NIPPON SHOKUBAI

2008 ANNUAL REPORT

"Making human life and society richer, more comfortable through technological innovations"

Profile

Basic Corporate Vision

NIPPON SHOKUBAI CO., LTD. has been undertaking numerous efforts to build a more solid business structure and gain a sharper competitive edge to keep pace with rapid changes in the world, under its corporate philosophy of "TechnoAmenity", which means providing affluence and comfort to society through technology, and the following slogans:

1. Respect for humanity
2. Coexisting with society, and working in harmony with the environment
3. Pursuing futuristic technology
4. Acting from an international perspective

Business Fields

Since the establishment in 1941, we have been striving for technical innovation and contributing to society through a broad product range.

Our major products are 1) Basic Chemicals, such as acrylic acid, acrylates, ethylene oxide, ethanol amine, and higher alcohol surfactants, etc., 2) Functional Chemicals, such as superabsorbent polymers, polymers for concrete admixture, resins for paints / adhesives and electronic and information materials, etc., and 3) Environmental Systems and Catalysts, such as catalyst for cleaning automobile exhaust gases, process catalysts, De-NOx catalysts and dioxin decomposition / elimination equipments, etc.

In addition, our technologies for manufacturing chemical products receive recognition in foreign countries as well as our diversified line of products. We have licensed our technologies worldwide for manufacturing various chemicals such as acrylic acids and esters.

We will continue to pursue further potentials of technology, while supporting people's livelihood and also providing affluence.

Contents

Financial Highlights

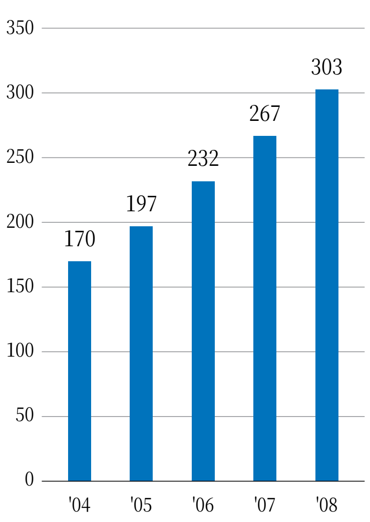
Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. dollars
Fiscal Year	2007	2006	2007
Net sales	¥ 302,669	¥ 266,513	US$ 3,020,950
Operating Income	18,379	19,429	183,442
Ordinary Income	20,745	22,754	207,057
Net Income	11,875	13,988	118,525
At Year End			
Total Assets	¥ 352,783	¥ 323,675	US$ 3,521,140
Total Net Assets	175,634	179,368	1,753,009
	Yen		U.S. dollars
Per Share Amounts			
Net Income	¥ 64.91	¥ 74.92	US$ 0.65
Cash Dividends	16.00	16.00	0.16

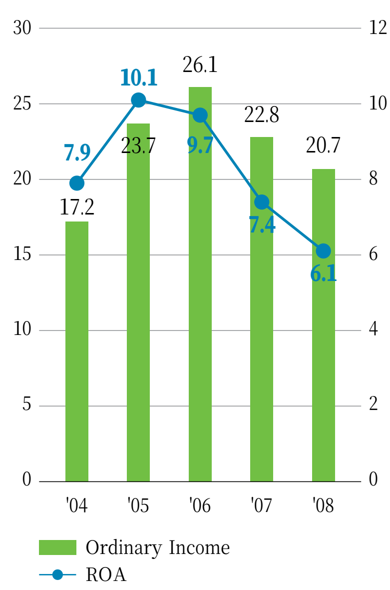
Foreign Exchange Rate: US$ 1.00 = ¥100.19

Notes: Sections under "Total Net Assets" are newly provided to conform Japanese accounting regulations.
The fiscal 2006 figures have also been restated to reflect this change.
See Note 2 of the Management Indices (Page 16) for details.

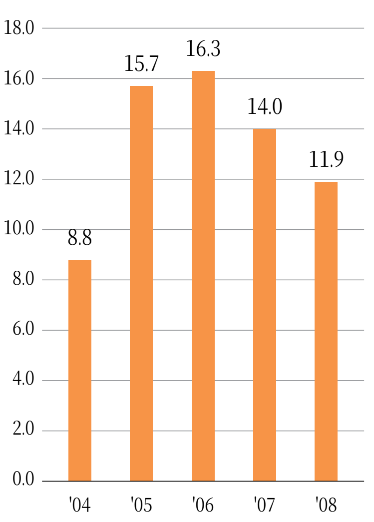
Net Sales (Billions of yen)



Ordinary Income (Billions of yen)
ROA (%)



Net Income (Billions of yen)



To Our Shareholders

It gives me great pleasure to report on the performance of NIPPON SHOKUBAI GROUP (the " Company ") for the fiscal year ended March 31, 2008 (Fiscal 2007).

Overview

During the fiscal year ended March 31, 2008, the Japanese economy showed signs of faltering in the latter half amid soaring crude oil and other resource prices, the decelerating U.S. economy, and significant fluctuations in currency exchange rates.

Spikes in crude oil prices, trends in international markets, and the appreciation of the yen also made the outlook for the chemical industry murkier, though demand was brisk both at home and abroad.

Against this backdrop, consolidated net sales of NIPPON SHOKUBAI GROUP (the " Company ") increased by \36,156 million (13.6%) to \302,669 million over the previous year. This was mainly due to an increase in sales volume (particularly in functional chemicals), product price adjustments in response to price hikes in raw materials, and strong market conditions for some basic chemicals (ethylene glycol and ethanolamine).

Operating income, however, decreased by \1,051 million (5.4%) year on year, to \18,379 million. Although efforts were intensified to increase sales volumes and adjust product prices, however, these measures were not sufficient to absorb the impact of soaring raw material prices and increased fixed costs coming from the facility expansion that has been ongoing since last year.

Ordinary income decreased by \2,009 million (8.8%) year on year, to \20,745 million, impacted significantly by increased interest expenses and exchange losses due to the yen's appreciation, though equity in earnings of affiliates went up.

Net income decreased by \2,114 million (15.1%) year on year, to \11,875 million, due to losses from closure of the Ehime Plant and restructuring of the unsaturated polyester resin business, though these losses were partly offset by gains on the sale of investment securities.

Net income per share came to \64.91, while ROA (ordinary income to total assets) and ROE (net income to shareholders' equity) both declined by 1.3 percentage points, to 6.1% and 6.9%, respectively, compared with the previous year.

On a non-consolidated basis, NIPPON SHOKUBAI CO., LTD. reported net sales of \231,151 million, operating income of \16,286 million, ordinary income of \19,815 million, and net income of \11,707 million.

Taking into consideration the business environment and our performance, we decided to hold the year end dividend per share on \8.0. Together with the interim dividend, the annual dividend per share for the fiscal 2007 amounts \16.

We would like to express our sincere appreciation and ask all of our shareholders for your continued support and guidance as we move forward.

June 2008

近藤忠夫

Tadao Kondo, President

Performance Highlights

(million yen)

	Fiscal Year		Change	
	2007	2006	Amount	%
Net sales	302,669	266,513	36,156	13.6%
Operating income	18,379	19,429	(1,051)	(5.4%)
Ordinary income	20,745	22,754	(2,009)	(8.8%)
Net income	11,875	13,988	(2,114)	(15.1%)
Net income per share	\64.91	\74.92	(\10.01)	(13.4%)
ROA	6.1%	7.4%	–	(1.3points)
ROE	6.9%	8.2%	–	(1.3points)
Exchanging rate	$=¥114.38	$=¥117.00		(\2.62)
	EUR=¥161.59	EUR=¥150.08		\11.51
Naphtha price	¥61,500/kl	¥50,000/kl		\11,500/kl

Review of Operations

Performance by Business Segment

Basic Chemicals

Acrylic acid and acrylates sales went up due to the progress in measures designed to boost sales volumes and an adjustment of selling prices on the back of brisk domestic demand.

Sales of ethylene oxide, and higher alcohol products (trade name: SOFTANOL) rose, backed by brisk demand and selling price s in response to price hikes in raw materials.

Sales of ethylene glycol and ethanolamine grew, supported by buoyant market conditions brought about by increasing demand in China and problems afflicting plants in the Middle East, though sales volumes unavoidably underwent a decline due to a tight inventory situation.

As a result, the Basic Chemical Business posted net sales of \109,331 million, up 11.9% over the previous year.

Operating income increased by 24.5% year on year, to \6,721 million, due to an increase in sales volume and selling price adjustments on the back of the market upswing for some products as mentioned above, though surging raw material prices and increased fixed costs associated with the facility expansion in the previous year weighed down profits.

Paints (Acrylates)

Synthetic Detergents (SOFTANOL)

Functional Chemicals

Superabsorbent polymer sales went up, reflecting volume growth particularly in the Middle and Near East, Europe, and Latin America, and selling price adjustments, in the midst of growing world demand.

Sales of maleic anhydride were up due to the selling price adjustments made in response to the escalation of raw material prices.

Sales of raw materials for detergents and resin modifiers increased, supported by steady demand at home and abroad.

Sales of polymers for concrete admixtures were up owing to the constant demand at home and abroad.

Sales of specialty acrylates rose due to growing demand in both domestic and overseas markets, and selling price s amid a surge in the price of raw materials.

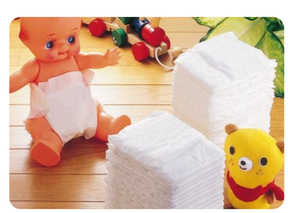
Sales of electronic and information materials were up due to volume growth attributable mainly to newly launched products.

Sales of resins for adhesives/paints, processed adhesive products, and iodine compounds remained at almost the previous year 's level.

The production and marketing of unsaturated polyester resins were discontinued at the end of September 2007.

As a result, the Functional Chemicals Business posted net sales of \155,892 million, up 10.3% over the previous year.

Operating income decreased by 19.1% year on year, to \8,769 million because of the significant impact of raw material price hikes that were not fully factored into selling price adjustments, though the impact of increased fixed costs caused by the facility expansion that has been ongoing since last year was offset by growth in sales volume.



Diapers (Superabsorbent polymer)

Flat Panel Display (Electronic Information associated Materials)

Performance by Business Segment

(unit : million of yen)

Business Segment	Fiscal Year 2007			Fiscal Year 2006			Change		
	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Basic Chemicals	Functional Chemicals	Environment & Catalysts
Sales	109,331	155,892	37,477	97,665	141,321	27,526	11,665	14,570	9,921
Operating income	6,721	8,769	2,812	5,399	10,838	2,982	1,322	(2,069)	(170)

Environment & Catalysts

Sales of automotive catalysts went up, reflecting higher sales volume, and an upswing in selling prices accompanying the escalation in precious metal prices.

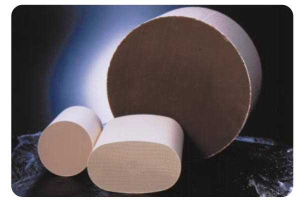
Sales of process catalysts were up due to the high demand for replacements.

Sales of De-NOx catalysts, and equipment and catalysts for waste gas treatment were up due to growth in sales volume.

Sales of equipment and catalysts for wastewater treatment dropped in an absence of large-sized equipment projects which contributed to the sales performance in the previous year.

As a result, the Environment & Catalysts Business posted net sales of \37,447 million, up 36.0% over the previous year.

Operating income decreased by \170 million from the previous year, to \2,812 million, due to higher raw material prices and changes in sales mix (including the absence of large-sized equipment projects).



Automotive Catalysts

Performance by Regions

Japan

Net sales increased by 14.8% over the previous year, to \213,793 million. This was due to steps to adjust overall product prices to cope with price hikes in raw material costs, and in addition, while sales of major products such as superabsorbent polymers, acrylic acid and acrylates remained strong, the sales of polymers for cocrete admixture, electronic and information materials, and process catalysts also grew in volume.

Operating income was on a par with the previous year's level, at \17,380 million, due to growth in sales volume mainly in Functional Chemicals and overall adjustment of product prices, despite surging raw material prices, and increased fixed costs coming from the facility expansion that started in the previous year.

Europe

Net sales increased by 32.6% year on year, to \43,130 million, supported by the volume growth in superabsorbent polymers, and due to selling price adjustments in response to the raw material price hikes.

Operating income increased by \213 million from the previous year, to \282 million, reflecting increased sales volume and product price adjustments, though these gains were partly offset by rising raw material prices, and increased fixed costs associated with the facility expansion started in the previous year.

Asia

Sales of superabsorbent polymers grew in volume and value owing to selling price adjustments following raw material price hikes. Net sales, however, declined by 1.3% from the previous year, to \29,816 million because of the significant impact of the decline in volume of acrylic acid and acrylic esters.

Operating income fell by 49.6% year on year, to \435 million, affected largely by the decline in sales volume of acrylic acid and acrylic esters, and higher raw material prices, though the profitability of superabsorbent polymers improved.

Other Regions

Net sales declined by 9.0% year on year, to \15,930 million, due largely to the volume decline in superabsorbent polymers and raw materials for detergents, despite the increase in the sales volume of polymers for concrete admixtures.

Operating income was down by \1,107 million from the previous year, recording a loss of \1,392 million, due to decreased sales volume in superabsorbent polymers and raw materials for detergent, and inflated raw material prices that resulted in reduced profits, though increased sales of polymers for concrete admixtures generated a positive effect.

Performance by Regions

(unit : million of yen)

Region	Fiscal Year 2007				Fiscal Year 2006				Change			
	Japan	Europe	Asia	Other Regions	Japan	Europe	Asia	Other Regions	Japan	Europe	Asia	Other Regions
Sales	213,793	43,130	29,816	15,930	186,288	32,521	30,194	17,510	27,505	10,609	(378)	(1,580)
Operating income	17,380	282	435	(1,392)	17,301	70	864	(285)	79	213	(429)	(1,107)

Medium- and Long-term Business Plans

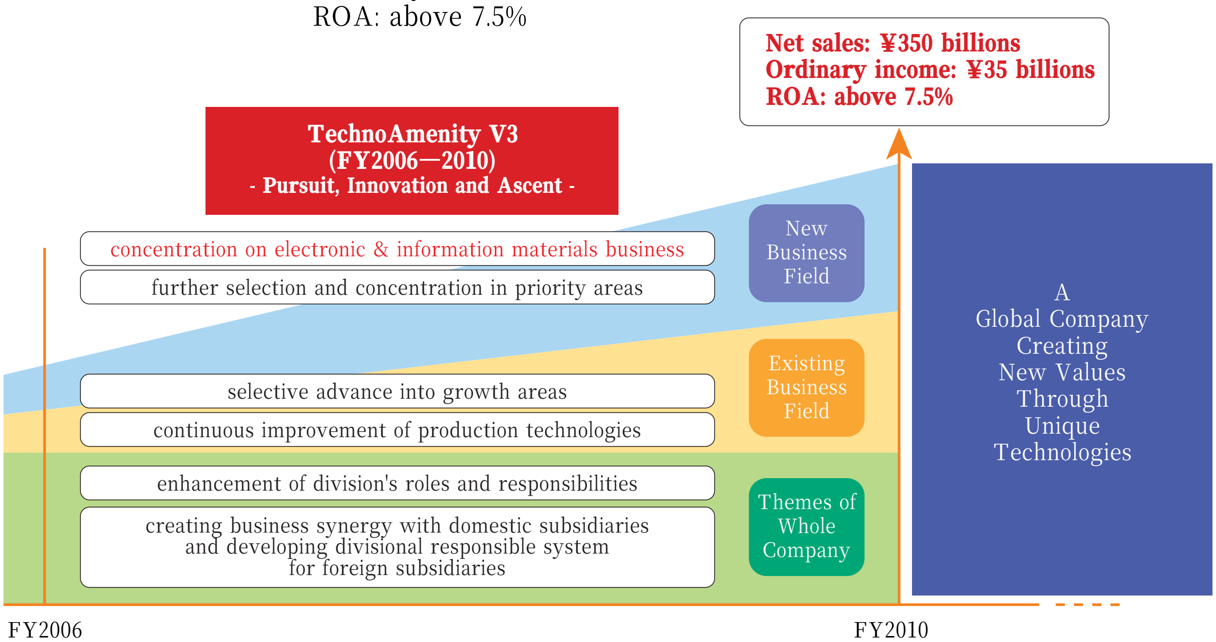
The Company drew up a long-term business plan, " TechnoAmenity V3, " which sets out the management vision for the five years since fiscal 2006 to fiscal 2010, together with a medium-term business plan as its action program, in a bid to deliver further growth.

Challenges and Medium- and Long-term Management Strategies

The Company seeks further growth under the long-term business plan " TechnoAmenity V3 " (for fiscal 2006 to 2010), which sets out a long-term management vision, coupled with the Medium-term Business Plan (for fiscal 2006 to 2008), which provides a concrete action plan to realize the long-term business plan.

1) Outline of the Long-term Business Plan " TechnoAmenity V3 "

1. Vision for the future:	" A global company creating new values through unique technologies "
2. Slogan:	" Pursuit "to our strength such as key technologies and key materials " Innovation "of way of marketing and research " Ascent "to be realized through" Pursuit "and" Innovation "
3. Target for FY 2010:	Net Sales: ¥350 billions Ordinary Income: ¥35 billions ROA: above 7.5%



2) Outline of the Medium-term Business Plan

The Company seeks to enter into growth areas (fields; overseas) outside the domain of its existing business, and at the same time, continue to pursue innovative production technologies in order to enhance its cost competitiveness. As for new lines of business, the Company will concentrate its management resources on the electronic and information materials business as the top priority for the " TechnoAmenity V3 " plan, while searching for more sharply focused next-generation business themes.

Through the execution of these measures, the Company aims to attain the fiscal 2008 target for net sales of ¥300 billions (including ¥40 billions of new products), ordinary income of ¥30 billions, and ROA of 7.5% or higher.

Progress on the Medium-term Business Plan

(1) Existing Business

For the superabsorbent polymer business, the facility expansion at the Himeji Plant was completed last year, which increased NIPPON SHOKUBAI GROUP'S annual production capacity for superabsorbent polymers to 410,000 tons as of March 31, 2008, allowing the Company to maintain its leadership position in the global market.

For the acrylic acid business, the construction of a manufacturing plant was completed at the Himeji Plant in December 2006, which has an annual production capacity of 160,000 tons. Then, under a scrap-and-build plan, the acrylic acid plant operation in the Ehime Plant was halted at the end of 2007, and the construction of a new acrylic acid manufacturing plant with an annual capacity of 80,000 tons started its operation at the Himeji Plant with completion scheduled for the end of 2009. By taking these measures, the Company will be better equipped to pursue efficiency improvements by integrating domestic production operations while maintaining its acrylic acid production capacity of 620,000 tons.

For the ethylene oxide business, a facility expansion that will add an extra 70,000 tons of annual production capacity is underway at the Ukishima Plant (Kawasaki) with completion scheduled for the summer of 2009. After the completion, the combined ethylene oxide production capacity provided by the expanded facilities and the Chidori Plant (Kawasaki) will reach 320,000 tons per year, the largest in Japan. Also, a new plant site was acquired in the Kawasaki area, and shares of NIPPON NYUKAZAI Co., Ltd and SINO-JAPAN CHEMICAL Co., Ltd. were acquired in February 2008 to turn these corporations into subsidiaries. Through these measures, the Company seeks to establish a stable business foundation less susceptible to market fluctuations, while boosting sales of ethylene oxide and derivative products up to the target ratio of 80% or higher for non-EG (ethylene glycol) products.

For other business areas, the Company aims to roll out more of its globally competitive products into the world market. To this end, the construction of a new manufacturing plant with an annual capacity of 10,000 tons for polymers for concrete admixtures was completed at NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD. at the end of 2007, and the plant went into commercial operation. Facility expansion to add an extra 10,000 tons of annual capacity for the product was also completed in the Kawasaki manufacturing site, and the product has now grown into the Company1s core business backed by a combined production capacity of 80,000 tons per year.

(2) New Business

For the electronic and information materials business, the Company formed the E&I Materials Business Division in April 2006, and has been carrying out the development and commercialization of new products at a steady pace. Among other things, the 2nd production line for acrylic resins for optical materials (ACRYVIEWA) was completed at the Himeji Plant at the end of 2007, boosting annual production capacity to 6,000 tons, and the products have been delivered for LCD panels, mobiles and TV applications. Business development in the areas of fine spherical particles and functional pigments has also made steady progress. Furthermore, in January 2007, a new office was opened in South Korea, a high-potential overseas market, to drive further growth of the electronic and information materials business.

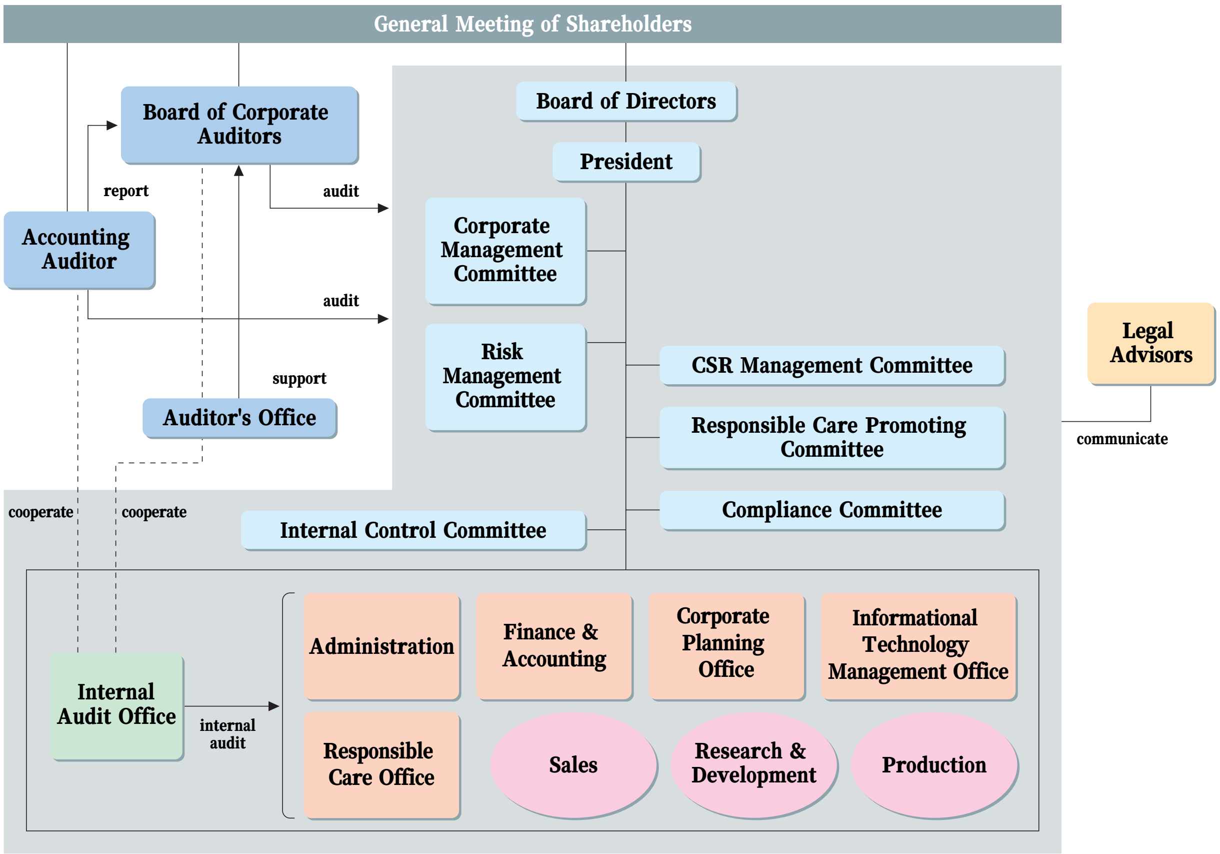
Meanwhile, the Company will continue to focus on development and commercialization initiatives in fields being considered as the next growth areas, health & medical care and new energy, with a view to launching a business around 2010.

Corporate Governance

We have strived toward reinforcing our staying power and competitive edge so that we can cope flexibly with any fluctuation of the world, and regard corporate governance as key for achieving the goal. We are taking steps to revitalize the board of directors, strengthen the audit system, increase the efficiency and effectiveness of operation, and ensure tighter compliance.

The diagram below shows the frame of our corporate governance system.

Corporate Governance System



Board of Directors, comprised of 16 directors as of March 31, 2007, deliberates and resolves the matters relating to the execution of business operations, and supervises each director's execution of operation. In principle, the Board of Directors convenes once a month, chaired by the president, at which four corporate auditors, including two from outside, are in attendance. The corporate auditors present statements when deemed necessary.

Corporate Management Committee, as an advisory organ to the president, deliberates basic management policies, the matters related to the policies, and the execution of important business operations by individual divisions. Agenda items that come up to this Committee and are regarded as important will be forwarded to the Board of Directors for deliberation.

The member of the Corporate Management Committee are the president, senior managing directors managing directors and directors nominated by the president.

Board of Corporate Auditors is comprised of four corporate auditors, including two from outside. In principle, the Board convenes once a month to report, discuss and resolve important matters. In addition to attending the Board of Directors, the corporate auditors attend the Corporate Management Committee and other important meetings to monitor the decision-making process, and grasp the execution of directors ' operation, receive reports from the accounting auditors, directors and others, and put forward an audit opinion following due consultation.

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

Risk Management Committee, chaired by the president, explores and analyzes the risks surrounding the Company. On the basis of the analysis, the Committee discusses the preventive measures or countermeasures for the risks.

CSR (Corporate Social Responsibility) Management Committee, chaired by the president, discusses and decides the CSR policy and activities that would make all the stakeholders beneficial, in cooperation with the other committees such as Risk Management Committee or the Compliance Committee.

Responsible Care Promoting Committee, chaired by the president, discusses and decides the policy and plans of activities for " Responsible Care (RC) " placing a special emphasis on environmental preservation, safety and quality throughout the entire life cycle of our products from the development to disposal. In March 2006, the Committee established the " 5th Medium-term RC promotion Basic Plan " to reinforce our RC more active.

Moreover, **Responsible Care Office** carries out concrete policy and internal audits on responsible care activities in each division.

Compliance Committee, chaired by the president, discusses and decides measures to enhance our company-wide compliance management.

The Internal Control Committee concerning financial reporting, chaired by the president, discusses and prepares for the highly efficient Internal Control System enforced by Financial Instruments and Exchange Law as of April 1st 2008, not only aim to ensure the riability of the company 's financial reporting, but also to ensure the effectiveness and efficiency of the company 's business activities.

Legal Advisers provide their opinions for us when solicited. None of the Legal Advisors is involved in the management of the Company.

Accounting Auditors perform their services under the Commercial Code and Securities and Exchange Law of Japan, and provide their opinions when we call for it to make decisions on accounting issues. None of the Accounting Auditors is involved in the management of the Company.

Internal Audit Office carries out internal audits (verify the adequacy and effectiveness of the business process in each division and report the results to the directors) in cooperation with the Board of Corporate Auditors and Accounting Auditors.

Compliance and Ethics

The Compliance Committee has been working on revisions to the "Corporate Philosophy" and "Basic Corporate Vision," the establishment of the "Nippon Shokubai Corporate Behavior Charter," and the preparation of the "Compliance Guidebook," in order to further improve and reinforce corporate ethical standards and compliance systems throughout the organization. During fiscal 2007, various training programs were implemented to ensure stricter and more faithful adherence to corporate ethics.

Nippon Shokubai Corporate Behavior Charter

1. Guided by our Corporate Philosophy of TechnoAmenity, we will conduct all of our actions as a good corporate citizen.
2. We will comply with relevant laws both inside and outside of Japan, and act in accordance with in-house regulations.
3. We will create and nurture a sound, vibrant workplace, where each individual can hone their professional competence and find fulfillment in their career.
4. We will develop and market products and services that are both safe and useful, based upon an accurate understanding of social demands.
5. We will commit ourselves to eliminating labor hazards and accidents, and constantly strive to protect the global environment.
6. We will conduct business based on fair and open competition.
7. We will take a firm stance when dealing with unlawful or antisocial groups.
8. We will ensure frequent communications with our shareholders and members of society in general, and guarantee the appropriate disclosure of corporate information.
9. With respect for the culture and customs of every nation/region we serve, we will contribute to their development and wellbeing through community-based business undertakings.
10. We will ensure the solid and sustainable development of the company through business undertakings based soundly upon the above action guidelines.

Company-wide training in corporate ethics

Training in corporate ethics was provided to leaders and managers across the organization. The training program consisted of the president's lecture on compliance with corporate ethical standards, and subsequent group discussions on individual cases related to compliance. In fiscal 2007, a total of 8 training sessions were held mostly in Himeji and Suita, and 200 or more managers and leaders took part. Training sessions are also planned for fiscal 2008 onwards, and are scheduled to take place at all operation sites in two years.

Training in applicable laws and regulations

With regard to compliance with relevant laws and regulations, training was provided on the subject of the Anti-Monopoly Act, which was amended in 2006. Two sessions were held, and nearly 40 employees, mostly sales managers and leaders, attended.

Topics

Acquisition of NIPPON NYUKAZAI and SINO-JAPAN CHEMICAL Shares

In February 2008, we acquired shares of NIPPON NYUKAZAI Co., Ltd. and SINO-JAPAN CHEMICAL Co., Ltd. (Taiwan) to turn these companies into subsidiaries. Both have unique technology and know-how that they have accumulated over many years through their involvement in ethylene oxide and propylene oxide derivatives including surfactants, and have been providing their products for a wide range of uses including electronic material and automotive applications. We hope their experience and our know-how will fuse together to create significant synergy effects in ethylene oxide and other technology innovations.

SINO-JAPAN CHEMICAL is the first operation base we have secured in Taiwan, and from here on, we seek to expand our operations not only in Taiwan but also into mainland China.

NIPPON NYUKAZAI Co., Ltd., Kawasaki Plant

SINO-JAPAN CHEMICAL Co., Ltd., Linyuan Plant

Participation in the Research Project for Anti-desertification Technology (Xinjiang Uygur Autonomous Region, China)

We are participating in the" Research Project for Anti-desertification Technology "implemented in the southern arid zone of Takla Makan Desert in Xinjiang by the Xinjiang Academy of Forestry Sciences, a Xinjiang branch of China's State Forestry Administration.

This project aims to develop afforestation technology for combating desertification. To support the current afforestation trials using high water absorption resins, we provide our superabsorbent polymers as well as financial assistance.

The project is slated to continue for 3 years from 2008, and we hope our participation in the project will contribute to the fight against desertification.

Taklamakan Desert

Field Test Area of Forestry

Responsible Care

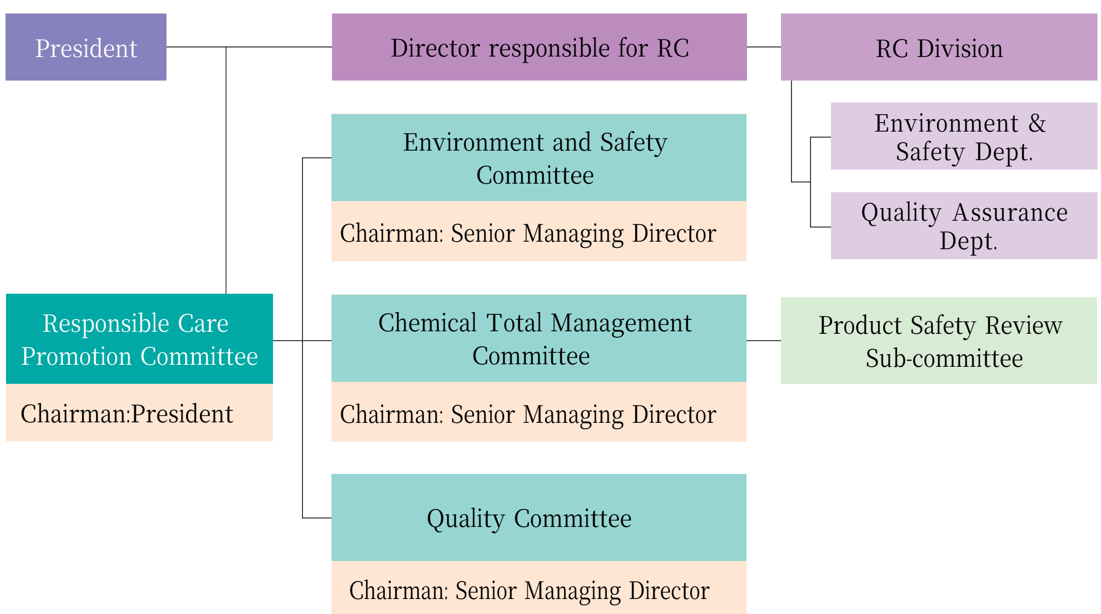
1. Our Fundamental Policy on Environment, Safety and Quality

The Company has set the corporate philosophy as "TechnoAmenity: providing affluence and comfort to society through technology". Adhering to the philosophy, the Company has defined the four priorities regarding Environment, Safety and Quality, which will bring our business activities into harmony with global environmental preservation and conservation:

1. Acknowledging environmental preservation throughout the entire life cycle of a product, from development to disposal
2. Aiming for zero accidents and disasters and keeping society, including our employees, safe
3. Confirming the safety of chemical materials, intermediates and products, and considering the health of respective people such as our customers, employees of logistics, and our employees, etc.
4. Stably supplying products and associated services that meet customer satisfaction and inspire their trust

2. RC Promotion Organization

(1) RC Promotion Organization



(2) RC Management System

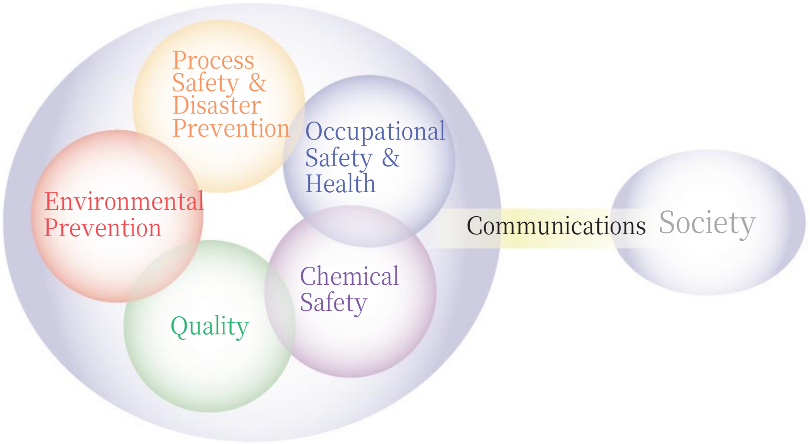
ISO 14001(EMS)

Registration of all operations completed in July 2001. Up grading to improved 2004 standards completed in 2005.

ISO 9001(QMS)

Registration of all operations completed. Up grading to improved 2000 standards completed in 2003.

3. The 5th Medium-Term RC Promotion Basic Plan (FY2006-FY2008)



Goals

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

Environmental Preservation

- 6% reduction of energy per unit of production on FY2008 (vs.FY2005) (3% reduction of CO_2 emission per unit of production on FY2008 (vs.FY2005))
- Accession to zero emission* and its maintenance
- 40% reduction of emission of PRTR* chemical substances (vs.FY2005)
- Establishment of eco-friendly product design system

Process Safety and Disaster Prevention

- Zero disasters
- Zero accidents

Occupational Safety and Health

- Zero industrial injuries with lost workdays (including contractors)
- Zero industrial injuries without lost workdays (including contractors)

Chemical Safety

- Zero problem on chemical safety (legal or social)

Quality

- Zero serious claims

Communication with Society

- Promotion of dialogue with stake holders and adequate disclosure of the information regarding RC

(2) Group RC activities in domestic and overseas

Attainment of common targets to all NIPPON SHOKUBAI GROUP

<Group common targets>

1) Environmental preservation

- Promotion of energy saving activities
- Reduction of emission of PRTR chemical substances
- Reduction of amount of waste generated

2) Process Safety and Disaster Prevention

- Zero disasters
- Zero accidents

3) Occupational Safety and Health

- 50% reduction of industrial injuries with lost workdays (vs.FY2004 - FY2005)

4) Chemical Safety

- Zero problems on chemical safety(legal or social)

5) Quality

- Zero serious claims

6) Communication with Society

- Promotion of dialogue to stakeholders and adequate disclosure of the information

7) Management System

- Introduction of ISO14001 and risk assessment of OHSAS18001.

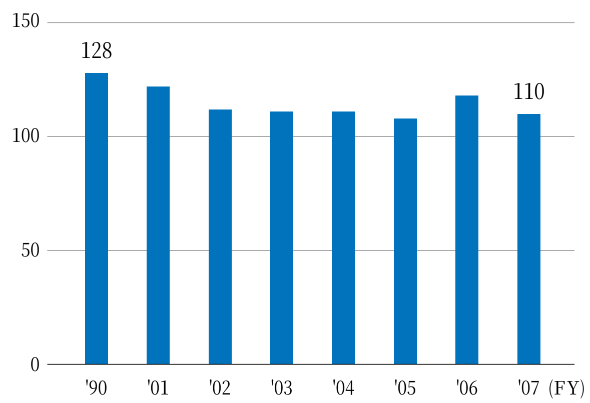
4. RC Performance in FY 2007

(1) Environmental Preservation

① Action to save energy

The Company is taking action to save energy in all divisions, and has managed to reduce its consumption of energy per unit of production by 14% from the level in FY1990.

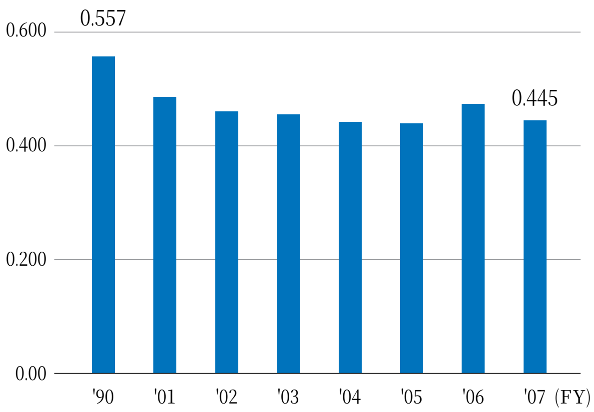
Energy Consumption Rate
(crude oil equivalent (L) / production volume (ton))



② Lower GHG emissions

The Company is committed to curtailing its CO_2 emissions by an all-out campaign to save energy. It has cut its CO_2 emissions per unit of production by 20% relative to the 1990 level.

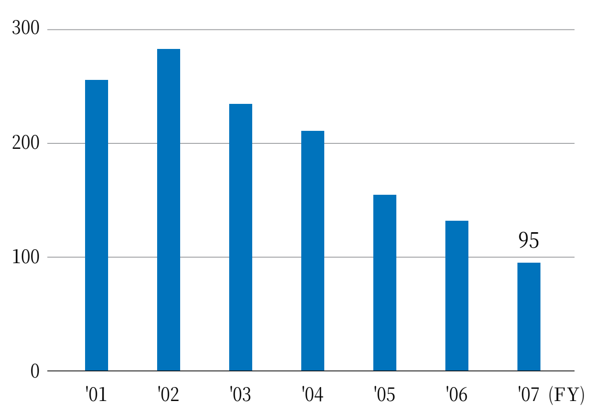
CO_2 Emissions Rate (CO_2 (ton) / production volume (ton))



③ Less chemical emissions

The Company has been making efforts to release less chemical substances into the environment since 1995 before enforcement of legal regulation. It attained the corresponding 39% reduction targeted in FY2007, and is determined to attain the FY2008 target as well.

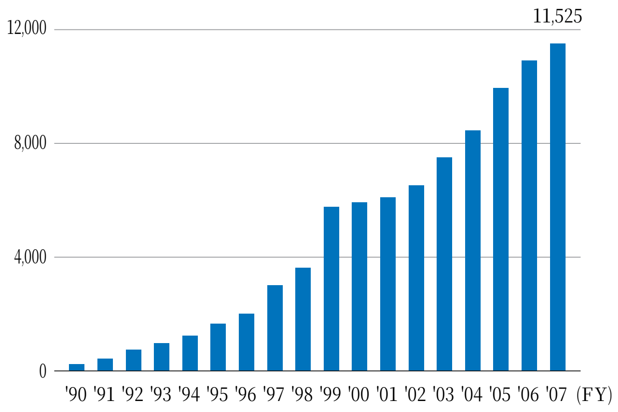
PRTR Total Release Performance (ton)



④ Investment for preserving the environment

Every year, the Company makes extensive investments in initiatives for preserving the environment. The table below presents cumulative figures for this investment over the period FY1990 to FY2007.

Total Amounts of Investment in Environmental Preservation since FY1990 (Million of Yen)



(2) Process Safety and Disaster Prevention

① Implementation of safety assessment by HAZOP*
② Reduction of change risk through Management of Changes*
③ Training for emergency
④ Logistic safety using Yellow Card* system and training for transportation emergency


A Fire Drill


Training for Transportation Emergency

(3) Occupational Safety and Health

① Reduction of risk in workspace through Occupational Safety and Health Management System
② Prevention of injuries caused by unsafe action

(4) Chemical Safety

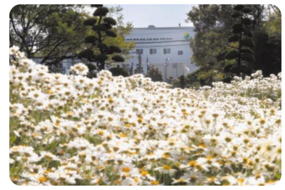
① Safety assessment of new products through Stage Gate System
② Global Product Stewardship through REACH* and GHS*

(5) Quality

① Prevention of quality complaint by improving Quality Management System
②Disclosing information concerning green procurement to the customers

(6) Communication with Society

Regional activities such as conserving local chrysanthemum Noji-Giku in danger of extinction, and inviting children to potato digging in Himeji Plant.


"Noji-Giku" (Himeji Plant)


Potato Digging Party for Children in Himeji Plant

(7) RC activities of the Company in Japan & overseas

■Reduction of environmental emission, labor accident, equipment trouble and quality claim & nonconformity
■Information sharing for RC activity
① Affiliated companies in Japan:
■RC Hearing (the consolidated subsidialies and affiliates)
■RC audit (Nippon Polyester Co., Ltd.　Nihon Jyoryu Kogyo Co., Ltd.)
■ISO 14001 certification (Nihon Jyoryu Kogyo Co., Ltd.)
■Eco-Action 21* (Chugoku Kako Co., Ltd. Nippon Polyester Co., Ltd.)
■ISO 9001 certification (Nisshoku Butsuryu Co.,Ltd.)
② Overseas affiliated companies:
■RC Hearing (Nippon Shokubai Europe N.V. , NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD.)

■ISO 14001 certification (NISSHOKU CHEMICAL INDUSTRY　(ZHANGJIAGANG) CO., LTD.)
■ISO 9001 certification (NISSHOKU CHEMICAL INDUSTRY　(ZHANGJIAGANG) CO., LTD.)

PRTR:Pollutant Release and Transfer Register
A regulatory system which requires reporting of emission volumes of wastes. Data compiled to the government bodies are disclosed to the public.

Zero Emission
Less quantity of final off-site landfill than 0.1% of total amount of waste generated.

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

Management of Changes
Program to ensure that proposed changes to plant operations are　evaluated changes are prevented so as to public, and the environmental, etc.

Yellow Card
A card staring the producers to be taken and　contact information for transporters, fire squads, and police in the event of an accident during the road transport of chemicals.

REACH:Registration, Evaluation, and Authorization of Chemicals
A new EU regulatory framework for the Registration, Evaluation and Authorization of Chemicals aiming to improve the protection of human health and the environment through the better and earlier identification of the properties of chemical substances.

GHS:Globally Harmonized System of Classification and Labeling of Chemicals
A system for classification and labeling of chemicals hazard according to the globally harmonized rule.

Eco-Action 21
Eco-Action 21 is a certificate / registration system that enables a wide variety of organizations to adopt effective and efficient systems that promotes environmental activities, to establish objectives of environmental activities, and to compose, evaluate and reportthe results of these activities based on the guideline published by the Ministry of the Environment Japan in 2004.

Management Indices

(1) Consolidated Management Indices

Year ended March 31 (Fiscal Year)	2004 (2003)	2005 (2004)	2006 (2005)	2007 (2006)	2008 (2007)
					(Millions of Yen)
Net Sales	169,733	197,222	232,441	266,513	302,669
Ordinary Income	17,212	23,709	26,148	22,754	20,745
Net Income	8,822	15,705	16,257	13,988	11,875
Total Assets	220,185	249,349	291,564	323,675	352,783
Total Shareholders' Equity	131,685	144,660	164,631	—	—
Total Net Assets	—	—	168,704	179,368	175,634
					(Yen)
Net Assets per Share	685.20	757.72	875.00	948.34	947.34
Net Income per Share	45.37	81.37	85.89	74.92	64.91
Fully Diluted Net Income per Share	—	—	—	—	—
Capital Ratio(%)	59.8	58.0	56.5	54.1	48.6
Return on Equity(%)	7.0	11.4	10.5	8.2	6.9
Price Earning Ratio(times)	18.0	11.9	16.3	17.0	10.2
					(Millions of Yen)
Cash Flow from Operating Activities	16,399	22,161	17,468	16,087	20,219
Cash Flow from Investing Activities	(9,161)	(16,934)	(20,663)	(23,109)	(33,100)
Cash Flow from Financing Activities	(9,506)	(861)	(2,562)	4,037	17,495
Cash and Cash Equivalents at Year-end	18,654	24,160	19,856	16,991	21,371
Number of Employees	2,658	2,721	2,806	2,841	3,290

Note 1: Net Sales do not include consumption taxes.

Note 2: Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

Note 3: Fully diluted Net Income per Share is not recorded because no dilutive shares exist.

(2) Non-consolidated Management Indices

Year ended March 31 (Fiscal Year)	2004 (2003)	2005 (2004)	2006 (2005)	2007 (2006)	2008 (2007)
					(Millions of Yen)
Net Sales	132,622	146,789	170,510	192,177	231,151
Ordinary Income	14,228	17,795	23,008	20,378	19,815
Net Income	5,966	11,063	14,502	12,378	11,707
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 Assets	182,806	207,303	237,571	262,059	280,080
Total Shareholders' Equity	124,417	133,100	148,283	—	—
Total Net Assets	—	—	148,283	151,266	148,553
					(Yen)
Net Assets per Share	647.41	697.19	788.11	819.47	820.49
Dividend per Share	9.00	13.00	16.00	16.00	16.00
(Interim Dividend per Share)	(4.00)	(5.00)	(7.50)	(8.00)	(8.00)
Net Income per Share	30.56	57.20	76.61	66.30	63.49
Fully Diluted Net Income per Share	—	—	—	—	—
Capital Ratio(%)	68.1	64.2	62.4	57.7	53.0
Return on Equity(%)	5.0	8.6	10.3	8.3	7.8
Price Earning Ratio(times)	26.7	17.0	18.3	19.2	10.3
Dividend Payout Ratio(%)	29.5	22.7	20.9	24.1	25.0
Number of Employees	1,774	1,731	1,730	1,742	1,798

Note 1: Net Sales do not include consumption taxes.

Note 2: Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

Note 3: The dividend per share for the fiscal year ended March 31,2005(fiscal 2004) include a ¥2 memorial dividend our 65th anniversary of the company's foundation.

Note 4: Fully diluted Net Income per Share is not recorded because no dilutive shares exist.

Nippon Shokubai Co., Ltd.
Consolidated Financial Statements

Years ended March 31, 2008 and 2007

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Consolidated Financial Statements

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

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, 2008 and 2007, and the related consolidated statements of income, changes in net assets, 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, 2008 and 2007, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Osaka, Japan
June 19, 2008

Ernst & Young ShinNihon

A MEMBER OF ERNST & YOUNG GLOBAL

Consolidated Balance Sheets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars) *(Note 2)*
Assets			
Current assets:			
Cash and cash equivalents	\ 21,371	\ 16,991	$ 213,305
Time deposits *(Note 7)*	215	165	2,146
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	12,056	11,147	120,331
Trade	69,262	59,855	691,307
Allowance for doubtful receivables	(308)	(568)	(3,074)
Short-term investments *(Note 4)*	200	—	1,996
Inventories *(Note 5)*	54,353	45,941	542,499
Deferred income taxes *(Note 9)*	3,874	3,172	38,666
Other current assets	7,438	8,742	74,239
Total current assets	168,461	145,445	1,681,415
Property, plant and equipment, at cost *(Note 7)* :			
Land	32,058	27,609	319,972
Buildings and structures	77,009	68,383	768,630
Machinery and equipment	274,929	255,592	2,744,076
Construction in progress	5,573	6,778	55,624
Accumulated depreciation	(265,606)	(240,715)	(2,651,023)
Property, plant and equipment, net	123,963	117,647	1,237,279
Investments and other assets:			
Investments in securities *(Notes 4 and 7)*	22,996	31,456	229,524
Investments in and advances to unconsolidated subsidiaries and affiliates	20,970	16,507	209,302
Deferred income taxes *(Note 9)*	3,521	901	35,143
Prepaid pension cost	3,874	2,997	38,667
Other assets *(Notes 7 and 10)*	8,998	8,722	89,810
Total investments and other assets	60,359	60,583	602,446
Total assets	\ 352,783	\ 323,675	$ 3,521,140

	March 31,		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars) *(Note 2)*
Liabilities and Net Assets			
Current liabilities:			
Short-term bank loans *(Note 7)*	\ 27,571	\ 18,177	$ 275,187
Current portion of long-term debt *(Note 7)*	6,998	5,887	69,847
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	9,141	7,403	91,237
Trade	48,143	47,056	480,517
Construction	38	18	379
Accrued bonuses to employees	2,485	2,061	24,803
Accrued bonuses to directors and corporate auditors	157	130	1,567
Reserve for periodic repairs	2,673	2,742	26,679
Accrued income taxes *(Note 9)*	2,982	4,018	29,764
Reserve for loss on shutdown of a plant	1,236	—	12,337
Other current liabilities	10,692	12,293	106,717
Total current liabilities	112,116	99,785	1,119,034
Long-term liabilities:			
Long-term debt *(Note 7)*	54,797	33,668	546,931
Accrued retirement benefits for employees *(Note 8)*	8,153	6,791	81,375
Deferred income taxes *(Note 9)*	710	2,647	7,087
Other *(Note 10)*	1,373	1,416	13,704
Total long-term liabilities	65,033	44,522	649,097
Contingent liabilities *(Note 16)*			
Net assets:			
Shareholders' equity *(Note 11)*:			
Common stock:			
Authorized — 424,000,000 shares			
Issued — 194,881,287 shares in 2008 and 2007	16,529	16,529	164,977
Capital surplus	13,567	13,567	135,413
Retained earnings	148,955	140,350	1,486,725
Less treasury stock, at cost	(13,552)	(10,079)	(135,263)
Total shareholders' equity	165,499	160,367	1,651,852
Valuation and translation adjustments:			
Net unrealized holding gain on securities	2,644	10,686	26,390
Translation adjustments	3,368	4,000	33,616
Net unrealized deferred loss on hedges	(22)	—	(220)
Total valuation and translation adjustments	5,990	14,686	59,786
Minority interests	4,145	4,315	41,371
Total net assets	175,634	179,368	1,753,009
Total liabilities and net assets	\ 352,783	\ 323,675	$ 3,521,140

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars) *(Note 2)*
Net sales *(Note 20)*	\ 302,669	\ 266,513	$ 3,020,950
Cost of sales *(Note 12)*	248,023	212,468	2,475,526
Gross profit	54,646	54,045	545,424
Selling, general and administrative expenses *(Note 12)*	36,267	34,616	361,982
Operating income *(Note 20)*	18,379	19,429	183,442
Other income (expenses) :			
Interest and dividend income	1,377	1,021	13,744
Interest expense	(1,349)	(1,014)	(13,464)
Royalty income	994	916	9,921
Equity in earnings of unconsolidated subsidiaries and affiliates	1,671	1,358	16,678
Foreign exchange loss	(1,390)	—	(13,874)
Loss on shutdown of a plant	(1,873)	—	(18,694)
Loss on impairment of property, plant and equipment *(Note 6)*	(355)	—	(3,543)
Loss on liquidation of an affiliate	—	(452)	—
Rent from real estate	998	936	9,961
Loss on discontinued operations	(686)	—	(6,846)
Other, net	80	108	797
Income before income taxes and minority interests	17,846	22,302	178,122
Income taxes *(Note 9)* :			
Current	5,945	6,857	59,337
Deferred	21	1,279	210
	5,966	8,136	59,547
Income before minority interests	11,880	14,166	118,575
Minority interests in earnings of consolidated subsidiaries	(5)	(178)	(50)
Net income *(Note 17)*	\ 11,875	\ 13,988	$ 118,525

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at March 31, 2006	\ 16,529	\ 13,565	\ 125,684	\ (5,345)	\ 150,433
Changes during the year:					
Cash dividends	—	—	(3,092)	—	(3,092)
Net income	—	—	13,988	—	13,988
Purchases of treasury stock	—	—	—	(4,737)	(4,737)
Disposition of treasury stock	—	2	—	3	5
Adjustments due to increase in affiliates accounted for by the equity method	—	—	3,770	—	3,770
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	2	14,666	(4,734)	9,934
Balance at March 31, 2007	\ 16,529	\ 13,567	\ 140,350	\ (10,079)	\ 160,367

	Valuation and translation adjustments				
	Net unrealized holding gain on securities	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
	(Millions of yen)				
Balance at March 31, 2006	\ 12,259	\ 1,939	\ 14,198	\ 4,073	\ 168,704
Changes during the year:					
Cash dividends	—	—	—	—	(3,092)
Net income	—	—	—	—	13,988
Purchases of treasury stock	—	—	—	—	(4,737)
Disposition of treasury stock	—	—	—	—	5
Adjustments due to increase in affiliates accounted for by the equity method	—	—	—	—	3,770
Net changes in items other than shareholders' equity	(1,573)	2,061	488	242	730
Total changes during the year	(1,573)	2,061	488	242	10,664
Balance at March 31, 2007	\ 10,686	\ 4,000	\ 14,686	\ 4,315	\ 179,368

Consolidated Statements of Changes in Net Assets (continued)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at March 31, 2007	\ 16,529	\ 13,567	\ 140,350	\ (10,079)	\ 160,367
Changes during the year:					
Cash dividends	—	—	(2,941)	—	(2,941)
Net income	—	—	11,875	—	11,875
Purchases of treasury stock	—	—	—	(3,478)	(3,478)
Disposition of treasury stock	—	0	—	5	5
Adjustments due to decrease in affiliates accounted for by the equity method	—	—	(329)	—	(329)
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	0	8,605	(3,473)	5,132
Balance at March 31, 2008	\ 16,529	\ 13,567	\ 148,955	\ (13,552)	\ 165,499

	Valuation and translation adjustments					
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred loss on hedges	Total valuation and translation adjustments	Minority interests	Total net assets
	(Millions of yen)					
Balance at March 31, 2007	\ 10,686	\ 4,000	\ —	\ 14,686	\ 4,315	\ 179,368
Changes during the year:						
Cash dividends	—	—	—	—	—	(2,941)
Net income	—	—	—	—	—	11,875
Purchases of treasury stock	—	—	—	—	—	(3,478)
Disposition of treasury stock	—	—	—	—	—	5
Adjustments due to decrease in affiliates accounted for by the equity method	—	—	—	—	—	(329)
Net changes in items other than shareholders' equity	(8,042)	(632)	(22)	(8,696)	(170)	(8,866)
Total changes during the year	(8,042)	(632)	(22)	(8,696)	(170)	(3,734)
Balance at March 31, 2008	\ 2,644	\ 3,368	\ (22)	\ 5,990	\ 4,145	\ 175,634

See accompanying notes to consolidated financial statements.

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
	(Thousands of U.S. dollars) *(Note 2)*				
Balance at March 31, 2007	$ 164,977	$ 135,413	$1,400,838	$(100,599)	$1,600,629
Changes during the year:					
Cash dividends	—	—	(29,354)	—	(29,354)
Net income	—	—	118,525	—	118,525
Purchases of treasury stock	—	—	—	(34,714)	(34,714)
Disposition of treasury stock	—	0	—	50	50
Adjustments due to decrease in affiliates accounted for by the equity method	—	—	(3,284)	—	(3,284)
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	—	0	85,887	(34,664)	51,223
Balance at March 31, 2008	$ 164,977	$ 135,413	**$1,486,725**	$(135,263)	**$1,651,852**

	Valuation and translation adjustments					
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred gain or loss on hedges	Total valuation and translation adjustments	Minority interests	Total net assets
	(Thousands of U.S. dollars) *(Note 2)*					
Balance at March 31, 2007	$ 106,657	$ 39,924	$ —	$ 146,581	$ 43,068	$1,790,278
Changes during the year:						
Cash dividends	—	—	—	—	—	(29,354)
Net income	—	—	—	—	—	118,525
Purchases of treasury stock	—	—	—	—	—	(34,714)
Disposition of treasury stock	—	—	—	—	—	50
Adjustments due to decrease in affiliates accounted for by the equity method	—	—	—	—	—	(3,284)
Net changes in items other than shareholders' equity	(80,267)	(6,308)	(220)	(86,795)	(1,697)	(88,492)
Total changes during the year	(80,267)	(6,308)	(220)	(86,795)	(1,697)	(37,269)
Balance at March 31, 2008	$ 26,390	$ 33,616	$ (220)	$ 59,786	$ 41,371	**$1,753,009**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars) *(Note 2)*
Operating activities:			
Income before income taxes and minority interests	\ 17,846	\ 22,302	$ 178,122
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	18,230	12,951	181,954
Loss on liquidation of an affiliate	—	452	—
Gain on sales of investments in securities	(328)	—	(3,274)
Loss on shutdown of a plant	1,873	—	18,694
Loss on discontinued operations	686	—	6,847
Loss on impairment of property, plant and equipment	355	—	3,543
Casualty loss	185	—	1,846
Loss on disposal of inventories	128	—	1,278
Increase in accrued retirement benefits for employees	134	37	1,337
Interest and dividend income	(1,377)	(1,021)	(13,744)
Interest expense	1,349	1,014	13,464
Equity in earnings of unconsolidated subsidiaries and affiliates	(1,671)	(1,358)	(16,678)
Loss on disposal of property, plant and equipment	116	317	1,158
Other, net	216	(4,887)	2,158
Changes in operating assets and liabilities:			
Notes and accounts receivable	(3,229)	(13,146)	(32,229)
Inventories	(4,969)	(6,666)	(49,596)
Notes and accounts payable	(2,471)	13,492	(24,663)
Other current liabilities	106	(14)	1,058
Subtotal	27,179	23,473	271,275
Interest and dividends received	2,125	1,959	21,210
Interest paid	(1,332)	(949)	(13,295)
Payment related to shutdown of a plant	(333)	—	(3,324)
Payment related to discontinued operations	(190)	—	(1,896)
Payment related to casualty loss	(185)	—	(1,846)
Payment related to disposal of inventories	(128)	—	(1,278)
Income taxes paid	(7,007)	(8,396)	(69,938)
Net cash provided by operating activities	20,129	16,087	200,908
Investing activities:			
Purchases of property, plant and equipment	(20,478)	(22,527)	(204,392)
Proceeds from sales of property, plant and equipment	86	4	858
Purchases of short-term investments and investments in securities	(4,370)	(1,850)	(43,617)
Proceeds from sales of short-term investments and investments in securities	785	455	7,835
Acquisition of investments in subsidiaries resulting in change in scope of consolidation	(5,793)	—	(57,820)
Payments for purchases of shares of affiliates	(4,025)	—	(40,174)
Increase in loans receivable	—	(110)	—
Collection of loans receivable	1,069	1,191	10,670
Other, net	(374)	(272)	(3,732)
Net cash used in investing activities	\ (33,100)	\ (23,109)	$ (330,372)

See accompanying notes to consolidated financial statements.

	Year ended March 31,		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars) *(Note 2)*
Financing activities:			
Increase in short-term bank loans, net	\ 4,746	\ 6,546	$ 47,370
Proceeds from long-term debt	10,167	10,700	101,477
Repayment of long-term debt	(5,994)	(5,370)	(59,826)
Issuance of bonds	15,000	—	149,716
Cash dividends paid	(2,941)	(3,092)	(29,354)
Purchases of treasury stock	(3,472)	(4,737)	(34,654)
Other, net	(11)	(10)	(111)
Net cash provided by financing activities	17,495	4,037	174,618
Effect of exchange rate changes on cash and cash equivalents	(144)	120	(1,437)
Increase (decrease) in cash and cash equivalents	4,380	(2,865)	43,717
Cash and cash equivalents at beginning of year	16,991	19,856	169,588
Cash and cash equivalents at end of year	\ 21,371	\ 16,991	$ 213,305

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries March 31, 2008

1. Summary of Significant Accounting Policies

(a) Basis of presentation

Nippon Shokubai Co., Ltd. (the " Company ") and its domestic subsidiaries maintain their accounts and records in accordance with accounting principles generally accepted in Japan. Its overseas subsidiaries maintain their accounts and records in conformity with the requirements of their respective countries of domicile.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

(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 overseas consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, a date 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 overseas consolidated subsidiaries and the year end of the Company.

Investments in significant affiliates are accounted for by the equity method.

Investments in an unconsolidated subsidiary and an affiliate not accounted for by the equity method are carried at cost.

Goodwill and negative goodwill arising from the difference of cost and underlying net assets at the date of acquisition are amortized over a period of five years on a straight-line basis, except that immaterial amounts are charged or credited to income as incurred.

(c) Foreign currency translation

The financial statements of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding minority interests are translated at their historical exchange rates. Differences resulting from translating the financial statements of the overseas consolidated subsidiaries are not included in the determination of net income but are reported as translation adjustments and minority interests the accompanying consolidated balance sheets at March 31, 2008 and 2007.

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

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income.

(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) Allowance for doubtful receivables

The Company and its consolidated subsidiaries provide an allowance for doubtful receivables at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(f) 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.

(g) Property, plant and equipment

Property, plant and equipment are 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 overseas consolidated subsidiaries compute depreciation by the straight-line method over the estimated useful lives of the respective assets.

(h) 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 overseas consolidated subsidiaries are generally classified and accounted for as either finance or operating leases.

(i) 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 credited and 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 net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(j) 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 respective estimated useful lives, generally a period of 5 years.

(k) 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 financial reporting and the tax bases of the assets and liabilities which will result in taxable or tax-deductible amounts in the future. The calculation of deferred income tax assets and liabilities is based on the enacted tax laws.

(l) Hedge accounting

Gain or loss on derivatives positions designated as hedges is deferred until the loss or gain on the respective underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt.

Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates.

(m) Accrued bonuses to employees

Accrued bonuses to employees are provided based on the estimated amount of bonuses to be paid to employees which are charged to income in the current year.

(n) Accrued bonuses to directors and corporate auditors

Accrued bonuses to directors and corporate auditors are provided at an estimate of the amount to be paid in the following year which has been allocated to the current fiscal year.

(o) Reserve for periodic repairs

The Company provides a reserve for the cost of periodic repairs to production facilities at plants based on their estimates of the future cost of such repairs.

(p) Reserve for loss on shutdown of a plant

The reserve for loss on shutdown of a plant is stated at the estimated amount of removal cost and so forth to be incurred as a result of the closure of Ehime factory of Himeji plant.

(q) 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 a period of 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 a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

(r) Distribution of retained earnings

Under the Corporation Law of Japan, the distribution 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 distributions (see Note 22).

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 \100.19 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2008. 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 the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 in accordance with an amendment to the Corporation Tax Law.

As a result of this change, operating income decreased by \539 million ($5,380 thousand), and income before income taxes and minority interests decreased by \541 million ($5,400 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method. The impact on segment information is outlined in Note 20.

(Supplementary information)

In addition, effective the year ended March 31, 2008, depreciation expense for property, plant and equipment acquired before April 1, 2007 is computed based on the salvage value of 5% of acquisition cost, and the amount between the salvage value (5% of acquisition cost) and memorandum value is depreciated from the year following the year in which the book value of an asset reaches 5% of its acquisition cost by the straight-line method over a period of 5 years. This change was made based on an amendment to the Corporation Tax Law.

The effect of this change was to decrease operating income by \1,482 million ($14,805 thousand), and income before income taxes and minority interests by \1,506 million ($15,045 thousand) from the corresponding amounts which would have been recorded under the previous method. The impact on segment information is outlined in Note 20.

4. Short-Term Investments and Investments in Securities

Marketable securities classified as other securities at March 31, 2008 and 2007 are summarized as follows:

	2008			2007		
	(Millions of yen)					
	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	\ 6,612	\ 13,472	\ 6,860	\ 14,158	\ 29,422	\ 15,264
Subtotal	6,612	13,472	6,860	14,158	29,422	15,264
Securities whose cost exceeds their fair market value:						
Equity securities	12,081	8,070	(4,011)	693	588	(105)
Subtotal	12,081	8,070	(4,011)	693	588	(105)
Total	\ 18,693	\ 21,542	\ 2,849	\ 14,851	\ 30,010	\ 15,159

	2008		
	(Thousands of U.S. dollars)		
	Cost	Book value (Fair market value)	Unrealized gain (loss)
Securities whose fair market value exceeds their cost:			
Equity securities	$ 65,995	$ 134,465	$ 68,470
Subtotal	65,995	134,465	68,470
Securities whose cost exceeds their fair market value:			
Equity securities	120,581	80,547	(40,034)
Subtotal	120,581	80,547	(40,034)
Total	$ 186,576	$ 215,012	$ 28,436

The proceeds from and gross realized gain on, sales of securities classified as other securities for the years ended March 31, 2008 and 2007 were as follows:

2008		2007		2008	
(Millions of yen)				(Thousands of U.S. dollars)	
Proceeds	Gross realized gain	Proceeds	Gross realized gain	Proceeds	Gross realized gain
\ 528	\ 407	\ 121	\ 83	$ 5,270	$ 4,062

A breakdown of other securities whose market value was not determinable at March 31, 2008 and 2007 is presented as follows:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Held-to-maturity bonds	\ 400	\ 200	$ 3,992
Other securities	1,254	1,246	12,516

The redemption schedule for other securities with maturity dates at March 31, 2008 is summarized as follows:

	2008			
	(Millions of yen)		(Thousands of U.S. dollars)	
	Due in one year or less	**Due after one year through five years**	**Due in one year or less**	**Due after one year through five years**
Held-to-maturity bonds	\ 200	\ 200	$ 1,996	$ 1,996

5. Inventories

Inventories at March 31, 2008 and 2007 were as follows:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished goods	**\ 28,740**	\ 22,152	**$ 286,855**
Raw materials	**13,574**	11,959	**135,483**
Work in process	**8,885**	8,649	**88,681**
Supplies	**3,154**	3,181	**31,480**
Total	**\ 54,353**	\ 45,941	**$ 542,499**

6. Loss on Impairment of Property, Plant and Equipment

Property, plant and equipment are primarily grouped based on the business segment categories designated for management control purposes. In addition, idle assets for which no immediate use is foreseen are grouped individually.

The carrying value of assets which are expected to record a loss has been reduced to their respective net recoverable amounts and the resulting aggregate loss on impairment has been recognized in the accompanying consolidated statement of income for the year ended March 31, 2008. The recoverable amounts of the assets were determined based on their respective estimated sales prices or value in use which was calculated as the sum of the anticipated future cash flows discounted at an annual discount rate of 2.8%.

Details of the loss on impairment of property, plant and equipment for the year ended March 31, 2008 are summarized as follows:

Company	Application	Classification	(Millions of yen)
NA Industries, Inc.	Manufacturing machines for acrylic acid built detergents	Machinery and structures	\ 208
Nippon Shokubai Co., Ltd.	Catalyst manufacturing machines for NOx removal catalysts and dioxins	Buildings and structures, machinery and equipment and automotive equipment	147
Total			\ 355

No loss on impairment of property, plant and equipment was recognized for the year ended March 31, 2007

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

Short-term bank loans consisted mainly of unsecured loans. The average interest rates on short-term bank loans outstanding at March 31, 2008 and 2007 were 2.06% and 1.95%, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Unsecured bonds payable in yen, at rates from 0.81% to 1.66%, due through 2014	\ 20,000	\ 5,000	$ 199,621
Unsecured loans from banks and insurance companies, payable in yen, at rates from 0.49% to 2.03%, due through 2014	33,479	24,930	334,155
Unsecured loans from banks, payable in U.S. dollars, at rates from 5.63% to 5.71%, due through 2012	3,310	4,455	33,037
Unsecured loans from banks, payable in Euro, at rates from 2.55% to 3.17%, due through 2009	2,700	4,225	26,949
Secured loans from banks and insurance companies, payable in yen, at rates from 0.95% to 4.84%, due through 2013	1,850	945	18,465
Secured loans from banks, payable in U.S. dollars, at rates from 3.60% to 5.83%, due through 2009	456	—	4,551
Subtotal	61,795	39,555	616,778
Less current portion	(6,998)	(5,887)	(69,847)
Total	\ 54,797	\ 33,668	$ 546,931

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized below:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2009	\ 6,998	$ 69,847
2010	17,757	177,233
2011	6,490	64,777
2012	3,347	33,407
2013 and thereafter	27,203	271,514
	\ 61,795	$ 616,778

Assets pledged as collateral for short-term bank loans, long-term debt, including the current portion thereof, and notes and accounts payable at March 31, 2008 and 2007 were as follows:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Time deposits	\ 8	\ 8	$ 80
Land	293	293	2,924
Buildings and structures	166	183	1,657
Machinery and equipment	291	345	2,905
Investments in securities	—	6	—
Other assets	5	—	50
Total	\ 763	\ 835	$ 7,616

8. Retirement Benefits

The following table sets forth the funded and accrued status of the pension plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2008 and 2007 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation at end of year	\ (31,493)	¥ (30,108)	$ (314,333)
Fair value of plan assets at end of year	22,389	26,159	223,466
Unfunded retirement benefit obligation	(9,104)	(3,949)	(90,867)
Unrecognized actuarial gain	5,210	726	52,001
Unrecognized prior service cost	(385)	(571)	(3,843)
Net retirement benefit obligation	(4,279)	(3,794)	(42,709)
Prepaid pension cost	3,874	2,997	38,666
Accrued retirement benefits	\ (8,153)	¥ (6,791)	$ (81,375)

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are outlined as follows:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	\ 1,410	¥ 1,080	$ 14,073
Interest cost	542	539	5,410
Expected return on plan assets	(625)	(560)	(6,238)
Amortization:			
Prior service cost	(186)	(180)	(1,857)
Actuarial loss	485	487	4,841
Retirement benefit expenses	\ 1,626	¥ 1,366	$ 16,229

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007
Discount rate	Principally 1.9%	Principally 1.9%
Expected rate of return on plan assets	Principally 3.0%	Principally 3.0%

The following table sets forth the status of the multi-employer pension plan at March 31, 2007, the most recent date on which such data was available.

	(Millions of yen)	(Thousands of U.S. dollars)
Plan assets at fair value	\ 461,861	$ 4,609,152
Benefit obligation used in the calculation of pension financing	469,730	4,687,680
Difference	\ (7,869)	$ (78,528)

(Additional information)

Effective the year ended March 31, 2008, the Company has adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 2)" (Accounting Standards Board of Japan Statement No.14 issued on May 15, 2007).

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, 2008 and 2007 was, in the aggregate, approximately 40.6%.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007 differed from the above statutory tax rate for the following reasons:

	2008	2007
Statutory tax rate	40.6%	40.6%
Effect of:		
Valuation allowance	2.4	3.9
Tax credit for research and development costs	(5.2)	(3.9)
Equity in earnings of an unconsolidated subsidiary and affiliates	(3.8)	(2.5)
Other, net	(0.6)	(1.6)
Effective tax rates	33.4%	36.5%

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, 2008 and 2007 are summarized as follows:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Accrued retirement benefits for employees	\ 1,856	\ 1,641	$18,525
Intercompany profit on inventories and property, plant and equipment	1,060	1,166	10,580
Tax loss carryforwards	2,040	1,512	20,361
Reserve for periodic repairs	1,078	1,104	10,760
Depreciation and amortization	827	816	8,254
Loss on impairment of property, plant and equipment	1,530	1,461	15,271
Accrued bonuses to employees	970	769	9,682
Impairment of investments in securities and other	1,868	1,870	18,645
Reserve for loss on shutdown of a plant	502	—	5,010
Accrued enterprise tax	286	351	2,855
Other	1,546	1,067	15,430
Gross deferred tax assets	13,563	11,757	135,373
Less: Valuation allowance	(4,024)	(3,025)	(40,164)
Total deferred tax assets	9,539	8,732	95,209
Deferred tax liabilities:			
Equity in earnings of an overseas affiliate	1,472	1,297	14,692
Net unrealized holding gain on securities	—	4,426	—
Depreciation and amortization	634	848	6,328
Deferred capital gain on property	385	393	3,843
Reserve for depreciation for tax purposes	114	165	1,138
Other	249	177	2,486
Total deferred tax liabilities	2,854	7,306	28,487
Net deferred tax assets	\ 6,685	\ 1,426	$66,722

10. Goodwill and negative goodwill

Goodwill and negative goodwill are netted against each other. If goodwill, net is recorded, it is included in other assets and if negative goodwill, net is recorded, it is included in long-term liabilities, other in the accompanying consolidated balance sheets. Goodwill, net and negative goodwill, net as of March 31, 2008 and 2007, respectively, are summarized as follows:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Goodwill	\ 2,658	\ 540	$26,530
Negative goodwill	(340)	(549)	(3,394)
Goodwill, net (negative goodwill, net)	\ 2,318	\ (9)	$23,136

11. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥3,920 million ($39,126 thousand) and \3,920 million at March 31, 2008 and 2007, respectively.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2008 and 2007 are summarized as follows:

	2008 Number of shares (Thousands)			
	March 31, 2007	Increase	Decrease	March 31, 2008
Common stock	194,881	—	—	194,881
Treasury stock	10,291	3,574	6	13,859

	2007 Number of shares (Thousands)			
	March 31, 2006	Increase	Decrease	March 31, 2007
Common stock	194,881	–	–	194,881
Treasury stock	6,732	3,563	4	10,291

12. 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, 2008 and 2007 totaled \11,179 million ($111,578 thousand) and \11,123 million, respectively.

13. Leases

The following *pro forma* amounts represent the acquisition costs (including the interest portion), accumulated depreciation/amortization and net book value of the leased assets at March 31, 2008 and 2007, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Machinery and equipment and software:			
Acquisition costs	¥1,272	\ 357	$12,696
Accumulated depreciation/amortization	(388)	(238)	(3,873)
Net book value	\ 884	\ 119	$ 8,823

Lease payments relating to finance leases accounted for as operating leases amounted to \71 million ($709 thousand) and \77 million for the years ended March 31, 2008 and 2007, respectively. Depreciation/amortization of the leased assets calculated by the straight-line method over the respective lease terms amounted to \71 million ($709 thousand) and \77 million for the years ended March 31, 2008 and 2007, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2009	\ 179	$ 1,787
2010 and thereafter	705	7,036
	\ 884	$ 8,823

14. Loss on shutdown of a plant

For the year ended March 31, 2008, the Company and consolidated subsidiaries recorded a loss on shutdown of Ehime factory of Himeji plant which consisted of the following:

	(Millions of yen)	(Thousands of U.S. dollars)
Dismantlement cost of a plant	\1,269	$12,664
Loss on disposal of a plant	304	3,034
Other	300	2,994
Total	\1,873	$18,692

15. Loss on discontinued operations

For the year ended March 31, 2008, the Company and consolidated subsidiaries recorded loss on discontinued operations of the unsaturated polyester business which consisted of the following:

	(Millions of yen)	(Thousands of U.S. dollars)
Dismantlement cost of a business	¥ 339	$ 3,383
Loss on disposal of a business	233	2,325
Other	115	1,148
Total	¥ 687	$ 6,856

16. Contingent Liabilities

At March 31, 2008, the Company and one consolidated subsidiary were contingently liable as guarantors of indebtedness of affiliates in the aggregate amount of ¥2,247 million ($22,427 thousand).

In addition, at March 31, 2008, two consolidated subsidiaries had contingent liabilities arising from notes discounted with banks and notes endorsed in the aggregate amount of ¥1,141 million ($11,388 thousand).

17. Amounts per Share

	2008	2007	2008
	(Yen)		(U.S. dollars)
Net income	¥ 64.91	¥ 74.92	$ 0.65
Cash dividends	16.00	16.00	0.16
Net assets	947.34	948.34	9.46

Net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share has not been presented for the years ended March 31, 2008 and 2007 since neither the Company nor any of the consolidated subsidiaries had any potentially dilutive shares at March 31, 2008 and 2007.

The amounts per share of net assets have been computed based on 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, 2008 and 2007 is summarized as follows:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Net income	¥ 11,875	¥ 13,988	$118,525
Deductions from net income	—	—	—
Adjusted net income available for distribution to shareholders of common stock	¥ 11,875	¥ 13,988	$118,525
Weighted-average number of shares of common stock outstanding during the year (thousands of shares)	182,948	186,703	182,948

18. Derivatives

Derivative financial instruments are utilized by the Company and its consolidated subsidiaries principally to reduce the risk arising from 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 risk 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.

19. Supplementary information on statements of cash flows

During the year ended March 31, 2008, the Company purchased shares of Nippon Nyukazai Co., Ltd. and initially consolidated its accounts for the year ended March 31, 2008. The following total summarizes the assets and liabilities included in consolidation and presents information on the related acquisition cost and cash disbursement:

	(Millions of yen)	(Thousands of U.S. dollars)
Current assets	\ 12,109	$120,860
Non-current assets	8,739	87,224
Goodwill	2,342	23,376
Current liabilities	(12,158)	(121,349)
Non-current liabilities	(3,859)	(38,517)
Other	7	70
Acquisition cost	7,180	71,664
Cash and cash equivalents of Nippon Nyukazai Co., Ltd.	1,387	13,844
Cash disbursement	\ 5,793	$ 57,820

20. Segment Information

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

Business Segments

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 is outlined as follows:

	Year ended March 31, 2008					
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Eliminations or corporate	Consolidated
	(Millions of yen)					
I. Sales and operating income:						
Sales to third parties	\ 109,330	\ 155,892	\ 37,447	\ 302,669	\ —	\ 302,669
Intragroup sales and transfers	34,188	1,357	718	36,263	(36,263)	—
Net sales	143,518	157,249	38,165	338,932	(36,263)	302,669
Operating expenses	136,797	148,480	35,352	320,629	(36,339)	284,290
Operating income	\ 6,721	\ 8,769	\ 2,813	\ 18,303	\ 76	\ 18,379
II. Total assets, depreciation and amortization, los on impairment of property, plant and equipment and capital expenditures:						
Total assets	\ 133,265	\ 164,435	\ 30,194	\ 327,894	\ 24,889	\ 352,783
Depreciation and amortization	8,236	10,762	456	19,454	—	19,454
Loss on impairment of property, plant and equipment	—	208	147	355	—	355
Capital expenditures	5,809	11,484	331	17,624	—	17,624

	Year ended March 31, 2007					
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Eliminations or corporate	Consolidated
	(Millions of yen)					
I. Sales and operating income:						
Sales to third parties	\ 97,665	\ 141,321	\ 27,527	\ 266,513	\ —	\ 266,513
Intragroup sales and transfers	21,672	854	1,800	24,326	(24,326)	—
Net sales	119,337	142,175	29,327	290,839	(24,326)	266,513
Operating expenses	113,938	131,337	26,345	271,620	(24,536)	247,084
Operating income	\ 5,399	\ 10,838	\ 2,982	\ 19,219	\ 210	\ 19,429
II. Total assets, depreciation and amortization and capital expenditures:						
Total assets	\ 104,262	\ 156,625	\ 28,160	\ 289,047	\ 34,628	\ 323,675
Depreciation and amortization	5,304	8,163	421	13,888	—	13,888
Capital expenditures	9,309	15,118	371	24,798	—	24,798

	Year ended March 31, 2008					
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Eliminations or corporate	Consolidated
	(Thousands of U.S. dollars)					
I. Sales and operating income:						
Sales to third parties	$1,091,226	$1,555,964	$ 373,760	$3,020,950	$ —	$3,020,950
Intragroup sales and transfers	341,232	13,544	7,166	361,942	(361,942)	—
Net sales	1,432,458	1,569,508	380,926	3,382,892	(361,942)	3,020,950
Operating expenses	1,365,376	1,481,984	352,850	3,200,210	(362,702)	2,837,508
Operating income	$ 67,082	$ 87,524	$ 28,076	$ 182,682	$ 760	$ 183,442
II. Total assets, depreciation and amortization, loss on impairment of property, plant and equipment and capital expenditures:						
Total assets	$1,330,123	$1,641,232	$ 301,367	$3,272,722	$248,418	$3,521,140
Depreciation and amortization	82,204	107,416	4,551	194,171	—	194,171
Loss on impairment of property, plant and equipment	—	2,076	1,467	3,543	—	3,543
Capital expenditures	57,980	114,622	3,304	175,906	—	175,906

As mentioned in Note 3, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 to the procedure stipulated in the revised law. As a result, operating expenses in the basic chemicals business segment decreased by \104 million ($1,039 thousand), the functional chemicals business segment decreased by \412 million ($4,114 thousand) and the environment and catalysts business segment decreased by \22 million ($220 thousand) as compared to the corresponding amounts which would have been recorded under the previous method.

As mentioned in Note 3, the Company and its domestic consolidated subsidiaries have changed their method of accounting for property, plant and equipment acquired before April 1, 2007. As a result, operating expenses in the basic chemicals business segment increased by \695 million ($6,940 thousand), the functional chemicals business segment increased by \715 million ($7,140 thousand) and the environment and catalysts business segment increased by \72 million ($719 thousand), and operating expenses decreased by the same amounts as compared to the corresponding amounts which would have been recorded under the previous method.

Geographical Segments

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 is outlined as follows:

	Year ended March 31, 2008						
	Japan	Europe	Asia	Other	Total	Elimina-tions or corporate	Consoli-dated
				(Millions of yen)			
I. Sales and operating income (loss):							
Sales to third parties	**\ 213,793**	**\ 43,130**	**\ 29,816**	**\ 15,930**	**\ 302,669**	**\ –**	**\ 302,669**
Intragroup sales and transfers	**33,718**	**78**	**3,721**	**244**	**37,761**	**(37,761)**	**–**
Net sales	**247,511**	**43,208**	**33,537**	**16,174**	**340,430**	**(37,761)**	**302,669**
Operating expenses	**230,131**	**42,925**	**33,103**	**17,566**	**323,725**	**(39,435)**	**284,290**
Operating income (loss)	**\ 17,380**	**\ 283**	**\ 434**	**\ (1,392)**	**\ 16,705**	**\ 1,674**	**\ 18,379**
II. Total assets	**\ 263,558**	**\ 23,090**	**\ 36,922**	**\ 13,984**	**\ 337,554**	**\ 15,229**	**\ 352,783**

	Year ended March 31, 2007						
	Japan	Europe	Asia	Other	Total	Elimina-tions or corporate	Consoli-dated
				(Millions of yen)			
I. Sales and operating income (loss):							
Sales to third parties	\ 186,288	\ 32,521	\ 30,194	\ 17,510	\ 266,513	\ —	\ 266,513
Intragroup sales and transfers	21,979	71	1,219	492	23,761	(23,761)	—
Net sales	208,267	32,592	31,413	18,002	290,274	(23,761)	266,513
Operating expenses	190,966	32,522	30,549	18,288	272,325	(25,241)	247,084
Operating income (loss)	\ 17,301	\ 70	\ 864	\ (286)	\ 17,949	\ 1,480	\ 19,429
II. Total assets	\ 222,114	\ 20,547	\ 38,112	\ 13,760	\ 294,533	\ 29,142	\ 323,675

	Year ended March 31, 2008						
	Japan	Europe	Asia	Other	Total	Elimina-tions or corporate	Consoli-dated
				(Thousands of U.S.dollars)			
I. Sales and operating income (loss):							
Sales to third parties	**$ 2,133,875**	**$ 430,482**	**$ 297,595**	**$ 158,998**	**$ 3,020,950**	**$ –**	**$ 3,020,950**
Intragroup sales and transfers	**336,541**	**779**	**37,139**	**2,435**	**376,894**	**(376,894)**	**–**
Net sales	**2,470,416**	**431,261**	**334,734**	**161,433**	**3,397,844**	**(376,894)**	**3,020,950**
Operating expenses	**2,296,946**	**428,436**	**330,402**	**175,327**	**3,231,111**	**(393,603)**	**2,837,508**
Operating income (loss)	**$ 173,470**	**$ 2,825**	**$ 4,332**	**$ (13,894)**	**$ 166,733**	**$ 16,709**	**$ 183,442**
II. Total assets	**$ 2,630,582**	**$ 230,462**	**$ 368,520**	**$ 139,575**	**$ 3,369,139**	**$ 152,001**	**$ 3,521,140**

As mentioned in Note 3, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 to the procedure stipulated in the revised law. As a result, operating income in the Japan segment decreased by \539 million ($5,382 thousand) from the corresponding amount which would have been recorded under the previous method.

As mentioned in Note 3, the Company and its domestic consolidated subsidiaries have changed their method of accounting for property, plant and equipment acquired before April 1, 2007. As a result, operating income in the Japan segment decreased by \1,482 million ($14,799 thousand) from the corresponding amount which would have been recorded under the previous method.

Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended March 31, 2008 and 2007 are summarized as follows:

	Year ended March 31, 2008				
	Asia	Europe	America	Other	Total
	(Millions of yen)				
Overseas sales	\ 57,458	\ 48,683	\ 23,667	\ 15,434	\ 145,242
Overseas sales as a percentage of consolidated net sales	19.0%	16.1%	7.8%	5.1%	48.0%

	Year ended March 31, 2007				
	Asia	Europe	America	Other	Total
	(Millions of yen)				
Overseas sales	\ 51,847	\ 41,654	\ 23,184	\ 9,628	\ 126,313
Overseas sales as a percentage of consolidated net sales	19.5%	15.6%	8.7%	3.6%	47.4%

	Year ended March 31, 2008				
	Asia	Europe	America	Other	Total
	(Thousands of U.S. dollars)				
Overseas sales	$573,490	$485,907	$236,221	$154,047	$1,449,665

21. Related Party Transactions

Principal transactions between the Company and its related companies for the years ended March 31, 2008 and 2007 are summarized as follows:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Yatagai Real Estate Co., Ltd.:			
Rental expense of buildings	\ 18	\ 18	$ 180
Nippon Petrochemicals Co., Ltd.:			
Rental expense of land and equipment	99	73	988
ICT Co., Ltd.:			
Sales of finished goods	26,561	18,813	265,106
Purchases of raw materials	25,631	18,561	255,824

The prices for the above related party transactions were determined in reference to market value.

The balances due from and to its related companies at March 31, 2008 and 2007 were as follows:

	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Due from:			
ICT Co., Ltd.	\ 10,321	\ 8,580	$ 103,014
Due to:			
ICT Co., Ltd.	\ 6,464	\ 5,295	$ 64,517
Nippon Petrochemicals Co., Ltd.	24	27	240

22. Subsequent Events

(a) Distribution of retained earnings

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2008, was approved at a shareholders’ meeting held on June 19, 2008:

	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends (\ 8.00 = $0.08 per share)	\ 1,448	$ 14,453

(b) Retirement of shares of common stock held in treasury

At a meeting of the Board of Directors of the Company held on May 8, 2008, in accordance with the Company’s Articles of Incorporation applied under Article 178 of the Law, a resolution for the retirement of 7,881,287 shares of common stock held in treasury for an aggregate retirement cost of \ 7,668 million ($76,511 thousand) on May 13, 2008 was approved.

(c) Acquisition of the Company’s own shares of common stock

At a meeting of the Board of Directors of the Company held on May 8, 2008, in accordance with the Company’s Articles of Incorporation applied under Article 165, Section 2 of the Law, a resolution for the purchase of 980,000 of the Company’s own shares of common stock for an aggregate acquisition cost of \ 800 million ($7,989 thousand) during the period from May 19, 2008 through May 30, 2008 was approved.

Corporate Data

NIPPON SHOKUBAI CO., LTD.

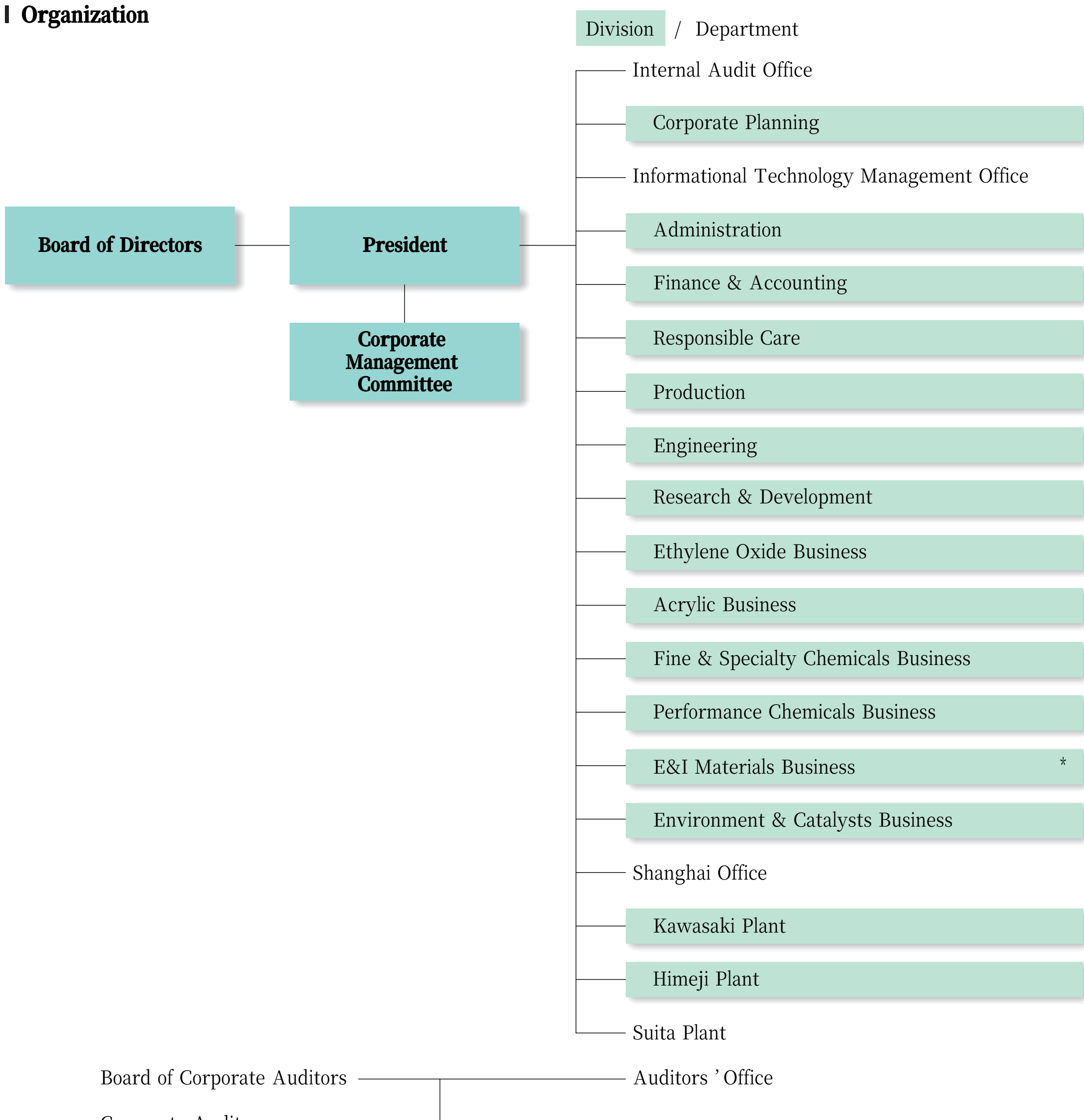
Incorporated	August 21, 1941
Common Stock	Authorized: 424,000,000
	Issued: 194,881,287
Capital	¥16,529,413,238
Number of Employees	Consolidated: 3,290
	Non-consolitated: 1,798
Stock Listings	First Section, Tokyo Stock Exchange
	First Section, Osaka Stock Exchange

Transfer Agent

Mitsubishi UFJ Trust & Banking Corporation
4-5, Marunouchi, 1-chome, Chiyoda-ku
Tokyo , 100-8212, Japan

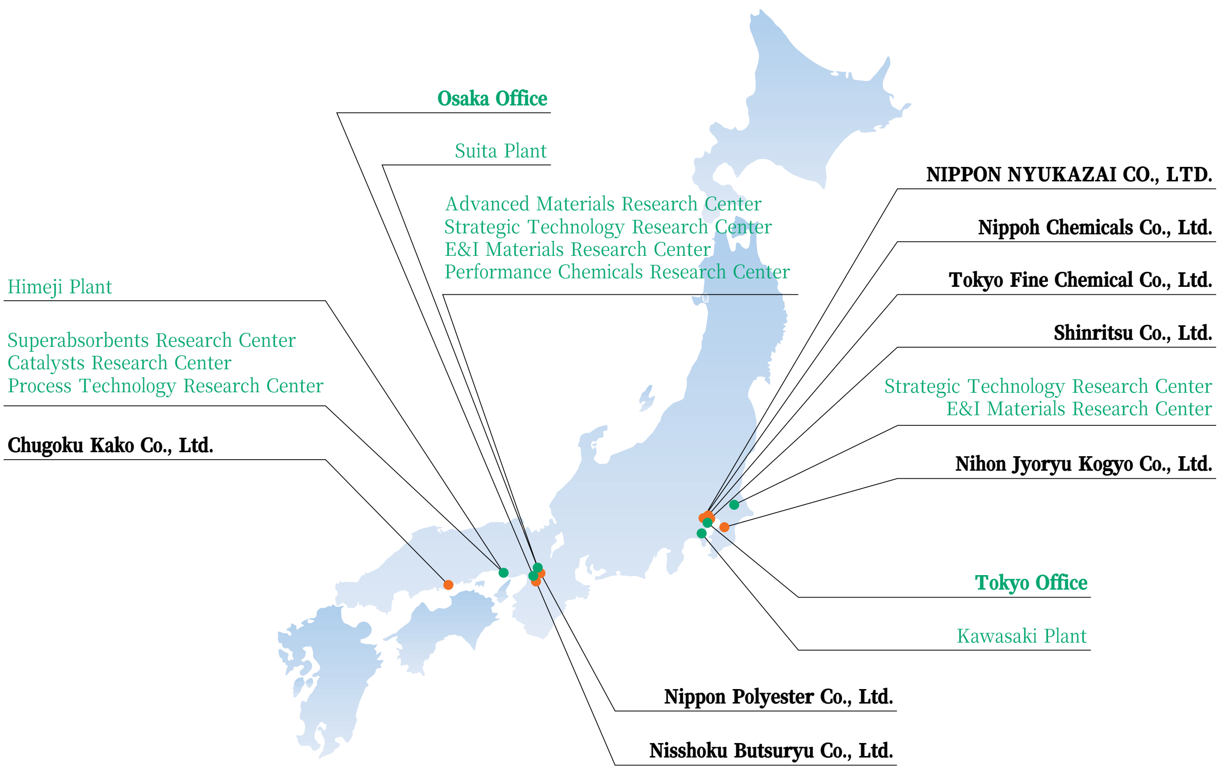
(as of March 31, 2008)

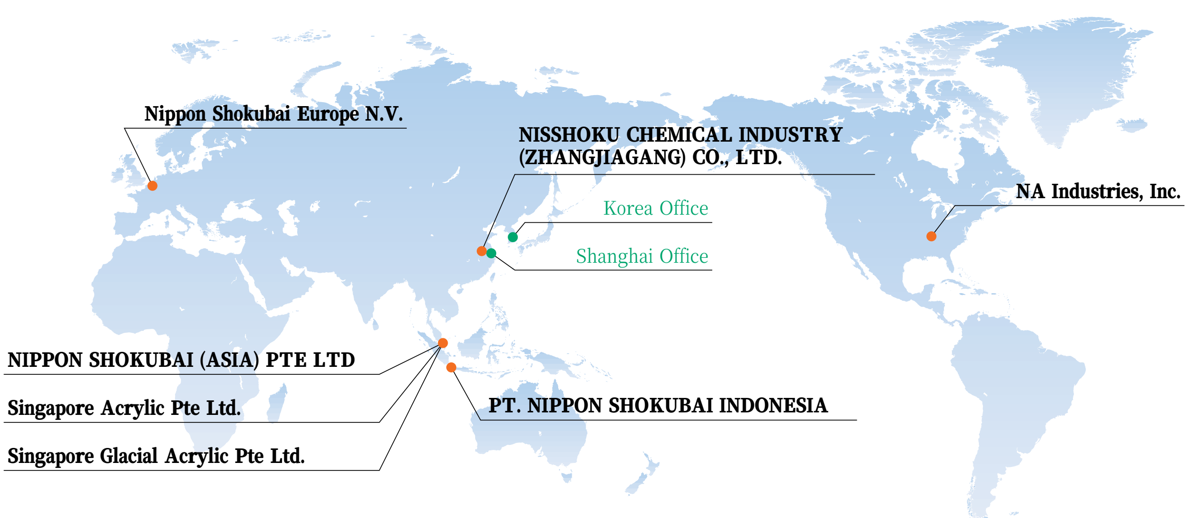
Organization



* E&I : Electronic & Information

Offices, Plants, Consolidated Subsidiaries and Affiliates





Consolidated Subsidiaries and Affiliates

Name	Principle Business	President
Nippoh Chemicals Co., Ltd. *	Manufacture and sale of iodine, natural gas, intermediates for API and agro-chemicals and photo/electro chemicals	Shinichi Nagase
Nippon Polyester Co., Ltd. *	Manufacture and sale of synthetic resins and related additives	Tamotsu Okamura
Nisshoku Butsuryu Co., Ltd. *	Logistics	Masao Kitano
Tokyo Fine Chemical Co., Ltd. *	Manufacture and sale of stabilizer of vinyl chloride resin and anti-freeze	Tadayoshi Honda
Chugoku Kako Co., Ltd. *	Manufacture and sale of adhesive tape and fine sphere particle	Tadashi Kawai
Nihon Jyoryu Kogyo Co., Ltd. *	Manufacture and sale of authraquinone, carbozole, and their derivatives	Yoshinori Yokoyama
Shinritsu Co., Ltd. *	Sale of chemical products	Masayoshi Sugimoto
NIPPON NYUKAZAI CO., LTD. *	Manufacture and sale of organic chemicals such as surfactant	Tsukasa Tanihara
NA Industries, Inc. **	Manufacture and sale of superabsorbent polymers, polymers for concrete admixture, water soluble polymers, Technical Liaison and business development	Hidetaka Yatagai
NIPPON SHOKUBAI (ASIA) PTE LTD *	Sale of chemical products	Kenjiro Komoda
Nippon Shokubai Europe N.V. *	Manufacture and sale of superabsorbent polymers	Hideki Sogabe
PT. NIPPON SHOKUBAI INDONESIA *	Manufacture and sale of acrylic acid and acrylic esters	Yoshinao Hirano
Singapore Acrylic Pte Ltd. *	Manufacture and sale of crude acrylic acid	Kenji Ozeki
Singapore Glacial Acrylic Pte Ltd. *	Manufacture and sale of glacial acrylic acid	Kenji Ozeki
NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD. *	Manufacture and sale of superabsorbent polymers	Taizo Maruo
ICT Co., Ltd.	Sale of automobile exhaust catalyst	Yojiro Takahashi
Nihon Polymer Industries Co., Ltd.	Manufacture and sale of acrylic emulsions	Shigehiro Nishimura
Japan Composite Co., Ltd.	Manufacture and sale of unsaturated polyeters resin and plastic molded materials	Tetsuyuki Matsubara
LGMMA Corp.	Manufacture and sale of MMA and PMMA	Dae Hyun Jun
SINO-JAPAN CHEMICAL CO., LTD.	Manufacture and sale of organic chemicals such as surfactant	Hajime Uchida

* Included in consolidation ** American Acryl NA LLC and American Acryl L.P. are consolidated into NA industries, Inc. by the equity method. (as of June 30 2008)

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Kawasaki, Kanagawa
210-0862, Japan

Himeji Plant
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671-1282, Japan

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

LABORATORIES

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Strategic Technology Research Center
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564-0034, Japan

Superabsorbents Research Center
992-1 Aza-Nishioki Okihama,
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Facsimile : 32-3-250-3712

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