Nippon Steel Chemical Co., Ltd.

ANNUAL REPORT 1999

APRIL 1,1998 -MARCH 31,1999

Nippon Steel Chemical Co., Ltd.

Nippon Steel Chemical Co., Ltd. was established in 1956 as an independent subsidiary of Nippon Steel Corporation. In 1984, the company merged with another subsidiary, Nittetsu Chemical Industrial Co., Ltd., becoming the core chemical arm of the Nippon Steel group. This alliance with the world's largest steel maker affords Nippon Steel Chemical enormous advantages and supports the company's diversification into new business fields.

More than 40 years have elapsed since Nippon Steel Chemical was founded. In that time, the company has built a leading presence in numerous sectors of the worldwide chemical industry. Operations range from cokes and other carbon-derived materials and petrochemicals to electronic materials, industrial gases, paints, plastics and construction materials. Tightly focused research and development activities are ushering the company into promising new fields and at the same time bolstering the competitiveness of existing ones. The company's position of leadership is further enhanced by a streamlined operating foundation and a network of strategic tie-ups with partners in Japan and overseas.

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NIPPON STEEL CHEMICAL CO., LTD.

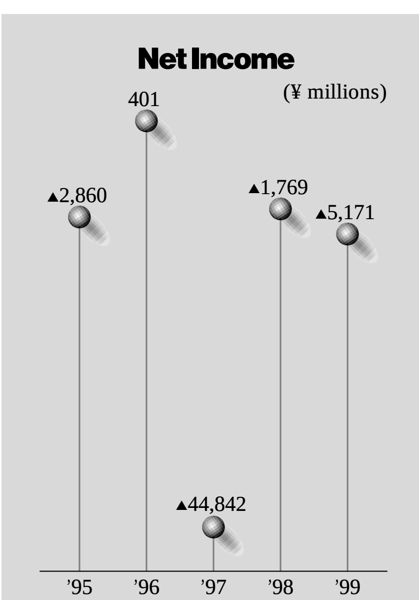
Financial Highlights

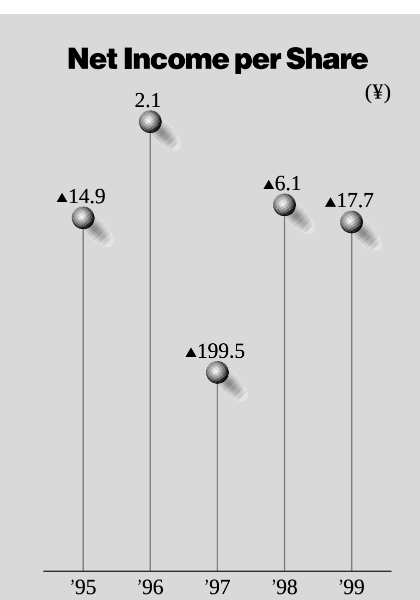
For the years ended March 31, 1999 and 1998

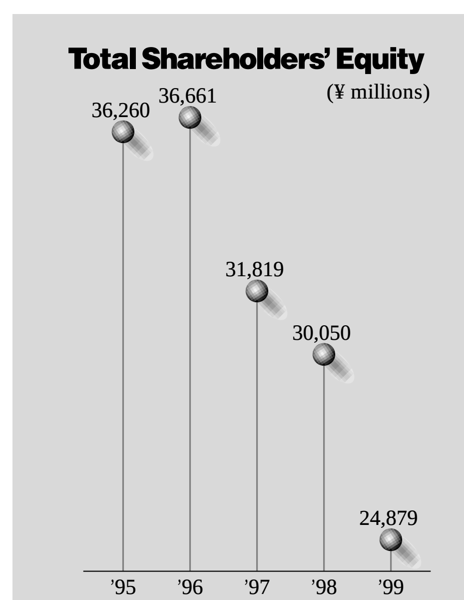
(Yen in millions, U.S. dollars in thousands, except per share amounts)

	1999	1998	% Change	*1999*
For the Year				
Net Sales	**¥ 231,218**	¥ 264,592	(12.6)	*$1,918,026*
Operating Income	**3,323**	3,554	(6.5)	*27,565*
Net Loss	**(5,171)**	(1,769)	–	*(42,895)*
At Year-End				
Total Assets	**¥ 260,313**	¥ 264,996	(1.8)	*$2,159,378*
Total Shareholders' Equity	**24,879**	30,050	(17.2)	*206,379*
Per Share				
Net Loss	**¥ (17.74)**	¥ (6.07)	–	*$ (0.15)*

Note: US$ amounts are calculated, solely for the reader's convenience, at the rate of US$1 = 120.55 for the year ended 31st March, 1999.







To Our Shareholders

Chairman Rokuro Suehiro (seated) and President Takaki Yamatoya

Operating Environments

The gravity of Japan's economic slump grew more profound in fiscal 1998 with unemployment growing conspicuously coupled with slumping personal consumption and broad-ranging reductions in private investment in plant and equipment.

Given the excess production capacity, the chemical industry in Japan also found itself in dire circumstances due to worsening market conditions brought about by slumping domestic demand and prolonged upheaval in the economies of Southeast Asia.

As for Nippon Steel Chemical Co., Ltd., we were in the midst of a company-wide effort to improve profit performance based on the Mid-Term Management Plan (FY1997-1999) that had entered its second year of implementation. Nevertheless, the operating environment deteriorated far beyond original forecasts in the plan. To overcome such a difficult situation, the company revised in September 1998 its Mid-Term Management Plan with focus placed on an even more thoroughgoing shift of its business structure to a more efficient one and reexamination of its areas of operation, addition of the measures to improve profit and reforming of its business operating system. At the same time immediate steps were taken to do what we could based upon the revised plan.

Which is to say, in the last half of fiscal 1998 the company began to reorganize its business structure, beginning with the divestiture of its cement and polystyrene operations. It also worked to implement thoroughgoing cost reductions that were greater than those called for in the original plan. These centered on personnel rationalization achieved by encouraging secondment to affiliates and other organizations and implementing early retirement.

Review of Operations

• Carbon and Gas

Declining demand in the steelmaking, electrode and semiconductor industries led to a drop in metallurgical coke production and in the sale of industrial gases, pitch coke and pitch products, and thus the operating environments facing the Division added to the severity.

• Chemicals

The chemicals business faced the operating environments that were generally quite severe and were marked by a slump in domestic demand as well as a broad decline in international market conditions. In order to enhance the competitiveness of styrene monomer, the mainstay product, Nippon Steel Chemical shut down part of the production facilities for benzene, a constituent raw material, in December 1998.

In the area of resins, the company was able to maintain sales volumes at last year's levels in spite of decreased demand in the electric machine, general merchandise and other user industries. However, because of the prolonged slump in market conditions for resin products, intense competition remained. Against this background, the Japanese resin industry is undergoing an industry-wide large-scale restructuring, in which Nippon Steel Chemical, too, is involved. To streamline its polyethylene business, Nippon Steel Chemical established Toyo Styrene Co., Ltd., a joint venture with Denki Kagaku Kogyo Kabushiki Kaisha and Daicel Chemical Industries, Ltd., to which Nippon Steel Chemical transferred its polystyrene operations in April 1999.

Sales of ESPANEX (adhesive-free copper-clad laminated sheet for flexible printed circuits) expanded due to advancing digitalization of electronics-related sectors. To meet such increasing demand, Nippon Steel Chemical started capacity expansion for ESPANEX.

• Construction Materials

Although paints performed steadily, the cement and construction materials business proceeded under considerable duress due to large drops in demand and price brought about by delayed public works projects and decreased private investment in plant and equipment, particularly housing investment. Nippon Steel Chemical has committed itself to a reorganization of its marketing structure and affiliated companies' operations in the sector, and to its withdrawal from certain unprofitable operations. With the aim of enhancing the collective strength of the Nippon Steel Corporation Group, Nippon Steel Chemical implemented radical business restructuring by transferring in January 1999 its ESGUARD (fire-resistant panel) operations to a Nippon Steel subsidiary, Daido Steel Sheet Corporation, and its cement operations in February to three wholly-owned subsidiaries of Nippon Steel.

In addition, a divisional operating system that had already been partially adopted was extended to the entire operations starting in April 1999. With management priority placed on the consolidated operations, the company has put in force a thoroughgoing integrated control of the entire operations of Nippon Steel Chemical and its group companies. At the same time, the company worked to improve operating efficiency and to squeeze operating costs by relocating its head office and by closing and merging branch offices.

Results of Operations

In spite of these strenuous efforts, Nippon Steel Chemical was unable to overcome the slump in demand and in market conditions. As a result, total sales in fiscal 1998, influenced by business divestitures, registered ¥231,218 million, a drop of ¥33,374 million from the previous year. Ordinary profit was held to ¥346 million which, being an increase of ¥13 million, was on a par with the last period. And, with regard to this period's revenues, the generation of large special losses associated with the restructuring of the company's business structure during the last half produced an unavoidable loss of ¥5,171 million (¥3,401 million worse than the previous period).

Based on these operational results, the company elected to forgo the cash dividends for fiscal 1998.

Future Management Tasks

Although positive results from the government's comprehensive economic packages can be expected in the future, it is difficult to anticipate a rapid recovery of the economy. Further, there are some concerns about economic trends in Asia, the US and Europe as well as pricing trends for raw materials in the chemical industry. Accordingly, the severe operating environment will continue for some time.

For its part, Nippon Steel Chemical will direct its resolute endeavors toward building a robust profit structure capable of withstanding whatever changes may occur in the surrounding environment. To this end, the company is committed to paying concerted efforts toward cultivating the business potentials of each business area and strengthening its competitiveness under the new divisional organization system in force since April 1999 and based on the revised Mid-Term Management Plan. Moreover, by sharing business strategies and further strengthening mutual cooperation with each of its affiliated companies, Nippon Steel Chemical intends to improve the operating performance of the whole Nippon Steel Chemical group.

Rokuro Suehiro
Chairman

Takaki Yamatoya
President

June 25, 1999

Highlights of the Year

April 1998

The Chemical Society of Japan's Award Given for Cardo-Polymer

"Development and Application of High-function Heat-resistant Resin with Fluorene Skeleton — Cardo-Polymer," a joint development project of Nippon Steel Chemical and the Advanced Technology Research Laboratories of Nippon Steel Corporation was selected for the Award for Technical Development for 1997 of the Chemical Society of Japan.

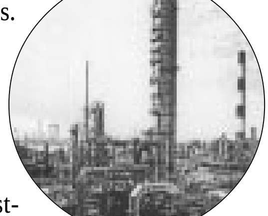
In the joint project, the resin was developed, which possesses the cardo*-structure offering such characteristics as both good workability and high heat resistance not found in conventional products and is manufactured from polycycle aromatic fluorene contained in coal tar as the raw material, and its industrial production system was established. Further, the project has clarified the new resin's usefulness through development of its application as color filter resist material for liquid crystal displays (protective film, coloring ink, etc.) and circuit insulation material.

The company's comprehensive technological capability to challenge far more effective applications for coal tar has yielded these and other achievements, which has led to the recent award.
(* Cardo in Latin means a hinge, or loop in English.)

May 1998

Oita Factory Attains Five Million Ton Accumulative Production of Styrene Monomer

Since the start-up of the No. 1 production facility in August 1971, steady production of styrene monomer has continued at Oita Factory, attaining in May 1999 the cumulative production of five million tons.


No. 3 styrene monomer production facility

In the meantime, the No. 2 facility went on-stream in 1982 and the No. 3 in 1990, greatly boosting production capacity. During the 27 years since the start-up, Nippon Steel Chemical has directed its efforts toward stable operations, leading to such a high record in cumulative production.

June 1998

The Adhesion Society of Japan's Award Given for the Heat-resistant Paints for Precoated Metals

At the annual meeting of the Adhesion Society of Japan held on June 25, 1998, the Society's Technological Award was given for the "New Heat-resistant Paints for Precoated Metals," which were developed jointly by Nippon Steel Chemical and Nippon Steel's Advanced Technology Research Laboratories using polysiloxane-containing polyimide as the matrix resin. The excellent characteristics offered by the newly-developed paint — contaminant resistance, adherence to steel sheets, low-temperature hardenability, paintability and stable storage performance — were highly assessed, leading to the award.

December 1998

Kimitsu Works Acquires ISO14001

Kimitsu Works acquired the certification of ISO14001, the international standard for environmental management system, for its operations involved in production and sales. The Works will direct its sustained efforts toward enhanced environmental improvements through effective operation of ISO14001, while at the same time promote its fusion with labor safety and hygiene, and security and disaster-avoidance.

February 1999

Blast-furnace Slag Cement Business Transferred to Nippon Steel

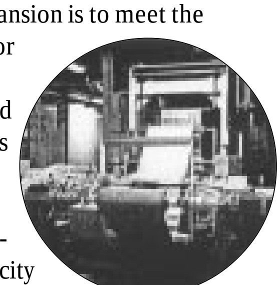
As a link in improving its operating structure, Nippon Steel Chemical transferred the blast-furnace slag cement and slag fine powder businesses to Nippon Steel Blast Furnace Slag Cement Co., Ltd., Nippon Steel Esment Chubu Co., Ltd. and Nippon Steel Esment Kanto Co., Ltd., established through Nippon Steel's investment. As a result, these new companies have successfully established an integrated operation system from raw material slag procurement to production and marketing of cement so as to further improve competitiveness.

March 1999

ESPANEX Production Capacity Expanded

Since the start of sales in 1989, ESPANEX (adhesive-free copper-clad laminated sheet for flexible printed circuits) has acquired user acceptance, resulting in steady increases in demand. To meet demand, the annual capacity of the ESPANEX production facilities, operating at the Electronic Materials Research & Development Center in Kimitsu Works, has been expanded from 500,000 m^2 to 1,200,000 m^2.

The capacity expansion is to meet the increasing demand for ESPANEX due to advancing functions and downsizing of various kinds of electronic components. Plans are proceeding to further expand the capacity to 1,700,000 m^2 depending on the market trend.


ESPANEX production line

April 1999

Toyo Styrene Co., Ltd. Starts Operation

The polystyrene business in which Nippon Steel Chemical has been engaged for about 30 years is facing a severe operating environment. To overcome such a difficult situation, Nippon Steel Chemical, under a tie-up with Denki Kagaku Kogyo Kabushiki Kaisha and Daicel Chemical Industries, Ltd., established Toyo Styrene Co., Ltd., a joint company to produce and sell polystyrene, which started operation in April 1999. This company offers such advantages as cost competitiveness brought about by the reduction of excess capacities of these three companies and an improved system of raw materials procurement from the parent companies, its unique technological capabilities, and higher marketing efficiencies made possible by locating facilities in two major consuming areas — the Tokyo and Osaka areas.

Financial Statements

Financial Review

• Income Analysis

Nippon Steel Chemical turned in an avoidable performance in fiscal 1998, the year ended March 31, 1999. Looking at operating results for the fiscal year, net sales declined to ¥231,218 million (US$1,918 million), down ¥33,374 million, or 12.6 percent, as several businesses were transferred to its group companies.

The Carbon & Gas Division posted sales of ¥103,458 million due to the slump in demand and market conditions.

Chemicals dipped 15.6 percent to ¥102,884 million, while Construction Materials sales declined 23.3 percent to ¥24,875 million.

Operating income was down ¥231 million, or 6.5 percent, to ¥3,323 million (US$28 million) as a result of the depressed demand and market conditions. Net loss increased ¥3,402 million to ¥5,171 million (US$43 million) due largely to provision of reserves for losses on planned restructuring measures under the mid-term management plan.

• Financial Position

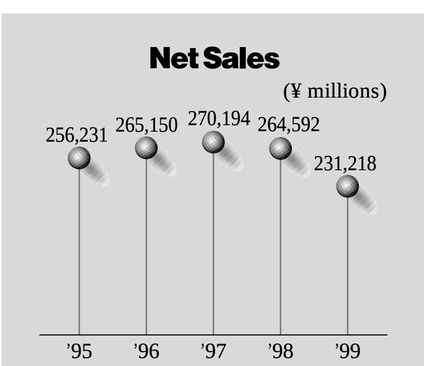
Total assets at March 31, 1999, were down ¥4,683 million, or 1.8 percent, to ¥260,313 million (US$2,159 million). Current assets decreased 6.4 percent, or ¥7,153 million, to ¥105,488 million (US$875 million). Investments and advances increased 46.6 percent, or ¥17,794 million, to ¥55,939 million (US$464 million). Property, plant and equipment decreased 13.8 percent, or ¥15,098 million, to ¥94,672 million (US$785 million). Deferred charges and intangibles were largely unchanged at ¥4,214 million (US$35 million).

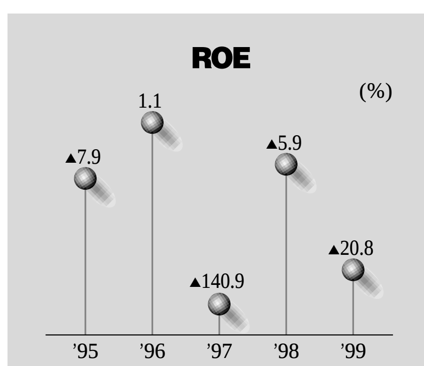
On the other side of the balance sheet, current liabilities increased 46.6 percent, or ¥17,794 million, to ¥55,939 million (US$464 million). Shareholders' equity decreased 17.2 percent, or ¥5,171 million, to ¥24,879 million (US$206 million) as a result of the net loss recorded. The shareholders' equity ratio at the end of the year was 9.6 percent, compared with 11.3 percent one year earlier.

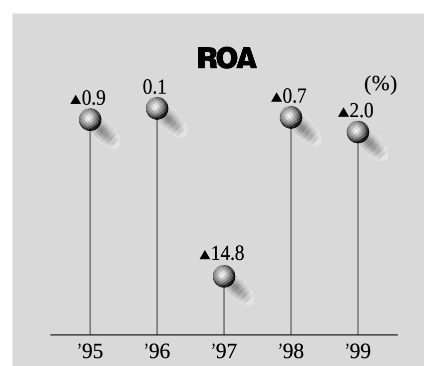
• Cash Flows

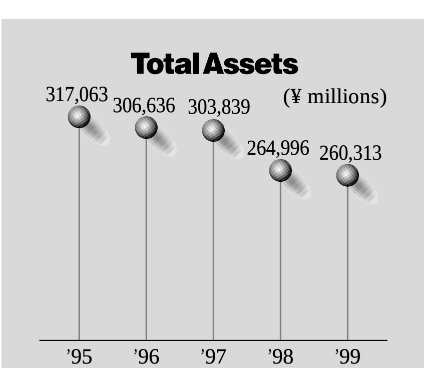
Net cash provided by operating activities was down ¥5,515 million to ¥10,233 million (US$85 million). The main factors were a decrease in receivables.

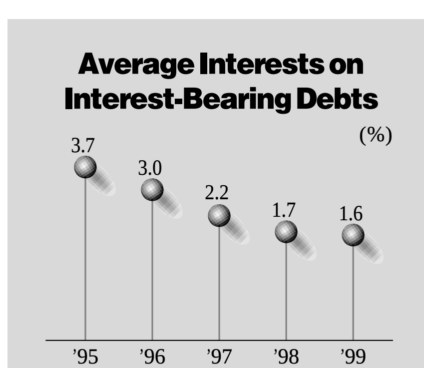
Net cash of ¥7,725 million (US$ 64 million) was used in investing activities, in contrast to ¥147 million provided in the previous year. This was chiefly the result of a large decrease in other advances and investments. Net cash of ¥2,803 million (US$23 million) was used in financing activities. As a result of the above, there was a ¥295 million decrease in cash and cash equivalents to ¥37,810 million (US$314 million).

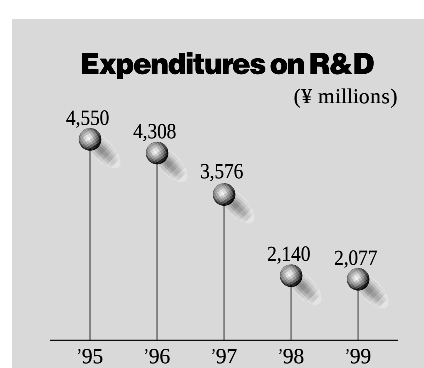












NIPPON STEEL CHEMICAL CO., LTD.

Non-Consolidated Balance Sheets

As of March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	1998	***1999***
ASSETS			
Current Assets:			
Cash	**¥ 21,336**	¥ 5,489	***$ 176,989***
Money trust for investments in marketable securities	**15,522**	16,087	***128,760***
Marketable securities (Note 4)	**952**	16,529	***7,897***
Trade accounts and notes receivable:			
Outside customers	**23,056**	27,914	***191,257***
"NSC"	**9,428**	11,556	***78,208***
Nittetsu Shoji Co., Ltd.	**203**	767	***1,684***
Subsidiaries and affiliates	**8,936**	6,672	***74,127***
	41,623	46,909	***345,276***
Less: allowance for bad debts	**(120)**	(163)	***(996)***
	41,503	46,746	***344,280***
Inventories (Note 6)	**23,553**	25,952	***195,380***
Other current assets	**2,622**	1,838	***21,750***
Total current assets	**105,488**	112,641	***875,056***
Investments and Advances:			
Investments in securities (Notes 4 and 8)	**15,793**	1,686	***131,008***
Investments in and advances to subsidiaries and affiliates (Note 7)	**29,473**	25,777	***244,488***
Long-term loans and other investments	**10,673**	10,682	***88,536***
	55,939	38,145	***464,032***
Property, Plant and Equipment (Note 8):			
Buildings and structures	**49,980**	60,167	***414,600***
Machinery and equipment	**246,040**	264,424	***2,040,979***
	296,020	324,591	***2,455,579***
Less: accumulated depreciation	**(210,559)**	(221,594)	***(1,746,653)***
	85,461	102,997	***708,926***
Land	**4,982**	2,847	***41,327***
Construction in progress	**4,229**	3,926	***35,081***
	94,672	109,770	***785,334***
Deferred Charges and Intangibles (Note 2(6))	**4,214**	4,440	***34,956***
	¥260,313	¥264,996	***$2,159,378***

The accompanying notes are an integral part of the statements.

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	1999	1998	***1999***
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 8)	**¥ 93,760**	¥ 86,990	***$ 777,769***
Current maturities of long-term debt (Note 8)	**33,629**	7,995	***278,963***
Trade accounts and notes payable:			
Outside suppliers	**12,016**	15,426	***99,676***
"NSC"	**4,860**	8,729	***40,315***
Subsidiaries and affiliates	**9,229**	7,798	***76,558***
	26,105	31,953	***216,549***
Non-trade accounts payable	**2,555**	1,521	***21,195***
Income taxes payable (Note 10)	**38**	144	***315***
Accrued expenses	**4,320**	4,693	***35,836***
Other current liabilities	**1,725**	881	***14,309***
Total current liabilities	**162,132**	134,177	***1,344,936***
Long-term Debt (Note 8)	**53,662**	89,086	***445,143***
Reserve for Employees' Retirement Benefits (Note 11)	**5,244**	5,462	***43,501***
Reserve for Loss on Restructuring Measures under Review of the Mid-Term Management Plan (Note 16)	**8,175**	—	***67,814***
Reserve for Loss on Planned Liquidation/Dissolution of Subsidiaries and Affiliates (Note 16)	**6,221**	6,221	***51,605***
Contingent Liabilities (Note 9)			
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized: 600,000,000 shares at March 31, 1999 and 1998			
Issued: 291,455,003 shares at March 31, 1999 and 1998	**40,966**	40,966	***339,826***
Special tax-purpose reserves (Note 13)	**2,130**	3,972	***17,669***
Unappropriated accumulated deficit (Note 17)	**(18,217)**	(14,888)	***(151,116)***
Total shareholders' equity	**24,879**	30,050	***206,379***
	¥260,313	¥264,996	***$2,159,378***

NIPPON STEEL CHEMICAL CO., LTD.

Non-Consolidated Statements of Income

For the years ended March 31, 1999, 1998 and 1997

	Millions of yen			*Thousands of U.S. dollars (Note 3)*
	1999	1998	1997	***1999***
Net Sales (Note 15)	**¥231,218**	¥ 264,592	¥ 270,194	***$1,918,026***
Cost of Sales (Note 15)	**204,304**	233,180	232,160	***1,694,766***
Gross profit	**26,914**	31,412	38,034	***223,260***
Selling, General and Administrative Expenses	**23,591**	27,858	32,886	***195,695***
Operating income	**3,323**	3,554	5,148	***27,565***
Non-Operating Income (Losses):				
Interest and dividend income	**293**	301	251	***2,430***
Interest expenses	**(3,117)**	(3,541)	(4,922)	***(25,856)***
Loss on sales of marketable securities (Note 15)	**(1,290)**	—	—	***(10,701)***
Gain/(loss) on sales of investment securities (Note 15)	**—**	994	(970)	—
Loss on sales/disposal of property	**(773)**	(93)	(1,689)	***(6,412)***
Gain/(loss) on restructuring measures under the Mid-Term Management plan (Note 16)	**4,777**	—	(13,127)	***39,627***
Prior service cost of pension plan	**(591)**	(945)	(914)	***(4,903)***
Special retirement expenses	**(606)**	(1,698)	(6,809)	***(5,027)***
Loss on dissolution of subsidiaries and affiliates	**—**	—	(5,312)	**—**
Provision for reserve for loss on planned take-downs of property (Note 16)	**—**	—	(1,555)	**—**
Provision for reserve for loss on planned liquidation/dissolution of subsidiaries and affiliates (Note 16)	**—**	—	(14,771)	**—**
Provision for reserve for loss on planned restructuring measures under the Mid-Term Management plan (Note 16)	**(8,175)**	—	—	***(67,814)***
Gain on retirement of convertible bonds by purchase (Note 15)	**1,368**	—	—	***11,348***
Other, net	**(331)**	(292)	(109)	***(2,746)***
	(8,445)	(5,274)	(49,927)	***(70,054)***
Loss before income taxes	**(5,112)**	(1,720)	(44,779)	***(42,489)***
Income Taxes (Note 10)		49	63	**—**
Income Taxes and Enterprise Tax	**49**	—	—	***406***
Net loss	**¥ (5,171)**	¥ (1,769)	¥ (44,842)	***$ (42,895)***
	Yen			*U.S. dollars (Note 3)*
Per Share Data (Note 2(12)):				
Net loss	**¥ (17.74)**	¥ (6.07)	¥ (199.48)	***$ (0.15)***
Weighted average number of shares of common stock (in thousands)	**291,455**	291,455	291,455	

The accompanying notes are an integral part of the statements.

Non-Consolidated Statements of Shareholders' Equity

For the years ended March 31, 1999, 1998 and 1997

		Millions of yen				
	Number of shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Special tax-purpose reserves	Unappropriated retained earnings
Balance at March 31, 1996	191,455,003	¥ 20,966	¥ 13,402	¥ 1,572	¥ 13,323	¥(12,602)
Net loss	—	—	—	—	—	(44,842)
Transfer from special tax-purpose reserves (Note 13)	—	—	—	—	(4,771)	4,771
Transfer to special tax-purpose reserves (Note 13)	—	—	—	—	7,922	(7,922)
Issue of new shares to designated parties	100,000,000	20,000	20,000	—	—	—
Balance at March 31, 1997	291,455,003	40,966	33,402	1,572	16,474	(60,595)
Net loss	—	—	—	—	—	(1,769)
Reversal of additional paid-in capital (Note 14)	—	—	(33,402)	—	—	33,402
Reversal of earned surplus reserve (Note 14)	—	—	—	(1,572)	—	1,572
Transfer from special tax-purpose reserves (Note 13)	—	—	—	—	(16,474)	16,474
Transfer to special tax-purpose reserves (Note 13)	—	—	—	—	3,972	(3,972)
Balance at March 31, 1998	**291,455,003**	**40,966**	**—**	**—**	**3,972**	**(14,888)**
Net loss	**—**	**—**	**—**	**—**	**—**	**(5,171)**
Transfer from special tax-purpose reserves (Note 13)	**—**	**—**	**—**	**—**	**(300)**	**300**
Cumulative effect of accounting change (Note 10)	**—**	**—**	**—**	**—**	**(1,542)**	**1,542**
Balance at March 31, 1999	**291,455,003**	**¥40,966**	**¥ —**	**¥ —**	**¥ 2,130**	**¥(18,217)**

		Thousands of U.S. Dollars (Note 3)				
	Number of shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Special tax-purpose reserves	Unappropriated retained earnings
Balance at March 31, 1998	***291,455,003***	***$339,826***	***$—***	***$—***	***$32,949***	***$(123,501)***
Net loss	***—***	***—***	***—***	***—***	***—***	***(42,895)***
Transfer from special tax-purpose reserves (Note 13)	***—***	***—***	***—***	***—***	***(2,489)***	***2,489***
Cumulative effect of accounting change (Note 10)	***—***	***—***	***—***	***—***	***(12,791)***	***12,791***
Balance at March 31, 1999	***291,455,003***	***$339,826***	***$—***	***$—***	***$17,669***	***$(151,116)***

The accompanying notes are an integral part of the statements.

Non-Consolidated Statements of Cash Flows

For the years ended March 31, 1999, 1998 and 1997

	Millions of yen			*Thousands of U.S. dollars (Note 3)*
	1999	1998	1997	***1999***
Cash Flows from Operating Activities:				
Net loss	**¥ (5,171)**	¥ (1,769)	¥(44,842)	***$ (42,895)***
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	**8,811**	12,186	12,798	***73,090***
Amortization	**1,906**	2,039	1,872	***15,811***
Provision for/(reversal of) reserve for loss on disposal of property	**8,175**	(1,555)	1,555	***67,814***
Provision for/(reversal of) reserve for loss on dissolution of subsidiaries and affiliates	**—**	(8,550)	14,771	***—***
Provision for accrued retirement benefits	**156**	516	1,947	***1,294***
Loss/(gain) on sale of property	**(4,003)**	(994)	1,689	***(33,206)***
Loss on disposal of production facilities	**—**	1,087	10,078	***—***
Changes in assets and liabilities: Decrease (increase) in receivables	**5,243**	20,297	(9,827)	***43,492***
Decrease in inventories	**2,399**	457	920	***19,900***
Decrease (increase) in other current assets	**(784)**	98	3,461	***(6,503)***
Increase (decrease) in payables	**(4,814)**	(5,650)	9,502	***(39,934)***
Decrease in accrued expenses	**(373)**	(1,486)	(935)	***(3,094)***
Increase (decrease) in other current liabilities	**738**	(25)	574	***6,122***
Other payments	**(2,050)**	(903)	(3,160)	***(17,005)***
Net cash provided by operating activities	**10,233**	15,748	403	***84,886***
Cash Flows from Investing Activities:				
Acquisition of property, plant and equipment	**(8,967)**	(10,162)	(4,031)	***(74,384)***
Decrease (increase) in investments in securities	**(14,107)**	88	1,425	***(117,022)***
Decrease (increase) in investments in and advances to subsidiaries and affiliates	**(3,696)**	(1,405)	525	***(30,660)***
Decrease (increase) in other advances and investments	**9**	6,116	(14,981)	***75***
Increase in deferred charges	**(1,680)**	(2,080)	(529)	***(13,936)***
Proceeds from sale of property, plant and equipment	**20,716**	7,590	3,168	***171,846***
Net cash provided by (used in) investing activities	**(7,725)**	147	(14,423)	***(64,081)***
Cash Flows from Financing Activities:				
Borrowing of long-term loans and other debt	**7,650**	4	5,900	***63,459***
Repayment of long-term loans and other debt	**(17,223)**	(5,439)	(22,925)	***(142,870)***
Proceeds from issue of new shares of common stocks	**—**	—	40,000	***—***
Increase (decrease) in short-term bank loans	**6,770**	(13,986)	(5,184)	***56,159***
Net cash provided by (used in) financing activities	**(2,803)**	(19,421)	17,791	***(23,252)***
Net Change in Cash and Cash Equivalents	**(295)**	(3,526)	3,771	***(2,447)***
Cash and Cash Equivalents at beginning of year	**38,105**	41,631	37,860	***316,093***
Cash and Cash Equivalents at end of year	**¥ 37,810**	¥ 38,105	¥ 41,631	***$ 313,646***

The accompanying notes are an integral part of the statements.

Notes to the Non-Consolidated Financial Statements

1. Basis of Presenting Non-Consolidated Financial Statements

(1) Accounting Principles

The accompanying non-consolidated financial statements have been prepared from accounts and records maintained by Nippon Steel Chemical Co., Ltd. (the "Company") in accordance with the provisions set out in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Relevant notes have been added, and certain reclassifications of account balances as disclosed in the non-consolidated financial statements in Japan, have been made so as to present them in a form which is more familiar to readers outside Japan.

The non-consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

(2) Significant Shareholder

The Company has been a subsidiary of Nippon Steel Corporation ("NSC") who owned 195,532 thousand shares of common stock of the Company at March 31, 1999 and 1998, which represented 67.1 percent of the shares outstanding at March 31, 1999 and 1998, respectively.

(3) Transactions with Nittetsu Shoji Co., Ltd. ("Nittetsu Shoji")

The Company sells a substantial portion of its products to Nittetsu Shoji which is a 50.0 percent owned affiliate of NSC. All of the Company's transactions with Nittetsu Shoji and the related account balances of material nature are shown separately in the accompanying non-consolidated financial statements.

The Company has had no material transactions with any other subsidiaries or affiliates of NSC.

2. Summary of Significant Accounting Policies

(1) Inventories

Inventories are valued according to the categories as follows:

* Products, semi-finished products and raw materials, other than those in the "Coke Operations" — at the lower of cost or market, cost being determined by the last-in first-out method.
* Products, semi-finished products and raw materials in the "Coke Operations" — at the lower of cost or market, cost being determined by the moving average method.
* Supplies — at the lower of cost or market, cost being determined by the moving average method.

(2) Valuation of Securities

Marketable securities (current portfolio) and investments in securities (non-current portfolio), both quoted and non-quoted, are valued at cost, which is determined by the moving average method.

(3) Money Trust for Investments in Marketable Securities

Money trust for investments in marketable securities is valued at cost, which is determined by the moving average method, applied on an aggregate basis to each money trust.

(4) Investments in Subsidiaries and Affiliates

Investments in subsidiaries (majority-owned companies) and affiliates (meaning 20 percent to 50 percent owned companies) are valued at cost. The equity method to account for investments in common stock of subsidiaries and affiliates has not been followed by the Company in the non-consolidated financial statements under Japanese accounting practices. Appropriate write-downs are recorded for investments in certain companies which have incurred substantial losses and are not expected to recover such losses in the near future.

(5) Property, Plant and Equipment

Depreciation is computed on the straight-line method, at rates based on the estimated useful lives of assets which are prescribed by the Japanese income tax laws. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 22 years for machinery and equipment.

Exceptionally, estimated useful lives of certain machinery and equipment are determined by the Company as follows:

A part of machinery and equipment used for manufacturing of:	Years	
	Estimate lives under Japanese tax law	Estimate lives as determined by the Company
Carbon material and gas	10	15
Chemical substances	7-9	10-13
Construction materials	12-13	14-19

With effect from the year ended March 31, 1999, the Company changed the estimated useful lives of buildings (except for ancillary facilities) in compliance with certain amendments to the tax laws made in 1998. As a result of this change, depreciation was increased, "Operating income" was decreased and "Loss before income taxes" was decreased by ¥76 million each.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(6) Amortization

Note issue expenses are all charged to expenses at the time they are incurred.

Development expenses for new products and technology for new business are deferred and amortized on a straight-line basis over a five-year period.

Testing and research expenses associated with existing products, however, are charged to income as incurred.

At March 31, 1999, the balance of unamortized development expenses included in "Deferred Charges" in the accompanying non-consolidated balance sheet, was ¥2,567 million *($21,294 thousand)*.

(7) Allowance for Bad Debts

Allowance for bad debts is provided at the estimated amount of uncollectible receivables on an individual basis at the balance sheet date as well as the amount using the actual average percentage of bad debt based on the Japanese corporation tax law.

With effect from the year ended March 31, 1999, the Company started using the actual average percentage of bad debt based on the Japanese corporation tax law instead of the statutory percentage of outstanding receivables in compliance with certain amendments to the tax laws made in 1998. As a result of this change, "Allowance for bad debts" and "Loss before income taxes" decreased by ¥32 million, respectively.

(8) Foreign Currency Translation

With effect from the year ended March 31, 1997, the Company has adopted the provisions of newly issued statement to revise the "Accounting Standards for Translation of Foreign Currency Transactions and Other", promulgated by the Business Accounting Deliberations Council, an accounting standards setting body in Japan. The impact of the new standards was immaterial.

In addition, translation of short-term monetary assets and liabilities denominated in foreign currencies is made uniformly by applying the exchange rates prevailing at the respective balance sheets dates (current rates).

(9) Income Taxes

Income taxes are provided for based on the amount required by the tax returns for the financial year. No tax effect is recorded for timing differences in the recognition of certain revenue and expenses between tax and financial reporting.

(10) Recognition of Certain Accrued Expenses

In general, the Company follows the accrual basis of accounting for all income and expense items. However, the Japanese tax laws provide for a limit deductible for tax purposes with respect to certain accrued expenses which are essentially an estimate of amounts to be determined in future years. The accrued expenses of the Company to which such limits apply under the laws are: reserve for accrued employees' retirement benefits, accrued employees' bonuses and allowance for bad debts.

The Company generally records such accrued expenses on the basis of the tax laws, which normally require accruals in an amount determined based on the past year's experience of the Company. With respect to reserve for accrued employees' retirement benefits, please refer to Note 11.

(11) Consumption Tax

Consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption tax withheld upon sales and consumption tax paid by the Company on the purchases of goods and services are not included in the amounts of respective revenues or costs and expenses in the Non-Consolidated Statements of Income and Loss, but is recorded as an asset or a liability, as the case may be, and the net balance is included in "Other current assets" or "Other current liabilities" in the Non-Consolidated Balance Sheets.

(12) Appropriation of Retained Earnings/(accumulated deficit)

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings/(accumulated deficit) (including cash dividend payments) proposed by the Board of Directors should be approved by the shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings/(accumulated deficit) reflected in the accompanying non-consolidated statements of shareholders' equity represents the results of such appropriations which is applicable to the immediately preceding financial year but was approved by the shareholders' meeting and disposed of during that year. Dividends are paid to shareholders on the shareholders' register at the end of each financial year.

As is customary practice in Japan, the payment of bonuses to directors and statutory auditors is made out of retained earnings instead of being charged to income of the year, which constitute a part of appropriations cited above.

(13) Net Income/(loss) per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year.

Since net loss per share was recorded, diluted net income/(loss) per share is not disclosed.

3. United States Dollar Amounts

The Company maintains its accounting records in yen. The dollar amounts included in the non-consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥120.55=U.S.$1. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could have been converted, realized or settled in dollars at ¥120.55=U.S.$1 or at any other rate.

4. Marketable Securities and Investments in Securities

Marketable securities (current portfolio) and investments in securities (non-current portfolio) at March 31, 1999 and 1998 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	1999	1998	***1999***
Marketable securities:			
Listed corporate shares	**¥135**	¥14,462	***$1,120***
Corporate convertible bonds	**—**	19	***—***
Certificates of investment fund trust	**817**	2,048	***6,777***
	¥952	¥16,529	***$7,897***
Investments in securities:			
Listed corporate shares	**¥14,523**	¥ —	***$120,473***
Unlisted corporate shares	**1,246**	1,681	***10,336***
Government convertible bonds	**19**	—	***158***
Non-share equity investment	**5**	5	***41***
	¥15,793	¥1,686	***$131,008***

Market value information on marketable securities and investments in securities held by the Company at Match 31, 1999 is summarized as follows:

	Millions of yen			*Thousands of U.S. dollars*		
	Book value per balance sheet	Market value	Unrealized gain (loss)	Book value per balance sheet	Market value	Unrealized gain (loss)
Marketable securities:						
(current portfolio)						
Corporate shares	**¥135**	**¥111**	**¥(24)**	***$1,120***	***$921***	***$(199)***
Other securities						
Market value available	**817**	**588**	**(229)**	***6,777***	***4,877***	***(1,900)***
Market value not available						
	¥952	**¥699**	**¥(253)**	***$7,897***	***$5,798***	***$(2,099)***
Investments in securities:						
Corporate shares						
Market value available	**¥14,523**	**¥6,261**	**¥(8,262)**	***$120,473***	***$51,937***	***$(68,536)***
Market value not available	**1,246**	**—**	**—**	***10,336***	**—**	**—**
Bonds and debentures						
Market value available	**19**	**19**	**(0)**	***158***	***158***	***(0)***
Market value not available	**—**	**—**	**—**	**—**	**—**	**—**
Other securities						
Market value available	**—**	**—**	**—**	**—**	**—**	**—**
Market value not available	**5**	**—**	**—**	***41***	**—**	**—**
	¥15,793	**¥6,280**	**¥(8,262)**	***$131,008***	***$52,095***	***$(68,536)***

5. Information on Derivatives

The Company uses derivative financial instruments, which comprise interest rate swap transactions to reduce its exposure to market risks from fluctuations in interest rates. The Company does not hold or issue financial instruments for trading or speculative purposes.

Although the Company may be exposed to losses in the event of nonperformance by counterparties or interest rate fluctuations, it does not anticipate significant losses from the arrangements described above.

The Board of Directors decides limit of derivative transactions (swap transactions) volume annually and management in charge of the derivative transactions (swap transactions) reports the historical transactions to the Board of Directors quarterly.

Interest rate transactions

The Company has some interest rate swap transactions with the companies. These transactions are arranged to hedge against exposure of interest rate fluctuations of certain liabilities on the balance sheet.

The interest rate swap contracts outstanding at March 31, 1999 are summarized as follows:

	Millions of yen		
	Contract value	Fair value	Valuation gain (loss)
Interest rate swap transactions:			
Receipt floating rate payment fixed rate	**¥14,300**	**¥(315)**	**¥(315)**
Receipt fixed rate payment floating rate	**¥2,500**	**¥18**	**¥18**

Contract value (notional amount) does not represent actual credit risk and market risk. Fair value and valuation gain (loss) do not represent actual receipt or payment amounts in the future.

The Company quotes fair value and valuation gain (loss) from a financial institution.

6. Inventories

Inventories at March 31, 1999 and 1998 consisted of:

	Millions of yen		*Thousands of U.S. dollars*
	1999	1998	***1999***
Products	**¥11,238**	¥12,654	***$ 93,223***
Semi-finished products	**1,839**	1,853	***15,255***
Raw materials	**7,480**	8,135	***62,049***
Supplies	**2,996**	3,310	***24,853***
	¥23,553	¥25,952	***$195,380***

7. Investments in and Advances to Subsidiaries and Affiliates

Investments in and advances to subsidiaries and affiliates at March 31, 1999 and 1998 were as follows:

		Millions of yen				*Thousands of U.S. dollars*
		1999			1998	***1999***
	Percentage of ownership	Investments in common shares	Advances	Total	Total	Total
Nippon Steel Chemical Rockwool Co., Ltd.	100.0%	**¥1,480**	**¥ —**	**¥1,480**	¥ 1,480	***$12,277***
NSCC Trading Co., Ltd.	100.0	**450**	**—**	**450**	450	***3,733***
NSCC Polymer Company Ltd.	100.0	**302**	**2,800**	**3,102**	3,452	***25,732***
Nippon Steel Chemical Corporation of America	100.0	**3,575**	**—**	**3,575**	3,575	***29,656***
NSCC Compounds (Malaysia) SDN. BHD.	100.0	**917**	**—**	**917**	917	***7,607***
NSCC ASIA LIMITED	100.0	**710**	**—**	**710**	710	***5,890***
Nippon Thermal Engineering Corporation	97.1	**368**	**—**	**368**	68	***3,053***
Nippon Elec Co., Ltd.	99.5	**4,127**	**1,840**	**5,967**	4,767	***49,498***
Nippon Steel Chemical Carbon Co., Ltd.	90.0	**472**	**—**	**472**	472	***3,915***
NSCC Techno-carbon Co., Ltd.	89.2	**1,293**	**—**	**1,293**	1,296	***10,726***
Nippon Phenol Company Ltd.	87.5	**420**	**—**	**420**	420	***3,484***
NS & N (UK) LIMITED	80.0	**2,024**	**—**	**2,024**	2,024	***16,790***
Nippon Styrene Monomer Co., Ltd.	65.0	**260**	**—**	**260**	260	***2,157***
Nippon Bisphenol Company Ltd.	75.7	**252**	**—**	**252**	252	***2,090***
Tohto Kasei Co., Ltd.	50.4	**3,296**	**—**	**3,296**	3,296	***27,341***
Shinnikka Thermal Ceramics Co., Ltd.	50.0	**268**	**—**	**268**	268	***2,223***
Dalian Nitto Plastic Molding Co., Ltd.	40.0	**320**	**—**	**320**	320	***2,655***
Nittetsu Chemical Engineering Ltd.	33.3	**272**	**—**	**272**	272	***2,256***
Nanbu Plastics Co., Ltd.	29.4	**301**	**—**	**301**	—	***2,497***
Nippon Esmarl Co., Ltd.	20.0	**0**	**2,250**	**2,250**	5	***18,664***
Other	—	**1,476**	**—**	**1,476**	1,473	***12,244***
		¥22,583	**¥6,890**	**¥29,473**	¥25,777	***$244,488***

None of investments in subsidiaries and affiliates held by the Company has its market value at March 31, 1999.

8. Short-term Bank Loans and Long-term Debt

Short-term bank loans outstanding at March 31, 1999 and 1998 were generally represented by several-month term notes issued by the Company to banks bearing interest at an annual rate ranging from 0.45 percent to 1.45 percent and from 0.95 percent to 1.65 percent at March 31, 1999 and 1998, respectively. Customarily these notes are renewed at maturity subject to renegotiation of interest rates and other factors.

Information with respect to short-term bank loans outstanding for the years ended March 31, 1999 and 1998 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	1999	1998	***1999***
Maximum month-end balance	**¥95,760**	¥101,476	***$794,359***
Average month-end balance	**¥91,623**	¥95,874	***$760,041***

Long-term debt of the Company at March 31, 1999 and 1998 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	1999	1998	***1999***
Long-term borrowings from banks and other financial institutions secured by collaterals/mortgages, bearing interest at rates ranging from 0.45 percent to 6.70 percent per annum, due through 2022 in installments	**¥71,503**	¥72,010	***$593,140***
2.2 percent convertible mortgage debentures due March 2003 in yen	**2,760**	3,082	***22,895***
2.5 percent convertible mortgage debentures due March 2004 in yen	**5,696**	6,360	***47,250***
2.0 percent convertible mortgage debentures due March 2005 in yen	**6,856**	14,940	***56,873***
Guarantee deposits received	**476**	689	***3,948***
	87,291	97,081	***724,106***
Less: portion due within one year	**(33,629)**	(7,995)	***(278,963)***
	¥53,662	¥89,086	***$445,143***

Additional information with respect to the Company's convertible notes outstanding at March 31, 1999 is as follows:

Description	Issued in	Initial principal	Terms of conversion at March 31, 1999: Conversion price per share (*1)	Number of shares issuable upon full conversion	Other conditions
		(millions)		(in thousands)	
2.2 percent convertible mortgage debentures due March 2003 in Yen	Dec. 1987	¥10,000	¥880.1	3,136	(*2) (*3)
2.5 percent convertible mortgage debentures due March 2004 in Yen	Dec. 1988	¥10,000	¥947.8	6,010	(*2) (*4) (*6)
2.0 percent convertible mortgage debentures due March 2005 in Yen	Feb. 1990	¥15,000	¥1,210.0	5,666	(*2) (*5) (*7)
				14,812	

(*1) Subject to adjustment for subsequent free share distribution and in other circumstances.
(*2) Can be repurchased at any time and may be redeemed in whole or in part at prices equivalent to the principal amount plus premiums at prescribed percentages of the principal.
(*3) An annual sinking fund payment is required in the amount of ¥500 million on March 31, 1997 and 1998, ¥1,000 million on March 31, 1999 and 2000, ¥1,500 million on March 31, 2001 and 2002, reduced by the amount of subsequent conversions, repurchases and redemptions.
(*4) An annual sinking fund payment is required in the amount of ¥500 million on March 31, 1998 and 1999, ¥1,000 million on March 31, 2000 and 2001, ¥1,500 million on March 31, 2002 and 2003, reduced by the amount of subsequent conversions, repurchases and redemptions.
(*5) An annual sinking fund payment is required in the amount of ¥750 million on March 31, 1999 and 2000, ¥1,500 million on March 31, 2001 and 2002, ¥2,250 million on March 31, 2003 and 2004, reduced by the amount of subsequent conversions, repurchases and redemptions.
(*6) The notes require that the Company's cash dividend payments be restricted not to exceed the aggregate amount equivalent to accumulated "Net income" (excluding the amount equivalent to the special gain or loss, if any) earned during the years for which the notes have been outstanding plus ¥4,400 million on accumulative basis. However, in June 1995, the Company set up a collective mortgage on its manufacturing facility for the notes, and the restriction on cash dividend was removed.
(*7) The notes require that the Company's cash dividend payments be restricted not to exceed the aggregate amount equivalent to accumulated "Net income" (excluding the amount equivalent to the special gain or loss, if any) earned during the years for which the notes have been outstanding plus ¥4,600 million on accumulative basis. However, in June 1995, the Company set up a collective mortgage on its manufacturing facility for the notes, and the restriction on cash dividend was removed.

The Company's assets pledged as collateral for long-term borrowings from banks and other financial institutions (¥46,051 million) and convertible bonds (¥15,312 million) at March 31, 1999 are summarized as follows:

	Millions of yen	*Thousands of U.S. dollars*
Property, plant and equipment, net of accumulated depreciation:		
Buildings and structures	**¥20,051**	***$166,329***
Machinery and equipment	**58,265**	***483,327***
Land	**235**	***1,949***
	¥78,551	***$651,605***
Investments in securities	**¥13,013**	***$107,947***

The aggregate annual maturities of long-term loans outstanding at March 31, 1999 during the succeeding three-year period are as follows:

Year ending March 31,	Millions of yen	*Thousands of U.S. dollars*
2000	**¥33,629**	***$278,963***
2001	**24,770**	***205,475***
2002	**7,662**	***63,559***
2003 and after	**5,442**	***45,143***
	¥71,503	***$593,140***

9. Contingent Liabilities and Lease Commitments

The Company was contingently liable for guarantee (¥1,518 million) and forward guarantee (¥84,695 million) of loans and other debt made by its subsidiaries and affiliates at March 31, 1999, as follows:

	Millions of yen	*Thousands of U.S. dollars*
Debt of:		
NSCC Trading Co., Ltd.	**¥21,561**	***$178,855***
Tohto Kasei Co., Ltd.	**20,372**	***168,992***
Nippon Elec Co., Ltd.	**13,504**	***112,020***
Nippon Steel Chemical Rockwool Co., Ltd.	**8,216**	***68,154***
NSCC Polymer Company, Ltd.	**4,446**	***36,881***
Nippon Elec (Malaysia) SDN. BHD.	**4,064**	***33,712***
Nitto Lite Co., Ltd.	**2,605**	***21,609***
NSCC Techno-Carbon Co., Ltd.	**2,400**	***19,909***
Nippon Steel Chemical Carbon Co., Ltd.	**1,709**	***14,177***
Nippon Thermal Engineering Corporation	**1,210**	***10,037***
Other	**6,126**	***50,818***
	¥86,213	***$715,164***

The Company has various lease contracts. Certain key information on the Company's finance lease contracts which are not deemed to transfer the ownership of the leased assets for the years ended March 31, 1999 and 1998 were as follows:

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, which included the portion of interest thereon at March 31, 1999 and 1998, were summarized as follows:

	Millions of yen						*Thousands of U.S. dollars*		
	1999			1998			***1999***		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥1,210**	**¥1,023**	**¥186**	¥1,209	¥882	¥327	***$10,037***	***$8,486***	***$1,543***
Tools, furniture and fixture	**497**	**369**	**127**	774	520	254	***4,123***	***3,061***	***1,053***
Others	**44**	**33**	**13**	45	25	20	***365***	***274***	***108***
	¥1,751	**¥1,425**	**¥326**	¥2,028	¥1,427	¥601	***$14,525***	***$11,821***	***$2,704***

	Millions of yen		*Thousands of U.S. dollars*
	1999	1998	***1999***
Depreciation	**¥274**	¥350	***$2,273***

Depreciation is based on the straight-line method over the lease term of the leased assets.

The scheduled maturities of future lease rental payments on such lease contracts at March 31, 1999 and 1998 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	1999	1998	***1999***
Due within one year	**¥195**	¥274	***$1,617***
Due over one year	**131**	327	***1,087***
	¥326	¥601	***$2,704***
Lease rental expenses for the year	**¥274**	¥350	***$2,273***

10. Income Taxes

Income taxes in Japan applicable to the Company for each of the three years in the period ended March 31, 1999 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income		
	1999	1998	1997
Corporate income tax	**34.5%**	37.5%	37.5%
Enterprise tax	**11.6**	13.0	13.0
Resident income taxes	**7.1**	7.7	7.7
	53.2%	58.2%	58.2%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	**47.7%**	51.5%	51.5%

During the years ended March 31, 1995 and 1994, the Company incurred net loss for both financial reporting and tax reporting purposes. Under the current Japanese tax laws, the net loss is not allowed carryback, but is entitled to be carried forward to offset against future taxable income in the following five-year period.

The amount of income taxes currently payable for the year ended March 31, 1999, 1998 and 1997 represents fixed charge of resident income taxes which are levied without regard to taxable income and the special surtax imposed on certain capital gains recognized in those year.

With effect from the year ended March 31, 1999, the Company has adopted the accounting for deferred tax, thereby tax effects on temporary differences are adequately reflected and recognize "Income Taxes" in proportion to "Income before income taxes".

There was no effect on "Net loss" for the year ended March 31, 1999, however, "Accumulated deficit" was decreased by ¥1,542 million *($12,791 thousand)*, when compared with the previous basis.

The components of the deferred tax assets and deferred tax liabilities at March 31, 1999 are as follows:

	Millions of yen	*Thousands of U.S. dollars*
Deferred tax assets due to:		
Reserve for Employees' Retirement Benefits	**¥ 2,037**	***$ 16,898***
Reserve for loss on planned liquidation/ dissolution of subsidiaries and affiliates	**2,612**	***21,667***
Reserve for loss on restructuring measures	**3,433**	***28,478***
Loss carryforward	**13,744**	***114,011***
Other	**1,511**	***12,534***
	23,337	***193,588***
Valuation allowance	**(22,040)**	***(182,829)***
Total	**1,297**	***10,759***
Deferred tax liabilities due to:		
Special tax purpose reserve	**1,297**	***10,759***
Net deferred tax assets (liabilities)	**¥ 0**	***$ 0***

11. Retirement Plan

The Company has a retirement benefit plan to cover its employees with at least three years of service. The amount of such retirement benefits is determined by reference to the latest rate of pay, length of service and conditions under which the retirements occur.

"Reserve for employees' retirement benefits" account was provided to recognize periodic accrual of cost for the retirement benefits payable by the Company. The balance of "Reserve for employees' retirement benefits" in the accompanying non-consolidated balance sheets represents 50 percent of the liability the Company would be required to pay if all eligible employees involuntarily terminated employment at the respective balance sheet dates.

In addition, effective on March 1, 1990, the Company adopted a non-contributory retirement benefit plan to cover a part of the retirement benefits payable to employees who retire at the age of 50 or older. The unfunded prior service cost arising from the adoption of the pension plan aggregated ¥5,928 million at September 30, 1998, the latest valuation date. On the contrary, excess portion of the reserve for employees' retirement benefits provided for in prior years is being amortized and offset against the amortization of prior service cost over 10 years on a straight-line basis. With effect from the year ended March 31, 1999, the Company changed the amortization rate from 10% to 6.7%.

12. Legal Reserve and Appropriation of Retained Earnings

The Japanese Commercial Code provides that an amount equal to at least 10 percent of cash distribution paid out of retained earnings (cash dividends and directors' bonuses) should be appropriated to the legal reserve until such reserve equals 25 percent of the amount of common stock. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit by a resolution of the shareholders' meeting, but is not available for dividend payments.

13. Special Tax-Purpose Reserves

Special tax-purpose reserves are provided by the Company, which are allowed as a deduction in one year and reversed into taxable income in subsequent years through appropriation of retained earnings, pursuant to the provisions of the Special Taxation Measures Law of Japan. Essentially, special tax-purpose reserves result in deferral of income tax payments. The Company carries special tax-purpose reserves to deferred capital gains to enable the Company to replace the assets sold with acquisition of new assets.

14. Reversal of Additional Paid-in Capital and Earned Surplus Reserve

The Company reversed additional paid-in capital (¥33,402 million) and earned surplus reserve (¥1,562 million) to cover the deficit at March 31, 1997 (¥60,595 million) after approval of the shareholder's meeting held on June 27, 1997.

15. Related Party Transactions

The breakdown of net sales of the Company for each of the three years in the period ended March 31, 1999 classified by related parties is summarized as follows:

	Millions of yen			*Thousands of U.S. dollars*
	1999	1998	1997	***1999***
Net Sales to:				
"NSC"	**¥ 86,127**	¥ 95,448	¥ 42,386	***$ 714,451***
Nittetsu Shoji Co., Ltd.	**753**	826	45,435	***6,246***
Subsidiaries and affiliates:				
Shinnikka Trading Co., Ltd.	**11,211**	11,423	8,906	***92,999***
Nippon Styrene Monomer Co., Ltd.	**1,775**	2,057	2,060	***14,724***
Slagwool Industrial Co., Ltd.	**262**	1,000	2,352	***2,173***
Nippon Bisphenol Company Limited	**1,743**	1,786	1,845	***14,459***
Tohto Kasei Co., Ltd.	**865**	875	430	***7,175***
Nippon Phenol Company Ltd.	**1,909**	2,036	2,4021	***5,836***
Nissei Bussan Co., Ltd.	**884**	794	910	***7,333***
NSCC Polymer Co., Ltd.	**1,906**	2,707	942	***15,811***
NIPPON CRENOL Company Limited	**477**	638	561	***3,957***
SA CARBON Co., Ltd.	**1,703**	1,948	1,477	***14,127***
Other	**3,372**	3,854	5,120	***27,972***
	26,107	29,118	27,005	***216,566***
	112,987	125,392	114,826	***937,263***
Outside customers	**118,231**	139,200	155,368	***980,763***
Total net sales	**¥231,218**	¥264,592	¥270,194	***$1,918,026***

The Company's transactions of material nature, other than net sales shown above, with its subsidiaries and affiliates and the purchases from NSC for each of the three years in the period ended March 31, 1999 are summarized as follows:

	Millions of yen			*Thousands of U.S. dollars*
	1999	1998	1997	***1999***
Purchases from (Cost of Sales):				
"NSC"	**¥ 67,886**	¥ 68,829	¥ 63,123	***$ 563,136***
Subsidiaries and affiliates:				
Shinnikka Trading Co., Ltd.	**5,030**	5,766	5,2954	***1,725***
Nippon Styrene Monomer Co., Ltd.	**9,172**	11,009	10,0857	***6,085***
NSCC Polymer Company Ltd.	**936**	227	3,989	***7,764***
Nippon Steel Chemical Carbon Co., Ltd.	**0**	3	3,609	***0***
Nippon Phenol Company Ltd.	**9,528**	11,242	9,985	***79,038***
Kyushu AromaTechs Co., Ltd.	**6,261**	8,387	7,571	***51,937***
Nippon Bisphenol Company Ltd.	**9,940**	10,668	10,566	***82,455***
NIPPON CRENOL Company Limited	**828**	1,053	979	***6,868***
NSCC TECHNO-CARBON Co., Ltd.	**0**	591	2,441	***0***
Nagoya Esment Co., Ltd.	**1,324**	1,948	1,810	***10,983***
SA CARBON Co., Ltd.	**1,133**	1,248	1,127	***9,399***
Other	**1,852**	4,023	9,319	***15,363***
	46,004	56,165	66,776	***381,617***
	113,890	124,994	129,8999	***44,753***
Outside suppliers	**90,414**	108,186	102,261	***750,013***
Total cost of sales	**¥204,304**	¥233,180	¥232,160	***$1,694,766***

	Millions of yen			*Thousands of U.S. dollars*
	1999	1998	1997	***1999***
Other Related Party Transactions:				
Gain on sales of investments in subsidiaries and affiliates	**¥ —**	¥994	¥ —	***$ —***
Gain/(loss) on sales of property	**7,675**	987	(1,674)	***63,667***
Gain on retirement of convertible bonds by purchase	**1,191**	—	—	***9,880***

16. Losses Recognized Under the Mid-Term Management Plan 1997

During the year ended March 31, 1997, the Company established the “Mid-Term Management Plan 1997” aiming at the restructuring of the business operations for improved efficiency and cost reduction.

Under the Plan, the decision was made to liquidate several unprofitable subsidiaries and affiliates of the Company and in connection therewith, the Company set up a reserve for future losses to be recognized upon ultimate dissolution of these group companies as “Reserve for loss on planned liquidation/dissolution of subsidiaries and affiliates”, and the reserve in an amount of ¥14,771 million was provided for during the year 1997.

The Plan requires the take-downs and disposal of production facilities of certain unprofitable business segments which are scheduled to be discontinued.

The Plan also includes measures for disposal of products and termination of research and development activities related thereto in the unprofitable segments.

Based on these measures adopted in the Plan, the Company recorded loss on disposal of property, inventory and deferred charges in the year 1997 as follows:

	Millions of yen
Loss on disposal of production facilities	¥(10,078)
Loss on disposal of inventory items	(1,256)
Write-off of deferred charges	(1,793)
	¥(13,127)

In addition, the Company set up the reserve for loss on planned take-downs of property in an amount of ¥1,555 million, which is estimated as a result of the operations of business segments to be discontinued under the Plan.

During the year ended March 31, 1999, the Company reviewed the “Mid-Term Management Plan 1997”, and recorded loss resulted from transfer of certain business segments as follows:

Provision for reserve for loss on restructuring measurements	**¥(8,174)**
Loss on sales of production facilities	**(5,345)**
Gain on sales of land	**9,507**
Gain on transfer of goodwill	**614**
	¥(3,398)

17. Subsequent Event

The appropriations of accumulated deficit in respect of the year ended March 31, 1999 proposed by the Board of Directors and approved by the shareholders’ meeting held on June 25, 1999 are as follows:

	Millions of yen	*Thousands of U.S. dollars*
Deficit at March 31, 1999	**¥(18,217)**	***$(151,116)***
Reversal of special tax-purpose reserves	**338**	***2,804***
Deficit to be carried forward to the next year	**¥(17,879)**	***$(148,312)***

Report of the Independent Certified Public Accountants on the Non-Consolidated Financial Statements

To the Board of Directors
Nippon Steel Chemical Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Nippon Steel Chemical Co., Ltd. as of March 31, 1999 and 1998, and the related non-consolidated statements of income, shareholders’ equity and cash flows for each of the three years in the period ended March 31, 1999, all expressed in Japanese yen. Our audits were made in accordance with the auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Nippon Steel Chemical Co., Ltd. as of March 31, 1999 and 1998, and the non-consolidated results of its operations and the cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

The amount expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying non-consolidated financial statements.

Chuo Audit Corporation

Chuo Audit Corporation

June 25, 1999
Tokyo, Japan

Corporate Directory

ORGANIZATION CHART

HEAD OFFICE

Personnel Department

General Administration Department

Corporate Planning Department

Budget, Accounts & Finance Department

Purchase & Physical Distribution Department

Technical Department

Environment, Safety & Quality Assurance Department

Research & Development Laboratories
- Fundamental Materials Research & Development Center
- Specialty Materials Research & Development Center
- Process Development & Engineering Center

Carbon Materials & Gas Division
- Coke Department
- Kimitsu Works
- Carbon Materials Department
- Gas Department

Chemicals Division
- Basic Chemicals Department I
  Oita Works
  Sakai Phthalic Anhydride Plant
- Basic Chemicals Department II
- Plastics Department

Specialty Chemicals Division
- Specialty Chemicals Department
  Tribology Center
- Paints Department

Composite Materials Division
- Prepreg Plant

Advanced Materials Division
- Electronic Materials Research & Development Center

Construction Materials Department

BRANCHES

Kyushu

Osaka

Nagoya

WORKS

Kyushu

Hirohata

BOARD OF DIRECTORS

Chairman

Rokuro Suehiro

President

Takaki Yamatoya

Managing Directors

Kouji Kadotani

Shigeo Hayashi

Takenori Yoshida

Takao Nakanishi

Yoshifumi Nagashima

Masateru Nose

Takashi Mizuno

Directors

Yoshiharu Horita

Norihito Kawamura

Haruhiko Aoi

Standing Auditor

Junji Komatsu

Auditors

Satoshi Ushiyama

Takeshi Yoshii

Atsushi Suganuma

MAJOR PRODUCTS

Carbon Materials and Industrial gases

Metallurgical coke, pitch coke, pitch, creosote oil, industrial gases (hydrogen, argon, oxygen, nitrogen, carbon dioxide)

Basic and Specialty Chemicals

Benzene, toluene, xylene, cyclohexane, styrene monomer, ammonium sulfate, naphthalene, phthalic anhydride, ammonia, phenol, bisphenol A, methanol, styrene resins, medical and agricultural raw materials and intermediates, information recording materials, dyes and pigment materials and intermediates, functional resins and materials, coumarone resins, perfume materials, electronic materials, special solvents, heat transfer mediums, high-performance synthetic lubricants, composites, carbon fiber prepregs

Construction Materials

Marine paints, industrial equipment and steel water piping paints, cable fire-resistant materials, wooden sound insulation flooring

MAJOR SUBSIDIARIES

NSCC Trading Co., Ltd.
7-21-11, Nishi-Gotanda Shinagawa-ku, Tokyo 141-0031

NSCC Polymer Co., Ltd.
Owada Shinden 598, Yachiyo 276-0046

Shinnikka Environmental Engineering Co., Ltd.
46-80, Oaza Nakabaru Sakinohama, Tobata-ku, Kita-kyushu 804-0002

Nippon Steel Chemical Rockwool Co., Ltd.
7-21-11, Nishi-Gotanda Shinagawa-ku, Tokyo 141-0031

Nippon Thermal Engineering Corporation
4-16, Yuubarumachi Yawatanishi-ku, Kita-kyushu 807-0813

Nippon Elec Co., Ltd.
5-14-17, Himonya Meguro-ku, Tokyo 152-0003

Nippon Steel Chemical Carbon Co., Ltd.
2-1-11, Nihonbashi Kayabacho Chuo-ku, Tokyo 103-0025

NSCC Techno-Carbon Co., Ltd.
62-6, Oosatocho Kawauchi Aza Nakasoneyama Kurokawa-gun, Miyagi 981-3514

Nippon Phenol Co., Ltd.
7-21-11, Nishi-Gotanda Shinagawa-ku, Tokyo 141-0031

Nippon Styrene Monomer Co., Ltd.
7-21-11, Nishi-Gotanda Shinagawa-ku, Tokyo 141-0031

SA Carbon Co., Ltd.
46-80, Oaza Nakabaru Sakinohama Tobata-ku, Kita-kyushu 804-0002

Nippon Bisphenol Co., Ltd.
46-80, Oaza Nakabaru Sakinohama Tobata-ku, Kita-kyushu 804-0002

Tohto Kasei Co., Ltd.
1-4-16, Nihonbashi Bakurocho Chuo-ku, Tokyo 103-0002

Shinnikka Thermal Ceramics Corporation
7-21-11, Nishi-Gotanda Shinagawa-ku, Tokyo 141-0031

Nitto Lite Co., Ltd.
1475, Fukutomishinmachi, Ashikaga 326-0332

Kyushu Aromatics Co., Ltd.
2-1-1, Uchisaiwaicho Chiyoda-ku, Tokyo 100-0011

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Thermofil, Inc.
6150 Whitmore Lake Road Brighton, Michigan 48116-1990 U.S.A.

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Room 1403, Landwide Commercial Building, 118-120 Austin Road, T.S.T. Kowloon, Hong Kong, China

Meiyang Hong Kong Ltd.
Room 1403, Landwide Commercial Building, 118-120 Austin Road, T.S.T. Kowloon, Hong Kong, China

Shenzhen Meiyang Plastic Ltd.
Che Gong Miao Industrial District, Shenzhen, China

NS&N (UK) Ltd.
28 New Lane, Havant, Hampshire P09 2NQ. U.K.

Thermofil Polymers (UK) Ltd.
28 New Lane, Havant, Hampshire P09 2NQ. U.K.

Thermofil Polymerés (France) S.A.
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Thermofil Polimeri (Italia) S.R.L.
Mottaiciata (Bl) Via Martiri della Liberta, 155/G-H CAP 13874, Italy

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