the previous fiscal year, lower income before income taxes and minority interests, and lower depreciation.

Net cash provided by operating activities

Net cash provided by operating activities amounted to ¥9,757 million. Although cash flow decreased somewhat because of an increase in inventories and other items, there was an overall net increase in cash because of cash flow of ¥3,178 million from income before income taxes and minority interests and depreciation and amortization of ¥10,088 million.

Net cash used in investing activities

Net cash used in investing activities amounted to ¥12,961 million. These funds were used for the acquisition of the superabsorbent polymer production facilities of Nippon Shokubai Europe N.V., expenses for other facilities, the purchase of marketable securities and investments in securities, and investments in overseas affiliated companies.

Net cash used in financing activities

Net cash used in financing activities amounted to ¥6,584 million. These funds were mainly used to pay cash dividends to shareholders and to repay loans.

Dividend Policy

Nippon Shokubai considers shareholder dividends as one of the top corporate priorities, and our policy is to ensure a payout of continuous, stable dividends to our shareholders. At the same time, the Company must maintain its competitive edge and follow practices that promote sustainable growth, and this requires judicious investment in facilities and research and development. It is thus vital that we retain some of the profits within the Company. Consequently, dividends are paid continuously in the future in consideration of maintaining a balance between these two factors.

Based on the current business environment and the results in the fiscal year under review, the Company has decided to pay an annual dividend of ¥7.00 per share, including the ¥3.50 paid as an interim dividend, which is equivalent to payout ratio of 53.7%.

Outlook for Fiscal Year 2001

The direction of the Japanese economy in the current fiscal year is difficult to predict. The U.S. economy has begun to slow and movement in Asian economies is unclear. Furthermore, there is growing concern over possible economic recession in Japan due to signs of falling capital investment by the private sector as well as other factors.

Hiroshi Yanagida, President

Despite this difficult business climate, our plans call for consolidated net sales increasing ¥11,414 million (7.1%), to ¥172.0 billion (¥83 billion in the first half) due to an expected recovery in the sales volumes of some of our core products. Despite continued pressure from high raw material costs, ordinary income is expected to increase ¥1,896 million (44.1%), to ¥6.2 billion (¥1.8 billion in the first half) supported by continuous efforts to maintain appropriate price levels and reduce operating costs. Net income is expected to increase ¥2,057 million (165.6%), to ¥3.3 billion (¥800 million in the first half) compared with the previous fiscal year in which the retirement benefits expense and loss on devaluation of investments in securities were booked.

Although we expect the yen exchange rate to continue to fluctuate, we have principally used the exchange rate of ¥115 to the U.S. dollar in our calculations of the above outlook. In addition, the price of naphtha, which sets the standard for raw material prices, was set at ¥23,000 per kiloliter.

Hiroshi Yanagida

Hiroshi Yanagida
President

Business Plan

Fundamental Business Policies

Under our corporate philosophy of "TechnoAmenity—making human life richer and more comfortable through technological innovations", with the catalyst technology as a core, we are working to meet emerging global changes and to enhance our potential for commercial competition, based on the following fundamental business policies.

- Respect humanity.
- Target the development of pioneering technologies.
- Conduct business activities with a global view.

Our Business Plans

We believe that our highest priority is not the pursuit of continuous growth in quantity but in quality, with recognizing our strengths and weakness and by selecting and focusing in the use of our business resources. Based on an awareness of this priority, we have prepared medium-term (3 years) and long-term (6 years) business plans that were implemented in April 2001.

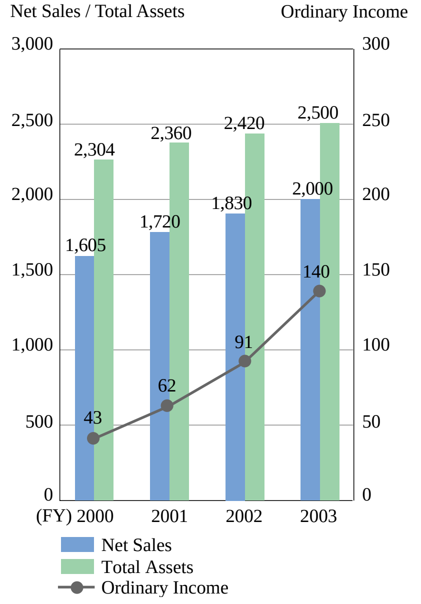
Summary of the Long-term Business Plan, "TechnoAmenity NV"

1. Our future vision of the Company is "Nippon Shokubai: A Global Company Creating New Values through Unique Technologies." This statement is a "New Version" of our business policy as guided by our corporate philosophy of "TechnoAmenity" and incorporate a "New Vision" aimed at creating "New Value."

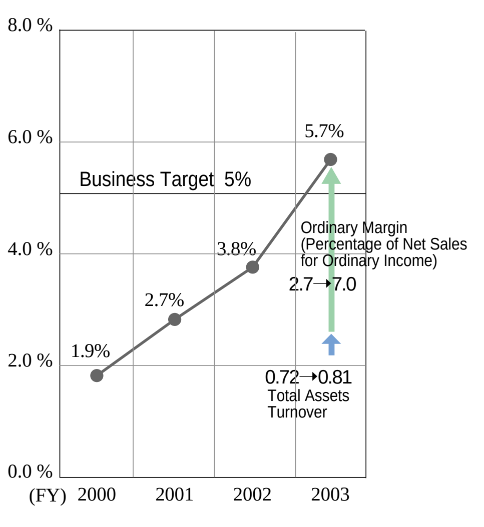
2. Under our long-term business plan slogan, "A Shift from Quantitative Growth to Qualitative Growth—for Our Development in the 21st Century," we are aiming to establish a powerful business structure based on the following three business focuses.

   - New products field "Selective and Focused Use of Business Resources—increasing the precision and speed of new products development".

Outline (Consolidated)
Unit:100 millions of yen



ROA (Return on Assets) (Consolidated)



• Existing products field “Establishing a Business Portfolio and Clarifying Responsibility of Profit Making”.

• Revitalizing employees and its organization “Creating a Vigorous and Flexible Corporate Organization that Can Respond Quickly to Change of The Times”

3. Performance Indicator
Targeting more efficient use of assets, we have introduced Return on Assets (ROA) on a consolidated basis as our indicator of overall corporate performance. As performance indicators for business operations, we have introduced cash flow provided by operating activities and sales contribution income (our own, original indicator), targeting increased product profitability.

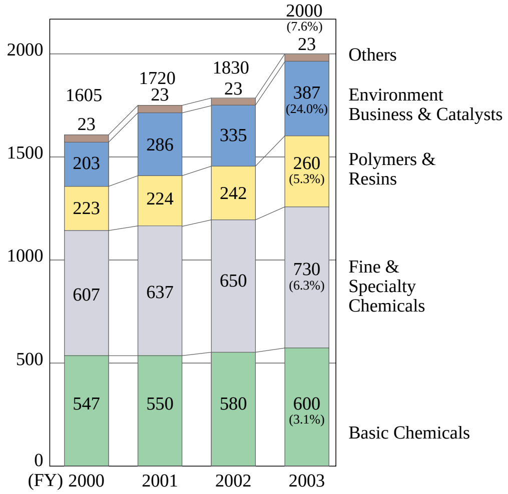
Summary of the Medium-term Business Plan

The first three years of the long-term business plan, has been termed the “foundation setting” stage of the plan, and we have implemented planning of concrete measures to achieve its goals.

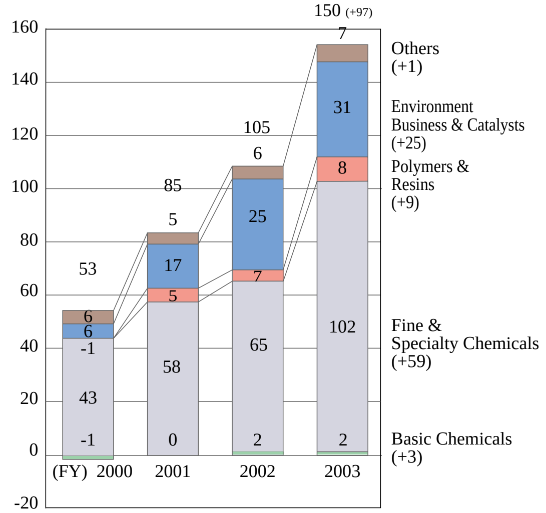
Supported by the stable cash flow generated by our core businesses of acrylic acid and superabsorbent polymers, we plan to further strengthen our new products development organization, and make a leap in the fine & specialty chemicals business. In addition, we intend to firm up our base in the environment business under an expanding of the market due to the recent enforcement of environmental regulations.

Our goal is to achieve an ROA of 5% or greater on a consolidated basis at the end of the three years, representing improved efficiency in use of assets and the strengthening of our corporate structure.

Net Sales by Segments (Consolidated)
Unit:100 millions of yen



Operating Income by Segments (Consolidated)
Unit:100 millions of yen

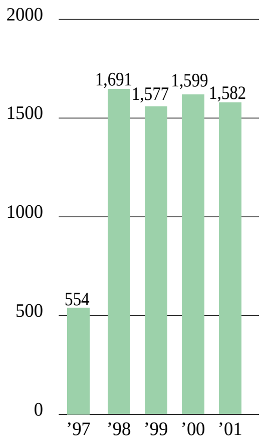


Note:Estimated amounts of increase/decrease in fiscal 2000 through fiscal 2003

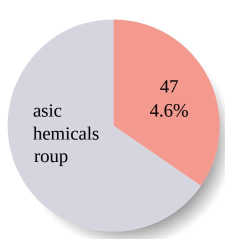
Note: The figures are our targets for fiscal 2001 through fiscal 2003

Review of Operations
(Chemical Business)

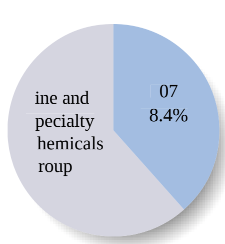
Chemical Business
(Change of net sales)
(100 millions of yen)



Breakdown and component ratio in 2001:
(100 millions of yen)



Breakdown and component ratio in 2001:
(100 millions of yen)



Basic Chemicals Group


Chemicals Production Plant

Sales of acrylic acid and acrylic esters increased because of a recovery in prices in international markets and continued firm demand for use in superabsorbent polymers. Sales of methacrylic acid and methacrylic esters also increased from continued firm demand and a recovery in prices in international markets.

Although prices in international markets improved for ethylene glycols, unrecovered domestic demand and intensified competition in overseas markets pushed down sales volume. Sales of ethylene oxide and its derivatives declined due to stagnant domestic demand.

Despite an upward revision of prices, sales of phthalic anhydride declined because of continued stagnant demand for its use in plasticizers and paint. While, sales of maleic anhydride increased supported by a sudden recovery in international prices and by firm progress of exports.


*Automotive Paints (Acrylic esters and methacrylic esters)

Consequently, sales of the Basic Chemicals Group totaled ¥54,703 million, up 2.1% from the previous fiscal year.

Fine & Specialty Chemicals Group

Sales of superabsorbent polymers declined because of falling of sales volumes caused by excessive competition globally and because of the appreciation in the yen, especially against the euro.

Sales of higher-alcohol products (SOFTANOL) and other raw materials for detergents declined because of stagnant domestic demand and intensifying competition in overseas markets.

Although construction investment remained in a slump, domestic and export sales of products used as concrete admixtures increased thanks to a strong reputation in the market for their high functions.

Sales of iodic and cyanic compounds and agricultural chemical-related products fell because of intensified competition.

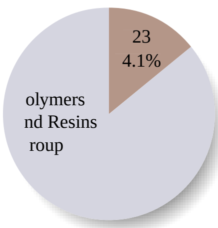
Regarding other fine & specialty chemicals, sales of medical intermediates suffered from intensified competition in overseas markets, but sales of raw materials for resins and for information-related products was firm, resulting in an increase in sales of other fine & specialty chemicals.


*LCD displays (EPOSTAR)

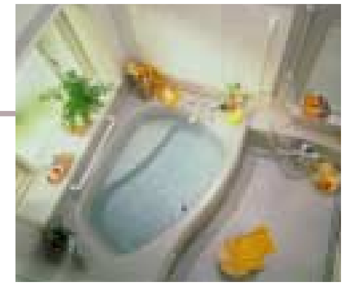

*Polymers for concrete admixture (AQUALOC)

Consequently, sales of the Fine & Specialty Chemicals Group totaled ¥60,761 million, down 5.7% from the previous fiscal year.

Breakdown and component ratio in 2001:
(100 millions of yen)



Polymers & Resins Group



*Bath Room (EPOLAC)

Sales of unsaturated polyester resin (EPOLAC) for use in housing construction and industrial machinery and equipment were weak, but the sales were approximately the same as in the previous year by an upward revision in prices of some products.

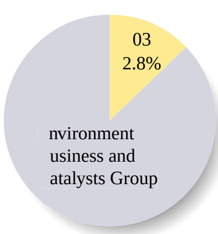
Despite sales of resins for use in ultra-weather resistant paints and for adhesives being favorable, sales of heat resisting paints declined because of intensified competition in overseas markets.

In addition, sales of plastic molded products declined due to stagnant demand.

*Resins for Paints (UWR)

Consequently, sales of the Polymers & Resins Group totaled ¥22,377 million, down 7.0% from the previous fiscal year.

Breakdown and component ratio in 2001:
(100 millions of yen)



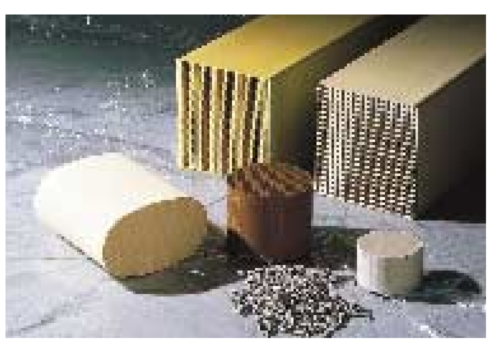
Environment Business & Catalysts Group

Sales of process catelysts relating technology licensing declined because of weak replacement demand.

Sales of De-NOx catalysts declined because of lower demand from electric power plants. While, sales of automotive catalysts increased due to greater demand resulting from more stringent regulations on exhaust emissions.

Sales of dioxin decomposition systems and wastewater treatment systems were favorable and increased.

Consequently, sales of the Environment Business & Catalysts Group totaled ¥20,387 million, up 14.3% from the previous fiscal year.



Exhaust gas treatment catalysts

Catalytic Dioxins Decomposition System

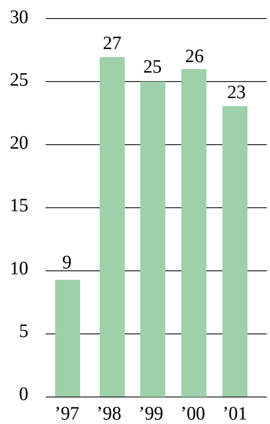
Overall, total sales of the Chemicals Business declined by ¥1,676 million (1.0%), to ¥158,230 million from the previous fiscal year.

Operating income declined by ¥942 million (16.6%), to ¥4,738 million. This decline occurred, despite efforts to an upward revision in the prices of products and a reduction of fixed expenses, because of the negative impact of falling of sales volumes, the appreciation in the yen, and a sharp rise in cost of raw materials.

*Examples of end uses for Nippon Shokubai products. The raw material in parentheses is the Nippon shokubai product.

Review of Operations
(Other Businesses)

Other Businesses
(Change of net sales)
(100 millions of yen)



Revenues from the transportation business declined because of a drop in haulage volume, while services revenues also declined because of the weak economy and the diversification in the leisure preferences of Japanese.

Overall, total sales of the Other Businesses declined by ¥199 million (7.8%), to ¥2,355 million from the previous fiscal year.

Operating income declined by ¥302 million (37.4%), to ¥505 million despite cost reduction efforts because of an increase in the cost of fuel for transportation vesseles.

Geographic Information

Japan

The chemicals business was slow generally slow throughout the fiscal year under review. Sales totaled ¥142,021 million, and operating income was approximately the same as in the previous fiscal year, at ¥5,397 million.

Overseas

Overseas performance suffered from intensified competition during the fiscal year under review. Sales totaled ¥18,564 million, down 2.8%, and operating income moved into the red, at ¥54 million.

Topics

American Acryl Building Acrylic Acid Plant

On September 26, 2000, American Acryl LP. held a groundbreaking ceremony for its acrylic acid plant in the Bayport industrial district of Pasadena, Texas. American Acryl is a 50/50 joint venture of NA Industries, Ltd., a U.S. subsidiary of Nippon Shokubai, and ATOFINA Chemicals, Inc.

NA Industries, Nippon Shokubai's manufacturing base in North America for superabsorbent polymers, got involved in this project to acquire a stable supply of high-quality, low-cost acrylic acid. NA Industries and ATOFINA Chemicals plan to build an acrylic acid plant with an annual production capacity of 120 thousand metric tons. Construction is ongoing with operations scheduled to start in the first half of 2002.

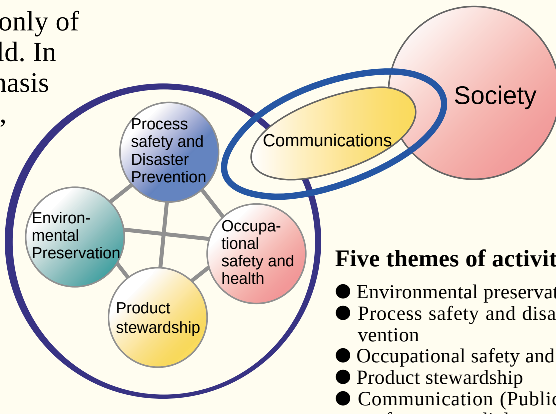
Acrylic acid and superabsorbent polymers are core businesses for Nippon Shokubai, and the Company is developing these businesses in Japan, the United States, and Asia. The Nippon Shokubai Group currently produces acrylic acid at Nippon Shokubai's Himeji Plant (annual production capacity of 220 thousand metric tons) and at its subsidiary, P.T. Nippon Shokubai Indonesia (60 thousand metric tons). When the new plant comes on stream, N.A. Industries' share of production will be 60 thousand metric tons, bringing the Group's total annual production capacity to 340 thousand metric tons.

"Responsible Care"

Nippon Shokubai's Fundamental Policy Regarding Environmental Preservation and Safety

As a member of the business community and society at large, we are committed to be a good corporate citizen not only of local communities also of the world. In our activities, we place great emphasis on the environmental preservation, health and safety throughout the entire life cycle of chemical substances, from development to disposal. Based on the principle of sustainable development, our fundamental policy is to harmonize our activities with environmental preservation on a global basis.

Specific Responsible Care Activities



Five themes of activities

- Environmental preservation
- Process safety and disaster prevention
- Occupational safety and health
- Product stewardship
- Communication (Publication of performance, dialogue with the public)

Environmental Preservation and Safety Activities

Nippon Shokubai is a participant in the Responsible Care activities of the International Council of Chemical Associations (ICCA). Through these RC activities, the Company is contributing to the environmental preservation.

Major Activities on environmental preservation

(1) Pollutant Release and Transfer Register (PRTR)

(2) Promotion of energy conservation

(3) Reduction of industrial waste

(4) Material Safety Data Sheet (MSDS) preparation and distribution to customers

(5) Yellow Card preparation

(6) Environmental management system (ISO14001 certification)

(7) Participation in regional RC meetings sponsored by the JRCC

(8) Participation in the ICCA's initiative on high production volume (HPV)

(9) Participation in the ICCA's long-range research initiative (LRI)

RC Participation History

1993 Established fundamental policy and committed to the pursuit of RC.

1995 The Japan Responsible Care Council (JRCC) was established, with 74 companies participating.

* As of 2001, 109 companies are participating in the JRCC.

RC (Responsible Care)

Activities undertaken by the chemical industry by which manufactures and handlers of chemical substances, under the principle of self-determination and individual responsibility, conduct self-management of environmental and safety issues surrounding aspects of chemical substances, from development to disposal.

(1) PRTR (Pollutant Release and Transfer Register)
PRTR protocols comprise a system for calculating and recording the degree to which chemical substances are discharged into the environment during production, use, and storage, voluntarily commenced by the JCIA (Japan Chemical Industry Association) in 1995. In July 1999, "Law Concerning Reporting, etc. of Release of Specific Chemical Substances to the Environment and Promotion of the Improvement of Their Management" was promulgated and will be applied to businesses that manufacture or handle specified chemical substances beginning in 2001.

(4) MSDS (Material Safety Data Sheet)
A safety data sheet provided for each product by chemical product suppliers to uses and handles for the purpose of preventing chemical product related accidents.

(5) Yellow Card
A card stating the procedures to be taken and contact information for transporters, fire squads, and police in the event of an accident during the road transport of chemical substances.

(8) HPV(High Production Volume)Preexisting Chemical Substances
An OECD program for collecting and evaluating safety data on chemical substances whose production volume exceeds 1,000 tons per country.

(9) LRI (Long-range Research Institute)
A voluntary long-term plan to study the effects of chemical substances on health, safety, and the environment, one of ICCA's most crucial agendas.

(7) JRCC (Japan Responsible Care Council)
An organization established within JCIA in 1995 for the promotion of RC in Japan.

(9) ICCA (International Council of Chemical Associations)
A gathering of the world's chemical industry groups, which, as of its establishment in 1990, has included the Japan Chemical Industry Association.

Management Indices

(1) Consolidated Management Indices

Period	84th	85th	86th	87th	88th	89th
Fiscal Year End	November 1996	March 1997	March 1998	March 1999	March 2000	March 2001
						(Millions of yen)
Net Sales	158,460	56,272	171,805	160,190	162,461	160,585
Ordinary Income	10,078	3,392	11,222	8,231	5,088	4,303
Net Income	5,488	1,533	5,226	4,450	2,659	1,242
Net Assets	106,872	107,625	111,673	114,658	118,820	117,340
Total Assets	206,459	206,748	218,953	231,081	216,896	230,468
						(yen)
Net Assets per Share	542.83	546.66	567.21	582.39	609.72	602.11
Net Income per Share	27.88	7.79	26.54	22.61	13.54	6.37
Fully Diluted Net Income per Share	—	—	—	—	—	—
Capital Ratio (%)	51.8	52.1	51.0	49.6	54.8	50.9
Return on Equity (%)	5.2	4.3	4.8	3.9	2.3	1.1
Price Earning Ratio (times)	31.2	31.6	28.0	29.7	33.2	70.6
						(Millions of yen)
Cash Flow from Operating Activities	—	—	—	—	18,285	9,757
Cash Flow from Investing Activities	—	—	—	—	(5,709)	(12,961)
Cash Flow from Financing Activities	—	—	—	—	(13,463)	(6,584)
Cash and Cash Equivalents at Year-end	—	—	—	23,767	22,827	14,806
Number of Employees	—	—	—	—	3,050	3,189

Note 1: Net Sales do not include consumption taxes.
Note 2: Fully Diluted Net Income per Share is not recorded because bonds with warrants attached and convertible bonds are not issued.
Note 3: The 85th period was 4 months, from December 1, 1996 through March 31, 1997, owing to the fact that the balance sheet date was changed to March 31. Return on Equity and Price Earning Ratio are on an annualized basis.

(2) Non-consolidated Management Indices

Period Fiscal Year End	84th November 1996	85th March 1997	86th March 1998	87th March 1999	88th March 2000	89th March 2001
						(Millions of yen)
Net Sales	135,006	46,782	141,755	128,998	128,086	129,712
Ordinary Income	9,169	2,954	9,146	6,870	4,616	5,205
Net Income	5,319	1,394	5,546	4,115	3,097	2,539
Capital	16,529	16,529	16,529	16,529	16,529	16,529
Issued and Outstanding Shares (Thousands shares)	196,881	196,881	196,881	196,881	194,881	194,881
						(Millions of yen)
Net Assets	101,115	101,743	106,113	109,533	113,470	114,568
Total Assets	184,303	183,600	193,178	203,537	189,999	189,236
						(yen)
Net Assets per Share	513.59	516.78	538.97	556.34	582.25	587.89
Dividend per Share	7.00	2.35	7.00	7.00	7.00	7.00
(Interim Dividend per Share)	(3.50)	(—)	(3.50)	(3.50)	(3.50)	(3.50)
Net Income per Share	27.02	7.08	28.17	20.90	15.77	13.03
Fully Diluted Net Income per Share	—	—	—	—	—	—
Capital Ratio (%)	54.9	55.4	54.9	53.8	59.7	60.5
Return on Equity (%)	5.4	4.1	5.3	3.8	2.8	2.2
Price Earning Ratio (times)	32.2	34.8	26.4	32.1	28.5	34.5
Dividend Payout Ratio (%)	25.9	33.2	24.8	33.5	44.3	53.7
Number of Employees	2,214	2,190	2,217	2,258	2,127	2,004

Note 1: Net Sales do not include consumption taxes.
Note 2: Fully Diluted Net Income per Share is not recorded because bonds with warrants attached and convertible bonds are not issued.
Note 3: The 85th period was 4 months, from December 1, 1996 through March 31, 1997, owing to the fact that the balance sheet date was changed to March 31 at the shareholders' meeting on February 27, 1997. Therefore, the Company waived an interim dividend for the period. Return on Equity and Price Earning Ratio are on an annualized basis.
Note 4: Issued and Outstanding Shares are 2,000 thousands less than in the previous year, owing to the retirement of treasury stock out of profit.
Note 5: Number of Employees will be the representation of the number of people actually engaged in work from the 88th period onward.

Financial Section

Independent Auditors' Report

The Board of Directors and the Shareholders
Nippon Shokubai Co., Ltd.

We have audited the consolidated balance sheets of Nippon Shokubai Co., Ltd. and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Nippon Shokubai Co., Ltd. and consolidated subsidiaries at March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the changes, with which we concur, in the methods of accounting for securities and inventories as described in Note 3.

As described in Note 1, Nippon Shokubai Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for foreign currency translation, financial instruments, and employees' retirement benefits effective April 1, 2000, and new accounting standards for research and development costs and tax-effect accounting effective April 1, 1999 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 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 2.

Osaka, Japan
June 26, 2001

Century Ota Showa & Co.

See Note 1(a) which explains the basis of presentation of the consolidated financial statements of Nippon Shokubai Co., Ltd. under Japanese accounting principles and practices.

Consolidated Balance Sheets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2001	2000	**2001**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and cash equivalents	**¥14,806**	¥22,827	**$119,500**
Time deposits (Note 7)	**331**	362	**2,672**
Short-term investments (Note 5)	**11**	22	**89**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**6,480**	4,508	**52,300**
Trade	**44,119**	41,524	**356,086**
Allowance for doubtful receivables	**(196)**	(259)	**(1,582)**
Inventories (Note 6)	**29,846**	24,408	**240,888**
Deferred income taxes (Note 9)	**2,105**	1,713	**16,990**
Other current assets	**3,265**	2,528	**26,350**
Total current assets	**100,767**	97,633	**813,293**
Property, plant and equipment (Note 7):			
Land	**28,473**	26,991	**229,806**
Buildings and structures	**58,995**	57,937	**476,150**
Machinery and equipment	**209,404**	194,006	**1,690,105**
Construction in progress	**6,682**	109	**53,931**
Accumulated depreciation	**(207,780)**	(195,602)	**(1,676,998)**
Property, plant and equipment, net	**95,774**	83,441	**772,994**
Investments and other assets:			
Investments in securities (Notes 5 and 7)	**13,802**	12,799	**111,396**
Investments in and advances to unconsolidated subsidiaries and affiliates	**10,415**	13,600	**84,060**
Deferred income taxes (Note 9)	**3,692**	3,096	**29,798**
Other assets	**6,018**	4,640	**48,572**
Total investments and other assets	**33,927**	34,135	**273,826**
Translation adjustments	**—**	1,687	**—**
Total assets	**¥ 230,468**	¥ 216,896	**$1,860,113**

	March 31,		
	2001	2000	**2001**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans (Note 7)	**¥9,251**	¥12,928	**$74,665**
Current portion of long-term debt (Note 7)	**9,186**	5,520	**74,140**
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	**3,715**	4,763	**29,984**
Trade	**29,890**	22,261	**241,243**
Construction	**1,377**	1,184	**11,114**
Accrued income taxes (Note 9)	**1,619**	1,514	**13,067**
Other current liabilities	**7,213**	7,808	**58,216**
Total current liabilities	**62,251**	55,978	**502,429**
Long-term liabilities:			
Long-term debt (Note 7)	**38,004**	29,741	**306,731**
Accrued retirement benefits for employees (Note 8)	**9,022**	9,617	**72,817**
Accrued retirement benefits for directors and corporate auditors	**601**	755	**4,850**
Deferred income taxes (Note 9)	**758**	8	**6,118**
Other	**228**	164	**1,841**
Total long-term liabilities	**48,613**	40,285	**392,357**
Minority interests	**2,264**	1,813	**18,273**
Contingent liabilities (Note 13)			
Shareholders' equity:			
Common stock, ¥50 par value:			
Authorized – 424,000,000 shares:			
Issued – 194,881,287 shares in 2001; 194,881,287 shares in 2000	**16,529**	16,529	**133,406**
Additional paid-in capital	**13,562**	13,562	**109,459**
Retained earnings (Note 10)	**88,168**	88,731	**711,606**
Translation adjustments	**(919)**	—	**(7,417)**
Less treasury stock, at cost	**(0)**	(2)	**(0)**
Total shareholders' equity	**117,340**	118,820	**947,054**
Total liabilities and shareholders' equity	**¥230,468**	¥216,896	**$1,860,113**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31, 2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Net sales (Note 16)	¥160,585	¥162,461	$1,296,085
Cost of sales (Note 11)	126,568	125,753	1,021,533
Gross profit	34,017	36,708	274,552
Selling, general and administrative expenses (Note 11)	28,638	30,086	231,138
Operating income (Note 16)	5,379	6,622	43,414
Other income (expenses):			
Interest and dividend income	583	532	4,705
Interest expense	(906)	(1,212)	(7,312)
Gain on sales of investments in securities	12	886	97
Royalty income	748	673	6,037
Loss on devaluation of investments in securities	(588)	(208)	(4,746)
Equity in losses of unconsolidated subsidiaries and affiliates	(1,308)	(1,372)	(10,557)
Gain on sales of property, plant and equipment	305	—	2,462
Amortization of the net retirement benefit obligation at transition	(3,813)	—	(30,775)
Gain on marketable securities for employees' retirement benefit trust	3,233	—	26,094
Other, net	(467)	(572)	(3,769)
Income before income taxes and minority interests	3,178	5,349	25,650
Income taxes (Note 9):			
Current	2,531	2,858	20,428
Deferred	(746)	(402)	(6,021)
	1,785	2,456	14,407
Income before minority interests	1,393	2,893	11,243
Minority interests in earnings of consolidated subsidiaries	(151)	(234)	(1,219)
Net income (Note 14)	¥1,242	¥2,659	$10,024

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2001	2000	**2001**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Common stock:			
Balance at beginning and end of year	**¥16,529**	¥16,529	**$133,406**
Additional paid-in capital:			
Balance at beginning and end of year	**¥13,562**	¥13,562	**$109,459**
Retained earnings:			
Balance at beginning of year	**¥88,731**	¥84,569	**$716,150**
Prior year's adjustment for deferred income taxes	**—**	4,202	**—**
Net income	**1,242**	2,659	**10,024**
Cash dividends	**(1,366)**	(1,378)	**(11,025)**
Bonuses to directors and corporate auditors	**(87)**	(88)	**(702)**
Increase in retained earnings resulting from inclusion of consolidated subsidiaries	**—**	63	**—**
Increase in retained earnings resulting from merger of an unconsolidated subsidiary	**9**	—	**73**
Increase in retained earnings resulting from exclusion of companies accounted for by the equity method	**1,821**	—	**14,697**
Decrease in retained earnings resulting from exclusion of consolidated subsidiaries	**—**	(225)	**—**
Decrease in retained earnings resulting from inclusion of consolidated subsidiaries	**(2,182)**	—	**(17,611)**
Decrease in retained earnings resulting from addition of companies accounted for by the equity method	**—**	(90)	**—**
Retirement of treasury stock	**—**	(981)	**—**
Balance at end of year	**¥88,168**	¥88,731	**$711,606**
Translation adjustments:			
Balance at beginning of year	**¥ —**	¥ —	**$ —**
Net change during the year	**(919)**	—	**(7,417)**
Balance at end of year	**¥(919)**	¥ —	**$ (7,417)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2001	2000	**2001**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Operating activities:			
Income before income taxes and minority interests	**¥3,178**	¥ 5,349	**$ 25,650**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**10,088**	12,475	**81,421**
Reversal of retirement allowances	**(1,371)**	(504)	**(11,065)**
Interest and dividend income	**(583)**	(532)	**(4,705)**
Interest expense	**906**	1,212	**7,312**
Equity in losses of unconsolidated subsidiaries and affiliates	**1,308**	1,372	**10,557**
Decrease in investments in securities in trust	**424**	—	**3,422**
Gain on sale of investments in securities	**(12)**	(862)	**(97)**
Loss on devaluation of investments in securities	**588**	208	**4,746**
Loss on disposal of property, plant and equipment	**70**	236	**565**
Other, net	**(793)**	454	**(6,400)**
Changes in operating assets and liabilities:			
Notes and accounts receivable	**(2,975)**	839	**(24,011)**
Inventories	**(4,132)**	2,893	**(33,349)**
Other current assets	**—**	1,013	**—**
Notes and accounts payable	**5,876**	(3,210)	**47,425**
Other current liabilities	**(664)**	702	**(5,361)**
Subtotal	**11,908**	21,645	**96,110**
Interest and dividends received	**632**	532	**5,100**
Interest paid	**(898)**	(1,358)	**(7,247)**
Income taxes paid	**(1,885)**	(2,534)	**(15,214)**
Net cash provided by operating activities	**9,757**	18,285	**78,749**
Investing activities:			
Decrease in time deposits	**—**	3,199	**—**
Purchases of shares of a subsidiary	**(1,679)**	—	**(13,551)**
Proceeds from sales of short-term investments and investments in securities	**41**	6,774	**331**
Purchases of marketable securities and investments in securities	**(4,270)**	(4,665)	**(34,463)**
Purchases of property, plant and equipment	**(7,484)**	(9,971)	**(60,404)**
Proceeds from sales of property, plant and equipment	**339**	—	**2,736**
Increase in loans receivable	**(326)**	(629)	**(2,631)**
Collection of loans receivable	**466**	206	**3,761**
Other, net	**(48)**	(624)	**(387)**
Net cash used in investing activities	**(12,961)**	(5,710)	**(104,608)**

	Year ended March 31,		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Financing activities:			
Decrease in short-term bank loans, net	**¥(3,701)**	¥(1,259)	**$(29,871)**
Proceeds from long-term debt	**4,030**	6,070	**32,526**
Repayment of long-term debt	**(5,641)**	(15,901)	**(45,529)**
Purchases of treasury stock	**—**	(981)	**—**
Cash dividends paid	**(1,364)**	(1,378)	**(11,009)**
Other, net	**92**	(15)	**743**
Net cash used in financing activities	**(6,584)**	(13,464)	**(53,140)**
Effect of exchange rate changes on cash and cash equivalents	**195**	77	**1,574**
Decrease in cash and cash equivalents	**(9,593)**	(812)	**(77,425)**
Cash and cash equivalents at beginning of year	**22,827**	23,767	**184,237**
Increase in cash and cash equivalents resulting from merger of an unconsolidated subsidiary	**9**	—	**73**
Increase (decrease) in cash and cash equivalents resulting from change in number of consolidated subsidiaries	**1,563**	(128)	**12,615**
Cash and cash equivalents at end of year	**¥ 14,806**	¥ 22,827	**$ 119,500**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries
March 31, 2001

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

Nippon Shokubai Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their accounts and records in accordance with accounting principles and practices generally accepted and applied in Japan. Its foreign subsidiaries maintain their accounts in conformity with the requirements of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2000 to the 2001 presentation. Such reclassifications had no effect on consolidated net income or shareholders' equity.

(b) Basis of Consolidation

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

The foreign consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year ends of these foreign consolidated subsidiaries and the year end of the Company.

Investments in an unconsolidated subsidiary and significant affiliates are stated at cost plus equity in their undistributed earnings or losses. Consolidated net income includes the Company's equity in the current net income or losses of such companies, after the elimination of unrealized intercompany profits.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

The excess of cost over underlying net assets at the date of acquisition is amortized over a period of five years on a straight-line basis, except that immaterial amounts are charged to income as incurred.

(c) Foreign Currency Translation

The financial statements of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of shareholders' equity are translated at their historical exchange rates. Translation differences resulting from translating the financial statements of the foreign consolidated subsidiaries are not included in the determination of net income and are reported as translation adjustments in a separate component of shareholders' equity and minority interests in the consolidated balance sheets at March 31, 2001. Such adjustments were reported in the assets section at March 31, 2000.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates in effect at the respective transaction dates.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted a revised "Accounting Standard for Foreign Currency Translations" which was issued by the Business Accounting Deliberation Council of Japan. Under this standard, all monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding forward exchange contract rates. Gain or loss on each translation is credited or charged to income. The effect of the adoption of this standard on the consolidated statements of operations for the year ended March 31, 2001 was immaterial.

(d) Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows for the year ended March 31, 2001, cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(e) Inventories

Inventories of the Company and its consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined by the moving average method.

(f) Property, Plant and Equipment

Property, plant and equipment is stated on the basis of cost. Depreciation is computed principally by the declining-balance method over the estimated useful lives of the respective assets, except that the foreign consolidated subsidiaries compute depreciation by the straight-line method over the estimated useful lives of the respective assets.

(g) Leases

Non-cancelable leases of the Company and its domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases), except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. However, leases of the foreign consolidated subsidiaries are generally classified and accounted for as either finance or operating leases.

(h) Short-Term Investments and Investments in Securities

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted "Accounting Standards for Financial Instruments," which was issued by the Business Accounting Deliberation Council of Japan. This standard requires that securities be classified into three categories: trading securities, held-to-maturity debt securities or other securities.

Under this standard, trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at amortized cost. Other securities are carried at cost determined by the moving average method. Effective April 1, 2001, marketable securities classified as other securities are required to be carried at fair value, with any changes in unrealized holding gain or loss, net of the applicable income taxes, to be reported as a separate component of shareholders' equity.

As of April 1, 2000, the Company and its domestic consolidated subsidiaries assessed their intent to hold their short-term investments and investments in securities, classified their securities at March 31, 2001 as "held-to-maturity debt securities" or "other securities" and in accordance with the new standard referred to above. As a result, short-term investments of ¥8 million ($65 thousand), which had been included in short-term investments at March 31, 2000, have been reclassified to investments in securities effective April 1, 2000.

(i) Research and Development Costs and Computer Software

Research and development costs are charged to income when incurred. Expenditures relating to the development of computer software intended for internal use are charged to income as incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their useful lives, generally a period of 5 years. "Accounting Standards for Research and Development Costs, etc." which was issued by the Business Accounting Deliberation Council of Japan has been adopted effective April 1, 1999.

(j) Income Taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. Effective April 1, 1999, the Company initially adopted "Financial Accounting Standard on Accounting for Effects on Income Taxes" which was issued by Business Accounting Deliberation Council of Japan and recognized the tax effect of temporary differences in its consolidated financial statements. The cumulative effect of this adoption of tax-effect accounting through the beginning of the prior year was reported as prior year's adjustment for deferred income taxes in the consolidated statements of shareholders' equity for the year ended March 31, 2000. As a result of this change in method of accounting, retained earnings at March 31, 2000 and net income for the year ended March 31, 2000 increased by ¥4,604 million and ¥402 million, respectively, from the amounts which would have been recorded if the method applied in the previous year had been followed.

(k) Retirement Benefits

The Company's employees are covered by an employees' retirement benefit plan and an employees' pension plan. The employees' retirement benefit plan provides for lump-sum payments determined by reference to their basic salary, years of service and certain other factors. The employees' pension plan, which is contributory and funded, was instituted to replace 60% of the benefits under the retirement benefit plan for employees who retire at the mandatory retirement age, and 10% of the benefits under the retirement benefit plan for employees who retire at age 50 or older and after 3 or more years of service.

The domestic consolidated subsidiaries have either unfunded employees' retirement benefits plans and/or pension plans which are noncontributory and funded and which cover substantially all their employees. These plans provide for lump-sum payments and/or annuity payments payable upon termination of employment.

Through March 31, 2000, accrued retirement benefits for employees were stated at the amount which would be required to be paid if all employees covered by the plans voluntarily terminated their employment with their respective companies at the balance sheet date, less the balance of the funds in the pension plan.

Effective April 1, 2000, the Company and the consolidated domestic subsidiaries adopted the "Accounting Standard for Retirement Benefits" which was issued by the Business Accounting Deliberation Council of Japan. In accordance with this standard, accrued returned benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the end of the annual period. The net retirement benefit obligation at transition of ¥3,813 million ($30,775 thousand) has been fully charged to income for the year ended March 31, 2001.

In connection with the adoption of this standard, the Company contributed its own securities to an employees' retirement benefit trust. In forming the trust and contributing its marketable securities, the Company recognized a gain of ¥3,233 million ($26,094 thousand) arising from the valuation of the marketable securities. This has been presented in the consolidated statements of income for the year ended March 31, 2001 as gain on marketable securities contributied to the employees' retirement benefit trust.

Prior service cost is amortized principally by the straight-line method over 5 years, which is within the estimated average remaining years of service of the employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

The effect of the adoption of the revised standard for retirement benefits was to decrease income before income taxes and minority interests for the year ended March 31, 2001 by ¥785 million ($6,336 thousand) from the amount which would have been recorded under the method applied in the previous year.

In addition, directors and corporate auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement benefit plans. The provision for retirement benefits for these officers has been made at an estimated amount.

(l) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations (see Note 17).

2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥123.9 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2001. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Changes in Accounting Policy

(a) Effective April 1, 2000, the Company has changed its method of accounting for inventories from the last-in, first-out method to the moving-average method. This change was made to present the operating results more accurately in consideration of the price fluctuations of raw materials. As a result of this change, consolidated operating income and income before income taxes and minority interests for the year ended March 31, 2001 increased by ¥292 million ($2,357 thousand) over the amount which would have been recorded if the method applied in the previous year had been followed.

(b) Effective April 1, 2000, the Company has changed its method of accounting for the carrying value of other securities from the average method to the moving-average method. This change was made to monitor gain or loss on sales of securities more closely on a monthly basis. This change had no effect on the consolidated results of the Company.

4. Acquisition

On October 23, 2000, the Company acquired

24,545 thousand shares of PT NISSHOKU TRIPOLYTA ACRYLINDO (“NTA”) for ¥2,354 million ($18,999 thousand) in cash. NTA manufactures acrylic acid and acrylic esters and distributes these products to the Company and an affiliate. Prior to the acquisition, the Company owned approximately 50.0% of the common stock of NTA. As a result of this acquisition, the Company now owns approximately 90.9% of the common stock of NTA.

In 2001, the name “PT NISSHOKU TRIPOLYTA ACRYLINDO” was changed to “PT Nippon Shokubai Indonesia.”

5. Short-Term Investments and Investments in Securities

Information on the carrying and market value of the marketable securities classified as other securities at March 31, 2001 was as follows:

	2001 (Millions of yen)	2001 (Thousands of U.S. dollars)
Marketable available:		
Carrying value	¥12,990	$104,843
Market value	16,149	130,339

Information on the carrying and market value of the marketable equity securities included in short-term investments and investments in securities at March 31, 2000 is summarized as follows:

	2000 Carrying Amount	2000 Market value
	(Millions of yen)	
Short-term investments	¥8	¥8
Investments in securities	11,962	24,146

6. Inventories

Inventories at March 31, 2001 and 2000 were as follows:

	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished goods	**¥11,717**	¥10,735	**$94,568**
Raw materials	**8,129**	5,982	**65,609**
Work in process	**8,270**	6,367	**66,748**
Supplies	**1,730**	1,324	**13,963**
	¥29,846	¥24,408	**$240,888**

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

Short-term bank loans consisted mainly of unsecured loans. The average interest rates on the short-term bank loans outstanding at March 31, 2001 and 2000 were 2.37% and 0.81%, respectively.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
1.425% unsecured bonds due November 2002	**¥5,000**	¥5,000	**$40,355**
1.85% unsecured bonds due November 2004	**5,000**	5,000	**40,355**
Unsecured loans from banks and insurance companies, payable in yen, at rates from 1.03% to 2.66%, due through 2005	**12,576**	16,371	**101,501**
Unsecured loans from banks, payable in U.S. dollars, at rates from 6.70% to 8.40%, due through 2009	**10,212**	2,458	**82,422**
Euro, at rates from 4.82% to 5.77%, due through 2007	**3,915**	—	**31,598**
Secured loans from banks and insurance companies, payable in yen, at rates from 1.10% to 5.60%, due through 2008	**4,980**	6,432	**40,194**
Secured loans from banks, payable in yen, at rates 7.85%, due through 2004	**5,507**	—	**44,446**
	47,190	35,261	**380,871**
Less current portion	**(9,186)**	(5,520)	**(74,140)**
	¥38,004	¥29,741	**$306,731**

The aggregate annual maturities of long-term debt subsequent to March 31, 2001 are summarized below:

Year ending March 31	(Millions of yen)	(Thousands of U.S. dollars)
2002	**¥9,186**	**$74,140**
2003	**15,320**	**123,648**
2004	**5,946**	**47,990**
2005	**9,935**	**80,186**
2006 and thereafter	**6,803**	**54,907**
	¥47,190	**$380,871**

Assets pledged as collateral for long-term debt, including the current portion thereof, and accounts and notes payable at March 31, 2001 and 2000 were as follows:

	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Time deposits	¥ 258	¥ 278	$2,082
Land	2,705	1,145	21,832
Buildings and structures	1,564	1,003	12,623
Machinery and equipment	11,882	1,191	95,899
Investments in securities	4,304	4,193	34,739
	¥20,713	¥7,810	$167,175

8. Retirement Benefits

The following table sets forth the changes in the retirement benefit obligation, plan assets and funded status of the Companies at March 31, 2001:

	(Millions of yen)	(Thousands of U.S. dollars)
Retirement benefit obligation at end of year	¥(36,033)	$(290,823)
Fair value of plan assets at end of year	26,086	210,541
Unfunded retirement benefit obligation	(9,947)	(80,282)
Unrecognized actuarial loss	2,744	22,147
Unrecognized past service cost	(1,816)	(14,657)
Net retirement benefit obligation at transition	(9,019)	(72,792)
Prepaid pension cost	3	25
Accrued retirement benefits	¥(9,022)	$(72,817)

The components of retirement benefit expenses for the year ended March 31, 2001 are outlined as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Service cost	¥1,887	$15,230
Interest cost	1,225	9,887
Expected return on plan assets	(984)	(7,942)
Amortization:		
Retirement benefit obligation at transition	3,813	30,775
Past service cost	(216)	(1,743)
Retirement benefit expenses	¥5,725	$46,207

The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2001 were as follows:

Discount rate	3.5%
Expected rate of return on plan assets	Principally 4.5%

9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the years ended March 31, 2001 and 2000 was, in the aggregate, approximately 42.0%. The effective tax rates reflected in the consolidated statements of income for the year ended March 31, 2001 differ from the above statutory tax rate for the following reasons:

	2001	2000
Statutory tax rate	42.0%	42.0%
Effect of:		
Equity in losses of an unconsolidated subsidiary and affiliates	17.3	10.4
Exclusion from equity method	—	(4.0)
Permanently nondeductible expenses	3.2	2.3
Permanently nontaxable dividends received	(3.4)	(1.8)
Foreign tax credits	(4.9)	(3.1)
Other, net	2.0	0.1
Effective tax rates	56.2%	45.9%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding tax bases reported for income tax purposes. The significant components of the deferred tax assets and liabilities of the Company and consolidated subsidiaries at March 31, 2001 and 2000 are summarized as follows:

	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Accrued severance benefits	¥2,384	¥2,636	$19,241
Intercompany profit on inventories and property, plant and equipment	800	774	6,457
Reserve for repairs	999	982	8,063
Depreciation and amortization	488	442	3,939
Accrued employees' bonuses	357	241	2,881
Impairment of investments in securities and others	312	—	2,518
Accrued enterprise tax	146	139	1,178
Other	911	333	7,353
Total deferred tax assets	6,397	5,547	51,630
Deferred tax liabilities:			
Depreciation and amortization	(523)	—	(4,221)
Deferred capital gains on property	(379)	(463)	(3,059)
Reserve for depreciation for tax purposes	(273)	(238)	(2,203)
Other	(183)	(45)	(1,477)
Total deferred tax liabilities	(1,358)	(746)	(10,960)
Net deferred tax assets	¥5,039	¥4,801	$40,670

10. Retained Earnings

The Commercial Code of Japan provides that an amount equal to at least 10% of cash dividends and bonuses paid to directors and corporate auditors and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until such reserve equals 25% of the stated capital. The Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to stated capital by resolution of the Board of Directors. Retained earnings include the legal reserve provided in accordance with of the Code. The legal reserve of the Company included in retained earnings at March 31, 2001 and 2000 amounted to ¥3,839 million ($30,985 thousand) and ¥3,691 million, respectively.

11. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2001 and 2000 totaled ¥9,136 million ($73,737 thousand) and ¥9,546 million, respectively.

12. Leases

The following pro forma amounts represent the acquisition costs (including the interest portion), accumulated depreciation and net book value of the leased assets as of March 31, 2001 and 2000, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	2001	2000	2001
	(Millions ofyen)		(Thousands of U.S. dollars)
Machinery and equipment and software:			
Acquisition costs	¥796	¥1,008	$6,425
Accumulated depreciation	(456)	(534)	(3,680)
Net book value	¥340	¥474	$2,745

Lease payments relating to finance leases accounted for as operating leases amounted to ¥216 million ($1,743 thousand) and ¥232 million for the years ended March 31, 2001 and 2000, respectively. Depreciation of the leased assets calculated by the straight-line method over the respective lease terms amounted to ¥216 million ($1,743 thousand) and ¥232 million for the years ended March 31, 2001 and 2000, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2001 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31,	(Millions ofyen)	(Thousands of U.S. dollars)
2002	¥170	$1,372
2003 and thereafter	170	1,372
	¥340	$2,744

13. Contingent Liabilities

At March 31, 2001, the Company and consolidated subsidiaries were contingently liable as guarantors of indebtedness of affiliates, the Company's employees and other in the aggregate amount of ¥4,428 million ($35,738 thousand).

In addition, at March 31, 2001, the Company and consolidated subsidiaries had contingent liabilities arising from notes discounted by banks and notes endorsed and delivered for payment to vendors in the aggregate amount of ¥1,537 million ($12,405 thousand).

14. Amounts Per Share

	2001	2000	2001
	(yen)		(U.S. dollars)
Net income	¥6.37	¥13.54	$0.05
Cash dividends	7.00	7.00	0.05
Net assets	602.11	609.72	4.85

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

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

Net assets per share are based on the number of shares outstanding at the respective balance sheet dates.

15. Derivatives

Derivative financial instruments are utilized by the Company and consolidated subsidiaries principally to reduce the risk of fluctuation in interest rates and foreign exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivatives. The Company and consolidated subsidiaries do not hold or issue derivative financial instruments for trading purposes.

The Company and consolidated subsidiaries are exposed to certain market risks arising from forward foreign exchange contracts and interest rate swaps. The Company and consolidated subsidiaries are also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these currency and interest rate contracts; however, the Company and consolidated subsidiaries do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

At March 31, 2001, one consolidated subsidiary had certain interest rate swap positions outstanding. The total fair value of these positions was immaterial.

16. Segment Information

The Company and consolidated subsidiaries are primarily engaged in the manufacture and sale of products in Japan and overseas in the following business segments: business in the chemicals segments conducted principally by the Company.

Business Segments

The business segment information for the Company and consolidated subsidiaries for the years ended March 31, 2001 and 2000 is outlined as follows:

	Year ended March 31, 2001				
	Chemicals	Other	Total	Eliminations or corporate	Consolidated
	(Millions of yen)				
I. Sales and operating income					
Sales to third parties	¥158,230	¥ 2,355	¥160,585	¥ —	¥160,585
Intergroup sales and transfers	0	8,594	8,594	(8,594)	—
Total sales	158,230	10,949	169,179	(8,594)	160,585
Operating expenses	153,492	10,443	163,935	(8,729)	155,206
Operating income	¥ 4,738	¥ 506	¥ 5,244	¥ 135	¥ 5,379
II. Assets, depreciation and capital expenditures					
Total assets	¥199,632	¥ 7,848	¥207,480	¥ 22,988	¥230,468
Depreciation and amortization	10,041	287	10,328	53	10,381
Capital expenditures	8,094	94	8,188	—	8,188

	Year ended March 31, 2000				
	Chemicals	**Other**	**Total**	**Elimi- nations or corporate**	**Consoli- dated**
	(Millions of yen)				
I. Sales and operating income					
Sales to third parties	¥159,907	¥ 2,554	¥162,461	¥ —	¥162,461
Intergroup sales and transfers	5	8,956	8,961	(8,961)	—
Total sales	159,912	11,510	171,422	(8,961)	162,461
Operating expenses	154,231	10,702	164,933	(9,094)	155,839
Operating income	¥5,681	¥808	¥6,489	¥133	¥ 6,622
II. Assets, depreciation and capital expenditures					
Total assets	¥176,708	¥8,475	¥185,183	¥ 31,713	¥216,896
Depreciation and amortization	12,329	340	12,669	56	12,725
Capital expenditures	4,126	83	4,209	—	4,209

	Year ended March 31, 2001				
	Chemicals	**Other**	**Total**	**Elimi- nations or corporate**	**Consoli- dated**
	(Thousands of U.S. dollars)				
I. Sales and operating income					
Sales to third parties	**$1,277,078**	**$19,007**	**$1,296,085**	**$ —**	**$1,296,085**
Intergroup sales and transfers	**0**	**69,363**	**69,363**	**(69,363)**	**—**
Total sales	**1,277,078**	**88,370**	**1,365,448**	**(69,363)**	**1,296,085**
Operating expenses	**1,238,838**	**84,285**	**1,323,123**	**(70,452)**	**1,252,671**
Operating income	**$ 38,240**	**$ 4,085**	**$ 42,325**	**$ 1,089**	**$ 43,414**
II. Assets, depreciation and capital expenditures					
Total assets	**$1,611,235**	**$63,341**	**$1,674,576**	**$185,537**	**$1,860,113**
Depreciation	**81,041**	**2,317**	**83,358**	**428**	**83,786**
Capital expenditures	**65,327**	**759**	**66,086**	**—**	**66,086**

As mentioned in Note 1(k), the Company and consolidated domestic subsidiaries have adopted a new accounting standard for retirement benefits. The effect of this adoption decreased operating income from the chemicals and other segments by ¥61 million ($492 thousand) and ¥78 million ($630 thousand), respectively, from the amounts which would have been recorded under the standard followed in the previous year.

As mentioned in Note 3, the Company has changed its method of accounting for inventories from the last-in, first-out method to the moving-average method. The effect of this change increased operating income from the chemicals segment and assets at the chemicals segment by ¥292 million ($2,357 thousand) from the amounts which would have been recorded under the method applied in the previous year.

Geographical Areas

The geographical segment information for the Company and consolidated domestic subsidiaries for the years ended March 31, 2001 and 2000 is outlined as follows:

	Year ended March 31, 2001				
	Japan	Overseas	Total	Elimi-nations or corporate	Consoli-dated
	(Millions of yen)				
I. Sales and operating income					
Sales to third parties	¥142,021	¥18,564	¥160,585	¥ —	¥160,585
Intergroup sales and transfers	7,352	147	7,499	(7,499)	—
Total sales	149,373	18,711	168,084	(7,499)	160,585
Operating expenses	143,976	18,766	162,742	(7,536)	155,206
Operating income (loss)	¥5,397	¥(55)	¥5,342	¥37	¥5,379
II. Total assets	¥171,319	¥41,980	¥213,299	¥17,169	¥230,468

	Year ended March 31, 2000				
	Japan	Overseas	Total	Elimi-nations or corporate	Consoli-dated
	(Millions of yen)				
I. Sales and operating income					
Sales to third parties	¥143,363	¥19,098	¥162,461	¥ —	¥162,461
Intergroup sales and transfers	7,664	29	7,693	(7,693)	—
Total sales	151,027	19,127	170,154	(7,693)	162,461
Operating expenses	145,628	18,008	163,636	(7,797)	155,839
Operating income	¥5,399	¥1,119	¥6,518	¥104	¥6,622
II. Total assets	¥167,552	¥17,288	¥184,840	¥32,056	¥216,896

	Year ended March 31, 2001				
	Japan	Overseas	Total	Elimi-nations or corporate	Consoli-dated
	(Thousands of U.S. dollars)				
I. Sales and operating income					
Sales to third parties	$1,146,255	$149,830	$1,296,085	$ —	$1,296,085
Intergroup sales and transfers	59,338	1,186	60,524	(60,524)	—
Total sales	1,205,593	151,016	1,356,609	(60,524)	1,296,085
Operating expenses	1,162,034	151,460	1,313,494	(60,823)	1,252,671
Operating income (loss)	$43,559	$(444)	$43,115	$299	$43,414
II. Total assets	$1,382,720	$338,822	$1,721,542	$138,571	$1,860,113

As mentioned in Note 1(k), the Company and consolidated domestic subsidiaries have adopted a new accounting standard for retirement benefits. The effect of this adoption decreased operating income in the Japan segment by ¥140 million ($1,130 thousand) from the amount which would have been recorded under the standard followed in the previous year.

As mentioned in Note 3, the Company has changed its method for accounting for inventories from the last-in, first-out method to the moving-average method. The effect of this change increased operating income in the Japan segment and assets in the Japan segment by ¥292 million ($2,357 thousand) form the amounts which would have been recorded under the method applied in the previous year.

Overseas Sales

Overseas sales, which include export sales of the Company and the domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, for the years ended March 31, 2001 and 2000 are summarized as follows:

	Year ended March 31, 2001				
	Asia	**Europe**	**America**	**Other**	**Total**
	(Millions of yen)				
Overseas sales	**¥19,428**	**¥13,948**	**¥13,770**	**¥3,805**	**¥50,951**
Overseas sales as a percentage of consolidated net sales	12.1%	8.7%	8.6%	2.3%	31.7%

	Year ended March 31, 2000				
	Asia	**Europe**	**America**	**Other**	**Total**
	(Millions of yen)				
Overseas sales	¥20,119	¥15,405	¥13,905	¥5,191	¥54,620
Overseas sales as a percentage of consolidated net sales	12.4%	9.5%	8.5%	3.2%	33.6%

	Year ended March 31, 2001				
	Asia	**Europe**	**America**	**Other**	**Total**
	(Thousands of U.S. dollars)				
Overseas sales	**$156,804**	**$112,575**	**$111,138**	**$30,710**	**$411,227**

17. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2001, were approved at a shareholders' meeting held on June 26, 2001:

	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends (¥3.50 = $ 0.03 per share)	¥682	$5,504
Bonuses to directors and corporate auditors	77	621
	¥759	$6,125

Corporate Data

NIPPON SHOKUBAI CO., LTD.

Incorporated
August 21, 1941

Common Stock
Authorized: 424,000,000 shares
Issued: 194,881,287 shares

Capital
¥16,529,413,238

Number of Employees
2,147

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, 2001)

Board of Directors

Chairman:
Kenji Aida

President:
Hiroshi Yanagida

Executive Managing Director:
Yasumasa Oba

Senior Managing Directors:
Yoshinori Sano
Kinya Hasegawa

Managing Directors:
Takeo Munehiro
Tatsuo Konishi
Hisayoshi Jono
Kazunosuke Nagai
Keizo Maruyama

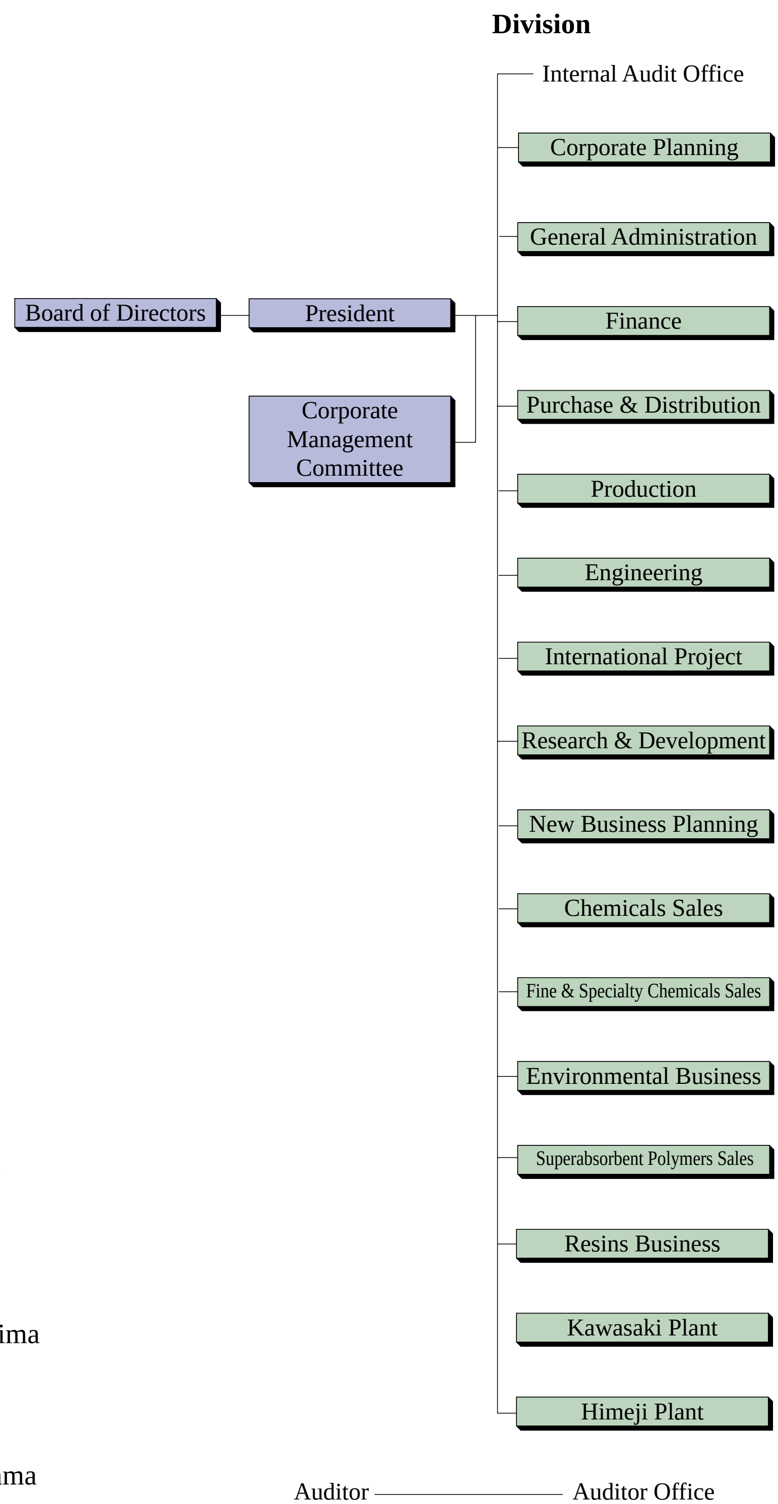
Directors:
Takahiro Toyohama
Tsumoru Yamada
Yutaka Morimoto
Yuji Noma
Norimitsu Konno
Tsuneyuki Nakashima
Michio Ueshima

Corporate Auditors:
Masaru Abe
Tadashi Kimura
Haruki Yoshida
Kaneyoshi Nishiyama

(as of June 26, 2001)

Organization

(as of April, 2001)



Consolidated Subsidiaries

Name	Paid-in Capital (millions)	Equity Ownership (%)	Principal Business	President
Nippoh Chemicals Co., Ltd.*	¥517	67.9	Manufacture and sale of iodine, iodic compounds, and natural gas	Tadao Kondo
Nippon Polyester Co., Ltd.*	¥400	97.2	Manufacture and sale of synthetic resins and related additives	Yoshizumi Ozawa
Daiko Kaiun Co., Ltd.*	¥100	64.9	Transport	Katsunobu Kaneko
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	74.7	Manufacture and sale of synthetic resins and heat insulator	Masaji Yamaoka
Shinritsu Co., Ltd.*	¥40	73.1	Sale of chemical products	Toyohiko Kunihara
Nisshoku Kosan Co., Ltd.*	¥32	100.0	Management of golf driving range and non-life insurance agent	Toshiyuki Sone
NA Industries, Inc.*	US$1.525**	100.0	Manufacture and sale of super-absorbent polymers Technical liaison and business development	Katsumi Uchida
Ultrasorb Chemikalien GmbH*	DM2.1	100.0	Sale of superabsorbent polymers	Norihito Hirose
Nippon Shokubai (Asia) Pte. Ltd.*	S$0.3	100.0	Sale of chemical products	Kazuhiro Noda
Nippon Shokubai Europe N.V.*	EUR27	100.0	Manufacture of superabsorbent polymers	Tadihiro Yoneda
P.T. Nippon Shokubai Indonesia*	US$120	93.8	Manufacture and sale of acrylic acid and acrylic esters	Takashi Onishi
Nihon Jyoryu Kogyo Co., Ltd.	¥90	46.6	Manufacture and sale of anthraquinone, carbozole, and their derivatives	Kensuke Kumazawa
ICT Co., Ltd.	¥270	50.0	Sale of automobile exhaust catalyst	Kazuo Koshida
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
Singapore MMA Monomer Pte. Ltd.	S$65.7	40.0	Manufacture and sale of metha-crylic acid and methacrylic esters	Kazutoshi Matsukawa
International Catalyst Technology, Inc.	US$7.4	50.0	Manufacture and sale of auto-mobile exhaust catalyst	J. Plessow

(as of June 30, 2001)

* Included in consolidation
American Acryl NA LLC, and American Acryl LP., are consolidated into NA Industries, Inc. by the equity method.

** This item only thousand dollars

Directory

HEAD OFFICES

Osaka Office
Kogin Bldg.
4-1-1 Koraibashi, Chuo-ku
Osaka 541-0043, Japan
Telephone: 81-6-6223-9111
Facsimile: 81-6-6201-3716

Tokyo Office
Hibiya Dai Bldg.
1-2-2 Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011, Japan
Telephone: 81-3-3506-7475
Facsimile: 81-3-3506-7598

SALES OFFICES

Nagoya Sales Office
Nagoya Mitsui Bldg., Annex
1-24-21 Meiekiminami, Nakamura-ku
Nagoya 450-0003, Japan

Fukuoka Sales Office
Hakata Bldg.
8-36 Hakataeki Chuogai, Hakata-ku
Fukuoka 812-0012, Japan

PLANTS

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

Suita Plant
5-8 Nishi Otabi-cho, Suita
Osaka 564-0034, Japan

LABORATORIES

Strategic Technology Research Center
5-8 Nishi Otabi-cho, Suita
Osaka 564-8512, Japan

Performance Chemicals & Materials Research Center
5-8 Nishi Otabi-cho, Suita
Osaka 564-8512, Japan

Polymers Research Center
5-8 Nishi Otabi-cho, Suita
Osaka 564-8512, Japan

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

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

OVERSEAS COMPANIES

NA Industries, Inc.
P.O. Box 5407
2651 Riverport Road
Chattanooga, TN 37406, U.S.A.
Telephone: 1-423-624-6496
Facsimile: 1-423-629-0531

NIPPON SHOKUBAI (ASIA) PTE. LTD.
138 Cecil Street, #05-04
Cecil Court, Singapore 069538
Telephone: 65-225-6313
Facsimile: 65-225-0969

ULTRASORB Chemikalien GmbH
Niedenau 61-63
60325 Frankfurt am Main, Germany
Telephone: 49-69-7103-4331
Facsimile: 49-69-9720-6441

Nippon Shokubai Europe N.V.
Haven 1053 Nieuwe Weg 1, B-2070
Zwijndrecht, Belgium
Telephone: 32-3-250-3701
Facsimile: 32-3-250-3712

PT. NIPPON SHOKUBAI INDONESIA
Wisma 46, KOTA BNI 31st Floor,
Suite 3102-3104 JI. Jend. Sudirman
Kav.1 Jakarta 10220, Indonesia
Telephone: 62-215-745111
Facsimile: 62-215-745222

NIPPON SHOKUBAI CO., LTD.
Osaka Office
Kogin Bldg.
4-1-1 Koraibashi, Chuo-ku
Osaka 541-0043, Japan
Telephone: +81-6-6223-9111
Facsimile: +81-6-6201-3716

Tokyo Office
Hibiya Dai Bldg.
1-2-2 Uchisaiwai-cho, Chiyoda-ku
Tokyo 100-0011, Japan
Telephone: +81-3-3506-7475
Facsimile: +81-3-3506-7598

URL: http://www.shokubai.co.jp

NIPPON SHOKUBAI

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