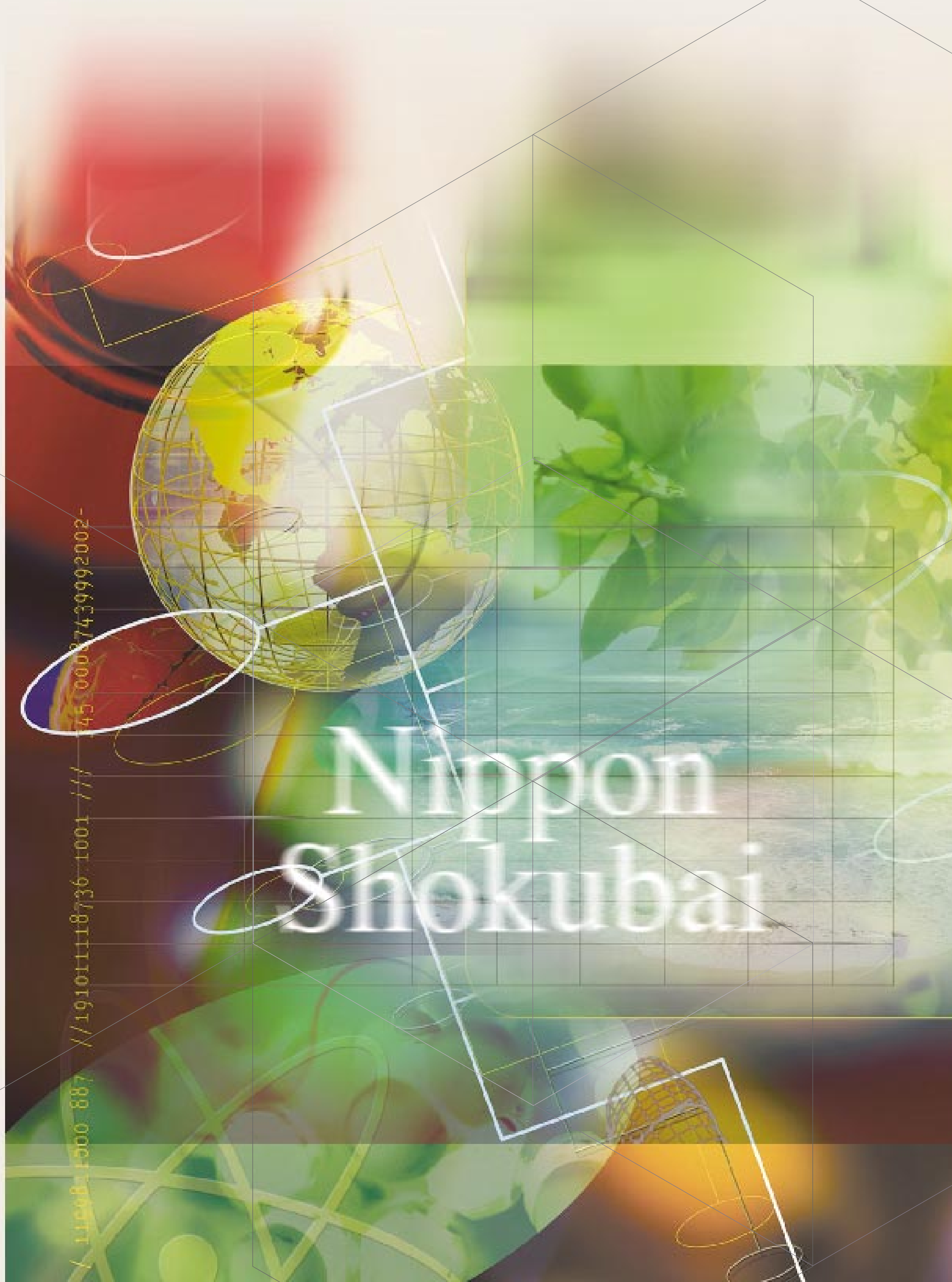
NIPPON
SHOKUBAI

2002
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

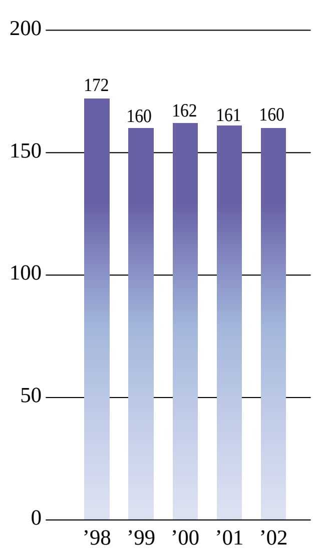
Financial Highlights

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

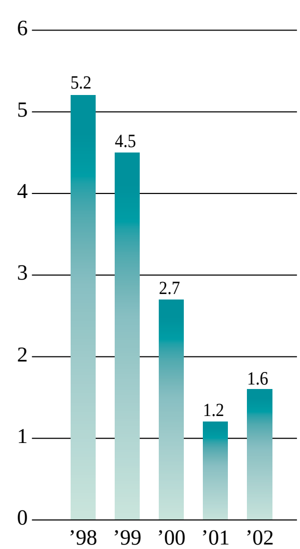
	Millions of yen			*Thousands of U.S. dollars*
	2002	2001	2000	**2002**
For the Year				
Net Sales	**¥159,722**	¥160,585	¥162,461	**$1,198,215**
Operating Income	**8,963**	5,379	6,622	**67,240**
Income before Income Taxes	**4,987**	3,178	5,349	**37,412**
Net Income	**1,590**	1,242	2,659	**11,928**
At Year-End				
Total Assets	**¥230,253**	¥230,468	¥216,896	**$1,727,330**
Total Shareholders' Equity	**120,238**	117,340	118,820	**902,009**
	Yen			*U.S. dollars*
Per Share Amounts				
Net Income	**¥8.16**	¥6.37	¥13.54	**$0.06**
Cash Dividends	**7.00**	7.00	7.00	**0.05**

Foreign Exchange Rate: US$1.00 = ¥133.3

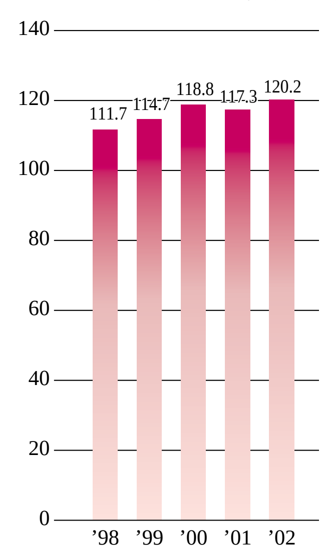
Net Sales (Billions of yen)



Net Income (Billions of yen)



Shareholders' Equity (Billions of yen)



To Our Shareholders

Performance

Fiscal 2001, ended March 31, 2002 was a difficult year throughout the world as the global economy weakened under the impact of the slowdown in the United States economy. In Japan, the sense of stagnation in the economy deepened as exports continued to decline and capital investment was at low ebb in the private and public sectors.

The chemical industry suffered a similar fate, with declining demand and a progressive economic deflationary trend creating a difficult business climate.

Performance Highlights

(Unit: millions of yen)

	Fiscal Year		Change	
	2001	2000	Amount	%
Net sales	159,722	160,585	(863)	(0.5)
Operating income	8,963	5,379	3,584	66.6
Ordinary income	5,558	4,303	1,254	29.1
Net income	1,590	1,242	347	28.0
Net income per share	¥8.16	¥6.37	¥1.79	28.1
ROA	2.4%	1.9%	—	0.5 points
ROE	1.3%	1.1%	—	0.2 points
Exchange rate	\$=¥125.04 EUR=¥110.50	\$=¥110.60 EUR=¥100.38		¥14.44 ¥10.12
Naphtha price	¥22,100/kl	¥23,550/kl		(¥1,450/kl)

In this business environment, consolidated net sales edged down ¥863 million, or 0.5%, to ¥159,722 million. Sales in yen terms were somewhat boosted by the undervaluation of the yen, however, these gains were overridden by declines in sales volume of basic chemicals and other products and cuts in sales prices.

Operating income rose ¥3,584 million, or 66.6%, to ¥8,963 million. Although sales volume of basic chemicals and other products decreased and prices declined, profits ballooned thanks to the fall in raw material costs and increased sales volume of superabsorbent polymers and industrial catalysts through technology licensing. In addition, the depreciation of the yen and rationalization of operating expenses also contributed to higher profits.

Ordinary income advanced to ¥5,558 million, up ¥1,254 million, or 29.1%. The growth in ordinary income was lower than that of operating income because of increases in interest paid, losses on disposal of assets, and equity in losses of unconsolidated subsidiaries and affiliates.

Consolidated net income expanded ¥347 million, or 28.0%, to ¥1,590 million. Although the Company recorded a loss on devaluation of investments in securities, it also received transfer income related to the exchange of businesses with Sumitomo Chemical Co., Ltd.

Net income per share amounted to ¥8.16. Return on assets (ROA) was 2.4%, up 0.5 percentage points from the previous fiscal year while return on equity (ROE) increased 0.2 percentage points, to 1.3%.

Sales by Business Group and Region

(Unit: millions of yen)

	Fiscal Year 2001		Fiscal Year 2000		Change	
Product Group	Chemicals	Others	Chemicals	Others	Chemicals	Others
Sales	157,894	1,827	158,230	2,355	(335)	(527)
Operating income	8,369	578	4,738	505	3,630	72
Regional	Japan	Overseas	Japan	Overseas	Japan	Overseas
Sales	132,285	27,436	142,021	18,564	(9,735)	8,872
Operating income	8,507	(101)	5,397	(54)	3,109	(46)

Outlook

Despite the mild recovery in Japan's exports anticipated following the bottoming out of the U.S. economy, a genuine recovery in the Japanese economy is expected to take some time. Conditions are anticipated to remain challenging in Japan with unemployment rising and personal consumption continuing its slump.

Under these circumstances, we foresee that the consolidated net sales of the Group will be ¥163.0 billion (¥79.0 billion in the first half) based on increased sales volume. Operating income is also expected to expand despite continued high raw material costs and soft product prices thanks to increased sales volume and operating expenses reductions.

Reflecting improvements in equity in losses of unconsolidated subsidiaries and affiliates and in financial income and expenses as well as increased income from technology sales, ordinary income should grow ¥3,541 million, to ¥9.1 billion (¥2.7 billion in the first half) compared with the previous fiscal year. Consolidated net income is expected to increase ¥3,309 million, to ¥4.9 billion (¥1.0 billion in the first half) because of the lack of the substantial loss on devaluation of investments in securities booked during the previous fiscal year.

In making these performance forecasts, we have assumed exchange rates of ¥130 to the U.S. dollar and ¥116 to the Euro. In addition, the price of naphtha, which sets the standard for raw material prices, was set at ¥23,000 per kiloliter.

Business Plan

(1) Fundamental Business Policies

Our corporate philosophy of "TechnoAmenity," seeks to make human life richer and more comfortable through technological innovation, with our 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.

(2) Dividend Policy

Nippon Shokubai considers shareholder dividends as one of its 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 in consideration of maintaining a balance between these two factors.

(3) Medium-term Business Strategy

We believe that our highest priority is not the pursuit of continuous growth in quantity but in quality. Recognizing our strengths and weakness, we must be selective and focused 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.

1) 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."
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 through selective and focused use of business resources on new product fields, establishing a business portfolio and clarifying profit responsibilities in our existing fields, and revitalizing employees and our organization.
3. Performance Targets
   Targeting more efficient use of assets and increased product profitability, 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).

Hiroshi Yanagida, President

2) Summary of the Medium-term Business Plan

The first half, or three years, of the long-term business plan, has been termed the "foundation setting" stage of the plan, and we have implemented concrete measures for each business to achieve its goals.

Pursuing our goal of an ROA of 5% or greater on a consolidated basis by the end of the medium-term business plan, we are improving asset efficiency and strengthening our corporate structure.

As part of those efforts, we began operations of a superabsorbent polymer plant at Nippon Shokubai Europe N.V., of Belgium, in June 2001. In addition, we made a business exchange with Sumitomo Chemical Co., Ltd., during the fiscal year. At the end of March 2002, the two companies combined their acrylic acid and MMA monomer operations, with Nippon Shokubai acquiring the acrylic acid operations and Sumitomo Chemical taking over the MMA monomer operations.

In the United States, American Acryl, a joint venture with ATOFINA, of France, plans to complete a new acrylic acid product plant this summer. When completed, Nippon Shokubai's share of annual production will be 60 thousand tons. Combined with our domestic production capacity of 300 thousand tons and the 60-thousand-ton annual production capacity of Nippon Shokubai Indonesia, the new plant will give us a total acrylic acid production capacity of 420 thousand tons per annum, making the Nippon Shokubai Group the 3rd largest producer of acrylic acid in the world.

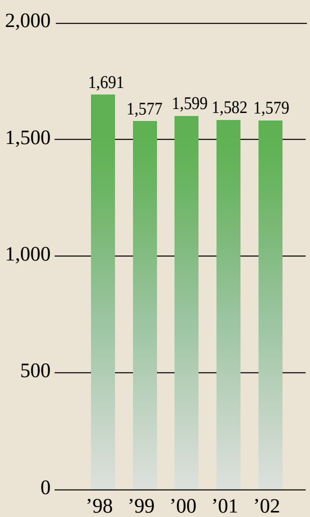
Through such strategies, we are being selective and focused in the allocation of our corporate resources, aiming to achieve quality growth.

Hiroshi Yanagida

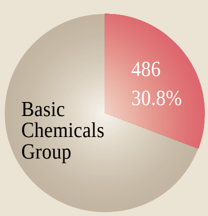
Hiroshi Yanagida
President

Review of Operations
(Chemical Business)

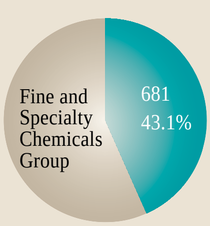
Chemical Business
(Change of net sales)
(100 millions of yen)



Breakdown and component ratio in 2002:
(100 millions of yen)



Breakdown and component ratio in 2002:
(100 millions of yen)



Basic Chemicals Group

Reflecting a soft global market, sales of acrylic acid and acrylic esters decreased because of weakening demand in Japan and overseas. Sales of methacrylic acid and methacrylate esters also slipped because of declining demand in Japan and overseas.

Lower sales volume resulting from intensified competition in overseas markets and struggling demand in Japan pushed down sales of ethylene glycols. Sales of ethylene oxide and its derivatives also dropped due to stagnant domestic demand.

Phthalic anhydride sales declined because of continued weak domestic demand for its use in plasticizers and paint. Sales of maleic anhydride, however, increased thanks to higher domestic sales arising from the exit of some competitors from the market.

Consequently, sales of the Basic Chemicals Group totaled ¥48,589 million, a decline of 11.2% from the previous fiscal year.


Paint (Acrilic esters)

Fine & Specialty Chemicals Group

Sales of superabsorbent polymers expanded substantially. Sales volume increased thanks to growing demand worldwide. Other factors contributing to greater sales were extraordinary demand for superabsorbent polymers due to the production problem of overseas competitor and the undervaluation of the yen.

Sales of higher-alcohol products (SOFTANOL) and other raw materials for detergents declined because of weak domestic and overseas demand.

Faltering domestic and overseas demand for products used as concrete admixtures resulted in lower sales volume and decreased sales.

Sales volume of raw materials for paints and resins fell because of stagnant domestic demand and intensified competition in overseas markets, resulting in a drop in sales.

Sales of resin performance improvers also decreased due to falling sales volume caused by weak domestic and overseas demand and intensifying competition overseas.

Among other fine chemicals, sales of medical intermediates were approximately the same as those posted in the previous fiscal year. Sales of iodic and cyanic compounds and agricultural chemical-related products fell because of heightened competition.

Consequently, sales of the Fine & Specialty Chemicals Group amounted to ¥68,116 million, up 12.1% from the previous fiscal year.


Disposable diapers (Superabsorbent polymers, AQUALIC CA)

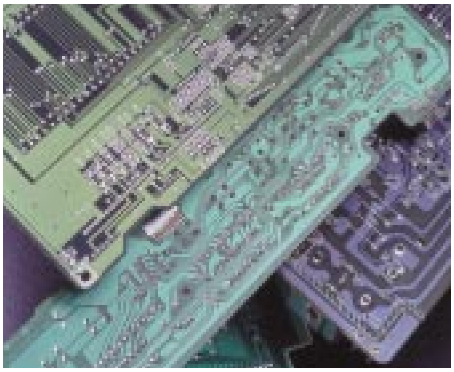
Polymers & Resins Group

In addition to weak sales of unsaturated polyester resin (EPOLAC) for use in housing construction and industrial equipment, the product faced intensified competition from low-priced imports, resulting in a drop in sales.

Sales of adhesive resins rose on increased domestic and overseas demand, but sales of heat-resistant paints and insulating varnishes fell because of heightened competition in overseas markets and low demand in Japan.

Sales of plastic molded products were also weak, mirroring stagnant demand.

Consequently, sales of the Polymers & Resins Group decreased 9.2%, to ¥20,329 million compared with the previous fiscal year.



Printed circuit boards
(Special heat-resistant resin, EPOCEL)

Environment Business & Catalysts Group

Sales of industrial catalysts through technology licensing rose significantly because of strong replacement demand.

Greater demand from electric power plants contributed to increased sales of De-NOx catalysts. Conversely, sales of automotive catalysts declined substantially because of decreased demand.

Demand was favorable for dioxin decomposition catalysts, boosting sales of these products. However, sales of waste water treatment plant equipment and catalysts declined due to low demand.

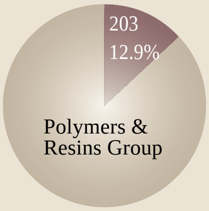
Consequently, sales of the Environment Business & Catalysts Group totaled ¥20,858 million, edging up 2.3% from the previous fiscal year.

Overall, total sales of the chemicals business edged down ¥335 million, or 0.2%, to ¥157,894 million compared with the previous fiscal year.

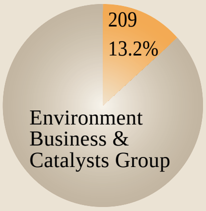
Operating income soared ¥3,630 million, or 76.6%, to ¥8,369 million despite declines in sales volume of basic chemicals and product prices. Increased sales of superabsorbent polymers and industrial catalysts through technology licensing, the depreciation of the yen, a decline in raw material costs, and further reductions in fixed costs contributed to the growth in operating income.

Automotive catalysts for gasoline and diesel engines.

Breakdown and component ratio in 2002:
(100 millions of yen)

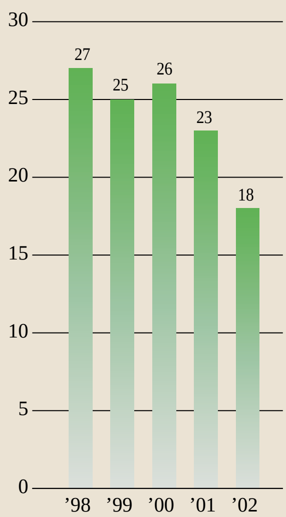


Breakdown and component ratio in 2002:
(100 millions of yen)



Review of Operations
(Other Businesses)

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



Other Businesses

Revenues from the transportation business were almost the same as those recorded in the previous fiscal year. During the fiscal year, we eliminated our services business after exiting from the golf driving range business.

Overall, sales of Other Businesses dropped ¥527 million, or 22.4%, to ¥1,827 million from the previous fiscal year. Operating income, however, rose ¥72 million, or 14.3%, to ¥578 million thanks to cost cutting efforts.

Geographic Information

Japan

Reflecting a generally weak chemicals business throughout the fiscal year, sales declined 6.9%, to ¥132,285 million. On the other hand, operating income jumped 57.6%, to ¥8,507 million.

Overseas

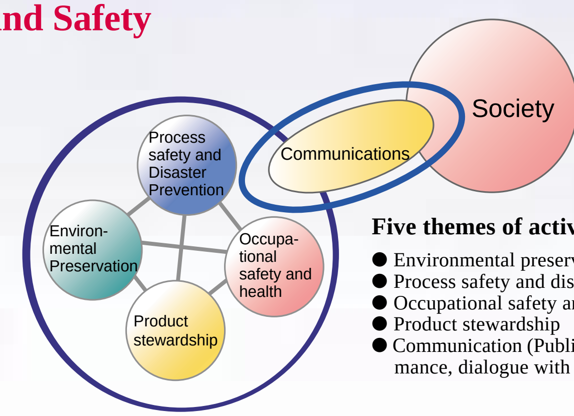
Growth of production plants in Asia boosted overseas sales 47.8%, to ¥27,436 million. However, operating income moved further into the red, at ¥101 million.

"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 Chemical Council Association (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 2002, 114 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)
A regulatory system which requires reporting of emission volumes of chemical substances into the air, water and soil and transferred volumes of wastes. Data compiled to the government bodies are disclosed to the public.

(4) MSDS (Material Safety Data Sheet)
A document that describes the health, safety and environmental hazards of a material and provides information on how the material can be safely handled, used and disposed.

(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.

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

(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.

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

Topics

Exchanging and Integrating Acrylic Acid and MMA Monomer Businesses with Sumitomo Chemical

Nippon Shokubai and Sumitomo Chemical Co., Ltd., concluded a basic agreement to exchange and integrate their acrylic acid and methyl methacrylate (MMA) monomer business at the end of March 2002, with Nippon Shokubai acquiring the acrylic acid business and Sumitomo acquiring the MMA monomer business.

Nippon Shokubai produces a full-range of acrylic acid and such derivatives as superabsorbent polymers and acrylic acid esters. On the other hand, besides monomers, Sumitomo Chemical manufactures a wide-range of MMA polymer products, such as sheets and molding materials for car components and other fields. Amid intensifying global competition, both companies are seeking to focus their corporate resources on their specialty fields, aiming to boost their competitiveness.

Based on this exchange of businesses, Nippon Shokubai's domestic acrylic acid production capacity will increase by 80 thousand tons to 300 thousand tons. Combined with the 60-thousand-ton annual production capacity of Nippon Shokubai Indonesia and the 60-thousand-ton share of the production of American Acryl, which completed its plant in the beginning of 2002, the Nippon Shokubai Group will have a total production capacity of 420 thousand tons per annum and be the 3rd largest producer of acrylic acid in the world.

President Hiroshi Yanagida (right), of Nippon Shokubai, and President Hiromasa Yonekura, of Sumitomo Chemical, shake hands after signing agreement to exchange businesses. (At the media event held on November 5, 2001)

Nippon Shokubai's acrylic acid production plant.

Nippon Shokubai Europe Completes Superabsorbent Polymer Plant

During the fiscal year, Nippon Shokubai Europe N.V., a 100% owned subsidiary in Belgium, completed a superabsorbent polymer plant being constructed to further strengthen this core business of Nippon Shokubai. A completion ceremony was held on June 14, 2001.

The plant, construction of which began in Antwerp, in Flanders, Belgium, in September 1999, has an annual production capacity of 30 thousand tons.

Including this new production base, the Nippon Shokubai Group now has a total global annual production capacity for superabsorbent polymer of 230 thousand tons: 140 thousand tons in Japan, 60 thousand tons from the U.S. subsidiary NA Industries, Inc., and 30 thousand tons in Europe.

The Group plans to further expand business, with an eye on the Chinese, Southeast Asian, and South American markets, and aims to gain a 25% share of the global market.

Strengthening Our U.S. Acrylic Acid and Superabsorbent Polymer Business

American Acryl is building an acrylic acid plant that will strengthen our core acrylic acid and superabsorbent polymer business in the United States. Construction is progressing favorably and American Acryl will begin supplying acrylic acid to our U.S. subsidiary NA Industries, Inc., in August 2002.

We expect that this stable supply of high quality, low-cost acrylic acid to NA Industries will give us a substantial cost advantage in the superabsorbent polymer market in the United States.

The near-to-completion acrylic acid plant (Annual production capacity, 120 thousand tons).

The new superabsorbent polymer plant.

Cherry trees being planted at the completion ceremony to symbolize hopes for the future growth of the company.

Management Indices

(1) Consolidated Management Indices

Period Fiscal Year End	86th March 1998	87th March 1999	88th March 2000	89th March 2001	90th March 2002
					(Millions of yen)
Net Sales	171,805	160,190	162,461	160,585	159,722
Ordinary Income	11,222	8,231	5,088	4,303	5,558
Net Income	5,226	4,450	2,659	1,242	1,590
Net Assets	111,673	114,658	118,820	117,340	120,238
Total Assets	218,953	231,081	216,896	230,468	230,253
					(yen)
Net Assets per Share	567.21	582.39	609.72	602.11	617.05
Net Income per Share	26.54	22.61	13.54	6.37	8.16
Fully Diluted Net Income per Share	—	—	—	—	—
Capital Ratio (%)	51.0	49.6	54.8	50.9	52.2
Return on Equity (%)	4.8	3.9	2.3	1.1	1.3
Price Earning Ratio (times)	28.0	29.7	33.2	70.6	62.0
					(Millions of yen)
Cash Flow from Operating Activities	—	—	18,285	9,757	17,268
Cash Flow from Investing Activities	—	—	(5,709)	(12,961)	(8,178)
Cash Flow from Financing Activities	—	—	(13,463)	(6,584)	(1,579)
Cash and Cash Equivalents at Year-end	—	23,767	22,827	14,806	23,151
Number of Employees	—	—	3,050	3,189	3,077

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.

(2) Non-consolidated Management Indices

Period Fiscal Year End	86th March 1998	87th March 1999	88th March 2000	89th March 2001	90th March 2002
					(Millions of yen)
Net Sales	141,755	128,998	128,086	129,712	123,706
Ordinary Income	9,146	6,870	4,616	5,205	8,054
Net Income	5,546	4,115	3,097	2,539	1,744
Capital	16,529	16,529	16,529	16,529	16,529
Issued and Outstanding Shares (Thousands shares)	196,881	196,881	194,881	194,881	194,881
					(Millions of yen)
Net Assets	106,113	109,533	113,470	114,568	115,578
Total Assets	193,178	203,537	189,999	189,236	188,821
					(yen)
Net Assets per Share	538.97	556.34	582.25	587.89	593.14
Dividend per Share	7.00	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	28.17	20.90	15.77	13.03	8.95
Fully Diluted Net Income per Share	—	—	—	—	—
Capital Ratio (%)	54.9	53.8	59.7	60.5	61.2
Return on Equity (%)	5.3	3.8	2.8	2.2	1.5
Price Earning Ratio (times)	26.4	32.1	28.5	34.5	56.5
Dividend Payout Ratio (%)	24.8	33.5	44.3	53.7	78.2
Number of Employees	2,217	2,258	2,127	2,004	1,937

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: Issued and Outstanding Shares are 2,000 thousands less than in the 88th period, owing to the retirement of treasury stock out of profit.
Note 4: Number of Employees will be the representation of the number of people actually engaged in work from the 88th period onward.

Consolidated Financial Statements

Years ended March 31, 2002 and 2001

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, 2002 and 2001, 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, 2002 and 2001, 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.

As described in Note 1, Nippon Shokubai Co., Ltd. and consolidated subsidiaries adopted new accounting standards for foreign currency translation, financial instruments, and employees' retirement benefits effective April 1, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 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.

Shin Nihon & Co.

Osaka, Japan
June 25, 2002

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,		
	2002	2001	**2002**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and cash equivalents	**¥ 23,151**	¥ 14,806	**$ 173,676**
Time deposits (Note 6)	**118**	331	**885**
Short-term investments (Note 4)	**—**	11	**—**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**4,871**	6,480	**36,542**
Trade	**41,973**	44,119	**314,876**
Allowance for doubtful receivables	**(164)**	(196)	**(1,230)**
Inventories (Note 5)	**25,074**	29,846	**188,102**
Deferred income taxes (Note 8)	**2,359**	2,105	**17,697**
Other current assets	**4,052**	3,265	**30,398**
Total current assets	**101,434**	100,767	**760,946**
Property, plant and equipment (Note 6):			
Land	**28,639**	28,473	**214,846**
Buildings and structures	**58,669**	58,995	**440,128**
Machinery and equipment	**215,870**	209,404	**1,619,430**
Construction in progress	**136**	6,682	**1,020**
Accumulated depreciation	**(211,387)**	(207,780)	**(1,585,799)**
Property, plant and equipment, net	**91,927**	95,774	**689,625**
Investments and other assets:			
Investments in securities (Notes 4 and 6)	**13,040**	13,799	**97,824**
Investments in and advances to unconsolidated subsidiaries and affiliates	**9,337**	10,415	**70,045**
Deferred income taxes (Note 8)	**3,192**	3,692	**23,946**
Other assets	**11,323**	6,021	**84,944**
Total investments and other assets	**36,892**	33,927	**276,759**
Total assets	**¥ 230,253**	¥230,468	**$ 1,727,330**

	March 31,		
	2002	2001	**2002**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 12,354**	¥ 9,251	**$ 92,678**
Current portion of long-term debt (Note 6)	**14,101**	9,186	**105,784**
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	**2,664**	3,715	**19,985**
Trade	**24,476**	29,890	**183,616**
Construction	**473**	1,377	**3,548**
Accrued income taxes (Note 8)	**7,298**	1,619	**54,749**
Other current liabilities	**3,627**	7,213	**27,210**
Total current liabilities	**64,993**	62,251	**487,570**
Long-term liabilities:			
Long-term debt (Note 6)	**32,623**	38,004	**244,734**
Accrued retirement benefits for employees (Note 7)	**8,181**	9,022	**61,373**
Accrued retirement benefits for directors and corporate auditors	**739**	601	**5,544**
Deferred income taxes (Note 8)	**678**	758	**5,086**
Other	**130**	228	**976**
Total long-term liabilities	**42,351**	48,613	**317,713**
Minority interests	**2,671**	2,264	**20,038**
Contingent liabilities (Note 12)			
Shareholders' equity:			
Common stock:			
Authorized –424,000,000 shares			
Issued –194,881,287 shares in 2002 and 2001	**16,529**	16,529	**123,998**
Additional paid-in capital (Note 9)	**13,562**	13,562	**101,740**
Retained earnings (Note 9)	**87,686**	88,168	**657,809**
Unrealized holding gain on securities	**744**	—	**5,581**
Translation adjustments	**1,727**	(919)	**12,956**
Less treasury stock, at cost	**(10)**	0	**(75)**
Total shareholders' equity	**120,238**	117,340	**902,009**
Total liabilities and shareholders' equity	**¥ 230,253**	¥ 230,468	**$ 1,727,330**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2002	2001	**2002**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net sales (Note 15)	**¥ 159,722**	¥ 160,585	**$ 1,198,215**
Cost of sales (Note 10)	**121,819**	126,568	**913,871**
Gross profit	**37,903**	34,017	**284,344**
Selling, general and administrative expenses (Note 10)	**28,940**	28,638	**217,104**
Operating income (Note 15)	**8,963**	5,379	**67,240**
Other income (expenses):			
Interest and dividend income	**403**	583	**3,023**
Interest expense	**(1,622)**	(906)	**(12,168)**
Royalty income	**621**	748	**4,659**
Loss on devaluation of investments in securities	**(3,033)**	(588)	**(22,753)**
Equity in losses of unconsolidated subsidiaries and affiliates	**(1,492)**	(1,308)	**(11,193)**
Gain on sales of property, plant and equipment	**—**	305	**—**
Amortization of net retirement benefit obligation at transition	**—**	(3,813)	**—**
Gain on marketable securities for employees' retirement benefit trust	**—**	3,233	**—**
Gain on divestitures (Note 3)	**2,543**	—	**19,077**
Other, net	**(1,396)**	(455)	**(10,473)**
Income before income taxes and minority interests	**4,987**	3,178	**37,412**
Income taxes (Note 8):			
Current	**4,040**	2,531	**30,308**
Deferred	**(703)**	(746)	**(5,274)**
	3,337	1,785	**25,034**
Income before minority interests	**1,650**	1,393	**12,378**
Minority interests in earnings of consolidated subsidiaries	**(60)**	(151)	**(450)**
Net income (Note 13)	**¥ 1,590**	1,242	**$ 11,928**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2002	2001	**2002**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Common stock:			
Balance at beginning and end of year	**¥ 16,529**	¥ 16,529	**$ 123,998**
Additional paid-in capital:			
Balance at beginning and end of year	**¥ 13,562**	¥ 13,562	**$ 101,740**
Retained earnings:			
Balance at beginning of year	**¥ 88,168**	¥ 88,731	**$ 661,425**
Net income	**1,590**	1,242	**11,928**
Cash dividends	**(1,364)**	(1,366)	**(10,233)**
Bonuses to directors and corporate auditors	**(86)**	(87)	**(645)**
Increase in retained earnings resulting from merger of an unconsolidated subsidiary	**—**	9	**—**
Increase in retained earnings resulting from exclusion of companies accounted for by the equity method	**—**	1,821	**—**
Decrease in retained earnings resulting from decrease in a consolidated subsidiary	**(622)**	—	**(4,666)**
Decrease in retained earnings resulting from inclusion of consolidated subsidiaries	**—**	(2,182)	**—**
Balance at end of year	**¥ 87,686**	¥ 88,168	**$657,809**
Net unrealized holding gain on securities:			
Balance at beginning of year	**¥ —**	¥ —	**$ —**
Net change during the year	**744**	—	**5,581**
Balance at end of year	**¥ 744**	—	**$ 5,581**
Translation adjustments:			
Balance at beginning of year	**¥ (919)**	¥ —	**$ (6,894)**
Net change during the year	**2,646**	(919)	**19,850**
Balance at end of year	**¥ 1,727**	¥ (919)	**$ 12,956**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2002	2001	**2002**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Operating activities:			
Income before income taxes and minority interests	**¥ 4,987**	¥ 3,178	**$ 37,412**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**10,063**	10,088	**75,491**
Reversal of retirement allowances	**(834)**	(1,371)	**(6,257)**
Interest and dividend income	**(403)**	(583)	**(3,023)**
Interest expense	**1,622**	906	**12,168**
Equity in losses of unconsolidated subsidiaries and affiliates	**1,492**	1,308	**11,193**
Decrease in investments in securities in trust	**—**	424	**—**
Gain on divestitures	**(2,543)**	—	**(19,077)**
Loss on devaluation of investments in securities	**3,033**	588	**22,753**
Loss on disposal of property, plant and equipment	**477**	70	**3,578**
Other, net	**1,111**	(805)	**8,335**
Changes in operating assets and liabilities:			
Notes and accounts receivable	**3,387**	(2,975)	**25,409**
Inventories	**5,916**	(4,132)	**44,381**
Notes and accounts payable	**(7,052)**	5,876	**(52,903)**
Other current liabilities	**152**	(664)	**1,141**
Subtotal	**21,408**	11,908	**160,601**
Interest and dividends received	**449**	632	**3,368**
Interest paid	**(1,886)**	(898)	**(14,149)**
Income taxes paid	**(2,703)**	(1,885)	**(20,278)**
Net cash provided by operating activities	**17,268**	9,757	**129,542**
Investing activities:			
Purchases of shares of a subsidiary	**—**	(1,679)	**—**
Proceeds from sales of short-term investments and investments in securities	**3,617**	41	**27,134**
Purchases of marketable securities and investments in securities	**(2,476)**	(4,270)	**(18,575)**
Purchases of property, plant and equipment	**(4,211)**	(7,484)	**(31,590)**
Proceeds from sales of property, plant and equipment	**31**	339	**233**
Increase in loans receivable	**(5,140)**	(326)	**(38,560)**
Collection of loans receivable	**668**	466	**5,011**
Other, net	**(667)**	(48)	**(5,004)**
Net cash used in investing activities	**(8,178)**	(12,961)	**(61,351)**

	Year ended March 31,		
	2002	2001	**2002**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Financing activities:			
Increase (decrease) in short-term bank loans, net	**2,799**	(3,701)	**20,998**
Proceeds from long-term debt	**13,672**	4,030	**102,566**
Repayment of long-term debt	**(16,797)**	(5,641)	**(126,009)**
Cash dividends paid	**(1,364)**	(1,364)	**(10,233)**
Other, net	**111**	92	**833**
Net cash used in financing activities	**(1,579)**	(6,584)	**(11,845)**
Effect of exchange rate changes on cash and cash equivalents	**882**	195	**6,617**
Increase (decrease) in cash and cash equivalents	**8,393**	(9,593)	**62,963**
Cash and cash equivalents at beginning of year	**14,806**	22,827	**111,073**
Increase in cash and cash equivalents resulting from merger of an unconsolidated subsidiary	**—**	9	**—**
(Decrease) increase in cash and cash equivalents resulting from changes in number of consolidated subsidiaries	**(48)**	1,563	**(360)**
Cash and cash equivalents at end of year	**¥ 23,151**	¥ 14,806	**$ 173,676**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries
March 31, 2002

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, 2001 to the 2002 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 but are reported as translation adjustments in a separate component of shareholders' equity and minority interests in the consolidated balance sheets at March 31, 2002 and 2001.

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 Translation" 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 their corresponding 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 statement of income for the year ended March 31, 2001 was immaterial.

(d) Cash and Cash Equivalents

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 carried at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value, with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method. Through March 31, 2002, marketable securities classified as other securities were carried at cost determined by the moving average method.

The effect of the adoption of this standard for marketable securities classified as other securities is reported as unrealized holding gain on securities in a separate component of shareholders' equity. The overall effect at March 31, 2001 was to increase deferred tax liabilities by ¥546 million ($4,096 thousand) and minority interests by ¥8 million ($60 thousand) over the amounts which would have been recorded under the method applied in the previous year.

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 and classified their securities at March 31, 2001 as "held-to-maturity debt securities" or "other securities" in accordance with the new standard referred to above. As a result, short-term investments of ¥8 million, which had been included in short-term investments at March 31, 2000, were 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.

(j) Income Taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred income tax assets and liabilities are computed based on the temporary differences between the financial reporting and tax bases of the assets and liabilities which will result in taxable or deductible amounts in the future. The calculation of deferred income tax assets and liabilities is based on the enacted tax laws.

(k) Retirement Benefits

The domestic consolidated subsidiaries have either unfunded employees' retirement benefit 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 its consolidated domestic subsidiaries adopted "Accounting Standard for Retirement Benefits" which was issued by the Business Accounting Deliberation Council of Japan. In accordance with this standard, accrued retirement 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 year. The net retirement benefit obligation at transition of ¥3,813 million was 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 establishing this trust and contributing its marketable securities, the Company recognized a gain of ¥3,233 million arising from the valuation of the marketable securities. This has been presented in the consolidated statement of income for the year ended March 31, 2001 as gain on marketable securities contributed to 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 eligible 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 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 the financial period. The accounts for that period do not, therefore, reflect such appropriations (see Note 16).

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 ¥133.3 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2002. 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. Divestitures and Acquisition

In November 2001, the Company sold its Methyl Methacrylete Monomer Business ("MMA Monomer Business") to Sumitomo Chemical Co., Ltd. ("Sumitomo Chemical") under the terms of a basic agreement to integrate each company's acrylic acid and MMA Monomer Business into the Company and Sumitomo Chemical, respectively. As a result of this transaction, the Company recorded gain of ¥2,543 million ($19,077 thousand). The components of the sale of the MMA Monomer Business consisted of the sale of a certain portion of the Company's interest in Nihon Methacryl Monomer Co., Ltd., and the sale of all shares of the Company's interest in Singapore MMA Monomer Pte Ltd. ("Singapore MMA") as well as the MMA monomer businesses.

On October 23, 2000, the Company acquired 24,545 thousand shares of PT NISSHOKU TRIPOLYTA ACRYLINDO ("NTA") for ¥2,354 million 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 shares of common stock of NTA. As a result of this acquisition, the Company acquired an interest of approximately 90.9% in NTA.

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

4. Short-Term Investments and Investments in Securities

Marketable securities classified as other securities at March 31, 2002 and 2001 are summarized as follows:

2002

	(Millions of yen)			(Thousands of U.S. dollars)		
	Cost	Book value (Fair market value)	Unrealized gain (loss)	Cost	Book value (Fair market value)	Unrealized gain (loss)
Securities whose fair market value exceeds their cost:						
Equity securities	¥ 3,135	¥ 6,060	¥ 2,925	$ 23,518	$ 45,461	$ 21,943
Subtotal	3,135	6,060	2,925	23,518	45,461	21,943
Securities whose cost exceeds their fair market value:						
Equity securities	8,004	6,384	(1,620)	60,045	47,892	(12,153)
Subtotal	8,004	6,384	(1,620)	60,045	47,892	(12,153)
Total	¥ 11,139	¥ 12,444	¥ 1,305	$ 83,563	$ 93,353	$ 9,790

2001

	(Millions of yen)		
	Cost	Fair market value	Net unrealized gain
Fair market value available:			
Equity securities	¥12,990	¥16,149	¥ 3,159

A breakdown of other securities whose market value was not known at March 31, 2002 and 2001 is as follows:

	2002	2001	**2002**
	(Millions of yen)		(Thousands of U.S. dollars)
Bonds held to maturity	¥ —	¥ 11	$ —
Other securities	596	809	4,471

5. Inventories

Inventories at March 31, 2002 and 2001 were as follows:

	2002	2001	**2002**
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished goods	**¥ 11,186**	¥ 11,717	**$ 83,916**
Raw materials	**6,496**	8,129	**48,732**
Work in process	**5,715**	8,270	**42,873**
Supplies	**1,677**	1,730	**12,581**
	¥ 25,074	¥ 29,846	**$ 188,102**

6. 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, 2002 and 2001 were 0.60% and 2.37%, respectively.

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	2002	2001	**2002**
	(Millions of yen)		(Thousands of U.S. dollars)
1.425% unsecured bonds due November 2002	**¥5,000**	¥5,000	**$37,509**
1.85% unsecured bonds due November 2004	**5,000**	5,000	**37,509**
Unsecured loans from banks and insurance companies, payable in yen, at rates from 1.02% to 2.60%, due through 2006	**10,838**	12,576	**81,306**
Unsecured loans from banks, payable in U.S. dollars, at rates from 2.50% to 3.75%, due through 2009	**17,930**	10,212	**134,509**
Unsecured loans from banks, payable in Euro, at rates from 3.69% to 4.05%, due through 2007	**4,336**	3,915	**32,528**
Secured loans from banks and insurance companies, payable in yen, at rates from 1.10% to 5.60%, due through 2008	**3,620**	4,980	**27,157**
Secured loans from banks, payable in yen, at 7.85%, due through 2004	**—**	5,507	**—**
	46,724	47,190	**350,518**
Less current portion	**(14,101)**	(9,186)	**(105,784)**
	¥32,623	¥38,004	**$244,734**

The aggregate annual maturities of long-term debt subsequent to March 31, 2002 are summarized below:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2003	¥ 14,101	$ 105,784
2004	7,859	58,957
2005	10,880	81,620
2006	3,705	27,795
2007 and thereafter	10,179	76,362
	¥ 46,724	$ 350,518

Assets pledged as collateral for long-term debt, including the current portion thereof, and accounts and notes payable at March 31, 2002 and 2001 were as follows:

	2002	2001	2002
	(Millions of yen)		(Thousands of U.S. dollars)
Time deposits	¥ 85	¥ 258	$ 638
Land	1,014	2,705	7,607
Buildings and structures	877	1,564	6,579
Machinery and equipment	865	11,882	6,489
Investments in securities	2,315	4,304	17,367
	¥ 5,156	¥ 20,713	$38,680

7. Retirement Benefits

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2002 and 2001 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2002	2001	2002
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation at end of year	¥(41,224)	¥(36,033)	$(309,257)
Fair value of plan assets at end of year	25,203	26,086	189,070
Unfunded retirement benefit obligation	(16,021)	(9,947)	(120,187)
Unrecognized actuarial loss	9,885	2,744	74,156
Unrecognized past service cost	(2,038)	(1,816)	(15,289)
Net retirement benefit obligation at transition	(8,174)	(9,019)	(61,320)
Prepaid pension cost	7	3	53
Accrued retirement benefits	¥(8,181)	¥(9,022)	$(61,373)

The components of retirement benefit expenses for the years ended March 31, 2002 and 2001 are outlined as follows:

	2002	2001	2002
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥1,635	¥1,887	$12,266
Interest cost	1,192	1,225	8,942
Expected return on plan assets	(939)	(984)	(7,044)
Amortization:			
Retirement benefit obligation at transition	—	3,813	—
Past service cost	(372)	(216)	(2,791)
Actuarial loss	276	—	2,070
Retirement benefit expenses	¥1,792	¥5,725	$13,443

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2002 and 2001 were as follows:

	2002	2001
Discount rate	Principally 2.6%	3.5%
Expected rate of return on plan assets	Principally 4.5%	Principally 4.5%

8. 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, 2002 and 2001 was, in the aggregate, approximately 42.0%. The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2002 and 2001 differed from the above statutory tax rate for the following reasons:

	2002	2001
Statutory tax rate	42.0%	42.0%
Effect of:		
Equity in losses of an unconsolidated subsidiary and affiliates	12.6	17.3
Permanently nondeductible expenses	2.5	3.2
Permanently nontaxable dividends received	(4.3)	(3.4)
Foreign tax credits	—	(4.9)
Valuation allowance	31.0	—
Gain on sale of investment in a subsidiary accounted for by the equity method	(19.9)	—
Other, net	3.0	2.0
Effective tax rates	66.9%	56.2%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities reported for financial 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, 2002 and 2001 are summarized as follows:

	2002	2001	2002
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Accrued retirement benefits	¥2,160	¥2,384	$16,204
Intercompany profit on inventories and property, plant and equipment	792	800	5,941
Reserve for repairs	1,160	999	8,702
Depreciation and amortization	502	488	3,765
Accrued employees' bonuses	508	357	3,810
Impairment of investments in securities and other	1,491	312	11,185
Accrued enterprise tax	243	146	1,822
Other	919	911	6,898
Subtotal	7,775	6,397	58,327
Less: Valuation allowance	(1,055)	—	(7,915)
Total deferred tax assets	6,720	6,397	50,412
Deferred tax liabilities:			
Net unrealized holding gain on securities	(546)	—	(4,096)
Depreciation and amortization	(546)	(523)	(4,096)
Deferred capital gain on property	(362)	(379)	(2,715)
Reserve for depreciation for tax purposes	(228)	(273)	(1,710)
Other	(170)	(183)	(1,276)
Total deferred tax liabilities	(1,852)	(1,358)	(13,893)
Net deferred tax assets	¥4,868	¥5,039	$36,519

9. Additional Paid-in Capital and Retained Earnings

On October 1, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. As a result of the Amendment, all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment became effective, the Company's shares had a par value of ¥50 per share.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

Retained earnings include the legal reserve provided in accordance with the provisions of the Code. The legal reserve of the Company included in retained earnings at March 31, 2002 and 2001 amounted to ¥3,919 million ($29,400 thousand) and ¥3,839 million, respectively.

10. 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, 2002 and 2001 totaled ¥9,173 million ($68,815 thousand) and ¥9,136 million, respectively.

11. 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, 2002 and 2001, 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:

	2002	2001	2002
	(Millions of yen)		(Thousands of U.S. dollars)
Machinery and equipment and software:			
Acquisition costs	¥871	¥796	$6,534
Accumulated depreciation	(521)	(456)	(3,908)
Net book value	¥350	¥340	$2,626

Lease payments relating to finance leases accounted for as operating leases amounted to ¥188 million ($1,410 thousand) and ¥216 million for the years ended March 31, 2002 and 2001, respectively. Depreciation of the leased assets calculated by the straight-line method over the respective lease terms amounted to ¥188 million ($1,410 thousand) and ¥216 million for the years ended March 31, 2002 and 2001, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2002 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2003	¥164	$1,230
2004 and thereafter	186	1,395
	¥350	$2,625

12. Contingent Liabilities

At March 31, 2002, the Company and a consolidated subsidiary were contingently liable as guarantors of indebtedness of affiliates, the Company's employees and other in the aggregate amount of ¥2,770 million ($20,780 thousand).

In addition, at March 31, 2002, the Company and its consolidated subsidiaries had contingent liabilities arising from notes discounted by banks and notes endorsed in the aggregate amount of ¥1,258 million ($9,437 thousand).

13. Amounts Per Share

	2002	2001	2002
	(yen)		(U.S. dollars)
Net income	¥8.16	¥6.37	$0.06
Cash dividends	7.00	7.00	0.05
Net assets	617.05	602.11	4.63

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.

14. Derivatives

Derivative financial instruments are utilized by the Company and its 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 its consolidated subsidiaries do not hold or issue derivative financial instruments for speculative trading purposes.

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

At March 31, 2002, one consolidated subsidiary had open interest-rate swap positions. The total fair value of these positions, however, was immaterial.

15. Segment Information

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

Business Segments

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2002 and 2001 is outlined as follows:

	Year ended March 31, 2002				
	Chemicals	Other	Total	Eliminations or corporate	Consolidated
	(Millions of yen)				
I. Sales and operating income					
Sales to third parties	¥157,894	¥1,828	¥159,722	¥ —	¥159,722
Intergroup sales and transfers	—	8,298	8,298	(8,298)	—
Total sales	157,894	10,126	168,020	(8,298)	159,722
Operating expenses	149,525	9,548	159,073	(8,314)	150,759
Operating income	¥8,369	¥578	¥8,947	¥16	¥8,963
II. Assets, depreciation and capital expenditures					
Total assets	¥194,773	¥5,388	¥200,161	¥30,092	¥230,253
Depreciation and amortization	10,340	179	10,519	49	10,568
Capital expenditures	5,189	59	5,248	—	5,248

	Year ended March 31, 2001				
	Chemicals	**Other**	**Total**	**Elimi-nations or corporate**	**Consoli-dated**
			(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

As mentioned in Note 1(k), the Company and its consolidated domestic subsidiaries 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 and ¥78 million, respectively, from the amounts which would have been recorded under the standard followed in the previous year.

	Year ended March 31, 2002				
	Chemicals	**Other**	**Total**	**Elimi-nations or corporate**	**Consoli-dated**
			(Thousands of U.S. dollars)		
I. Sales and operating income					
Sales to third parties	**$1,184,501**	**$13,714**	**$1,198,215**	**$ —**	**$1,198,215**
Intergroup sales and transfers	**—**	**62,251**	**62,251**	**(62,251)**	**—**
Total sales	**1,184,501**	**75,965**	**1,260,466**	**(62,251)**	**1,198,215**
Operating expenses	**1,121,718**	**71,628**	**1,193,346**	**(62,371)**	**1,130,975**
Operating income	**$62,783**	**$4,337**	**$67,120**	**$120**	**$67,240**
II. Assets, depreciation and capital expenditures					
Total assets	**$1,461,163**	**$40,420**	**$1,501,583**	**$225,747**	**$1,727,330**
Depreciation and amortization	**77,569**	**1,343**	**78,912**	**368**	**79,280**
Capital expenditures	**38,927**	**443**	**39,370**	**—**	**39,370**

Geographical Areas

The geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2002 and 2001 is outlined as follows:

	Year ended March 31, 2002				
	Japan	**Overseas**	**Total**	**Elimi-nations or corporate**	**Consoli-dated**
			(Millions of yen)		
I. Sales and operating income					
Sales to third parties	¥132,285	¥27,437	¥159,722	¥ —	¥159,722
Intergroup sales and transfers	9,827	3,699	13,526	(13,526)	—
Total sales	142,112	31,136	173,248	(13,526)	159,722
Operating expenses	133,605	31,237	164,842	(14,083)	150,759
Operating income (loss)	¥8,507	¥(101)	¥8,406	¥557	¥8,963
II. Total assets	¥153,872	¥49,340	¥203,212	¥27,041	¥230,253

	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

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

	Year ended March 31, 2002				
	Japan	**Overseas**	**Total**	**Elimi-nations or corporate**	**Consoli-dated**
			(Thousands of U.S. dollars)		
I. Sales and operating income					
Sales to third parties	$992,386	$205,829	$1,198,215	$ —	$1,198,215
Intergroup sales and transfers	73,721	27,749	101,470	(101,470)	—
Total sales	1,066,107	233,578	1,299,685	(101,470)	1,198,215
Operating expenses	1,002,289	234,335	1,236,624	(105,649)	1,130,975
Operating income (loss)	$63,818	$(757)	$63,061	$4,179	$67,240
II. Total assets	$1,154,329	$370,142	$1,524,471	$202,859	$1,727,330

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, 2002 and 2001 are summarized as follows:

	Year ended March 31, 2002				
	Asia	**Europe**	**America**	**Other**	**Total**
	(Millions of yen)				
Overseas sales	**¥20,774**	**¥18,669**	**¥17,214**	**¥4,046**	**¥60,703**
Overseas sales as a percentage of consolidated net sales	**13.0%**	**11.7%**	**10.8%**	**2.5%**	**38.0%**

	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, 2002				
	Asia	**Europe**	**America**	**Other**	**Total**
	(Thousands of U.S. dollars)				
Overseas sales	**$155,844**	**$140,053**	**$129,137**	**$30,352**	**$455,386**

16. 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, 2002, were approved at a shareholders' meeting held on June 25, 2002:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends (¥3.50 = $ 0.03 per share)	¥682	$5,116
Bonuses to directors and corporate auditors	77	577
	¥759	$5,693

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
1,937

Stock Listings
First Section, Tokyo Stock Exchange
First Section, Osaka Securities Exchange
First Section, Nagoya Stock Exchange

Transfer Agent
UFJ Trust Bank Limited
1-4-3 Marunouchi, Chiyoda-ku
Tokyo 100-0005, Japan

(as of March 31, 2002)

Board of Directors

President:
Hiroshi Yanagida

Executive Managing Director:
Yoshinori Sano

Senior Managing Director:
Keizo Maruyama

Managing Directors:
Tatsuo Konishi
Tsumoru Yamada
Yutaka Morimoto
Tsuneyuki Nakashima

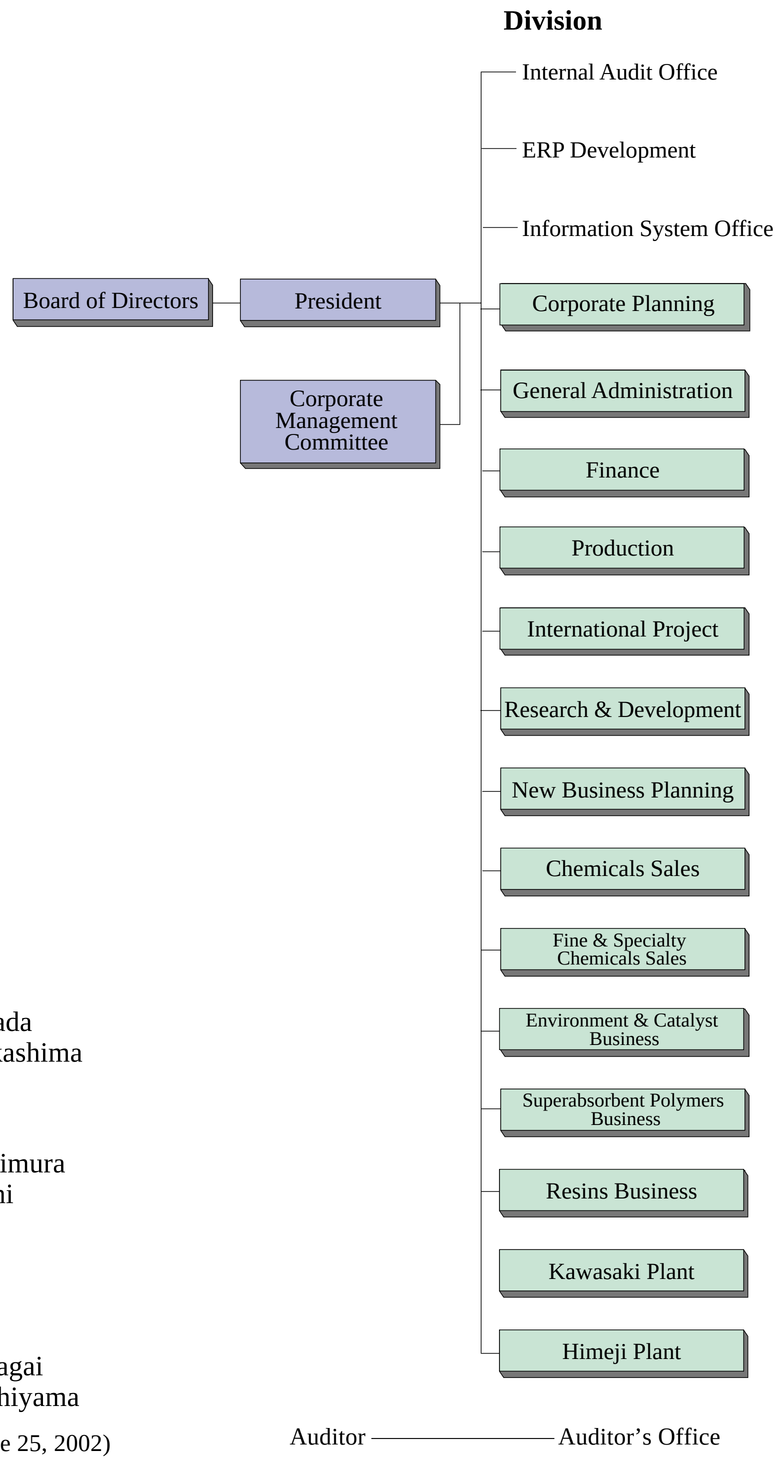
Directors:
Takahiro Toyohama
Yuji Noma
Michio Ueshima
Shigehiro Nishimura
Yoshinobu Haruna
Hisao Takagishi
Hideyuki Tahara
Fujio Kondo
Yosuke Ogata

Corporate Auditors:
Tadashi Kimura
Kazunosuke Nagai
Haruki Yoshida
Kaneyoshi Nishiyama

(as of June 25, 2002)

Organization

(as of April 2002)



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	97.3	Manufacture and sale of synthetic resins and related additives	Yoshizumi Ozawa
Daiko Kaiun Co., Ltd.*	¥100	64.8	Transport	Katsunobu Kaneko
Tokyo Fine Chemical Co., Ltd.*	¥80	66.2	Manufacture and sale of stabilizer of vinyl chloride resin and anti-freeze	Kazumi Fukuyasu
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
NA Industries, Inc.*	US$1.525**	100.0	Manufacture and sale of super-absorbent polymers Technical liaison and business development	Katsumi Uchida
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	Tadahiro Yoneda
PT. Nippon Shokubai Indonesia*	US$120	93.7	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	Takakiyo Goto
ICT Co., Ltd.	¥270	50.0	Sale of automobile exhaust catalyst	Yojiro Takahashi
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	Norio Matsui
International Catalyst Technology, Inc.	US$7.4	50.0	Manufacture and sale of automobile exhaust catalyst	W. Staron

(as of June 30, 2002)

* 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 OFFICE

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

Ehime Plant
5-1 Soubiraki-cho, Niihama, Ehime
792-8521, 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

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

Superabsorbent Polymers Research 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: 65-6-225-6313
Facsimile: 65-6-225-0969

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

’02 Aug., 1500
Printed in Japan