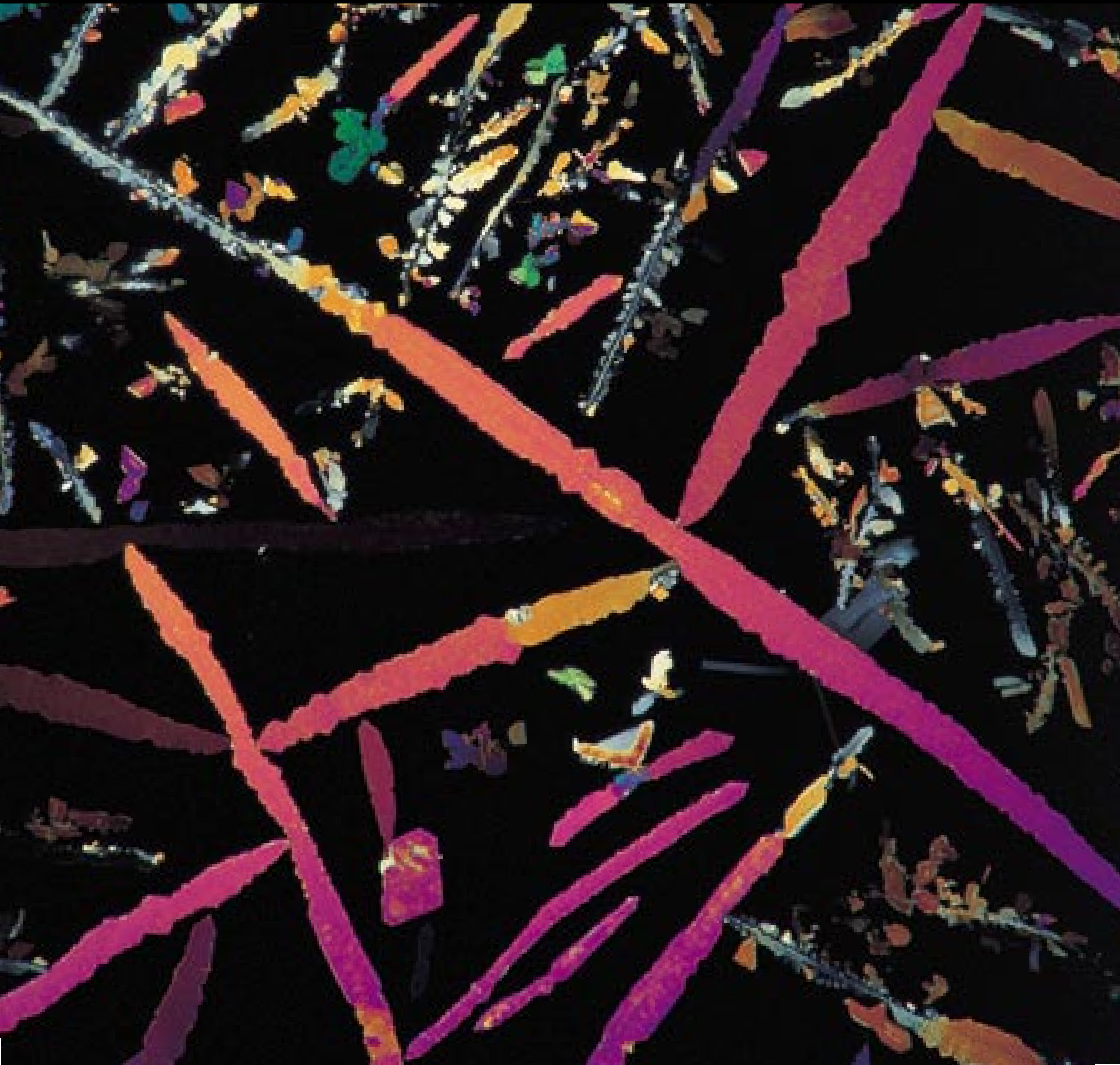
NIPPON SHOKUBAI

Annual Report 2004

“Making human life richer and more comfortable through technological innovations”



Profile

Since the establishment in 1941, we have carried out original research and development in 4 major fields such as polymer synthesis, environment preservation systems, and organic synthesis, that is, our core catalyst technology.

Our major products are 1) Basic Chemicals, such as acrylic acid, and ethylene oxide, higher alcohol surfactants, 2) Functional Chemicals, such as super absorbent polymers, concrete admixture and unsaturated polyester resins...etc., and 3) Environment and Catalysts, such as catalysts for cleaning automobile exhaust gases, process catalysts and dioxins decomposition/elimination equipments. Created through our company’s original technologies and know-how, our products above have made various contributions to our society and people’s daily lives.

In addition, our technologies for manufacturing chemical products are appreciated in foreign countries as well as our diversified line of products. We have exported our technologies for processing acrylic acids and esters, methacrylic acids and esters, etc. to Europe, Asia, the U.S.A, etc.

In recent years, we have made efforts to reinforce our business base with active overseas expansion strategy. Our factories in North America, East and Southeast Asian are producing 450 thousand tons of acrylic acid annually. Besides, we are currently establishing our super absorbent polymer production bases in North America, Europe, and Japan. In conjunction with the construction of new production facilities at Nisshoku Chemical Industry (Zhangjiagang) Co., Ltd., in China, our Group’s production capacity for super absorbent polymers will rise to 320 thousand tons per year.

Under our corporate philosophy of “Techno Amenity,” which seeks to harmonize “Technology” and “Natural Environment,” focusing on our ultimate objective, “making human life richer and more comfortable through technological innovations,” we are aiming to become a “global company creating new values through unique technologies.” approaching this goal, we have been establishing a solid business foundation for the 21st century by strengthening our overall corporate structure. Further, for reinforcing our core businesses, promoting the development of new products, and developing our environmental business, we are carefully considering the direction of individual businesses and being selective and focused on our allocation of business resources.

Contents

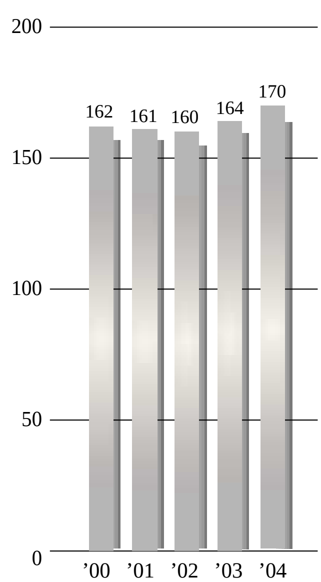
Financial Highlights

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

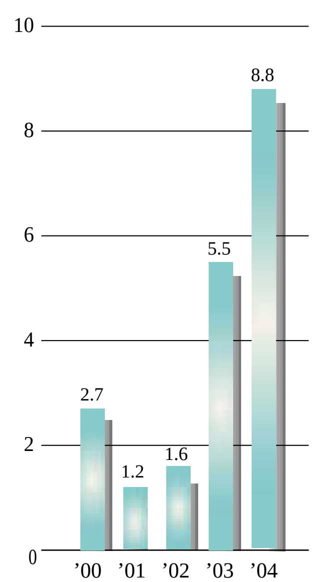
	Millions of yen			*Thousands of U.S. dollars*
	2004	2003	2002	**2004**
For the Year				
Net Sales	**¥169,733**	¥163,514	¥159,722	**$1,605,799**
Operating Income	**15,450**	12,757	8,963	**146,168**
Ordinary Income	**17,212**	10,971	5,558	**162,838**
Net Income	**8,822**	5,516	1,590	**83,463**
At Year-End				
Total Assets	**220,185**	¥216,756	¥230,253	**$2,083,113**
Total Shareholders' Equity	**131,685**	121,297	120,238	**1,245,837**
	Yen			*U.S. dollars*
Per Share Amounts				
Net Income	**¥45.37**	¥27.97	¥8.16	**$0.43**
Cash Dividends	**9.00**	7.00	7.00	**0.09**

Foreign Exchange Rate: US$1.00 = ¥105.7

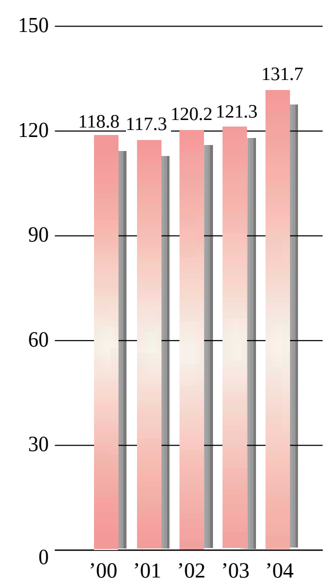
Net Sales
(Billions of yen)



Net Income
(Billions of yen)



Shareholders' Equity
(Billions of yen)



To Our Shareholders

Hiroshi Yanagida, President

It gives me great pleasure to report on the performance of Nippon Shokubai Co., Ltd., for the fiscal year ended March 31, 2004.

Performance

In fiscal 2003, ended March 31, 2004, Japan's economy showed steady signs of recovery. Supported by growing private sector capital investment and exports, personal consumption and employment conditions began to move steadily upward in the second half of the fiscal year.

Despite pressure on profitability from the steep rise in the price of raw materials, the chemical industry overall enjoyed strongly expanded exports mainly to Asia, and our business performance began to improve.

In such circumstances, consolidated net sales increased by ¥6,219 million, or 3.8%, to ¥169,733 million, owing to the sales growth of ethylene glycols, acrylic acid, acrylic esters, and other Basic Chemicals, in spite of the sales decrease of Functional Chemicals caused by the transfer of the unsaturated polyester resin operations to a joint venture and the intensifying competition in the concrete admixtures market.

In spite of increasing raw material cost, mainly due to the steep rise in naphtha price, the consolidated operating income increased by ¥2,693 million, or

Performance Highlights

(Unit: millions of yen)

	Fiscal Year		Change	
	2003	2002	Amount	%
Net sales	169,733	163,514	6,219	3.8%
Operating income	15,450	12,757	2,693	21.1%
Ordinary income	17,212	10,971	6,241	56.9%
Net income	8,822	5,516	3,306	59.9%
Net income per share	¥45.37	¥27.97	¥17.40	62.2%
ROA	7.9%	4.9%	—	3.0 points
ROE	7.0%	4.6%	—	2.4 points
Exchange rate	$=¥113.11 EUR=¥132.64	$=¥121.96 EUR=¥120.98		(¥8.85) ¥11.66
Naphtha price	¥25,700/kl	¥24,000/kl		¥1,700/kl

Performance by Business Group and Region

(Unit: millions of yen)

	Fiscal Year 2003			Fiscal Year 2002			Change		
Product Group	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Basic Chemicals	Functional Chemicals	Environment & Catalysts
Sales	63,320	90,646	15,766	54,650	91,657	17,206	8,669	(1,010)	(1,439)
Operating income	4,261	10,411	829	(1,059)	11,869	1,906	5,320	(1,457)	(1,077)
Regional	Japan	Europe	Other Regions	Japan	Europe	Other Regions	Japan	Europe	Other Regions
Sales	135,575	18,817	15,339	134,113	16,002	13,398	1,462	2,815	1,940
Operating income	12,858	957	986	11,435	1,038	(74)	1,423	(80)	1,060

21.1%, to ¥15,450 million, as the result of rising market prices of basic chemicals, increase of sales volumes and our continuous efforts to reduce the cost of production and sales as well as the general cost.

Consolidated ordinary income increased by ¥6,241 million, or 1.6 times, to ¥17,212 million, owing to the increase of technical license revenues and the recovery from loss to income in equity in unconsolidated subsidiaries and affiliates.

The Company booked an extraordinary loss during the fiscal year due to an early adoption of a new accounting standard for impairment accounting for fixed assets. Despite this, consolidated net income increased by ¥3,306 million, or 1.6 times, to ¥8,822 million.

Consolidated net income per share amounted to ¥45.37. Return on consolidated assets (ROA) was 7.9%, up 3.0 points from the previous fiscal year while return on consolidated equity (ROE) increased by 2.4 points, to 7.0%.

On a non-consolidated basis, net sales increased by ¥6,009 million, or 4.7%, to ¥132,622 million. Operating income increased by ¥1,367 million, or 13.4%, to ¥11,579 million, while ordinary income increased by ¥3,348 million, or 1.3 times, to ¥14,228 million. Net income increased to ¥5,966 million, ¥2,872 million more, or 1.9 times of the previous fiscal year.

Our company announced a year-end cash dividend of ¥5.00 per share for fiscal 2003, considering the business circumstances and our achievements. Including the interim cash dividend, total cash dividends for the fiscal year amounted to ¥9.00 per share, up ¥2.00 per share, more than the previous fiscal year.

Medium- and Long-term Business Plans

Today's chemical industry faces an extremely difficult situation. As international markets has become more unified and borderless, and competition for survival has intensified. Under such the lasting severe conditions, companies without any strong point have been weeded out.

Under such circumstances, we have given top priority to the pursuit of quality growth based on recognizing our strengths and weaknesses and on sifting and concentrating our business resources. Based on this prioriy, we prepared the Long-term Business Plan and the Medium-term Business Plan—a practical scheme for every three years—that was implemented in April 2001. During fiscal 2003, we initiated the New Medium-term Business Plan based on the result of the previous Medium-term Business Plan, aiming for further growth.

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

1. Our future vision of the company is "a global company creating new values through unique technologies."
2. With a slogan, "A Shift from Quantitative Growth to Qualitative Growth for Our Development in the 21st Century," we are aiming to convert ourselves into a more powerful enterprise, by sifting and concentrating our business resources in newly developed product fields, establishing a business portfolio in our existing fields, clarifying profit responsibilities, and to activating the staffs and organization.
3. For increasing efficiency of assets and profitability, we have presented "return on assets (ROA) on a consolidated basis" as a target for overall corporate performance, and "operation cash flow and sales profit" as a target for our business operations, which are our original indexes.

Results of the Previous Medium-term Business Plan

During the period of the previous Medium-term Business Plan, we implemented a diversification of measures. Among existing product groups, we took steps to develop overseas markets for super absorbent polymers and acrylic acid. We also agreed with Sumitomo Chemical Co., Ltd. to exchange acrylic acid and methyl methacryllate (MMA) monomer businesses. In our resin operations, we established Japan Composite Co., Ltd., jointly with Mitsui Takeda Chemicals, Inc.

In new product fields, we focused our effort on major development themes. As part of this effort, we established the New Business Planning Division and placed Company directors in charge of each development theme.

Among other activities, we introduced a virtual business division system and a new personnel system, through which we established integrated information system for the entire Company, covering our core information system, and we aimed to vitalize our staff and our organizations.

Summary of the New Medium-term Business Plan

Under the New Medium-term Business Plan, following the direction of our Long-term Business Plan, we are focusing on creating and developing new product businesses, as well as increasing the proportion of overseas sales to the whole sales.

As concrete steps for the existing businesses, we agreed with Sumitomo Chemicals Co., Ltd. to take over the acrylic acid operation in Singapore, that will increase our group's annual production capacity for acrylic acid by 30 thousand tons, to 450 thousand tons.

For producing super absorbent polymers in China, we have established a company, Nisshoku Chemical Industry (Zhangjiagang), Jiangsu, China, and we expect to complete the plant with annual capacity of 30 thousand tons within this year. In addition, Nippon Shokubai Europe N.V. in Belgium is planning to increase its annual capacity by 30 thousand tons in 2005. When these expansions have been completed, the annual capacity of super absorbent polymers of our group will be 320 thousand tons, which will keep Nippon Shokubai Group at the top position of super absorbent polymer business in the world.

To develop new businesses, we are giving top priority to the business strategy based on our clear long-term vision. As a part of that strategy, we have reorganized the existing organization, setting up the Fine and Specialty Chemicals Business Division and the Performance Chemicals Business Division.

The Fine and Specialty Chemicals Business Division handles such product groups as to be sold under the strategy supported by research and development. It also works for reinforcing the overseas business, and actively seeks business alliances.

The Performance Chemicals Business Division's work is to create and grow new products. The division adopts a business unit system to unify sales operation, development and research work for marketing of new products.

In the field of Environment and Catalysts Group, we are specializing in catalysts technology, which is our core technology. We have established a New Energy Business Unit to concentrate on new energy-related businesses.

For overseas business, utilizing our group bases in North America, Europe, and Asia, we will develop worldwide operations to increase the proportion of overseas sales to the whole sales.

Through such strategies as above, we aim to achieve the goal of our new Medium-term Business Plan—consolidated "ROA of 7% or more"—, increase the efficiency of assets, and, finally, to establish our group with stable profitability that may not be influenced by market conditions.

We hope all shareholders around the world would extend kind cooperation and support to us as ever.

June 2004

Hiroshi Yanagida

Hiroshi Yanagida
President

Basic Stance on Corporate Governance and Measures

We are reinforcing the structure of our company so that we might be competitive enough keep up with the worldwide changes around us. We deem corporate governance a key for reaching the goal. We will aim to have a more active board of directors, a firmer auditing system, a more efficient business operations, and a more steady and reliable compliance system.

Corporate Governance Measures and Status

Our corporate governance system is comprised of the following management bodies aiming at speeding up decision, execution, and monitoring performance of management. We have corporate auditor system as an organization for corporate compliance. Out of the Company's four auditors, two are outside ones.

● Board of Directors

At the end of March, 2004, the board of directors consisted of 15 members. Their role is to consider and make decisions on business operations and to monitor the performance of directors who are corporate officers. In principle, we have the board once a month over which the president presides. The Company's four corporate auditors, including two outside ones, also attend board meetings and give their opinions when required.

● Corporate Management Committee

The corporate management committee is an advisory body for the president. It considers issues related to fundamental business policies and strategies, and related to business execution issues of divisions. After screening, important issues are passed to the board of directors for decision-making. The corporate management committee consists of the president, vice president, senior managing directors, managing directors, and other directors appointed by the president. Aiming to speed up the decision-making process and to improve operating efficiency, the committee covers on major operating issues.

● The Board of Corporate Auditors

The board of corporate auditors consists of four auditors consists of four auditors, two of which are outside auditors. In principle, the board meets once a month to report, discuss, and to make decisions on important issues. As well as the board of directors' meetings, corporate auditors attend the meetings of the corporate management committee and other important meetings for understanding the Company's performance and for making significant decision 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 report.

● Third-Party Involvement by Legal Advisor and Independent Auditor

The Company has a legal advisor to consult with on matters that require a legal opinion. The independent auditor, in addition to carrying out audits in accordance with the Commercial Code of Japan and the Securities and Exchange Law, also provides 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

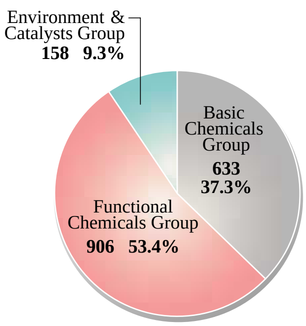
The current two outside auditors have no personal or any other relationships through investments that could create a conflict of interest in the performance of their duties.

Measures Introduced Over the Past Year to Strengthen Corporate Governance

During the fiscal year, the sections in charge gave compliance explanation seminars and otherwise took measures to ensure thorough compliance based on the Company's Basic Policy on Compliance, which was issued in March 2003. In addition, to earn the trust of customers and society, the Company carried out environmental protection, chemical safety, and process safety and disaster prevention, and other Responsible Care (RC) activities based on its basic RC promotion plan.

Review of Operations

Breakdown and Component Ratio by Each Business Group
(100 millions of yen)



Basic Chemicals Group

Several factors contributed to growth in sales of acrylic acid and acrylic esters during the fiscal year. Global market prices rose for both products, and demand was firm for acrylic esters.

Sales of ethylene glycols increased owing to improved prices on international markets, and expanded sales volumes both in Japan and abroad.

Sales of ethylene oxide were also firm, rising somewhat.

Sales of ethanolamine increased since we could keep up with the firm demand from overseas markets

with the newly developed production method.

We made up for the decline in demand for higher-alcohol surfactants (SOFTANOL) in Japan with expanded exports during the fiscal year. However, on a net basis, sales decreased.

Overall, sales of the Basic Chemicals Group increased by 15.9% from the previous fiscal year, to ¥63,320 million.

Operating income of the group amounted to ¥4,261 million, moving back into the black from a loss in the previous fiscal year. Although the sharp hike in naphtha prices drove up raw material costs, prices rose for ethylene glycols and acrylic esters during the fiscal year and increased sales volumes provided cost benefits, supported the growth in profitability.

Functional Chemicals Group

Expanding world demand for super absorbent polymers pushed up sales volume in fiscal 2003, and resulted in sales growth.

Sales of resin modifiers and Intermediates for agricultural chemicals and pharmaceuticals fell during the fiscal year due to the declining demand.

Demand was strong for maleic anhydride in Japan and overseas, resulting in sales growth in fiscal 2003.

Sales volumes of concrete admixtures increased due to the introduction of a new type of admixture and to rising exports. However, the lowered price due to the intensified competition resulted in decrease in profit.

Sales of raw materials for paints, resins and detergents increased, supported by the firm overseas demand.

Sales of iodine compounds increased due to the favorable demands.

The firm domestic and overseas demands for organic and inorganic fine sphere particles resulted in overall sales growth.

Sales of the adhesives and tackifiers and paint resins of acrylic family increased owing to strong domestic demand. Sales of adhesive processed product also increased.

Because of the transfer of the unsaturated polyesters resin operations to Japan Composite Co.,

Ltd., our joint venture with Mitsui Takeda Chemicals, Inc., the Company only ran commissioned production, which resulted in lower sales of unsaturated polyesters resin.

Sales of heat-resistant and electrical insulating paints declined due to weak demand in Japan.

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

Sales of other fine chemicals rose because of strong demands for such new products as Vinylpyrrolidone, and polymers for lithium metal batteries.

Overall, Sales of the Functional Chemicals Group decreased by 1.1%, to ¥90,646 million compared with the previous fiscal year.

Operating income decreased by 12.3%, to ¥10,411 million. Despite the increase in sales volume, rising prices of some raw materials and weak product prices resulted in overall decline in profitability.

Environment & Catalysts Group

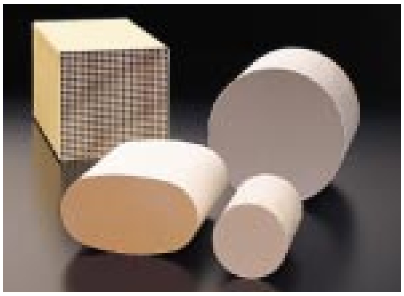
Sales of industrial catalysts through technology licensing decreased because of fewer replacement.

Due to the inactive demands from electric power plants, sales of De-NOx catalysts decreased.

Sales of automotive catalysts rose because of strong demands in export markets.

Sales of Catalytic Dioxins Decomposition and Removal System and Catalytic Oxidation System for Waste Gas sunk due to inactive domestic demand.

Overall, sales of the Environment & Catalysts Group totaled ¥15,766 million, 8.4% less than the previous fiscal year. Operating income fell 56.5%, to ¥829 million.



Regional Information

Japan

Although the sales of some products of Functional Chemicals and of Environment & Catalysts declined, the big sales growth of Basic Chemicals supported overall domestic sales growth. As a result, sales in Japan increased by 1.1%, to ¥135,575 million.

Regional operating income increased by 12.4%, to ¥12,858 million, to which recovered market prices and increased sales volumes of some Basic Chemicals' products contributed.

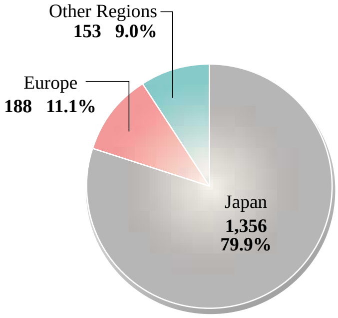
Europe

Supported by the stable sales of super absorbent polymers, net sales in Europe increased by 17.6% more than previous fiscal year, to ¥18,817 million, to which the increased sales volumes contributed. However, operating income decreased by 7.8% to ¥957 million due to the increase of raw material cost, etc..

Other Regions

Sales in other regions increased by 14.5% to ¥15.339 million, principally due to strong Basic Chemicals sales in Asian markets. Regional operating income is moving back into the black as ¥986 million, to which recovered market prices and increased sales volumes of some Basic Chemicals' products contributed.

Breakdown and Component Ratio by Region
(100 millions of yen)



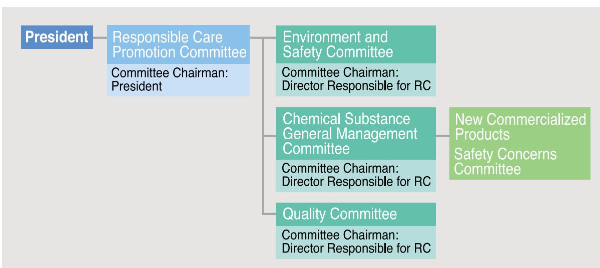
Responsible Care

1. Nippon Shokubai's Fundamental Policy Regarding Environmental Preservation, Safety and Quality

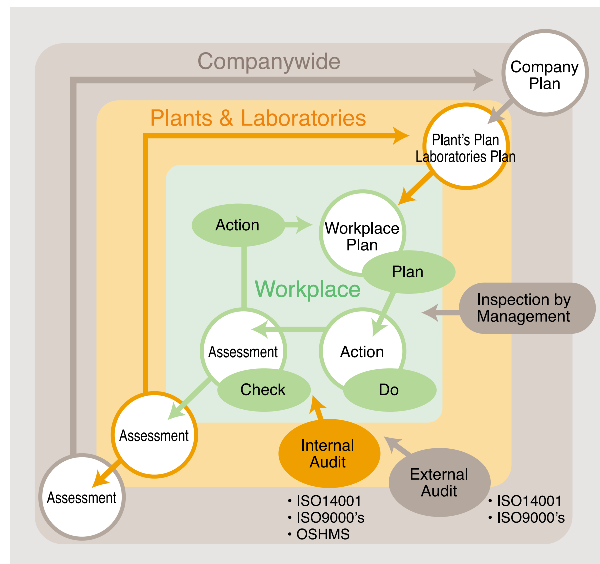
We believe that we have to be a good corporate citizen of this world, and place a special emphasis on environmental preservation, safety and quality throughout the entire life cycle of our products from the development to disposal. Under the key concept "Sustainable Development," which is the fundamental policy of our corporate activities, and which serves to harmonize our activity with environmental preservation on global basis.

2. RC Promotion Organization

(1) RC Promotion System



(2) RC Management System



Note:"FY" Stands for fiscal year.

3. 4th Medium-Term RC Promotion Basic Plan (FY2004 — FY2006)

4th Basic Plan Implementation Items

ISO Certification

ISO 14001:
Certification of all operations completed in July 2001.

ISO 9001:
Certification of all operations complete. Upgrading to improved 2000 standards completed in 2003.

Goals

(1) Voluntarily pursuing goals in each of the related areas within the company

Environmental preservation

- 50% reduction of emissions based on PRTR chemical substances. (vrs. FY2000)
- Reduction of amount of externally commissioned waste
  - 40% reduction of total externally commissioned waste disposal (vrs. FY2002)
  - Reduction of waste for external landfill disposal.
- Energy saving activities: maintain basic energy unit at FY1997 levels (112.6 L/t)

Process, Safety and Disaster Prevention

- Zero disaster, 50% reduction of accidents. (vrs. FY2001 – FY2003)

Occupational safety and health

- Zero industrial injuries with lost workdays.
- 50% reduction of industrial injuries without lost workdays. (vrs. FY2001 – FY2003)

Chemical substance safety

- Zero chemical substance problems (legal or social).

Communications with society

- Communicate with regional communities regarding RC and hold events.

Quality

- Zero major claims

(2) Development of RC activities by the Group

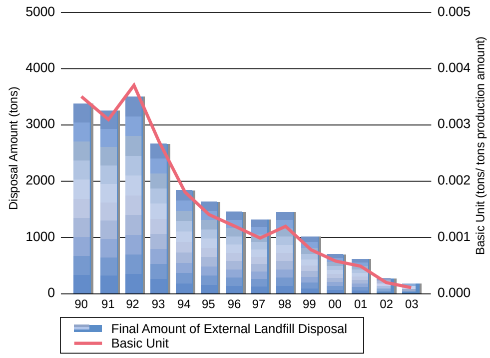
Construct systems and promote activities of RC by the Group including domestic and overseas affiliated companies.

- Management of the above RC goals occurs at the same level as in the Company. Group companies seek to attain the same performance as the Company.

4. RC Performance in FY2003

(1) Environmental Preservation
- ① Energy Saving
- ② Reduction of emissions based on PRTR chemical substances
- ③ Reduction of industrial waste

Final Amount of External Landfill Disposal



(2) Process Safety and Disaster Prevention
- ① Prior facilities assessment and safety reassessment by HAZOP method.
- ② Disaster prevention organization and training.
- ③ There have been no disasters in 7 years since FY1997.
- ④ Logistics safety: Yellow Card system used, training for transport emergencies.

(3) Occupational Safety and Health

OSHMS (Occupational Safety and Health Management System) introduced since FY2001, self-verification.

(4) Chemical Substance Safety

Safety assessment of new products, use of MSDS, LRI, HPV, container Yellow Card.

(5) Communications with regional communities

Regional activities (potato digging, conservation of local chrysanthemums “Noji-Giku”), regional community dialogue with JRCC, international contributions.

Conservation of local chrysanthemums “Noji-Giku”

Potato digging

Regional Community Dialogue with JRCC

Acceptance of ASEAN RC related people

(6) Group RC Activities in Japan and Abroad

The Nippon Shokubai Group mutual cooperates and supports the activities of the Group companies in order to raise the level of RC activities.

① Domestic-affiliated companies:

RC information exchange and mutual site inspections carried out twice annually.

② Overseas-affiliated companies:

Have started exchanging RC information.
Information exchange content:
- Sharing of information on labor accidents and equipment troubles
- Reports on environmental emissions
- Disclosure of RC activities plans

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.

HAZOP: Hazard and Operability Studies
An execution to estimate the safety of plants.

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.

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.

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.

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.

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

Management Indices

(1) Consolidated Management Indices

Period	88th	89th	90th	91st	92nd
Fiscal Year End	March 2000	March 2001	March 2002	March 2003	March 2004
					(Millions of yen)
Net Sales	162,461	160,585	159,722	163,514	169,733
Ordinary Income	5,088	4,303	5,558	10,971	17,212
Net Income	2,659	1,242	1,590	5,516	8,822
Total Shareholders' Equity	118,820	117,340	120,238	121,297	131,685
Total Assets	216,896	230,468	230,253	216,756	220,185
					(yen)
Net Assets per Share	609.72	602.11	617.05	631.12	685.20
Net Income per Share	13.54	6.37	8.16	27.97	45.37
Fully Diluted Net Income per Share	—	—	—	—	—
Capital Ratio (%)	54.8	50.9	52.2	56.0	59.8
Return on Equity (%)	2.3	1.1	1.3	4.6	7.0
Price Earning Ratio (times)	33.2	70.6	62.0	20.4	18.0
					(Millions of yen)
Cash Flow from Operating Activities	18,285	9,757	17,268	23,117	16,399
Cash Flow from Investing Activities	(5,709)	(12,961)	(8,178)	(8,751)	(9,161)
Cash Flow from Financing Activities	(13,463)	(6,584)	(1,579)	(15,956)	(9,506)
Cash and Cash Equivalents at Year-end	22,827	14,806	23,151	21,217	18,654
Number of Employees	3,050	3,189	3,077	2,967	2,658

Note 1: Net Sales do not include consumption taxes.
Note 2: Starting with the fiscal year ended March 2003, 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."
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	88th March 2000	89th March 2001	90th March 2002	91st March 2003	92nd March 2004
					(Millions of yen)
Net Sales	128,086	129,712	123,706	126,612	132,622
Ordinary Income	4,616	5,205	8,054	10,879	14,228
Net Income	3,097	2,539	1,744	3,094	5,966
Capital	16,529	16,529	16,529	16,529	16,529
Issued and Outstanding Shares (Thousands shares)	194,881	194,881	194,881	194,881	194,881
					(Millions of yen)
Total Shareholders' Equity	113,470	114,568	115,578	115,593	124,417
Total Assets	189,999	189,236	188,821	176,155	182,806
					(yen)
Net Assets per Share	582.25	587.89	593.14	601.48	647.41
Dividend per Share	7.00	7.00	7.00	7.00	9.00
(Interim Dividend per Share)	(3.50)	(3.50)	(3.50)	(3.50)	(4.00)
Net Income per Share	15.77	13.03	8.95	15.55	30.56
Fully Diluted Net Income per Share	—	—	—	—	—
Capital Ratio (%)	59.7	60.5	61.2	65.6	68.1
Return on Equity (%)	2.8	2.2	1.5	2.7	5.0
Price Earning Ratio (times)	28.5	34.5	56.5	36.7	26.7
Dividend Payout Ratio (%)	44.3	53.7	78.2	45.0	29.5
Number of Employees	2,127	2,004	1,937	1,881	1,774

Note 1: Net Sales do not include consumption taxes.
Note 2: 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 3: Starting with the fiscal year ended March 2003, 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."
Note 4: Fully diluted Net Income per Share is not recorded because no dilutive shares exist.

Consolidated Financial Statements

Years ended March 31, 2004 and 2003

Report of Independent Auditors

SHIN NIHON & CO.
A MEMBER OF ERNST & YOUNG GLOBAL

Certified Public Accountants
Osaka kokusai Bldg. 29th Floor
3-13, Azuchi-machi, 2-choume
Chuo-ku, Osaka 541-0052, Japan

Phone:06 4964-6669
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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, 2004 and 2003, 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 on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Shokubai Co., Ltd. and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 3, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for impairment accounting for fixed assets as early adoption of the standard was permitted commencing the year ended March 31, 2004.

As described in Note 16, the Company has changed its method of presentation of its business segments.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

June 24, 2004

Shin Nihon & Co.

Consolidated Balance Sheets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2004	2003	**2004**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and cash equivalents	**¥ 18,654**	¥ 21,217	**$ 176,481**
Time deposits *(Note 7)*	**18**	38	**170**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**5,505**	4,055	**52,082**
Trade	**39,042**	37,805	**369,366**
Allowance for doubtful receivables	**(112)**	(103)	**(1,060)**
Inventories *(Note 5)*	**23,918**	23,768	**226,281**
Deferred income taxes *(Note 9)*	**2,666**	2,461	**25,223**
Other current assets	**5,771**	4,620	**54,598**
Total current assets	**95,462**	93,861	**903,141**
Property, plant and equipment *(Notes 6 and 7)*:			
Land	**25,086**	28,242	**237,332**
Buildings and structures	**58,268**	58,417	**551,258**
Machinery and equipment	**203,991**	211,153	**1,929,906**
Construction in progress	**639**	824	**6,045**
Accumulated depreciation	**(210,826)**	(214,705)	**(1,994,569)**
Property, plant and equipment, net	**77,158**	83,931	**729,972**
Investments and other assets:			
Investments in securities *(Notes 4 and 7)*	**21,839**	10,896	**206,613**
Investments in and advances to unconsolidated subsidiaries and affiliates	**11,456**	10,948	**108,382**
Deferred income taxes *(Note 9)*	**1,669**	3,800	**15,790**
Prepaid pension cost	**1,972**	2,073	**18,657**
Other assets	**10,629**	11,247	**100,558**
Total investments and other assets	**47,565**	38,964	**450,000**
Total assets	**¥ 220,185**	¥ 216,756	**$ 2,083,113**

	March 31,		
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans *(Note 7)*	¥ 7,188	¥ 11,786	$ 68,004
Current portion of long-term debt *(Note 7)*	11,825	8,493	111,873
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	3,856	2,745	36,481
Trade	25,270	25,651	239,072
Construction	685	299	6,481
Accrued income taxes *(Note 9)*	3,206	2,871	30,331
Other current liabilities	8,911	7,920	84,305
Total current liabilities	60,941	59,765	576,547
Long-term liabilities:			
Long-term debt *(Note 7)*	16,070	24,377	152,034
Accrued retirement benefits for employees *(Note 8)*	6,609	7,111	62,526
Accrued retirement benefits for directors and corporate auditors	292	427	2,763
Deferred income taxes *(Note 9)*	1,077	466	10,189
Other	1,741	1,485	16,471
Total long-term liabilities	25,789	33,866	243,983
Minority interests	1,770	1,828	16,746
Contingent liabilities *(Note 13)*			
Shareholders' equity *(Note 10)*:			
Common stock:			
Authorized – 424,000,000 shares			
Issued – 194,881,287 shares in 2004 and 2003	16,529	16,529	156,377
Additional paid-in capital	13,563	13,562	128,316
Retained earnings	98,947	91,652	936,112
Net unrealized holding gain on securities	4,961	539	46,935
Translation adjustments	(839)	468	(7,938)
Less treasury stock, at cost	(1,476)	(1,453)	(13,965)
Total shareholders' equity	131,685	121,297	1,245,837
Total liabilities and shareholders' equity	¥ 220,185	¥ 216,756	$ 2,083,113

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2004	2003	**2004**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net sales *(Note 16)*	**¥ 169,733**	¥ 163,514	**$ 1,605,799**
Cost of sales *(Note 11)*	**125,699**	121,666	**1,189,205**
Gross profit	**44,034**	41,848	**416,594**
Selling, general and administrative expenses *(Note 11)*	**28,584**	29,091	**270,426**
Operating income *(Note 16)*	**15,450**	12,757	**146,168**
Other income (expenses):			
Interest and dividend income	**596**	590	**5,639**
Interest expense	**(602)**	(1,020)	**(5,696)**
Royalty income	**1,929**	622	**18,250**
Loss on devaluation of investments in securities	**–**	(2,496)	**–**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	**596**	(828)	**5,639**
Gain on sales of property, plant and equipment	**167**	241	**1,580**
Gain on return of substitutional portion of Welfare Pension Fund Plan *(Note 8)*	**–**	2,834	**–**
Amortization of excess of cost over net assets acquired	**–**	(930)	**–**
Impairment loss on fixed assets *(Note 6)*	**(3,709)**	–	**(35,090)**
Other, net	**(686)**	(1,613)	**(6,490)**
Income before income taxes and minority interests	**13,741**	10,157	**130,000**
Income taxes *(Note 9)*:			
Current	**5,397**	5,365	**51,059**
Deferred	**(480)**	(726)	**(4,541)**
	4,917	4,639	**46,518**
Income before minority interests	**8,824**	5,518	**83,482**
Minority interests in earnings of consolidated subsidiaries	**(2)**	(2)	**(19)**
Net income *(Note 14)*	**¥ 8,822**	¥ 5,516	**$ 83,463**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Common stock:			
Balance at beginning and end of year	¥ 16,529	¥ 16,529	$ 156,377
Additional paid-in capital:			
Balance at beginning of year	¥ 13,562	¥ 13,562	$ 128,307
Gain on sale of treasury stock	1	–	9
Balance at end of year	¥ 13,563	¥ 13,562	$ 128,316
Retained earnings:			
Balance at beginning of year	¥ 91,652	¥ 87,686	$ 867,095
Net income	8,822	5,516	83,463
Cash dividends	(1,440)	(1,364)	(13,623)
Bonuses to directors and corporate auditors	(87)	(87)	(823)
Decrease in retained earnings resulting from exclusion of a consolidated subsidiary	–	(99)	–
Balance at end of year	¥ 98,947	¥ 91,652	$ 936,112
Net unrealized holding gain on securities:			
Balance at beginning of year	¥ 539	¥ 744	$ 5,099
Net change during the year	4,422	(205)	41,836
Balance at end of year	¥ 4,961	¥ 539	$ 46,935
Translation adjustments:			
Balance at beginning of year	¥ 468	¥ 1,727	$ 4,427
Net change during the year	(1,307)	(1,259)	(12,365)
Balance at end of year	¥ (839)	¥ 468	$ (7,938)
Less treasury stock, at cost:			
Balance at beginning of year	¥ (1,453)	¥ (10)	$ (13,746)
Net change during the year	(23)	(1,443)	(219)
Balance at end of year	¥ (1,476)	¥ (1,453)	$ (13,965)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31, 2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Operating activities:			
Income before income taxes and minority interests	¥ 13,741	¥ 10,157	$ 130,000
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	7,998	9,310	75,667
Impairment loss on fixed assets	3,709	–	35,090
(Decrease) increase in accrued retirement benefits	(466)	1,795	(4,408)
Interest and dividend income	(596)	(590)	(5,639)
Interest expense	602	1,020	5,696
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	(596)	828	(5,639)
Gain on return of substitutional portion of Welfare Pension Fund Plan	–	(2,834)	–
Loss on devaluation of investments in securities	–	2,496	–
Loss on disposal of property, plant and equipment	477	317	4,512
Other, net	(1,110)	(155)	(10,502)
Changes in operating assets and liabilities:			
Notes and accounts receivable	(2,743)	2,620	(25,951)
Inventories	(194)	605	(1,835)
Notes and accounts payable	672	3,729	6,357
Other current liabilities	0	(159)	0
Subtotal	21,494	29,139	203,348
Interest and dividends received	675	617	6,386
Interest paid	(710)	(1,129)	(6,717)
Other, net	–	(297)	–
Income taxes paid	(5,060)	(5,213)	(47,871)
Net cash provided by operating activities	16,399	23,117	155,146
Investing activities:			
Proceeds from sales of short-term investments and investments in securities	2,004	191	18,959
Purchases of marketable securities and investments in securities	(5,671)	(3,814)	(53,652)
Purchases of property, plant and equipment	(5,356)	(2,858)	(50,672)
Proceeds from sales of property, plant and equipment	624	375	5,904
Increase in loans receivable	(683)	(2,361)	(6,462)
Collection of loans receivable	1,085	544	10,265
Other, net	(1,164)	(828)	(11,012)
Net cash used in investing activities	(9,161)	(8,751)	(86,670)

	Year ended March 31,		
	2004	2003	**2004**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Financing activities:			
Decrease in short-term bank loans, net	**(4,636)**	(568)	**(43,860)**
Proceeds from long-term debt	**6,350**	2,050	**60,076**
Repayment of long-term debt	**(9,742)**	(9,620)	**(92,167)**
Redemption of bonds	**–**	(5,000)	**–**
Cash dividends paid	**(1,440)**	(1,363)	**(13,623)**
Purchases of treasury stock	**(26)**	(1,442)	**(246)**
Other, net	**(12)**	(13)	**(113)**
Net cash used in financing activities	**(9,506)**	(15,956)	**(89,933)**
Effect of exchange rate changes on cash and cash equivalents	**(295)**	(274)	**(2,790)**
Decrease in cash and cash equivalents	**(2,563)**	(1,864)	**(24,247)**
Cash and cash equivalents at beginning of year	**21,217**	23,151	**200,728**
Decrease in cash and cash equivalents resulting from changes in number of consolidated subsidiaries	**–**	(70)	**–**
Cash and cash equivalents at end of year	**¥ 18,654**	¥ 21,217	**$ 176,481**

See accompanying notes to consolidated financial statements.

Notes to Consolodated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries
March 31, 2004

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 generally accepted 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 are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

(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. 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, 2004 and 2003.

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 have been provided, in general, 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 falls 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 falls 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) 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 17).

2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥105.7 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2004. 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. Change in Method of Accounting

Effective April 1, 2003, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for impairment accounting for fixed assets as early adoption of the standard was permitted commencing the fiscal year ended March 31, 2004. The effect of the adoption of this standard was to decrease income before income taxes and minority interests by ¥3,709 million ($35,090 thousand) for the year ended March 31, 2004.

4. Investments in Securities

Marketable securities classified as other securities at March 31, 2004 and 2003 are summarized as follows:

2004

	(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	¥ 10,893	¥ 19,410	¥ 8,517	$ 103,056	$ 183,633	$ 80,577
Subtotal	10,893	19,410	8,517	103,056	183,633	80,577
Securities whose cost exceeds their fair market value:						
Equity securities	931	800	(131)	8,808	7,569	(1,239)
Subtotal	931	800	(131)	8,808	7,569	(1,239)
Total	¥ 11,824	¥ 20,210	¥ 8,386	$ 111,864	$ 191,202	$ 79,338

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	$ 40,492	$ 59,678	$ 19,186
Subtotal	4,280	6,308	2,028	40,492	59,678	19,186
Securities whose cost exceeds their fair market value:						
Equity securities	4,082	2,992	(1,090)	38,619	28,307	(10,312)
Subtotal	4,082	2,992	(1,090)	38,619	28,307	(10,312)
Total	¥ 8,362	¥ 9,300	¥ 938	$ 79,111	$ 87,985	$ 8,874

The proceeds and gross realized gains and losses on sales of securities classified as other securities at March 31, 2004 and 2003 were as follows:

2004			2003			**2004**		
(Millions of yen)						(Thousands of U.S. dollars)		
Proceeds	**Gross realized gains**	**Gross realized losses**	**Proceeds**	**Gross realized gains**	**Gross realized losses**	**Proceeds**	**Gross realized gains**	**Gross realized losses**
¥ 702	¥ 71	¥ 0	¥ 209	¥ 3	¥ 88	$ 6,641	$ 672	$ 0

A breakdown of other securities whose market value was not determinable at March 31, 2004 and 2003 is as follows:

	2004	2003	2004
	(Millions of yen)		*(Thousands of U.S. dollars)*
Preferred subscription certificates	¥ 500	¥ 500	$ 4,730
Other securities	1,128	1,094	10,672

5. Inventories

Inventories at March 31, 2004 and 2003 were as follows:

	2004	2003	2004
	(Millions of yen)		*(Thousands of U.S. dollars)*
Merchandise and finished goods	¥ 10,134	¥ 10,525	$ 95,874
Raw materials	7,159	6,801	67,729
Work in process	4,872	4,795	46,093
Supplies	1,753	1,647	16,585
	¥ 23,918	¥ 23,768	$ 226,281

6. Impairment Loss on Fixed Assets

The impairment loss on fixed assets for the year ended March 31, 2004 related primarily to the significant decrease in the market value of the Company's land as well as to an overall deterioration in its business environment.

Impairment loss on fixed assets for the year ended March 31, 2004 consisted of the following:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Plant site (nonperforming assets):		
Land	¥ 2,564	$ 24,257
Structures	455	4,305
Other	115	1,088
	3,134	29,650
Production facilities for fluorine compounds:		
Machinery	221	2,091
Building	123	1,164
Structure	17	161
	361	3,416
Nonperforming assets:		
Land	214	2,024
Total	¥ 3,709	$ 35,090

An impairment loss on production facilities for fluorine compounds was recorded at the amount at which the acquisition cost of each asset exceeded an estimate of its future cash flows, discounted at 1.2%.

An impairment loss on plant site and nonperforming assets was recorded at the amount at which the acquisition cost of each asset exceeded its estimated fair value. The estimated fair value of these assets, if material, was determined using real estate appraisal standards.

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

Short-term bank loans consisted mainly of unsecured loans. The average interest rates on the short-term bank loans outstanding at March 31, 2004 and 2003 were 0.96% and 0.72%, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	2004	2003	2004
	(Millions of yen)		*(Thousands of U.S. dollars)*
1.85% unsecured bonds due November 2004	¥5,000	¥5,000	$47,304
Unsecured loans from banks and insurance companies, payable in yen, at rates from 0.49% to 4.82%, due through 2009	7,847	6,423	74,238
Unsecured loans from banks, payable in U.S. dollars, at rates from 1.42% to 2.58%, due through 2009	12,078	16,957	114,267
Unsecured loans from banks, payable in Euro, at rates from 2.49% to 4.83%, due through 2005	999	1,653	9,451
Secured loans from banks and insurance companies, payable in yen, at rates from 1.10% to 5.60%, due through 2008	1,971	2,837	18,647
Subtotal	27,895	32,870	263,907
Less current portion	(11,825)	(8,493)	(111,873)
Total	¥16,070	¥24,377	$152,034

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized below:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2005	¥ 11,825	$ 111,873
2006	5,118	48,420
2007	3,789	35,847
2008	3,338	31,580
2009 and thereafter	3,825	36,187
	¥ 27,895	$ 263,907

Assets pledged as collateral for long-term debt, including the current portion thereof, and accounts and notes payable at March 31, 2004 and 2003 were as follows:

	2004	2003	2004
	(Millions of yen)		*(Thousands of U.S. dollars)*
Time deposits	¥ 8	¥ 38	$ 76
Land	55	745	520
Buildings and structures	32	714	303
Investments in securities	2,463	2,357	23,302
	¥ 2,558	¥ 3,854	$ 24,201

8. 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, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2004	2003	2004
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation at end of year	¥ (27,512)	¥ (29,827)	$ (260,284)
Fair value of plan assets at end of year	19,150	15,590	181,173
Unfunded retirement benefit obligation	(8,362)	(14,237)	(79,111)
Unrecognized actuarial loss	4,165	9,925	39,404
Unrecognized past service cost	(440)	(726)	(4,163)
Net retirement benefit obligation	(4,637)	(5,038)	(43,870)
Prepaid pension cost	1,972	2,073	18,657
Accrued retirement benefits	¥ (6,609)	¥ (7,111)	$ (62,527)

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

	2004	2003	2004
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥ 995	¥ 1,947	$ 9,413
Interest cost	725	994	6,859
Expected return on plan assets	(363)	(912)	(3,434)
Amortization:			
Past service cost	(285)	(500)	(2,696)
Actuarial loss	1,090	997	10,312
Retirement benefit expenses	¥ 2,162	¥ 2,526	$ 20,454

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Discount rate	Principally 2.6%	Principally 2.6%
Expected rate of return on plan assets	Principally 3.0%	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 the Welfare Pension Fund Plan (WPFP). In accordance with the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company accounted for the separation of the substitutional portion 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 the related pension plan assets had been completed as of that date. As a result, a gain of ¥2,834 million was recognized for the year ended March 31, 2003. The portion of the pension assets to be transferred was calculated at ¥6,418 million ($60,719 thousand) at March 31, 2004.

9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the years ended March 31, 2004 and 2003 was, in the aggregate, approximately 42.0%. The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2004 and 2003 differed from the above statutory tax rate for the following reasons:

	2004	2003
Statutory tax rate	**42.0%**	42.0%
Effect of:		
Tax credit for research and development costs	**(5.8)**	–
Loss on amortization of excess of cost over net assets acquired	**–**	4.5
Permanently nondeductible expenses	**0.8**	1.2
Permanently nontaxable dividends received	**(0.9)**	(1.7)
Equity in earnings of an unconsolidated subsidiary and affiliates	**(1.8)**	–
Valuation allowance	**2.4**	(3.3)
Tax loss carryforward	**(1.7)**	–
Effect of change in statutory tax rate	**–**	0.7
Other, net	**0.8**	2.3
Effective tax rates	**35.8%**	45.7%

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, 2004 and 2003 are summarized as follows:

	2004	2003	2004
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Accrued retirement benefits	**¥ 1,367**	¥ 1,098	**$ 12,933**
Intercompany profit on inventories and property, plant and equipment	**987**	1,018	**9,338**
Tax loss carryforwards	**359**	894	**3,396**
Reserve for repairs	**856**	804	**8,098**
Depreciation and amortization	**479**	495	**4,532**
Impairment loss on fixed assets	**1,507**	–	**14,257**
Accrued employees' bonuses	**709**	658	**6,708**
Impairment of investments in securities and other	**1,896**	2,449	**17,938**
Accrued enterprise tax	**385**	302	**3,642**
Other	**1,031**	1,084	**9,754**
Gross deferred tax assets	**9,576**	8,802	**90,596**
Less: Valuation allowance	**(1,016)**	(710)	**(9,612)**
Total deferred tax assets	**8,560**	8,092	**80,984**
Deferred tax liabilities:			
Equity in earnings of a foreign affiliate	**(535)**	(729)	**(5,061)**
Net unrealized holding gain on securities	**(3,404)**	(390)	**(32,204)**
Depreciation and amortization	**(807)**	(569)	**(7,635)**
Deferred capital gain on property	**(342)**	(355)	**(3,236)**
Reserve for depreciation for tax purposes	**(143)**	(182)	**(1,353)**
Other	**(71)**	(75)	**(671)**
Total deferred tax liabilities	**(5,302)**	(2,300)	**(50,160)**
Net deferred tax assets	**¥ 3,258**	¥ 5,792	**$ 30,824**

10. Shareholders' Equity

The Commercial Code of Japan (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.

Retained earnings include the legal reserve provided in accordance with the Code. The legal reserve of the Company included in retained earnings amounted to ¥3,919 million ($37,077 thousand) at March 31, 2004 and 2003.

11. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2004 and 2003 totaled ¥9,424 million ($89,158 thousand) and ¥9,233 million, respectively.

12. Leases

The following pro forma amounts represent the acquisition costs (including the interest portion), accumulated depreciation and net book value of the leased assets as of March 31, 2004 and 2003, 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:

	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Machinery, equipment and software:			
Acquisition costs	¥ 525	¥ 607	$ 4,967
Accumulated depreciation	(253)	(312)	(2,394)
Net book value	¥ 272	¥ 295	$ 2,573

Lease payments relating to finance leases accounted for as operating leases amounted to ¥126 million ($1,192 thousand) and ¥179 million for the years ended March 31, 2004 and 2003, respectively. Depreciation of the leased assets calculated by the straight-line method over the respective lease terms amounted to ¥126 million ($1,192 thousand) and ¥179 million for the years ended March 31, 2004 and 2003, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2005	¥ 113	$ 1,069
2006 and thereafter	159	1,504
	¥ 272	$ 2,573

13. Contingent Liabilities

At March 31, 2004, the Company and one consolidated subsidiary were contingently liable as guarantors of indebtedness of affiliates, the Company's employees and others in the aggregate amount of ¥3,266 million ($30,899 thousand).

In addition, at March 31, 2004, two consolidated subsidiaries had contingent liabilities arising from notes discounted by banks and notes endorsed in the aggregate amount of ¥807 million ($7,635 thousand).

14. Amounts Per Share

	2004	2003	2004
	(yen)		(U.S. dollars)
Net income	¥ 45.37	¥ 27.97	$ 0.43
Cash dividends	9.00	7.00	0.09
Net assets	685.20	631.12	6.48

Net income per share has been computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. The amount per share of net assets has been computed based on the net assets available for distribution to shareholders of common stock and the number of shares of common stock outstanding at the year end.

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

The financial data used in the computation of net income per share for the years ended March 31, 2004 and 2003 is summarized as follows:

	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Net income	¥ 8,822	¥ 5,516	$ 83,463
Deduction from net income:			
Bonuses to directors and corporate auditors	(109)	(87)	(1,031)
Adjusted net income attributable to shareholders of common stock	¥ 8,713	¥ 5,428	$ 82,432
Weighted-average number of shares of common stock outstanding for the current year (thousands of shares)	192,036	194,091	192,036

15. 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, 2004, two consolidated subsidiaries had open interest-rate swap positions. The total value of these positions, however, was immaterial.

16. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in Japan and overseas.

Change in presentation of segment information

Through March 31, 2003, the Company disclosed business segment information on Chemicals and Other. Effective April 1, 2003, the Company changed its method of classifying its basic chemical, functional chemicals, and environment & catalysts businesses. Since the Company has introduced, a virtual business division system, management believes that this change reflects a more accurate presentation of the various business segments involved in the Company's and its consolidated subsidiaries' operations.

The Company has also reclassified the previously reported business segment information for the year ended March 31, 2003 to conform to this revised segmentation.

Business Segments

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 is outlined as follows:

	Year ended March 31, 2004					
	Basic chemicals	Functional chemicals	Environment & catalysts	Total	Eliminations or corporate	Consolidated
				(Millions of yen)		
I. Sales and operating income						
Sales to third parties	¥ 63,320	¥ 90,647	¥ 15,766	¥ 169,733	¥ –	¥ 169,733
Intergroup sales and transfers	8,766	269	829	9,864	(9,864)	–
Total sales	72,086	90,916	16,595	179,597	(9,864)	169,733
Operating expenses	67,825	80,504	15,766	164,095	(9,812)	154,283
Operating income	¥ 4,261	¥ 10,412	¥ 829	¥ 15,502	¥ (52)	¥ 15,450
II. Assets, depreciation, impairment loss and capital expenditures						
Total assets	¥ 65,103	¥ 106,092	¥ 19,189	¥ 190,384	¥ 29,801	¥ 220,185
Depreciation and amortization	2,950	5,111	471	8,532	43	8,575
Impairment loss	–	575	–	575	3,134	3,709
Capital expenditures	1,987	5,874	551	8,412	–	8,412

	Year ended March 31, 2003					
	Basic chemicals	Functional chemicals	Environment & catalysts	Total	Eliminations or corporate	Consolidated
	(Millions of yen)					
I. Sales and operating income						
Sales to third parties	¥ 54,650	¥ 91,658	¥ 17,206	¥ 163,514	¥ –	¥ 163,514
Intergroup sales and transfers	6,601	624	680	7,905	(7,905)	–
Total sales	61,251	92,282	17,886	171,419	(7,905)	163,514
Operating expenses	62,310	80,413	15,979	158,702	(7,945)	150,757
Operating (loss) income	¥ (1,059)	¥ 11,869	¥ 1,907	¥ 12,717	¥ 40	¥ 12,757
II. Assets, depreciation and capital expenditures						
Total assets	¥ 65,760	¥ 112,168	¥ 18,286	¥ 196,214	¥ 20,542	¥ 216,756
Depreciation and amortization	3,703	5,755	391	9,849	47	9,896
Capital expenditures	2,079	2,279	290	4,648	–	4,648

	Year ended March 31, 2004					
	Basic chemicals	Functional chemicals	Environment & catalysts	Total	Eliminations or corporate	Consolidated
	(Thousands of U.S. dollars)					
I. Sales and operating income						
Sales to third parties	**$ 599,054**	**$ 857,587**	**$ 149,158**	**$1,605,799**	**$ –**	**$1,605,799**
Intergroup sales and transfers	**82,933**	**2,545**	**7,843**	**93,321**	**(93,321)**	**–**
Total sales	**681,987**	**860,132**	**157,001**	**1,699,120**	**(93,321)**	**1,605,799**
Operating expenses	**641,675**	**761,627**	**149,158**	**1,552,460**	**(92,829)**	**1,459,631**
Operating income	**$ 40,312**	**$ 98,505**	**$ 7,843**	**$ 146,660**	**$ (492)**	**$ 146,168**
II. Assets, depreciation, impairment loss and capital expenditures						
Total assets	**$ 615,922**	**$1,003,710**	**$ 181,542**	**$ 1,801,174**	**$281,939**	**$2,083,113**
Depreciation and amortization	**27,909**	**48,354**	**4,456**	**80,719**	**407**	**81,126**
Impairment loss	**–**	**5,440**	**–**	**5,440**	**29,650**	**35,090**
Capital expenditures	**18,798**	**55,572**	**5,213**	**79,583**	**–**	**79,583**

Geographical Areas

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 is outlined as follows:

A new geographic segment, “Europe,” which had previously been part of the “Other” segment has been disclosed separately in the geographical segment information for the year ended March 31, 2004 reflecting its increasing materiality.

	Year ended March 31, 2004					
	Japan	**Europe**	**Other**	**Total**	**Eliminations or corporate**	**Consolidated**
	(Millions of yen)					
I. Sales and operating income						
Sales to third parties	¥ 135,576	¥ 18,818	¥ 15,339	¥ 169,733	¥ –	¥ 169,733
Intergroup sales and transfers	12,426	46	2,942	15,414	(15,414)	–
Total sales	148,002	18,864	18,281	185,147	(15,414)	169,733
Operating expenses	135,143	17,907	17,295	170,345	(16,062)	154,283
Operating income	¥ 12,859	¥ 957	¥ 986	¥ 14,802	¥ 648	¥ 15,450
II. Total assets	¥ 153,434	¥ 11,634	¥ 29,705	¥ 194,773	¥ 25,412	¥ 220,185

	Year ended March 31, 2003					
	Japan	**Europe**	**Other**	**Total**	**Eliminations or corporate**	**Consolidated**
	(Millions of yen)					
I. Sales and operating income						
Sales to third parties	¥ 134,113	¥ 16,002	¥ 13,399	¥ 163,514	¥ –	¥ 163,514
Intergroup sales and transfers	11,198	79	3,729	15,006	(15,006)	–
Total sales	145,311	16,081	17,128	178,520	(15,006)	163,514
Operating expenses	133,876	15,043	17,203	166,122	(15,365)	150,757
Operating income (loss)	¥ 11,435	¥ 1,038	¥ (75)	¥ 12,398	¥ 359	¥ 12,757
II. Total assets	¥ 155,157	¥ 11,203	¥ 34,519	¥ 200,879	¥ 15,877	¥ 216,756

	Year ended March 31, 2004					
	Japan	**Europe**	**Other**	**Total**	**Eliminations or corporate**	**Consolidated**
	(Thousands of U.S. dollars)					
I. Sales and operating income						
Sales to third parties	$ 1,282,649	$ 178,032	$ 145,118	$ 1,605,799	$ –	$ 1,605,799
Intergroup sales and transfers	117,559	435	27,833	145,827	(145,827)	–
Total sales	1,400,208	178,467	172,951	1,751,626	(145,827)	1,605,799
Operating expenses	1,278,553	169,413	163,623	1,611,589	(151,958)	1,459,631
Operating income	$ 121,655	$ 9,054	$ 9,328	$ 140,037	$ 6,131	$ 146,168
II. Total assets	$ 1,451,599	$ 110,066	$ 281,031	$ 1,842,696	$ 240,417	$ 2,083,113

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, 2004 and 2003 are summarized as follows:

	Year ended March 31, 2004				
	Asia	**Europe**	**North America**	**Other**	**Total**
	(Millions of yen)				
Overseas sales	**¥ 29,952**	**¥ 24,712**	**¥ 12,593**	**¥ 4,387**	**¥ 71,644**
Overseas sales as a percentage of consolidated net sales	**17.6%**	**14.6%**	**7.4%**	**2.6%**	**42.2%**

	Year ended March 31, 2003				
	Asia	**Europe**	**North 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, 2004				
	Asia	**Europe**	**North America**	**Other**	**Total**
	(Thousands of U.S. dollars)				
Overseas sales	**$ 283,368**	**$ 233,794**	**$ 119,139**	**$ 41,504**	**$ 677,805**

17. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2004, were approved at a shareholders' meeting held on June 24, 2004:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends (¥5.00 = $0.05 per share)	¥ 960	$ 9,082
Bonuses to directors and corporate auditors	99	937
	¥ 1,059	$ 10,019

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

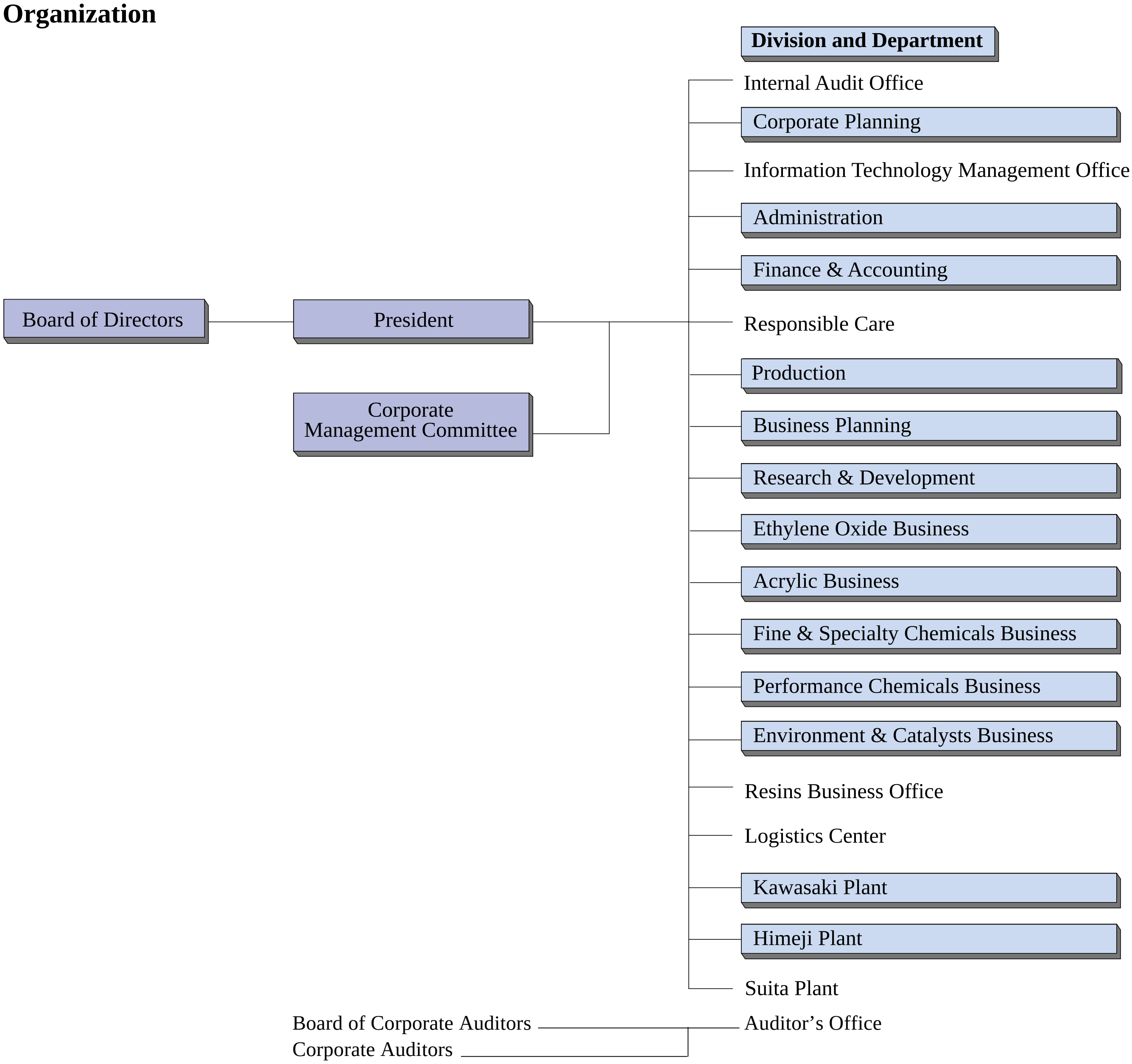
Number of Employees
1,774

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, 2004)

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	97.7	Manufacture and sale of synthetic resins and related additives	Yoshizumi Ozawa
Nisshoku Butsuryu Co., Ltd.*	¥100	100.0	Transport	Wataru Makii
Tokyo Fine Chemical Co., Ltd.*	¥80	71.9	Manufacture and sale of stabilizer of vinyl chloride resin and anti-freeze	Kazumi Fukuyasu
Chugoku Kako Co., Ltd.*	¥75	89.4	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	Yuji Noma
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	53.2	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
Japan Composite Co., Ltd.	¥1,005	35.0	Manufacture and sale of unsaturated polyesters resin and plastic molded materials	Sanpei Okuda

(as of June 30, 2004)

* 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 dollars not millions.

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