NIPPON SHOKUBAI

Annual Report 2003

Nippon Shokubai

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

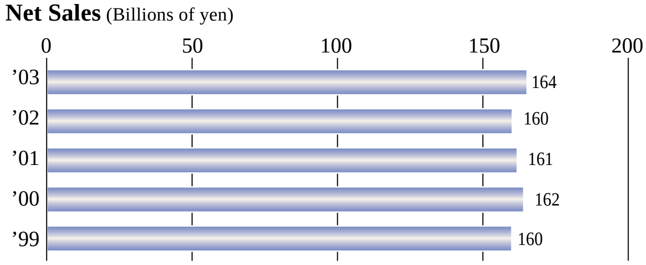
Financial Highlights

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

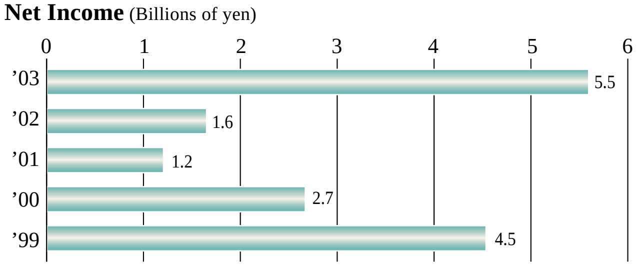
	Millions of yen			*Thousands of U.S. dollars*
	2003	2002	2001	**2003**
For the Year				
Net Sales	**¥163,514**	¥159,722	¥160,585	**$1,360,349**
Operating Income	**12,757**	8,963	5,379	**106,131**
Income before Income Taxes	**10,157**	4,987	3,178	**84,501**
Net Income	**5,516**	1,590	1,242	**45,890**
At Year-End				
Total Assets	**¥216,756**	¥230,253	¥230,468	**$1,803,295**
Total Shareholders' Equity	**121,297**	120,238	117,340	**1,009,127**
	Yen			*U.S. dollars*
Per Share Amounts				
Net Income	**¥27.97**	¥8.16	¥6.37	**$0.23**
Cash Dividends	**7.00**	7.00	7.00	**0.06**

Foreign Exchange Rate: US$1.00 = ¥120.2

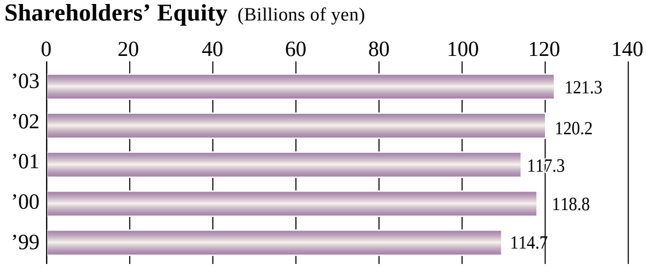
Net Sales (Billions of yen)



Net Income (Billions of yen)



Shareholders' Equity (Billions of yen)



To Our Shareholders

Hiroshi Yanagida, President

Performance

In fiscal 2002, ended March 31, 2003, Japan's economy remained weak despite signs of recovery in some areas supported by a strong surge in exports at the beginning of the fiscal year. The business climate continued to be harsh, with low levels of capital investment in the private and public sectors, worsening employment conditions, prolonged deflation, and a sharp drop in the stock market at the end of the fiscal year.

While the chemical industry overall enjoyed growing demand in Asia, under the influence of the war in Iraq, soaring prices of raw materials, such as naphtha, made the situation more uncertain.

In such surroundings, however, consolidated net sales increased by ¥3,792 million, or 2.4%, to ¥163,514 million, to which higher sales of Fine, Specialty and Basic Chemicals contributed.

Operating income expanded to ¥12,757 million, rising ¥3,793 million, or 42.3%. With a few exceptions, sales prices were dull during the fiscal year and domestic raw materials cost were high due to the rise in the price of naphtha. Nevertheless, profits grew because the Company reduced the procurement cost of raw materials in the overseas market, achieved economies of scale through a large increase in the sales volumes of Fine, Specialty and Basic Chemicals, and reduced manufacturing cost.

Ordinary income rose to ¥10,971 million, rising ¥5,413 million, or 97.4%. Lesser equity losses of unconsolidated subsidiaries and affiliates and an improvement in net financial income and expenses

Performance Highlights

(Unit: millions of yen)

	Fiscal Year		Change	
	2002	2001	Amount	%
Net sales	163,514	159,722	3,792	2.4%
Operating income	12,757	8,963	3,793	42.3%
Ordinary income	10,971	5,558	5,413	97.4%
Net income	5,516	1,590	3,926	246.9%
Net income per share	¥27.97	¥7.72	¥20.25	262.3%
ROA	4.9%	2.4%	—	2.5 points
ROE	4.6%	1.3%	—	3.3 points
Exchange rate	$=¥121.96 EUR=¥120.98	$=¥125.04 EUR=¥110.50		(¥3.08) ¥10.48
Naphtha price	¥24,000/kl	¥22,100/kl		¥1,900/kl

Sales by Business Group and Region

(Unit: millions of yen)

	Fiscal Year 2002		Fiscal Year 2001		Change	
Product Group	Chemicals	Others	Chemicals	Others	Chemicals	Others
Sales	161,124	2,390	157,894	1,827	3,229	562
Operating income	12,201	543	8,369	578	3,831	(34)
Regional	Japan	Overseas	Japan	Overseas	Japan	Overseas
Sales	134,113	29,401	132,285	27,436	1,827	1,964
Operating income	11,435	963	8,507	(101)	2,927	1,064

contributed to that increase.

Consolidated net income jumped by ¥3,926 million, or 246.9%, to ¥5,516 million. There were several major extraordinary items booked in fiscal 2002, such as Gain on return of substitution portion of Welfare Pension Fund Plan, Loss on devaluation of investments in securities and Amortization of excess of cost over net assets acquired.

Net income per share amounted to ¥27.97. Return on assets (ROA) was 4.9%, up 2.5 percentage points from the previous fiscal year while return on equity (ROE) climbed, by 3.3 percentage points, to 4.6%.

Outlook

Japan continues to struggle under a faltering stock market, the lack of progress in clearing up the bad debt problem in the financial sector, and rising unemployment. These and other factors are placing downward pressure on domestic demand, creating an ambiguous business climate.

Under these circumstances, we anticipate that the consolidated net sales of the Group will be ¥165 billion (¥80.5 billion in the first half) based on the increase in sales volume due to the efforts to expand sales of core products.

Looking at profitability, despite the concern that raw material prices will remain high, we forecast that ordinary income will rise ¥2,028 million compared with the previous fiscal year, to ¥13.0 billion (¥5.5 billion in the first half). This prediction is based on improvements in equity losses of unconsolidated subsidiaries and affiliates and in financial income and expenses as well as the efforts to maintain our product prices and cut costs. However, there will be no major extraordinary items. Therefore, the consolidated net income is expected to increase by ¥1,683 million, to ¥7.2 billion (¥2.7 billion in the first half).

In making these performance forecasts, we have assumed exchange rates of ¥120 to the U.S. dollar and ¥125 to the Euro. In addition, the price of naphtha, which establishes the standard for raw material prices, is set at ¥24,000 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 for humanity.
• Searching for pioneering technologies.
• 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 continue such practices as 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)Major Business Issues and Medium- and Long-term Business Strategies

We believe that our highest priority is not the pursuit of continuous growth in quantity but in quality. Recognizing our strengths and weakness, we have to sift and concentrate our business resources. Based on this priority, we prepared medium-term and long-term business plans that were implemented in April 2001. The current fiscal year is the last year of the medium-term business plan.

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. Guided by the slogan of our long-term

business plan, "A Shift from Quantitative Growth to Qualitative Growth—Our Development in the 21st Century," we are aiming to establish a powerful business structure by sifting and concentrating our business resources on new product fields, to establish a business portfolio, to clarify profit responsibilities in our existing fields, and to revitalize employees and our organization.

3. Performance Targets
   Targeting more efficient use of assets and more profitable products, 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).

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, and we have implemented concrete measures in each business field 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 have strengthened our core businesses, particularly our acrylic and superabsorbent polymer businesses. In our acrylic operations, a new acrylic acid plant at American Acryl, a U.S. joint venture with ATOFINA, of France, began operating commercially in August 2002. Our share of its annual production of acrylic acid is 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, we now have a total acrylic acid production capacity of 420 thousand tons per annum, making Nippon Shokubai the 3rd largest producer of acrylic acid in the world.

In our superabsorbent polymer operations, we are already the No. 1 manufacturer in the world with a total of 230 thousand tons annually comprised of 140 thousand tons domestically, 60 thousand tons in the United States, and 30 thousand tons in Belgium. To further solidify our leading position in the market, we are proceeding with the construction of a new plant at our Himeji Plant that is based on a new, high-efficiency process. The new plant, with annual capacity of 30 thousand tons, is scheduled to come on stream early next year. In addition, we are in the planning stages of setting up a plant in China to help us meet the anticipated growth in demand. We are currently targeting completion of the plant in China around 2004.

We have taken steps to restructure our domestic unsaturated polyester resin business. Effective April 1, 2003, we formed Japan Composite Co., Ltd., a joint venture with Mitsui Takeda Chemicals, Inc., to combine our unsaturated polyester resin operations.

We are in the final stage of preparation leading up to the scheduled introduction next April of a company-wide integrated information system. The system will combine our core information systems for sales, procurement, production, accounting, and other business processes. The system is expected to contribute to achieving management goals by clarifying responsibility for profit and by speeding up business decisions.

Through such strategies, we aim to achieve quality growth by sifting our corporate resources and concentrating them.

(4)Basic Stance on Corporate Governance and Measures

•Basic Stance on Corporate Governance

We are working to build a corporate structure that can respond to the global changes in our business environment and that will boost our competitiveness. We view corporate governance as a platform for achieving these goals. Through it, we aim to revitalize our board of directors, strengthen our auditing system, make our business structure more efficient, and establish and reinforce our compliance system.

•Corporate Governance Measures and Status

Our corporate governance system is comprised of the following management bodies aimed at speeding up management decisions, their execution, and monitoring performance. Our Company uses a corporate auditor system as a corporate compliance organ.

Board of Directors

At March 31, 2003, the board of directors had 16 members. Their role is to deliberate and decide on items related to business operations and to monitor the performance of directors who are corporate officers. In principle, the board meets once a month and is chaired by the president. The Company's four corporate auditors, including two outside auditors, also attend board meetings and provide their opinions when required.

Corporate Management Committee

The corporate management committee is an advisory body to the president. It deliberates about items related to fundamental business policies and strategies and to high-priority business execution issues of the business divisions. After screening, the most important issues are passed on to the board of directors for decision-making. The corporate management committee comprises the president, senior managing director, managing directors, and other directors appointed by the president. Aiming to speed up the decision-making process and to improve operating efficiency, the committee focuses on dealing with major operating issues.

The Board of Corporate Auditors

There are four auditors on the board of corporate auditors, two of which are outside auditors. In principle, the board meets once a month to report on, discuss, and make decisions on important issues. In addition to the board of directors' meetings, corporate auditors sit in on the meetings of the corporate management committee and other important meetings in an effort to achieve a comprehensive grasp of the Company's processes for making vital decisions and business execution. In addition, the corporate auditors receive reports from the independent auditors, directors and other employees of the Company on which, after deliberation, they issue audit opinions.

Third-Party Involvement by Legal Advisor and Independent Auditor

The Company has a legal advisor to provide council on matters that require a legal opinion. Certified public accountants, in addition to their role as independent auditors, also provide opinions on accounting matters when required. Neither the legal advisor nor the independent auditor has any involvement in actual business decisions.

•Possible Conflicts of Interest Among Outside Directors and Auditors

The current two outside auditors on the board of corporate auditors have no personal or investment relationships that could create a conflict of interest in the performance of their duties.

•Measures Introduced Over the Past Year to Strengthen Corporate Governance

The Company defines corporate compliance as "compliance with laws and corporate ethics". To ensure thorough compliance, the Company issued its Basic Policy on Compliance in March 2003 to be used as in-house rules. Furthermore, the Company introduced an Internal Communication System that provides employees with access to the president and to the legal advisor for reporting and advisory purposes. The system is intended to prevent problems from occurring by addressing them at an early stage.

We continue to strengthen our business and its systems to respond quickly to the dynamic changes occurring in markets and to position us for future growth. In facing these challenges, we look forward to the continued support of our shareholders.

June 2003

Hiroshi Yanagida

Hiroshi Yanagida
President

Review of Operations

Basic Chemicals Group

Several factors contributed to growth in sales of acrylic acid and acrylic esters during the fiscal year. Prices in the global market began to recover in the second half of the fiscal year, demand was firm, and sales volume rose as a result of the transfer of Sumitomo Chemical Co., Ltd., acrylic acid operations to Nippon Shokubai. Conversely sales of methacrylic esters dropped because of the transfer of our methyl methacrylate (MMA) monomer operations to Sumitomo Chemical in exchange for its acrylic acid operations.

A recovery in global market prices and higher sales volumes because of robust demand overseas, boosted sales of ethylene glycols during the fiscal year under review. Sales of ethylene oxide and its derivatives rose on the strength of firm domestic demand.

Phthalic anhydride sales declined because of continued weak domestic demand for its use in plasticizers. Despite weak domestic demand, sales of maleic anhydride were approximately the same as in the previous fiscal year due to solid exports.

Consequently, sales of the Basic Chemicals Group totaled ¥50,939 million, expanding 4.8% from the previous fiscal year.

Fine & Specialty Chemicals Group

Expanding world demand for superabsorbent polymers pushed up sales volume again in fiscal 2002. In addition, the depreciation of the Japanese yen against the Euro resulted in higher yen-denominated sales.

Sales of resin performance improvers rose thanks to expanded sales volume due to strong overseas demand.

Sales of higher-alcohol products (SOFTANOL) climbed upward on the basis of a recovery in demand overseas.

Despite falling consumption of concrete and intensified competition, sales of products used as concrete admixtures rose, assisted by the introduction of a new type of product.

Sales volume of raw materials for paints and resins increased, supported by vigorous overseas demand.

Strong domestic demand for organic and inorganic particulates resulted in overall sales growth in that category.

Sales of iodic and cyanic compounds and agricultural chemical-related products were favorable during the fiscal year under review.

Sales of other fine chemicals rose because of the launch of such new products as vinyl pyrrolidone and polymers for lithium metal batteries.

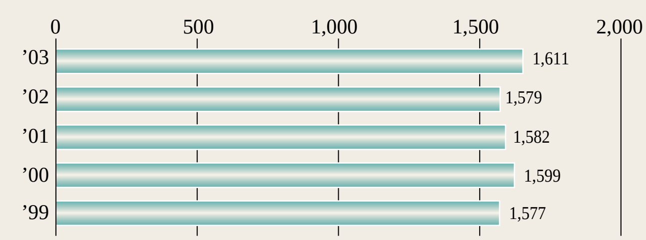
Consequently, sales of the Fine & Specialty Chemicals Group advanced 8.0%, to ¥73,534 million.

Polymers & Resins Group

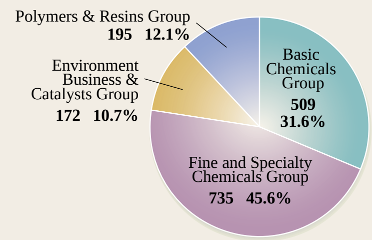
Overall, sales of unsaturated polyester resin (EPOLAC) were approximately the same as in the previous fiscal year, edging up slightly.

Sales of adhesive resins, paint

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



Breakdown and component ratio in 2003
(100 millions of yen)



resins, heat-resistant electrical insulation coatings, and process adhesive products were also about the same as in fiscal 2002.

Sales of plastic molded products remained weak, reflecting stagnant demand.

Consequently, sales of the Polymers & Resins Group declined 4.3%, to ¥19,459 million compared with the previous fiscal year.

Environment Business & Catalysts Group

Sales of industrial catalysts through technology licensing decreased because of weak replacement demand domestically and overseas.

A slump in demand from electric power plants resulted in a decline in sales of De-NOx catalysts. Although demand was firm for automotive catalysts, sales fell because of deterioration in sales prices.

Sales of dioxin decomposition equipment and catalysts sunk due to low demand. However, sales of waste water treatment plant equipment and catalysts rose, supported by robust demand.

Consequently, sales of the Environment Business & Catalysts Group totaled ¥17,190 million, declining 17.6% from the previous fiscal year.

Overall, total sales of the chemicals business edged forward ¥3,229 million, or 2.0%, to ¥161,124 million compared with the previous fiscal year.

Operating income climbed ¥3,831 million, or 45.8%, to ¥12,201 million despite downward pressure on profits from lower product prices and other factors. Sourcing of low-cost raw materials overseas, cost benefits from expanded sales volume, and efforts to reduce manufacturing costs were primarily responsible for improved operating income performance.

Other Businesses

Revenues from the transportation business advanced during the fiscal year based on higher freight volume.

Overall, sales of Other Businesses jumped ¥562 million, or 30.8%, to ¥2,390 million from the previous fiscal year. Despite growth in revenues, operating income decreased ¥34 million, or 6.0%, to ¥543 million because of rising fuel costs, among other factors.

Regional Information

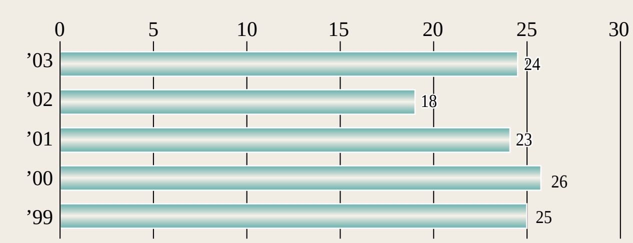
Japan

Supported by favorable sales volume in the Basic Chemicals Group, sales in Japan increased 1.4%, to ¥134,113 million. Reflecting greater efficiency, operating income rose 34.4%, to ¥11,435 million.

Overseas

Despite intensified competition, Nippon Shokubai expanded its share of sales for its main products overseas, especially in Europe. Overseas sales, therefore, rose 7.2%, to ¥29,401 million. Thanks to low-cost sourcing of raw materials and cost benefits from higher sales and production volume, operating income moved back into the black, to ¥963 million, compared with an operating loss of ¥101 million in the previous fiscal year.

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



"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.

Responsible Care Activities

Five themes of activities

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

International Aspect of Responsible Care (RC)

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.

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 2003, 114 companies are participating in the JRCC.

Direction of RC Program

Activities undertaken by the chemical industry by which manufacturers 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.

Major RC Activities

(1) Reduction of emissions based on Pollutant Release and Transfer Register (PRTR)

(2) Promotion of energy conservation

(3) Reduction of industrial waste

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

(5) Preparation of Yellow Card

(6) Environmental management system (ISO14001 certification)

(7) Participation in Communication Dialogue 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)

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(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 with production volumes exceeding 1,000 tons per country.

(9)LRI (Long-range Research Initiative)
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

Company Formed to Establish Superabsorbent Polymer Business in China

On April 24, 2003, Nippon Shokubai formed a new company, Nisshoku Chemical Industry (Zhangjiagang) Co., Ltd., in Zhangjiagang, Jiangsu, China, for the purpose of establishing a superabsorbent polymer business in China.

The Nippon Shokubai Group has positioned superabsorbent polymer as one of its core businesses, and plans to expand operations globally to capture a more than 25% share of the global market. Currently, the Group has production bases in the three major markets of Japan, the United States, and Europe, with a total global annual production capacity of 230 thousand tons. In anticipation of a surge in demand from China, the Group has decided to set up a fourth production base there. The new company was formed to select the location for the base and investigate the process of starting up business in China.

The company is moving forward with the various procedures involved in obtaining approval for the construction of a plant and expects to start building in the second half of the current fiscal year. Completion is scheduled for sometime in the following fiscal year.

When the new plant comes on stream, the Nippon Shokubai Group will have established a four-pronged global production network, further solidifying its position as the world's top superabsorbent polymer manufacturer.

Zhou Wei Qiang, Deputy Mayor of Zhangjiagang, and Hiroshi Yanagida, President of Nippon Shokubai, sign letter of intent regarding the new company.

Unsaturated Polyester Resin Joint Venture Established

Nippon Shokubai, Mitsui Takeda Chemicals, Inc., and Mitsui Chemicals, Inc., have established a joint venture company to combine their unsaturated polyester resin operations. Operations of Japan Composite Co., Ltd., got under way on April 1, 2003.

Unsaturated polyester resin is primarily used as raw material for fiberglass-reinforced plastic. In recent years, however, the market has weakened under the impact of several factors. In addition to falling demand in the wake of decline in housing starts, low levels of public works expenditures and slumps in other major application areas have contributed to the drop in the market. Moreover there is excess domestic production capacity and the volume of inexpensive imports is steadily growing in the market.

In response to these changes in operating conditions, the joint venture partners decided to establish Japan Composite to achieve more efficient operations and build a stronger business base.

Management Indices

(1) Consolidated Management Indices

Period Fiscal Year End	87th March 1999	88th March 2000	89th March 2001	90th March 2002	91st March 2003
					(Millions of yen)
Net Sales	160,190	162,461	160,585	159,722	163,514
Ordinary Income	8,231	5,088	4,303	5,558	10,971
Net Income	4,450	2,659	1,242	1,590	5,516
Total Shareholders' Equity	114,658	118,820	117,340	120,238	121,297
Total Assets	231,081	216,896	230,468	230,253	216,756
					(yen)
Net Assets per Share	582.39	609.72	602.11	617.05	631.12
Net Income per Share	22.61	13.54	6.37	8.16	27.97
Fully Diluted Net Income per Share	—	—	—	—	—
Capital Ratio (%)	49.6	54.8	50.9	52.2	56.0
Return on Equity (%)	3.9	2.3	1.1	1.3	4.6
Price Earning Ratio (times)	29.7	33.2	70.6	62.0	20.4
					(Millions of yen)
Cash Flow from Operating Activities	—	18,285	9,757	17,268	23,117
Cash Flow from Investing Activities	—	(5,709)	(12,961)	(8,178)	(8,751)
Cash Flow from Financing Activities	—	(13,463)	(6,584)	(1,579)	(15,956)
Cash and Cash Equivalents at Year-end	23,767	22,827	14,806	23,151	21,217
Number of Employees	—	3,050	3,189	3,077	2,967

Note 1: Net Sales do not include consumption taxes.
Note 2: Starting with the fiscal year ended March 2003, under review, net assets and net income per share have been prepared in accordance with Financial Accounting Standard No.2, "Accounting Standards for Earnings per Share," and Financial Accounting Standard Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings per Share," which were issued by the Accounting Standards Board of Japan.
Note 3: Fully diluted Net Income per Share is not recorded because no dilutive shares exist.

(2) Non-consolidated Management Indices

Period Fiscal Year End	87th March 1999	88th March 2000	89th March 2001	90th March 2002	91st March 2003
					(Millions of yen)
Net Sales	128,998	128,086	129,712	123,706	126,612
Ordinary Income	6,870	4,616	5,205	8,054	10,879
Net Income	4,115	3,097	2,539	1,744	3,094
Capital	16,529	16,529	16,529	16,529	16,529
Issued and Outstanding Shares (Thousands shares)	196,881	194,881	194,881	194,881	194,881
					(Millions of yen)
Total Shareholders' Equity	109,533	113,470	114,568	115,578	115,593
Total Assets	203,537	189,999	189,236	188,821	176,155
					(yen)
Net Assets per Share	556.34	582.25	587.89	593.14	601.48
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	20.90	15.77	13.03	8.95	15.55
Fully Diluted Net Income per Share	—	—	—	—	—
Capital Ratio (%)	53.8	59.7	60.5	61.2	65.6
Return on Equity (%)	3.8	2.8	2.2	1.5	2.7
Price Earning Ratio (times)	32.1	28.5	34.5	56.5	36.7
Dividend Payout Ratio (%)	33.5	44.3	53.7	78.2	45.0
Number of Employees	2,258	2,127	2,004	1,937	1,881

Note 1: Net Sales do not include consumption taxes.
Note 2: Issued and Outstanding Shares were reduced by 2,000 thousands shares in the fiscal year ended March 2000 due to retirement of treasury stock out of profit.
Note 3: Starting with the fiscal year ended March 2002, treasury stock has been eliminated from capital and also eliminated from issued and outstanding shares in the calculation of net assets and net income per share.
Note 4: Starting with the fiscal year ended March 2003, under review, net assets and net income per share have been prepared in accordance with Financial Accounting Standard No.2, "Accounting Standards for Earnings per Share," and Financial Accounting Standard Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings per Share," which were issued by the Accounting Standards Board of Japan.
Note 5: Fully diluted Net Income per Share is not recorded because no dilutive shares exist.
Note 6: Starting with the fiscal year ended March 2000, the Number of Employees has been revised to include the number of people actually engaged in work.

Consolidated Financial Statements

Years ended March 31, 2003 and 2002

Report of Independent Auditors

The Board of Directors
Nippon Shokubai Co., Ltd.

We have audited the accompanying consolidated balance sheets of Nippon Shokubai Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion independently on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Shokubai Co., Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 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 to the consolidated financial statements.

Shin Nihon & Co.
June 24, 2003

Shin Nihon & Co.

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

Consolidated Balance Sheets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2003	2002	**2003**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and cash equivalents	**¥ 21,217**	¥ 23,151	**$ 176,514**
Time deposits (Note 6)	**38**	118	**316**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**4,055**	4,733	**33,736**
Trade	**37,805**	41,973	**314,517**
Allowance for doubtful receivables	**(103)**	(164)	**(857)**
Inventories (Note 5)	**23,768**	25,074	**197,737**
Deferred income taxes (Note 8)	**2,461**	2,359	**20,474**
Other current assets	**4,620**	4,190	**38,437**
Total current assets	**93,861**	101,434	**780,874**
Property, plant and equipment (Note 6):			
Land	**28,242**	28,639	**234,958**
Buildings and structures	**58,417**	58,669	**485,998**
Machinery and equipment	**211,153**	215,870	**1,756,681**
Construction in progress	**824**	136	**6,855**
Accumulated depreciation	**(214,705)**	(211,387)	**(1,786,231)**
Property, plant and equipment, net	**83,931**	91,927	**698,261**
Investments and other assets:			
Investments in securities (Notes 4 and 6)	**10,896**	13,040	**90,649**
Investments in and advances to unconsolidated subsidiaries and affiliates	**10,948**	9,337	**91,082**
Deferred income taxes (Note 8)	**3,800**	3,192	**31,614**
Prepaid pension cost	**2,073**	—	**17,246**
Other assets (Note 6)	**11,247**	11,323	**93,569**
Total investments and other assets	**38,964**	36,892	**324,160**
Total assets	**¥ 216,756**	¥ 230,253	**$1,803,295**

	March 31,		
	2003	2002	**2003**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 11,786**	¥ 12,354	**$ 98,053**
Current portion of long-term debt (Note 6)	**8,493**	14,101	**70,657**
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	**2,745**	2,664	**22,837**
Trade	**25,651**	24,476	**213,403**
Construction	**299**	473	**2,488**
Accrued income taxes (Note 8)	**2,871**	2,636	**23,885**
Other current liabilities	**7,920**	8,289	**65,890**
Total current liabilities	**59,765**	64,993	**497,213**
Long-term liabilities:			
Long-term debt (Note 6)	**24,377**	32,623	**202,804**
Accrued retirement benefits for employees (Note 7)	**7,111**	8,181	**59,160**
Accrued retirement benefits for directors and corporate auditors	**427**	739	**3,552**
Deferred income taxes (Note 8)	**466**	678	**3,877**
Other	**1,485**	130	**12,354**
Total long-term liabilities	**33,866**	42,351	**281,747**
Minority interests	**1,828**	2,671	**15,208**
Contingent liabilities (Note 12)			
Shareholders' equity:			
Common stock:			
Authorized –424,000,000 shares			
Issued –194,881,287 shares in 2003 and 2002	**16,529**	16,529	**137,512**
Additional paid-in capital (Note 9)	**13,562**	13,562	**112,829**
Retained earnings (Note 9)	**91,652**	87,686	**762,496**
Net unrealized holding gain on securities	**539**	744	**4,484**
Translation adjustments	**468**	1,727	**3,894**
Less treasury stock, at cost	**(1,453)**	(10)	**(12,088)**
Total shareholders' equity	**121,297**	120,238	**1,009,127**
Total liabilities and shareholders' equity	**¥ 216,756**	¥ 230,253	**$ 1,803,295**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2003	2002	**2003**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net sales (Note 15)	**¥ 163,514**	¥ 159,722	**$ 1,360,349**
Cost of sales (Note 10)	**121,666**	121,819	**1,012,196**
Gross profit	**41,848**	37,903	**348,153**
Selling, general and administrative expenses (Note 10)	**29,091**	28,940	**242,022**
Operating income (Note 15)	**12,757**	8,963	**106,131**
Other income (expenses):			
Interest and dividend income	**590**	403	**4,908**
Interest expense	**(1,020)**	(1,622)	**(8,486)**
Royalty income	**622**	621	**5,175**
Loss on devaluation of investments in securities	**(2,496)**	(3,033)	**(20,765)**
Equity in losses of unconsolidated subsidiaries and affiliates	**(828)**	(1,492)	**(6,889)**
Gain on sales of property, plant and equipment	**241**	—	**2,005**
Gain on return of substitution portion of Welfare Pension Fund Plan (Note 7)	**2,834**	—	**23,577**
Amortization of excess of cost over net assets acquired	**(930)**	—	**(7,737)**
Gain on divestitures (Note 3)	**—**	2,543	**—**
Other, net	**(1,613)**	(1,396)	**(13,418)**
Income before income taxes and minority interests	**10,157**	4,987	**84,501**
Income taxes (Note 8):			
Current	**5,365**	4,040	**44,634**
Deferred	**(726)**	(703)	**(6,040)**
	4,639	3,337	**38,594**
Income before minority interests	**5,518**	1,650	**45,907**
Minority interests in earnings of consolidated subsidiaries	**(2)**	(60)	**(17)**
Net income (Note 13)	**¥ 5,516**	¥ 1,590	**$ 45,890**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2003	2002	**2003**
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Common stock:			
Balance at beginning and end of year	**¥ 16,529**	¥ 16,529	**$ 137,512**
Additional paid-in capital:			
Balance at beginning and end of year	**¥ 13,562**	¥ 13,562	**$ 112,829**
Retained earnings:			
Balance at beginning of year	**¥ 87,686**	¥ 88,168	**$ 729,501**
Net income	**5,516**	1,590	**45,890**
Cash dividends	**(1,364)**	(1,364)	**(11,348)**
Bonuses to directors and corporate auditors	**(87)**	(86)	**(724)**
Decrease in retained earnings resulting from exclusion of in a consolidated subsidiary	**(99)**	(622)	**(823)**
Balance at end of year	**¥ 91,652**	¥ 87,686	**$ 762,496**
Net unrealized holding gain on securities:			
Balance at beginning of year	**¥ 744**	¥ —	**$ 6,189**
Net change during the year	**(205)**	744	**(1,705)**
Balance at end of year	**¥ 539**	¥ 744	**$ 4,484**
Translation adjustments:			
Balance at beginning of year	**¥ 1,727**	¥ (919)	**$ 14,368**
Net change during the year	**(1,259)**	2,646	**(10,474)**
Balance at end of year	**¥ 468**	¥ 1,727	**$ 3,894**
Less treasury stock, at cost:			
Balance at beginning of year	**¥ (10)**	¥ —	**$ (83)**
Net change during the year	**(1,443)**	(10)	**(12,005)**
Balance at end of year	**¥ (1,453)**	¥ (10)	**$ (12,088)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2003	2002	**2003**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Operating activities:			
Income before income taxes and minority interests	**¥ 10,157**	¥ 4,987	**$ 84,501**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**9,310**	10,063	**77,454**
Increase (decrease) in accrued retirement benefits	**1,795**	(834)	**14,933**
Interest and dividend income	**(590)**	(403)	**(4,908)**
Interest expense	**1,020**	1,622	**8,486**
Equity in losses of unconsolidated subsidiaries and affiliates	**828**	1,492	**6,889**
Gain on divestitures	**—**	(2,543)	**—**
Gain on return of substitution portion of Welfare Pension Fund Plan	**(2,834)**	—	**(23,577)**
Loss on devaluation of investments in securities	**2,496**	3,033	**20,765**
Loss on disposal of property, plant and equipment	**317**	477	**2,637**
Other, net	**(155)**	1,111	**(1,290)**
Changes in operating assets and liabilities:			
Notes and accounts receivable	**2,620**	3,387	**21,797**
Inventories	**605**	5,916	**5,033**
Notes and accounts payable	**3,729**	(7,052)	**31,023**
Other current liabilities	**(159)**	152	**(1,323)**
Subtotal	**29,139**	21,408	**242,420**
Interest and dividends received	**617**	449	**5,133**
Interest paid	**(1,129)**	(1,886)	**(9,393)**
Other, net	**(297)**	—	**(2,471)**
Income taxes paid	**(5,213)**	(2,703)	**(43,369)**
Net cash provided by operating activities	**23,117**	17,268	**192,320**
Investing activities:			
Proceeds from sales of short-term investments and investments in securities	**191**	3,617	**1,589**
Purchases of marketable securities and investments in securities	**(3,814)**	(2,476)	**(31,730)**
Purchases of property, plant and equipment	**(2,858)**	(4,211)	**(23,777)**
Proceeds from sales of property, plant and equipment	**375**	31	**3,120**
Increase in loans receivable	**(2,361)**	(5,140)	**(19,642)**
Collection of loans receivable	**544**	668	**4,526**
Other, net	**(828)**	(667)	**(6,889)**
Net cash used in investing activities	**(8,751)**	(8,178)	**(72,803)**

	Year ended March 31,		
	2003	2002	**2003**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Financing activities:			
(Decrease) increase in short-term bank loans, net	**(568)**	2,799	**(4,725)**
Proceeds from long-term debt	**2,050**	13,672	**17,055**
Repayment of long-term debt	**(9,620)**	(16,797)	**(80,033)**
Repayment of bonds	**(5,000)**	—	**(41,597)**
Cash dividends paid	**(1,363)**	(1,364)	**(11,339)**
Purchases of treasury stock	**(1,442)**	(18)	**(11,997)**
Other, net	**(13)**	129	**(108)**
Net cash used in financing activities	**(15,956)**	(1,579)	**(132,744)**
Effect of exchange rate changes on cash and cash equivalents	**(274)**	882	**2,280**
(Decrease) increase in cash and cash equivalents	**(1,864)**	8,393	**(15,507)**
Cash and cash equivalents at beginning of year	**23,151**	14,806	**192,604**
Decrease in cash and cash equivalents resulting from changes in number of consolidated subsidiaries	**(70)**	(48)	**(583)**
Cash and cash equivalents at end of year	**¥ 21,217**	¥ 23,151	**$ 176,514**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries
March 31, 2003

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, 2002 to the 2003 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 loss 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, 2003 and 2002.

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.

(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) Investments in Securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities and other securities.

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.

(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 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 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

Accrued retirement benefits for employees at March 31, 2003 and 2002 have been provided mainly at amounts calculated based on the retirement benefit obligation and the fair value of the pension plan assets as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost.

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.

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) Accounting Standard for Treasury Stock and Reduction of Legal Reserves

Effective April 1, 2002, the Company adopted "Accounting Standard for Treasury Stock and Reduction of Legal Reserves" (Accounting Standard No. 1). The effect of the adoption of this new standard was to increase income before income taxes and minority interests for the year ended March 31, 2003 by ¥152 million ($1,265 thousand) from the amount which would have been recorded under the method applied in the previous year.

(m) 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 ¥120.2 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2003. This 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. 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.

4. Investments in Securities

Marketable securities classified as other securities at March 31, 2003 and 2002 are summarized as follows:

2003

	(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	¥ 4,280	¥ 6,308	¥ 2,028	$ 35,607	$ 52,479	$ 16,872
Subtotal	4,280	6,308	2,028	35,607	52,479	16,872
Securities whose cost exceeds their fair market value:						
Equity securities	4,082	2,992	(1,090)	33,960	24,892	(9,068)
Subtotal	4,082	2,992	(1,090)	33,960	24,892	(9,068)
Total	¥ 8,362	¥ 9,300	¥ 938	$ 69,567	$ 77,371	$ 7,804

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	$ 26,082	$ 50,416	$ 24,334
Subtotal	3,135	6,060	2,925	26,082	50,416	24,334
Securities whose cost exceeds their fair market value:						
Equity securities	8,004	6,384	(1,620)	66,589	53,111	(13,478)
Subtotal	8,004	6,384	(1,620)	66,589	53,111	(13,478)
Total	¥ 11,139	¥ 12,444	¥ 1,305	$ 92,671	$ 103,527	$ 10,856

The proceeds and gross realized gains and losses on sales of securities classified as other securities at March 31, 2003 are as follows:

2003					
(Millions of yen)			*(Thousands of U.S. dollars)*		
Proceeds	Gross realized gains	Gross realized losses	Proceeds	Gross realized gains	Gross realized losses
¥ 209	¥ 3	¥ 88	$ 1,739	$ 25	$732

A breakdown of other securities whose market value was not determinable at March 31, 2003 and 2002 is as follows:

	2003	2002	2003
	(Millions of yen)		*(Thousands of U.S. dollars)*
Preferred subscription certificates	¥ 500	¥ —	$ 4,160
Other securities	1,094	596	9,101

5. Inventories

Inventories at March 31, 2003 and 2002 were as follows:

	2003	2002	2003
	(Millions of yen)		*(Thousands of U.S. dollars)*
Merchandise and finished goods	¥ 10,525	¥ 11,186	$ 87,562
Raw materials	6,801	6,496	56,581
Work in process	4,795	5,715	39,892
Supplies	1,647	1,677	13,702
	¥ 23,768	¥ 25,074	$ 197,737

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, 2003 and 2002 were 0.72%and 0.60%, respectively.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	2003	2002	2003
	(Millions of yen)		*(Thousands of U.S. dollars)*
1.425% unsecured bonds due November 2002	¥ —	¥ 5,000	$ —
1.85% unsecured bonds due November 2004	5,000	5,000	41,597
Unsecured loans from banks and insurance companies, payable in yen, at rates from 1.02% to 2.60%, due through 2006	6,423	10,838	53,436
Unsecured loans from banks, payable in U.S. dollars, at rates from 2.10% to 3.75%, due through 2009	16,957	17,930	141,074
Unsecured loans from banks, payable in Euro, at rates from 3.30% to 4.83%, due through 2007	1,653	4,336	13,752
Secured loans from banks and insurance companies, payable in yen, at rates from 1.10% to5.60%, due through 2008	2,837	3,620	23,602
Sub total	32,870	46,724	273,461
Less current portion	(8,493)	(14,101)	(70,657)
Total	¥24,377	¥32,623	$202,804

The aggregate annual maturities of long-term debt subsequent to March 31, 2003 are summarized below:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2004	¥ 8,493	$ 70,657
2005	10,820	90,017
2006	4,128	34,343
2007	3,676	30,582
2008 and thereafter	5,753	47,862
	¥ 32,870	$ 273,461

Assets pledged as collateral for long-term debt, including the current portion thereof, and accounts and notes payable at March 31, 2003 and 2002 were as follows:

	2003	2002	2003
	(Millions of yen)		(Thousands of U.S. dollars)
Time deposits	¥ 38	¥ 85	$ 316
Land	745	1,015	6,198
Buildings and structures	714	877	5,940
Machinery and equipment	—	865	—
Investments in securities	2,357	2,316	19,609
Other assets	—	2	—
	¥ 3,854	¥ 5,160	$32,063

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, 2003 and 2002 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2003	2002	2003
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation at end of year	¥(29,827)	¥(41,224)	$(248,145)
Fair value of plan assets at end of year	15,590	25,203	129,700
Unfunded retirement benefit obligation	(14,237)	(16,021)	(118,445)
Unrecognized actuarial loss	9,925	9,885	82,571
Unrecognized past service cost	(726)	(2,038)	(6,040)
Net retirement benefit obligation	(5,038)	(8,174)	(41,914)
Prepaid pension cost	2,073	7	17,246
Accrued retirement benefits	¥ (7,111)	¥ (8,181)	$ (59,160)

The components of retirement benefit expenses for the years ended March 31, 2003 and 2002 are outlined as follows:

	2003	2002	2003
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥ 1,947	¥ 1,635	$ 16,198
Interest cost	994	1,192	8,269
Expected return on plan assets	(912)	(939)	(7,587)
Amortization:			
Past service cost	(500)	(372)	(4,160)
Actuarial loss	997	276	8,295
Retirement benefit expenses	¥ 2,526	¥ 1,792	$ 21,015

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2003 and 2002 were as follows:

	2003	2002
Discount rate	Principally 2.6%	Principally 2.6%
Expected rate of return on plan assets	Principally 4.5%	Principally 4.5%

On February 17, 2003, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the obligation for benefits related to future employee services under the substitutional portion of Welfare Pension Fund Plan (WPFP). In accordance with the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company accounted for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under its WPFP as of the date of approval of its exemption assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and related pension plan assets had been completed as of that date. As a result, they recognized a gain of ¥2,834 million ($23,577 thousand) for the year ended March 31, 2003. The pension assets which are to be transferred were calculated at ¥6,596 million ($54,875 thousand) at March 31, 2003.

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, 2003 and 2002 was, in the aggregate, approximately 42.0%. The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2003 and 2002 differed from the above statutory tax rate for the following reasons:

	2003	2002
Statutory tax rate	42.0%	42.0%
Effect of:		
Loss on amortization of excess of cost over net assets acquired	4.5	—
Equity in losses of an unconsolidated subsidiary and affiliates	—	12.6
Permanently nondeductible expenses	1.2	2.5
Permanently nontaxable dividends received	(1.7)	(4.3)
Valuation allowance	—	31.0
Decrease in valuation allowance	(3.3)	—
Gain on sale of investment in a subsidiary accounted for by the equity method	—	(19.9)
Enacted change in tax rate	0.7	—
Other, net	2.3	3.0
Effective tax rates	45.7%	66.9%

On March 31, 2003, Cabinet Order No. 9 entitled "Reform of a Portion of Local Tax Law" was issued and this reform will apply to fiscal years beginning after April 1, 2004. As a result of this reform, the statutory tax rate to be used for the calculation of deferred income taxes concerning temporary differences which are expected to be realized or settled after April 1, 2004 will be changed. The effect of this change in rate decreased deferred tax assets by ¥66 million ($549 thousand), net of deferred tax liabilities, and increased income taxes – deferred and unrealized holding gain on securities by ¥70 million ($582 thousand) and ¥3 million ($25 thousand), respectively, as compared with the corresponding amounts calculated at the statutory tax rate used in effect at March 31, 2003 and for the year ended March 31, 2003.

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities calculated 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 its consolidated subsidiaries at March 31, 2003 and 2002 are summarized as follows:

	2003	2002	2003
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Accrued retirement benefits	¥1,098	¥2,160	$ 9,135
Intercompany profit on inventories and property, plant and equipment	1,018	792	8,469
Tax loss carryforwards	894	—	7,438
Reserve for repairs	804	1,160	6,689
Depreciation and amortization	495	502	4,118
Accrued employees' bonuses	658	508	5,474
Impairment of investments in securities and other	2,449	1,491	20,374
Accrued enterprise tax	302	243	2,512
Other	1,084	919	9,019
Subtotal	8,802	7,775	73,228
Less: Valuation allowance	(710)	(1,055)	(5,907)
Total deferred tax assets	8,092	6,720	67,321
Deferred tax liabilities:			
Equity in earnings of a foreign affiliates	(729)	—	(6,065)
Net unrealized holding gain on securities	(390)	(546)	(3,245)
Depreciation and amortization	(569)	(546)	(4,734)
Deferred capital gain on property	(355)	(362)	(2,953)
Reserve for depreciation for tax purposes	(182)	(228)	(1,514)
Other	(75)	(170)	(624)
Total deferred tax liabilities	(2,300)	(1,852)	(19,135)
Net deferred tax assets	¥5,792	¥4,868	$48,186

9. Additional Paid-in Capital and Retained Earnings

On October 1, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") went into effect. 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. The Amendment also provides that all share issuances after September 30, 2001 will be of shares without par value. Prior to the date on which the Amendment went into effect, the Company's shares had a par value of ¥50.

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 sum 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.

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, 2003 and 2002 totaled ¥9,233 million ($76,814 thousand) and ¥9,173 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, 2003 and 2002, 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:

	2003	2002	2003
	(Millions of yen)		*(Thousands of U.S. dollars)*
Machinery, equipment and software:			
Acquisition costs	**¥607**	¥871	**$5,050**
Accumulated depreciation	**(312)**	(521)	**(2,596)**
Net book value	**¥295**	¥350	**$2,454**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥179 million ($1,489 thousand) and ¥188 million for the years ended March 31, 2003 and 2002, respectively. Depreciation of the leased assets calculated by the straight-line method over the respective lease terms amounted to ¥179 million ($1,489 thousand) and ¥188 million for the years ended March 31, 2003 and 2002, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2003 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2004	¥116	$ 965
2005 and thereafter	179	1,489
	¥295	$2,454

12. Contingent Liabilities

At March 31, 2003, the Company and one consolidated subsidiary were contingently liable as guarantors of indebtedness of affiliates, the Company's employees and other in the aggregate amount of ¥2,381 million ($19,808 thousand).

In addition, at March 31, 2003, the Company and its consolidated subsidiaries had contingent liabilities arising from notes discounted by banks and notes endorsed in the aggregate amount of ¥873 million ($7,263 thousand).

13. Amounts Per Share

	2003	2002	2003
	(yen)		*(U.S. dollars)*
Net income	**¥ 27.97**	¥ 8.16	**$0.23**
Cash dividends	**7.00**	7.00	**0.06**
Net assets	**631.12**	617.05	**5.25**

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.

Effective April 1, 2002, the Company adopted Financial Accounting Standard No. 2, "Accounting Standards for Earnings per Share", and Financial Accounting Standard Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings per Share," which were issued by the Accounting Standards Board of Japan.

The basic financial data for the computation of basic net income per share based on the above a standard for the year ended March 31, 2003 is as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Net income	¥ 5,516	$ 45,890
Deduction from net income:		
Bonuses to directors and corporate auditors	(87)	(724)
Adjusted net income attributed to common stock	¥ 5,428	$ 45,166
Weighted average number of shares of common stock outstanding for the current year	194,091 thousand shares	

If the Company had adopted the new standard for the year ended March 31, 2002, the per share amount of net assets at March 31, 2002 and the basic net income for the year ended March 31, 2002 would have been ¥616.61 and ¥7.72, respectively.

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 derivatives 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 nonperformance 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, 2003, one consolidated subsidiary had open interest-rate swap positions. The total value of these positions, however, was immaterial.

15. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales 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, 2003 and 2002 is outlined as follows:

	Year ended March 31, 2003				
	Chemicals	Other	Total	Eliminations or corporate	Consolidated
			(Millions of yen)		
I. Sales and operating income					
Sales to third parties	¥161,124	¥2,390	¥163,514	¥ —	¥163,514
Intergroup sales and transfers	—	8,407	8,407	(8,407)	—
Total sales	161,124	10,797	171,921	(8,407)	163,514
Operating expenses	148,922	10,254	159,176	(8,419)	150,757
Operating income	¥ 12,202	¥ 543	¥ 12,745	¥ 12	¥ 12,757
II. Assets, depreciation and capital expenditures					
Total assets	¥191,951	¥4,782	¥196,733	¥20,023	¥216,756
Depreciation and amortization	9,664	185	9,849	47	9,896
Capital expenditures	4,544	104	4,648	—	4,648

	Year ended March 31, 2002				
	Chemicals	**Other**	**Total**	**Elimi-nations or corporate**	**Consoli-dated**
	(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, 2003				
	Chemicals	**Other**	**Total**	**Elimi-nations or corporate**	**Consoli-dated**
	(Thousands of U.S. dollars)				
I. Sales and operating income					
Sales to third parties	**$1,340,466**	**$19,883**	**$1,360,349**	**$ —**	**$1,360,349**
Intergroup sales and transfers	**—**	**69,942**	**69,942**	**(69,942)**	**—**
Total sales	**1,340,466**	**89,825**	**1,430,291**	**(69,942)**	**1,360,349**
Operating expenses	**1,238,952**	**85,308**	**1,324,260**	**(70,042)**	**1,254,218**
Operating income	**$ 101,514**	**$ 4,517**	**$ 106,031**	**$ 100**	**$ 106,131**
II. Assets, depreciation and capital expenditures					
Total assets	**$1,596,930**	**$39,784**	**$1,636,714**	**$166,581**	**$1,803,295**
Depreciation	**80,399**	**1,539**	**81,938**	**391**	**82,329**
Capital expenditures	**37,804**	**865**	**38,669**	**—**	**38,669**

Geographical Areas

The geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 is outlined as follows:

	Year ended March 31, 2003				
	Japan	**Overseas**	**Total**	**Elimi-nations or corporate**	**Consoli-dated**
			(Millions of yen)		
I. Sales and operating income					
Sales to third parties	¥ 134,113	¥ 29,401	¥ 163,514	¥ —	¥163,514
Intergroup sales and transfers	11,198	3,809	15,007	(15,007)	—
Total sales	145,311	33,210	178,521	(15,007)	163,514
Operating expenses	133,876	32,247	166,123	(15,366)	150,757
Operating income	¥11,435	¥ 963	¥ 12,398	¥ 359	¥ 12,757
II. Total assets	¥ 155,156	¥ 45,723	¥ 200,879	¥ 15,877	¥216,756

	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	¥ 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, 2003				
	Japan	**Overseas**	**Total**	**Elimi-nations or corporate**	**Consoli-dated**
			(Thousands of U.S. dollars)		
I. Sales and operating income					
Sales to third parties	$1,115,749	$244,600	$1,360,349	$ —	$1,360,349
Intergroup sales and transfers	93,161	31,689	124,850	(124,850)	—
Total sales	1,208,910	276,289	1,485,199	(124,850)	1,360,349
Operating expenses	1,113,777	268,277	1,382,054	(127,836)	1,254,218
Operating income	$ 95,133	$ 8,012	$ 103,145	$ 2,986	$ 106,131
II. Total assets	$1,290,816	$380,391	$1,671,207	$132,088	$1,803,295

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, 2003 and 2002 are summarized as follows:

	Year ended March 31, 2003				
	Asia	**Europe**	**America**	**Other**	**Total**
			(Millions of yen)		
Overseas sales	**¥25,212**	**¥23,567**	**¥15,053**	**¥3,374**	**¥67,206**
Overseas sales as a percentage of consolidated net sales	**15.4%**	**14.4%**	**9.2%**	**2.1%**	**41.1%**

	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, 2003				
	Asia	**Europe**	**America**	**Other**	**Total**
			(Thousands of U.S. dollars)		
Overseas sales	**$209,750**	**$196,065**	**$125,233**	**$28,070**	**$559,118**

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, 2003, were approved at a shareholders’ meeting held on June 24, 2003:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends (¥3.50 = $ 0.03 per share)	¥672	$5,591
Bonuses to directors and corporate auditors	77	640
	¥749	$6,231

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

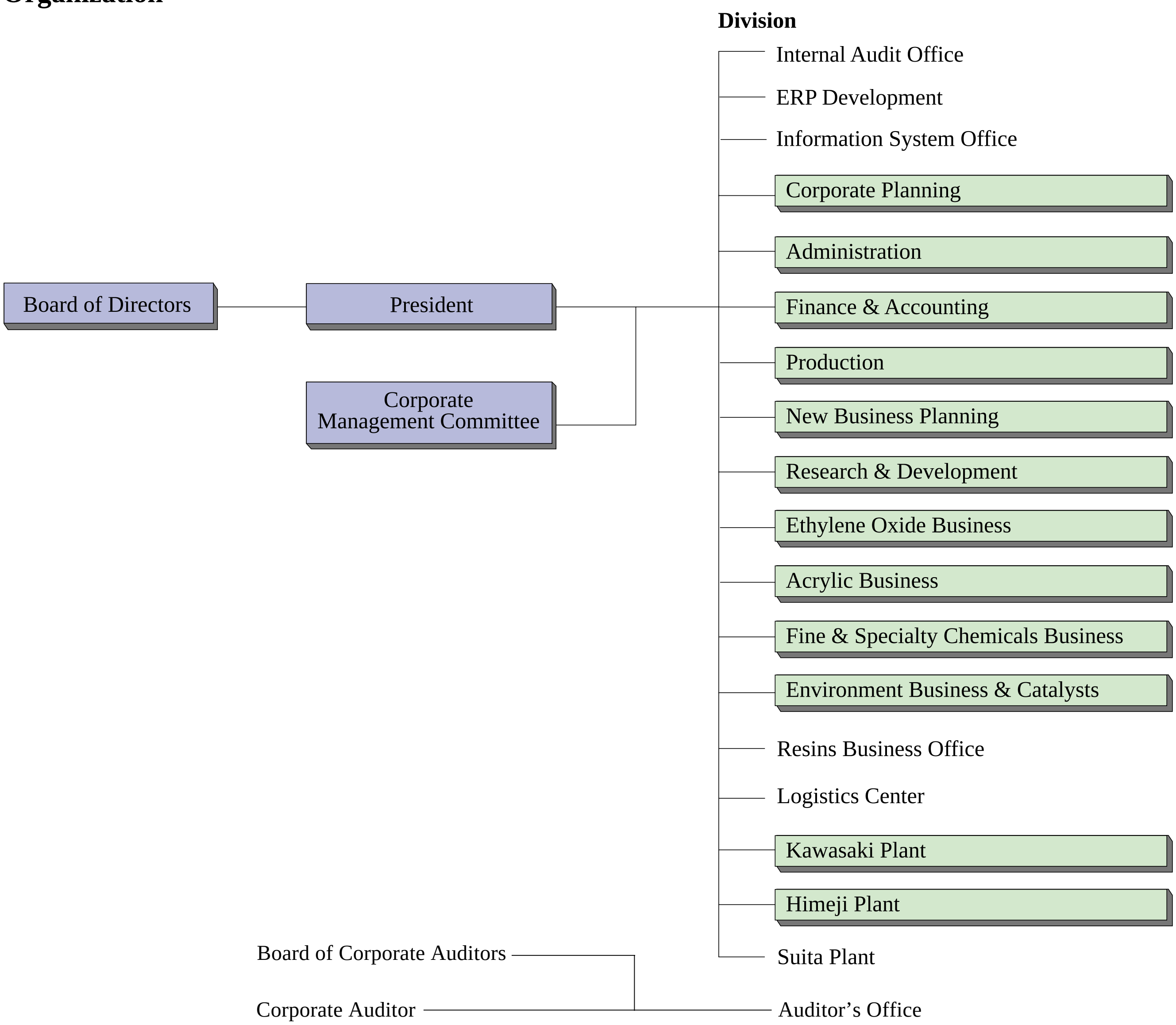
Number of Employees
1,881

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

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

(as of March 31, 2003)

Organization



Consolidated Subsidiaries and Affiliates

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	Tatsuhito Matsuda
Nippon Polyester Co., Ltd.*	¥400	97.3	Manufacture and sale of synthetic resins and related additives	Yoshizumi Ozawa
Nisshoku Butsuryu Co., Ltd.*	¥100	100	Transport	Wataru Makii
Tokyo Fine Chemical Co., Ltd.*	¥80	66.9	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 adhesive tape and heat insulator	Fukio Ogawa
Shinritsu Co., Ltd.*	¥40	73.1	Sale of chemical products	Masayoshi Sugimoto
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	Takeshi Sano
Nippon Shokubai Europe N.V.*	EUR27	100.0	Manufacture and sale of superabsorbent polymers	Keishi Tsuboi
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	46.5	Manufacture and sale of anthraquinone, carbozole, and their derivatives	Takakiyo Goto
ICT Co., Ltd.	¥320	50.0	Sale of automobile exhaust catalyst	Yojiro Takahashi
Nihon Polymer Ind. Co., Ltd.	¥100	50.0	Manufacture and sale of acrylic emulsions	Tadahiro Yoneda
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 auto-mobile exhaust catalyst	W. Staron

(as of June 30, 2003)

* Included in consolidation
American Acryl NA LLC, and American Acryl L.P., are consolidated into NA Industries, Inc. by the equity method.
** The unit of this item only is thousands of dollars.

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