



Nippon Steel Chemical Co., Ltd.

ANNUAL REPORT 2000
APRIL 1.1999-MARCH 31.2000

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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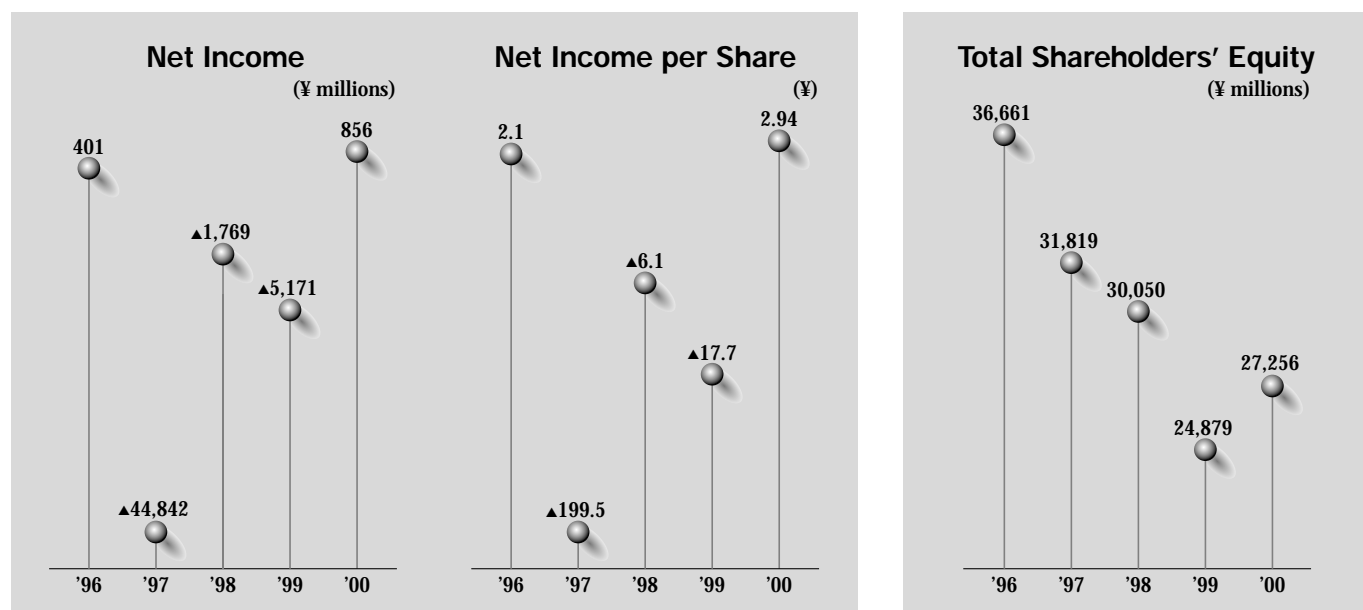
Financial Highlights

For the years ended March 31, 2000 and 1999

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

	2000	1999	% Change	2000
For the Year				
Net Sales	¥ 185,899	¥ 231,218	(19.6)	\$ 1,751,286
Operating Income	5,449	3,323	64.0	51,333
Net Income (Loss)	856	(5,171)	-	8,064
At Year-End				
Total Assets	¥ 237,492	¥ 260,313	(8.8)	\$ 2,237,324
Total Shareholders' Equity	27,256	24,879	9.6	256,770
Per Share				
Net Income (Loss)	¥ 2.94	¥ (17.74)	-	\$ 0.03

Note: US\$ amounts are calculated solely for the readers' convenience, at the rate of US\$1=¥106.15 for the year ended March 31st, 2000.



To Our Shareholders



Chairman Rokuro Suehiro (seated) and President Takaki Yamatoya

To Our Shareholders

In the term under review, the Japanese economy began showing signs of bottoming out with the government's measures to stimulate the economy putting a curb on the decline of business activity, and also with such overseas factors as the strong U.S. economy and the recovery of the Asian economies contributing to it. But the improvement was still not far-reaching enough, as Japan's personal consumption remained anemic and the Japanese yen appreciated to a higher level in the latter half of the term.

In the Japanese chemical industry, production and shipments kept a firm pace thanks to active exports of petrochemical and other products to China and other Asian countries. Meanwhile, the harsh business climate persisted due to the surging price of raw material naphtha.

In such a severe business environment, Nippon Steel Chemical exerted efforts to secure the expected profits in the final year of the Mid-Term Management Plan (FY1997-1999) through profitability improvement endeavors, including betterment of sales prices and thorough cost curtailment, while at the same time implementing steps conducive to the company's future growth.

Review of Operations

• Carbon Materials and Industrial Gases

This business sector saw a large decline in profit due to lower product prices and to the effect of the appreciation of the yen, although sales of products as a whole, including such mainstay products as metallurgical coke and pitch coke, were maintained at virtually the same level as in the previous year. Efforts focused on cultivating new customers and other sales promotion approaches and sustaining of profit performance through cost reduction and other measures.

As a result, the sector's sales came to ¥83,051 million in the term under review.

• Basic and Specialty Chemicals

In the area of basic chemicals, profit performance improved. Although raw materials prices soared, efforts were made to raise product prices and also sales increased thanks to the undertaking of commissioned production of phthalic anhydride through a business tie-up and expanded production capacity for bisphenol A at a subsidiary company.

The area of specialty chemicals was affected by the strong yen, but saw a gain in earnings. This resulted from the reinforcement of the sales system by responding to user needs on an integrated basis ranging from trial manufacture to commercialization and also from the marketing of such new products as high-performance EL (electroluminescence) display-related materials and a sensitizer for thermosensitive paper.

In the area of advanced materials, the brisk demand for cellular phones and other communications equipment led to a sharp gain in sales of electronics materials, including adhesive-free copper-clad laminated sheets and fine resins. Steady results were also seen in newly developed materials. Production capacities for adhesive-free copper-clad laminated sheets were strengthened in September 1999 in order to meet the strong demand. And to satisfy the continuing strong demand for these sheets, production capacities are being further reinforced.

As a result, the sector was able to record total sales of ¥96,985 million in the term under review.

• Construction Materials

The severe business environment continued for construction materials businesses in the midst of both demand and product price doldrums. Under these circumstances, the company actively pursued the attainment of higher efficiency through the streamlining of sales systems involving those of group companies.

In the paint business, the company newly marketed “Aroma Ace”, which does not impair the working environment, and “NB Coat Super 3000 GW” able to achieve substantial cost reduction in painting jobs. Thus, emphasis was placed on the development of new products that accurately respond to market needs, including those for environmental considerations.

As a result, the sector’s total sales amounted to ¥5,862 million in the term under review.

Operating Revenues

As a result of the foregoing, Nippon Steel Chemical’s sales for the term under review came to ¥185,899 million. This was a decline of ¥45,319 million from the previous term’s level, partly because of the effect of the transfer of certain businesses under the Mid-Term Management Plan. Nevertheless, consistent efforts to improve profitability over entire business sectors enabled the company to register an ordinary profit of ¥3,715 million, a sizable improvement of ¥3,368 million over the previous term. The net income for the term under review, after factoring the special loss of ¥15,821 million, including valuation losses on investment in securities and others (¥10,007 million), and the deferred tax assets of ¥13,000 million, amounted to ¥856 million, a strong gain of ¥6,028 million from the previous term.

Thus, Nippon Steel Chemical was able to operate in the term under review in the black, but was unable to emerge from its cumulative deficits. Regrettably, these operational results compelled the company to forgo the cash dividends for the term under review.

Future Management Tasks

We can look to the future with more confident expectations at long last. But optimism is not yet warranted because it is difficult to anticipate a rapid recovery in domestic personal consumption and private equipment investment. In addition, there are uncertainties about the future of the U.S. economy and developments in the exchange rate of the yen to the dollar.

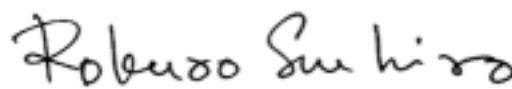
Meanwhile, the situation surrounding Japanese enterprises has been undergoing a radical change in light of such newly emerging developments as the progress of global standardization in the evaluation of enterprises, full-scale emergence of megacompetition and changing competitive structure beyond the framework of an industry.

To cope with such situation, we regard it as an urgent necessity to establish a business structure able to go

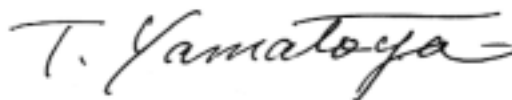
through market evaluation and secure a sound financial structure. In recognition of this, we have worked out a Mid-Term Consolidated Management Plan (FY2000-2002). This plan primarily proposes to put the keynote of the company’s operations on a consolidated management, thus seeking still higher profitability through drastic curtailment of fixed and other costs, reinforcement of the business foundation by exploring business opportunities in peripheral areas, and strategic input of managerial resources into the area of high-functional materials.

The plan puts special emphasis on improvement of profitability. It specifically sets the targets at securing an ordinary profit of ¥15 billion, reducing total assets to ¥290 billion or less and interest-bearing debt balance to ¥210 billion or less, and improving ROA to 5% or more in fiscal 2002, the final year of the plan, on a consolidated basis. To secure the attainment of these targets, the improvement of management software will also be pursued, centering on improvement of business promotion systems across all group companies, promotion of higher agility and efficiency in management and creation of a system capable of appropriately reflecting the performance of each business unit and each employee.

Nippon Steel Chemical positions this plan as an approach of utmost importance toward building a foundation for the company’s future growth and realizing a sound financial structure, so we are firmly resolved to pursue the attainment of the goal of the Mid-Term Consolidated Management Plan, by solidly consolidating the strengths of all group companies.



Rokuro Suehiro
Chairman



Takaki Yamatoya
President

June 29, 2000

Highlights of the Year

April 1999

Flip Chip-Interconnected Open Laboratory Inaugurated

Flip chips are attracting attention as the interconnection technology to realize higher integration and functions of electronic devices. An "Open Laboratory" that proposes total solutions that interconnects flip chips opened at the Electronic Materials Research & Development Center. A system which provides visitors with the opportunity for free technical exchanges was set up, and at the same time development and marketing of related materials were started.

July 1999

Oita Works Given Safety Prize



Oita Works has maintained an accident-free record for about 30 years since its inauguration. The Labor Minister's Prize, Japan's most prominent honor concerning labor safety, was given in recognition of Oita Works' record.

July 1999

AROMA ACE, An Improved Version of Tar-Epoxy Paint, Marketed

A new type of paint, AROMA ACE, was put on the market. It features corrosion protectiveness, excellent application performance and low cost offered by tar-epoxy resin, and excludes restricted compound substances, realized by making the most of special aromatics.



August 1999

Both-side Rolled ESPANEX Equipment Started Operation

A mass-production line for both-side rolled ESPANEX commenced operation at the Electronic Materials Research & Development Center. ESPANEX is a copper-clad laminated sheet for flexible printed circuit boards requiring no adhesive bonding. The conventional mainstay of both-side products was the sheet product. Development of advanced technology by Nippon Steel Chemical made it possible to manufacture both-side rolled products that dispense with the need for adhesive bonding. The new production line satisfies the growing demand for both-sided product and the same time the increasing needs for stricter quality — stable dimensional accuracy, heat resistance and electric characteristics.

October 1999

Production Capacity of Bisphenol A Expanded

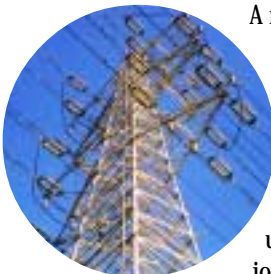
The Bisphenol A production plant at Kyushu Works is in full operation, supported by active demand mainly for polycarbonate resins.



To meet such demand, its annual production capacity was expanded from the previous 80,000 tons to 95,000 tons.

November 1999

New Corrosion-protective Paint NB Coat Super 3000 GW Marketed



A new type of heavy-duty corrosion-protective paint — NB Coat Super 3000 GW — for repair use, developed jointly with

Nippon Steel's Plant Engineering & Technology Center, was introduced on the market. The new paint offers high application efficiency, excellent durability when

applied on poor painting surfaces, and secures sufficient paint thickness even with one brush-applied coat, thus permitting reduction in the number of coats. It helps reduce the painting work and maintenance cost of painted structures.

April 2000

New Mid-Term Consolidated Management Plan Started

Nippon Steel Chemical concluded its three-year Mid-Term Management Plan (FY1997-1999). In fiscal 1999, the final year of the Plan, although its operations experienced a severe environment, Nippon Steel Chemical succeeded in attaining the profit target anticipated in the Plan through improvement of product prices, further reduction of costs and other similar measures. Following on from the Plan, the company implemented a new Mid-Term Consolidated Management Plan in April 2000. It aims at structuring a robust operating performance through improvement of profitability by strategically inputting managerial resources into functional product business, improvement of financial structure by reducing total assets and interest-bearing debts, and strengthening of consolidated management.

April 2000

Nippon Steel Chemical Website Established

The Nippon Steel Chemical Group set up a website. The operating fields of Nippon Steel Chemical, an outline of the Nippon Steel Chemical Group, recruiting information, company chronologies, statements of accounts, environmental issues being tackled and other latest information are available on the website.

URL <http://www.nsc.co.jp/>



Financial Statements

Financial Review

• Income Analysis

Nippon Steel Chemical's net sales for fiscal 1999 decreased by 19.6 percent, or ¥45,319 million, to ¥185,899 million (US\$1,751 million), as several businesses were transferred to its group companies. Operating income increased by 64.0 percent, or ¥2,126 million, to ¥5,449 million (US\$51 million), as a result of cost reduction. Net income was ¥856 million (US\$8 million), improving from a net loss of ¥5,171 million in the previous fiscal year. It was due to the increase in operating income and a lower amount of provision of reserve for loss on planned restructuring measures under the Mid-Term Management Plan than the previous fiscal year's level.

• Financial Position

Total assets at March 31, 2000 decreased by 8.8 percent, or ¥22,821 million, to ¥237,492 million (US\$2,237 million). Current assets decreased by 7.6 percent, or ¥8,047 million, to ¥97,441 million (US\$918 million). Investments and advances decreased by 15.3 percent, or ¥8,541 million, to ¥47,398 million (US\$446 million). Property, plant and

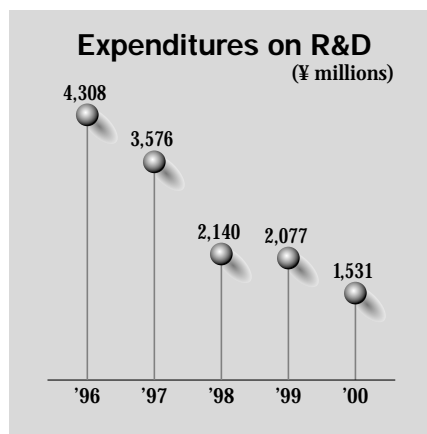
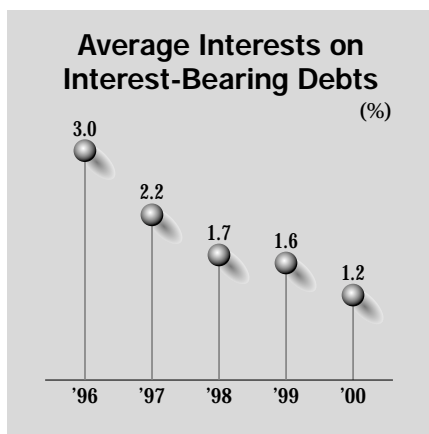
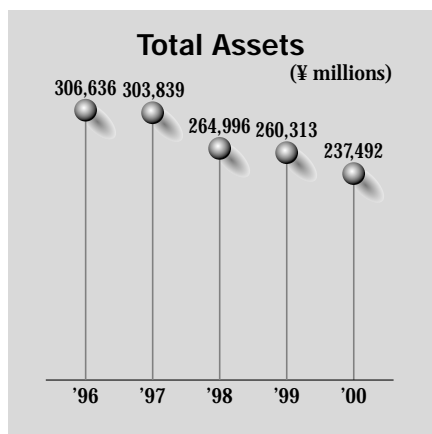
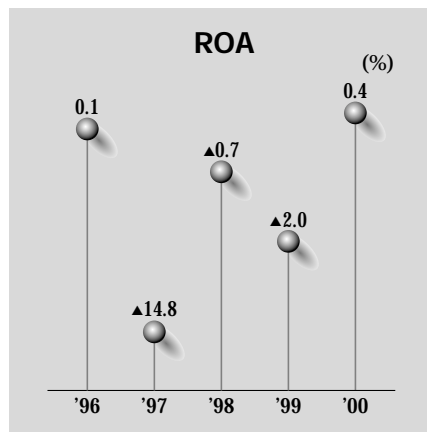
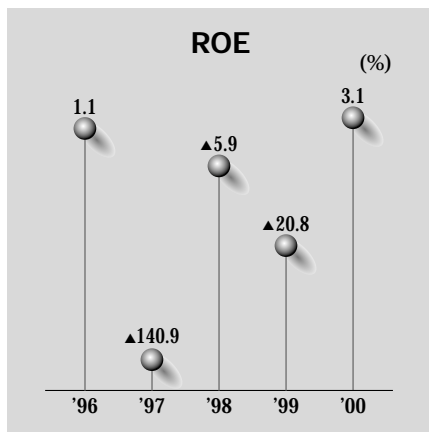
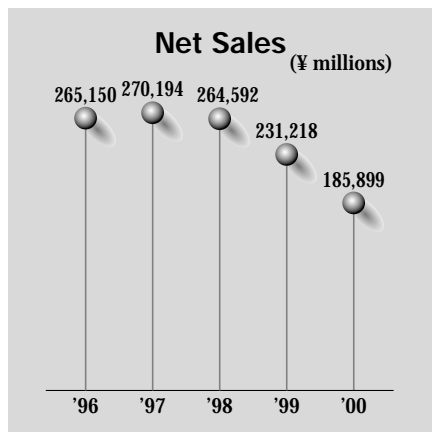
equipment decreased by 17.2 percent, or ¥16,237 million, to ¥78,435 million (US\$739 million).

On the other side of the balance sheet, current liabilities increased by 4.3 percent, or ¥6,999 million, to ¥169,131 million (US\$1,593 million). Long-term debt decreased by 36.8 percent, or ¥19,724 million, to ¥33,938 million (US\$320 million). Shareholders' equity increased by 9.6 percent, or ¥2,377 million, to ¥27,256 million (US\$257 million). The shareholders' equity ratio at the end of the fiscal year was 11.5 percent, compared with 9.6 percent at the end of the previous fiscal year.

• Cash Flows

A consolidated statement of cash flows was prepared with effect for the year ended March 31, 2000.

Net cash provided by operating activities was ¥12,771 million (US\$120 million). Net cash of ¥3,229 million (US\$30 million) was used in investing activities. Net cash of ¥32,796 million (US\$309 million) was used in financing activities. As a result of the above, there was a ¥23,410 million decrease in cash and cash equivalents to ¥22,075 million (US\$208 million).



Non-Consolidated Balance Sheets

As of March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	1999	2000
ASSETS			
Current Assets:			
Cash and bank deposits	¥11,203	¥ 21,336	\$ 105,539
Money trust for investments in marketable securities	7,372	15,522	69,449
Marketable securities (Note 4)	626	952	5,897
Notes and accounts receivable — trade:			
Outside customers	20,639	23,259	194,433
“NSC”	6,183	9,428	58,248
Subsidiaries and affiliates	13,069	8,936	123,118
	39,891	41,623	375,799
Allowance for bad debts	(21)	(120)	(198)
	39,870	41,503	375,601
Inventories (Note 6)	20,630	23,553	194,348
Short-term loans to subsidiaries	14,110	—	132,925
Deferred income taxes (Note 10)	280	—	2,638
Other current assets	3,350	2,622	31,559
Total current assets	97,441	105,488	917,956
Property, Plant and Equipment (Note 8):			
Buildings and structures	45,394	49,980	427,640
Machinery and equipment	230,060	246,040	2,167,310
	275,454	296,020	2,594,950
Accumulated depreciation	(207,566)	(210,559)	(1,955,403)
	67,888	85,461	639,547
Land	7,607	4,982	71,663
Construction in progress	2,940	4,229	27,697
	78,435	94,672	738,907
Investments and Advances:			
Investments in securities (Notes 4 and 8)	12,453	15,793	117,315
Investments in and advances to subsidiaries and affiliates (Note 7)	30,184	29,473	284,352
Long-term loans and other investments	4,761	10,673	44,852
	47,398	55,939	446,519
Deferred Taxes (Note 10)	12,720	—	119,830
Deferred Charges and Intangibles	1,498	4,214	14,112
	¥237,492	¥260,313	\$2,237,324

The accompanying notes are an integral part of the statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	1999	2000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 8)	¥109,004	¥93,760	\$1,026,886
Current maturities of long-term debt (Note 8)	24,984	33,629	235,365
Notes and accounts payable — trade:			
Outside suppliers	10,507	12,016	98,983
“NSC”	6,484	4,860	61,083
Subsidiaries and affiliates	11,814	9,229	111,295
	28,805	26,105	271,361
Non-trade accounts payable	1,412	2,555	13,302
Income taxes payable (Note 10)	30	38	283
Accrued expenses	3,434	4,320	32,350
Other current liabilities	1,462	1,725	13,773
Total current liabilities	169,131	162,132	1,593,320
Long-term Debt (Note 8)	33,938	53,662	319,717
Reserve for Employees' Retirement Benefits (Note 11)	5,084	5,244	47,894
Reserve for Loss on Restructuring Measures under Review of the Mid-Term Management Plan (Note 16)	982	8,175	9,251
Reserve for Loss on Planned Liquidation/Dissolution of Subsidiaries and Affiliates (Note 16)	—	6,221	—
Deferred Income Tax related to Land Revaluation	1,101	—	10,372
Contingent Liabilities (Note 9)			
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized: 600,000,000 shares at March 31, 2000 and 1999			
Issued: 291,455,003 shares at March 31, 2000 and 1999	40,966	40,966	385,926
Reserve for revaluation of land (Note 17)	1,521	—	14,329
Special tax-purpose reserves (Note 13)	1,792	2,130	16,882
Accumulated deficit (Note 18)	(17,023)	(18,217)	(160,367)
Total shareholders' equity	27,256	24,879	256,770
	¥237,492	¥260,313	\$2,237,324

The accompanying notes are an integral part of the statements.

Non-Consolidated Statements of Income

For the years ended March 31, 2000, 1999 and 1998

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2000	1999	1998	2000
Net Sales (Note 15)	¥185,899	¥231,218	¥264,592	\$1,751,286
Cost of Sales (Note 15)	166,157	204,304	233,180	1,565,304
Gross profit	19,742	26,914	31,412	185,982
Selling, General and Administrative Expenses	14,293	23,591	27,858	134,649
Operating income	5,449	3,323	3,554	51,333
Non-Operating Income (Expenses):				
Interest and dividend income	1,126	293	301	10,608
Interest expenses	(2,440)	(3,117)	(3,541)	(22,986)
Loss on sales of marketable securities	—	(1,290)	—	—
Gain on sales of investment securities (Note 15)	—	—	994	—
Loss on sales/disposal of property	(941)	(773)	(93)	(8,865)
Gain on restructuring measures under the Mid-Term Management plan (Note 16)	—	4,777	—	—
Prior service cost of pension plan	(316)	(591)	(945)	(2,977)
Special retirement expenses	(1,454)	(606)	(1,698)	(13,698)
Loss on dissolution of subsidiaries and affiliates	(463)	—	—	(4,362)
Write-down of investments in securities	(10,007)	—	—	(94,272)
Write-off of deferred development costs	(2,567)	—	—	(24,183)
Provision for reserve for loss on planned restructuring measures under the Mid-Term Management plan (Note 16)	(70)	(8,175)	—	(659)
Gain on retirement of convertible bonds by purchase (Note 15)	52	1,368	—	490
Other, net	(476)	(331)	(292)	(4,484)
	(17,556)	(8,445)	(5,274)	(165,388)
Loss before income taxes	(12,107)	(5,122)	(1,720)	(114,055)
Income Taxes (Note 10):				
Current	37	49	49	349
Deferred	(13,000)	—	—	(122,468)
	(12,963)	49	49	(122,119)
Net income (loss)	¥ 856	¥ (5,171)	¥ (1,769)	\$ 8,064
		Yen		U.S. dollars (Note 3)
Per Share Data:				
Net income (loss)	¥ 2.94	¥(17.74)	¥ (6.07)	\$ 0.03
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, 2000, 1999 and 1998

	Millions of Yen						
	Number of shares of common stock	Common stock	Reserve for revaluation of land	Additional paid-in capital	Legal reserve (Note 12)	Special tax-purpose reserves	Accumulated deficit
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 legal reserve (Note 14)	—	—	—	—	(1,572)	—	1,572
Transfer from special tax-purpose reserves	—	—	—	—	—	(16,474)	16,474
Transfer to special tax-purpose reserves	—	—	—	—	—	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	—	—	—	—	—	(300)	300
Cumulative effect of accounting change	—	—	—	—	—	(1,542)	1,542
Balance at March 31, 1999	291,455,003	40,966	—	—	—	2,130	(18,217)
Net income	—	—	—	—	—	—	856
Transfer from special tax-purpose reserves	—	—	—	—	—	(338)	338
Reserve for revaluation of land	—	—	1,521	—	—	—	—
Balance at March 31, 2000	291,455,003	¥40,966	¥1,521	¥ —	¥ —	¥1,792	¥(17,023)

Thousands of U.S. Dollars (Note 3)

	Thousands of U.S. Dollars (Note 3)						
	Number of shares of common stock	Common stock	Reserve for revaluation of land	Additional paid-in capital	Legal reserve (Note 12)	Special tax-purpose reserves	Accumulated deficit
Balance at March 31, 1999	291,455,003	\$385,926	\$—	\$—	\$—	\$20,066	\$(171,615)
Net income	—	—	—	—	—	—	8,064
Transfer from special tax-purpose reserves	—	—	—	—	—	(3,184)	3,184
Reserve for revaluation of land	—	—	14,329	—	—	—	—
Balance at March 31, 2000	291,455,003	\$385,926	\$14,329	\$—	\$—	\$16,882	\$(160,367)

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 financial position and results of operations 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 195,530 thousand and 195,532 thousand shares of common stock of the Company at March 31, 2000 and 1999, respectively, which represented 67.1 percent and 67.1 percent of the shares outstanding at March 31, 2000 and 1999, respectively.

(3) Cash flow statements

A non-consolidated statement of cash flows is not required to be prepared in accordance with the Japanese accounting standard. Instead of this, a consolidated statement of cash flows is shown on page 23.

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, with 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, with cost being determined by the moving average method.
- * Supplies — at the lower of cost or market, with 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 and affiliates 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 increased by ¥76 million each.

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

(6) Amortization

Until the year ended March 31, 1999, development costs for new products and technology for new business were deferred and amortized on a straight-line basis over a five-year period.

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

At March 31, 1999, the balance of unamortized development costs included in "Deferred Charges" in the accompanying non-consolidated balance sheet was ¥2,567 million.

Effective April 1, 1999, the Company adopted the new accounting standard for research and development costs. This standard requires that research and development costs be charged to income when incurred. In implementing this new standard, the Company immediately charged ¥2,567 million (*\$24,183 thousand*), which represented the cumulative effect of the change in accounting for years prior to April 1, 1999, to the income for the year ended March 31, 2000. The adoption of this new standard increased "Operating income" and "Loss before income taxes" by ¥165 million (*\$1,554 thousand*) and ¥2,402 million (*\$22,628 thousand*), respectively.

Expenditure relating to computer software developed for internal use is charged to income when incurred, except when it contributes to the generation of income or to future cost savings. Such expenditure is capitalized as an asset and amortized using the straight-line method over its estimated useful life of 5 years.

(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

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 payable are provided for based on the amount required by the tax returns for the financial year. Until the year ended March 31, 1998, no tax effect was recorded for timing differences in the recognition of certain revenue and expenses between tax and financial reporting.

With effect from the year ended March 31, 1999, the Company 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, when compared with the previous basis.

(10) 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.

(11) 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.

(12) 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.

Because there is no dilutive effect of convertible bonds on net income per share, diluted net income per share is not disclosed for the year ended March 31, 2000.

Since net loss per share was recorded, diluted net loss per share is not disclosed for the year ended March 31, 1999 and 1998.

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 ¥106.15 = 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 ¥106.15 = 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, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Marketable securities:			
Corporate shares	¥135	¥135	\$1,272
Certificates of investment fund trust	491	817	4,625
	<u>¥626</u>	<u>¥952</u>	<u>\$5,897</u>
Investments in securities:			
Corporate shares	¥12,439	¥15,769	\$117,183
Convertible bonds	9	19	85
Non-share equity investment	5	5	47
	<u>¥12,453</u>	<u>¥15,793</u>	<u>\$117,315</u>

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

	Millions of Yen		
	Book value per balance sheet	Market value	Unrealized gain (loss)
Marketable securities: (current portfolio)			
Corporate shares	¥135	¥111	¥(24)
Other securities	817	588	(229)
	<u>¥952</u>	<u>¥699</u>	<u>¥(253)</u>
Investments in securities:			
Corporate shares			
Market value available	¥14,523	¥6,261	¥(8,262)
Market value not available	1,246	—	—
Bonds and debentures	19	19	(0)
Other securities	5	—	—
	<u>¥15,793</u>	<u>¥6,280</u>	<u>¥(8,262)</u>

Market value information is not required to be prepared with effect for the year ended March 31, 2000, in accordance with the new Japanese accounting standard. Instead of this, a consolidated market value information is shown on page 24.

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, no significant losses are anticipated from the arrangements described above.

The Company's 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 financial institutions. 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 financial institutions.

Information on derivatives is not required to be prepared with effect for the year ended March 31, 2000, in accordance with the new Japanese accounting standard. Instead of this, a consolidated information on derivatives is shown on page 24.

6. Inventories

Inventories at March 31, 2000 and 1999 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Products	¥9,226	¥11,238	\$86,915
Semi-finished products	2,334	1,839	21,988
Raw materials	6,207	7,480	58,474
Supplies	2,863	2,996	26,971
	<u>¥20,630</u>	<u>¥23,553</u>	<u>\$194,348</u>

7. Investments in and Advances to Subsidiaries and Affiliates

Investments in and advances to subsidiaries and affiliates at March 31, 2000 and 1999 were as follows:

	Percentage of ownership	Thousands of Millions of Yen			U.S. Dollars	
		2000		1999	2000	
		Investments in common shares	Advances	Total	Total	Total
Nippon Steel Chemical Rockwool Co., Ltd.	100.0%	¥1,808	¥—	¥1,808	¥1,480	\$17,033
NSCC Trading Co., Ltd.	100.0	450	—	450	450	4,239
NSCC Polymer Company Ltd.	100.0	303	—	303	3,102	2,854
Nippon Esmarl Co., Ltd.	100.0	0	2,265	2,265	2,250	21,338
Nippon Steel Chemical Corporation of America	100.0	3,990	—	3,990	3,575	37,588
NSCC Compounds (Malaysia) SDN. BHD.	100.0	917	—	917	917	8,639
NSCC ASIA LIMITED	100.0	711	—	711	710	6,698
Nippon Elec Co., Ltd.	99.5	4,127	3,034	7,161	5,967	67,461
Nippon Thermal Engineering Corporation	97.1	369	—	369	368	3,476
Nippon Steel Chemical Carbon Co., Ltd.	90.0	473	—	473	472	4,456
NSCC TECHNO-CARBON CO., LTD.	89.2	1,294	—	1,294	1,293	12,190
Nippon Phenol Company Ltd.	87.5	420	—	420	420	3,957
NS & N (UK) LTD.	80.0	2,024	—	2,024	2,024	19,067
Nippon Bisphenol Company Ltd.	75.7	252	—	252	252	2,374
Nippon Styrene Monomer Co., Ltd.	65.0	260	—	260	260	2,449
Tohto Kasei Co., Ltd.	50.4	3,296	—	3,296	3,296	31,050
Shinnikka Thermal Ceramics Co., Ltd.	50.0	268	—	268	268	2,525
TOYO STYRENE CO., LTD.	35.0	1,750	—	1,750	126	16,486
Nittetsu Chemical Engineering Ltd.	33.3	272	—	272	272	2,562
Nanbu Plastics Co., Ltd.	29.4	301	—	301	301	2,836
Other	—	1,280	—	1,280	1,350	12,059
		¥24,885	¥5,299	¥30,184	¥29,473	\$284,352

None of investments in subsidiaries and affiliates held by the Company has its market value at March 31, 2000, except Nanbu Plastics Co., Ltd. and Kukdo Chemical Industry Co., Ltd.

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

Short-term bank loans outstanding at March 31, 2000 and 1999 were generally represented by several-month term notes issued by the Company to banks bearing interest at an annual rate ranging from 0.62 percent to 7.19 percent and from 0.45 percent to 1.45 percent at March 31, 2000 and 1999, 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, 2000 and 1999 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Maximum month-end balance	¥109,004	¥95,760	\$1,026,886
Average month-end balance	¥102,250	¥91,623	\$963,260

Long-term debt of the Company at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Long-term borrowings from banks and other financial institutions secured by collaterals/ mortgages, bearing interest at rates ranging from 0.66 percent to 6.70 percent per annum, due through 2022 in installments	¥44,374	¥71,503	\$418,031
2.2 percent convertible mortgage debentures due March 2003 in yen	2,687	2,760	25,313
2.5 percent convertible mortgage debentures due March 2004 in yen	5,539	5,696	52,181
2.0 percent convertible mortgage debentures due March 2005 in yen	5,894	6,856	55,525
Guarantee deposits received	428	476	4,032
	<u>58,922</u>	<u>87,291</u>	<u>555,082</u>
Less: portion due within one year	<u>(24,984)</u>	<u>(33,629)</u>	<u>(235,365)</u>
	<u>¥33,938</u>	<u>¥53,662</u>	<u>\$319,717</u>

Additional information with respect to the Company's convertible notes outstanding at March 31, 2000 is as follows:

Description	Issued in	Initial principal (millions)	Terms of conversion at March 31, 2000		
			Conversion price per share (*1)	Number of shares issuable upon full conversion (in thousands)	Other conditions
2.2 percent convertible mortgage debentures due March 2003 in Yen	Dec. 1987	¥10,000	¥880.1	3,053	(*2) (*3)
2.5 percent convertible mortgage debentures due March 2004 in Yen	Dec. 1988	¥10,000	¥947.8	5,844	(*2) (*4)
2.0 percent convertible mortgage debentures due March 2005 in Yen	Feb. 1990	¥15,000	¥1,210.0	<u>4,871</u> <u>13,768</u>	(*2) (*5)

(*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.

The Company's assets pledged as collateral for long-term borrowings from banks and other financial institutions (¥44,140 million) and convertible bonds (¥14,120 million) at March 31, 2000 are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment, net of accumulated depreciation:		
Buildings and structures	¥15,599	\$146,952
Machinery and equipment	46,591	438,917
Land	4,060	38,248
	¥66,250	\$624,117
Investments in securities	¥10,078	\$94,941

The aggregate annual maturities of long-term debt outstanding at March 31, 2000 during the succeeding five-year period are as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2001	¥24,984	\$235,365
2002	7,979	75,167
2003	10,464	98,577
2004	8,116	76,458
2005	6,289	59,246
2006 and after	1,090	10,269
	¥58,922	\$555,082

9. Contingent Liabilities and Lease Commitments

The Company was contingently liable for guarantee (¥6,119 million) and forward guarantee (¥69,977 million) of loans and other debt made by its subsidiaries and affiliates at March 31, 2000, as follows:

	Millions of Yen	Thousands of U.S. Dollars
Debt of:		
NSCC Trading Co., Ltd.	¥21,701	\$204,437
Tohto Kasei Co., Ltd.	18,463	173,933
Nippon Elec Co., Ltd.	8,407	79,199
Nippon Steel Chemical Rockwool Co., Ltd.	8,345	78,615
NSCC Polymer Company Ltd.	4,200	39,567
Nippon Elec (Malaysia) SDN. BHD.	3,178	29,939
NSCC TECHNO-CARBON CO., LTD.	2,400	22,610
Nippon Steel Chemical Carbon Co., Ltd.	1,479	13,933
Nippon Thermal Engineering Corporation	1,210	11,399
Nippou Trading Co., Ltd.	1,200	11,305
Other	5,513	51,936
	¥76,096	\$716,873

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, 2000 and 1999 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, 2000 and 1999, were summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2000			1999			2000		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥844	¥772	¥72	¥1,210	¥1,023	¥187	\$7,951	\$7,273	\$678
Tools, furniture and fixture	214	164	50	497	369	128	2,016	1,545	471
Others	8	3	5	44	33	11	75	28	47
	¥1,066	¥939	¥127	¥1,751	¥1,425	¥326	\$10,042	\$8,846	\$1,196

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Depreciation	¥193	¥274	\$1,818

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, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year	¥105	¥195	\$989
Due over one year	22	131	207
	¥127	¥326	\$1,196
Lease rental expenses for the year	¥193	¥274	\$1,818

10. Income Taxes

Income taxes in Japan applicable to the Company for each of the three years in the period ended March 31, 2000 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income		
	2000	1999	1998
Corporate income tax	30.0%	34.5%	37.5%
Enterprise tax	9.6	11.6	13.0
Resident income taxes	6.2	7.1	7.7
	45.8%	53.2%	58.2%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	41.8%	47.7%	51.5%

During the three years ended March 31, 2000, the Company incurred loss for both financial reporting and tax reporting purposes. Under the current Japanese tax laws, the 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, 2000, 1999 and 1998 represents fixed charge of resident income taxes which are levied without regard to taxable income.

The components of the deferred tax assets and deferred tax liabilities at March 31, 2000 and 1999 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Deferred tax assets due to:			
Reserve for employees' retirement benefits	¥2,092	¥2,037	\$19,708
Accrued employees' bonuses	280	—	2,638
Reserve for loss on planned liquidation/dissolution of subsidiaries and affiliates	—	2,612	—
Reserve for loss on restructuring measures	412	3,433	3,881
Loss carryforwards	16,178	13,744	152,407
Other	5,526	1,511	52,058
	24,488	23,337	230,692
Valuation allowance	(10,317)	(22,040)	(97,192)
Total	14,171	1,297	133,500
Deferred tax liabilities due to:			
Special tax purpose reserve	(1,171)	(1,297)	(11,032)
Net deferred tax assets (liabilities)	¥13,000	¥0	\$122,468

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 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 ¥6,437 million (\$60,641 thousand) at September 30, 1999, 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 Legal Reserve

The Company reversed additional paid-in capital (¥33,402 million) and legal reserve (¥1,572 million) to cover the deficit at March 31, 1997 (¥60,595 million) after approval of the shareholders' 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, 2000 classified by related parties is summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Net Sales to: "NSC"	¥66,585	¥86,127	¥95,448	\$627,273
Subsidiaries and affiliates:				
NSCC Trading Co., Ltd.	9,466	11,211	11,423	89,176
Nippon Styrene Monomer Co., Ltd.	1,876	1,775	2,057	17,673
Nippon Thermal Engineering Corporation	2	262	1,000	19
Nippon Bisphenol Company Ltd.	2,882	1,743	1,786	27,150
Tohto Kasei Co., Ltd.	1,010	865	875	9,515
Nippon Phenol Company Ltd.	2,492	1,909	2,036	23,476
Nissei Bussan Co., Ltd.	8	884	794	75
NSCC Polymer Co., Ltd.	61	1,906	2,707	575
NIPPON CRENOL Company Limited	576	477	638	5,426
SA CARBON Co., Ltd.	1,680	1,703	1,948	15,827
TOYO STYRENE CO., LTD.	6,703	—	—	63,146
Other	6,164	3,372	3,854	58,069
	32,920	26,107	29,118	310,127
	99,505	112,234	124,566	937,400
Outside customers	86,394	118,984	140,026	813,886
Total net sales	¥185,899	¥231,218	¥264,592	\$1,751,286

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, 2000 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Purchases from (Cost of Sales): "NSC"	¥48,959	¥67,886	¥68,829	\$461,225
Subsidiaries and affiliates:				
NSCC Trading Co., Ltd.	4,185	5,030	5,766	39,425
Nippon Styrene Monomer Co., Ltd.	9,060	9,172	11,009	85,351
NSCC Polymer Company Ltd.	606	936	227	5,709
Nippon Steel Chemical Carbon Co., Ltd.	0	0	3	0
Nippon Phenol Company Ltd.	9,053	9,528	11,242	85,285
Kyusyu Aromatics Company Ltd.	7,175	6,261	8,387	67,593
Nippon Bisphenol Company Ltd.	10,456	9,940	10,668	98,502
NIPPON CRENOL Company Limited	969	828	1,053	9,129
NSCC TECHNO - CARBON CO., LTD.	0	0	591	0
Nagoya Esment Co., Ltd.	—	1,324	1,948	—
SA CARBON Co., Ltd.	1,023	1,133	1,248	9,637
TOYO STYRENE CO., LTD.	2,650	—	—	24,965
Other	1,784	1,852	4,023	16,806
	46,961	46,004	56,165	442,402
	95,920	113,890	124,994	903,627
Outside suppliers	70,237	90,414	108,186	661,677
Total cost of sales	¥166,157	¥204,304	¥233,180	\$1,565,304

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Other Related Party Transactions:				
Gain on sales of investments in subsidiaries and affiliates	¥—	¥—	¥994	\$—
Gain on sales of property	—	7,675	987	—
Gain on retirement of convertible bonds by purchase	—	1,191	—	—
Interest income	204	—	—	1,922
Dividends received	708	—	—	6,670

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.

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)
	¥(3,398)

17. Land Revaluation

In accordance with the Law concerning Revaluation of Land enacted on March 31, 1998 and amended on March 31, 1999, the land used for business owned by the Company was revalued as of March 31, 2000, and the unrealized gain on the revaluation, net of deferred tax, was reported as "Reserve for revaluation of land" within Shareholders' Equity. Relevant deferred tax was included in non-current liabilities as "Deferred income tax related to land revaluation" at March 31, 2000. As a result, total assets, total liabilities and shareholders' equity increased by ¥2,622 million (*\$24,701 thousand*), ¥1,101 million (*\$10,372 thousand*) and ¥1,521 million (*\$14,329 thousand*), respectively, at March 31, 2000. As at March 31, 2000, the revaluation date, the book value of the land before revaluation was ¥4,985 million (*\$46,962 thousand*) and that after revaluation was ¥7,607 million (*\$71,663 thousand*).

18. Subsequent Events

(1) The disposition of accumulated deficit in respect of the year ended March 31, 2000 proposed by the Board of Directors and approved by the shareholders' meeting held on June 28, 2000 are as follows:

	Millions of Yen	<i>Thousands of U.S. Dollars</i>
Deficit at March 31, 2000	¥(17,023)	\$(160,367)
Reversal of special tax-purpose reserves	173	1,630
Deficit to be carried forward to the next year	¥(16,850)	\$(158,737)

(2) Upon the resolution made by the Board of Directors of the Company on April 27, 2000, the Company signed a basic agreement with ASAHI CHEMICAL INDUSTRY CO., LTD. to sell on or about June 30, 2000 all of its investment stock in Nippon Steel Chemical Corporation of America, wholly-owned subsidiary of the Company, and NS & N (UK) Ltd., 80.0 percent-owned subsidiary of the Company. The proceeds for these sales would be approximately ¥10,000 million (*\$94,206 thousand*) and the resulting gain of approximately ¥4,000 million (*\$37,683 thousand*) will be reported in the year ending March 31, 2001.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying non-consolidated balance sheets of Nippon Steel Chemical Co., Ltd. as of March 31, 2000 and 1999, and the related non-consolidated statements of income, shareholders' equity for each of the three years in the period ended March 31, 2000, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the 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, 2000 and 1999, and the non-consolidated results of its operations for each of the three years in the period ended March 31, 2000, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As explained in Note 2 (6) to the non-consolidated financial statements, since April 1, 1999, the new Financial Accounting Standard on Accounting for Research and Development Costs has been adopted by the Company.

Also in our opinion, the U.S. dollar amounts in the non-consolidated financial statements, referred to above have been translated from Japanese yen on the basis set forth in Note 3.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

June 28, 2000

Tokyo, Japan

(Reference-Unaudited)

NIPPON STEEL CHEMICAL CO., LTD. and Its Consolidated Subsidiaries

Consolidated Balance Sheet (Condensed)

As of March 31, 2000

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
	2000	2000
ASSETS		
Current Assets:		
Cash and bank deposits	¥ 26,188	\$ 246,707
Notes and accounts receivable — trade	56,377	531,107
Marketable securities (Note 1)	1,687	15,893
Inventories	32,924	310,165
Other current assets	6,399	60,282
Total current assets	123,575	1,164,154
Property, Plant and Equipment, net of accumulated depreciation:		
Buildings and structures	39,340	370,608
Machinery and vehicles	84,330	794,442
Land	31,683	298,474
Other	7,266	68,450
	162,619	1,531,974
Intangibles	2,353	22,167
Investments and Other Assets (Note 1)	45,650	430,052
Foreign Currency Translation Adjustment	3,026	28,507
	¥337,223	\$3,176,854
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes and accounts payable — trade	¥ 35,327	\$ 332,803
Short-term bank loans	228,828	2,155,704
Accrued expenses	8,656	81,545
Other current liabilities	5,515	51,955
Total current liabilities	278,326	2,622,007
Convertible Bonds	14,120	133,019
Long-term Bank Loans	30,283	285,285
Reserve for Employees' Retirement Benefits	5,612	52,869
Other	2,361	22,242
Minority Interests	2,286	21,536
Contingent Liabilities		
Shareholders' Equity:		
Common stock, ¥50 par value per share:		
Authorized 600,000,000 shares		
Issued 291,455,003 shares	40,966	385,926
Excess of land revaluation	1,521	14,329
Accumulated deficit	(38,252)	(360,359)
Less, treasury stock	0	0
Total shareholders' equity	4,235	39,896
	¥337,223	\$3,176,854

The accompanying notes are an integral part of the statements.

(Reference-Unaudited)

NIPPON STEEL CHEMICAL CO., LTD. and Its Consolidated Subsidiaries

Consolidated Statement of Income (Condensed)

For the year ended March 31, 2000

	Millions of Yen	<i>Thousands of U.S. Dollars (Note 3)</i>
	2000	2000
Net sales	¥276,462	\$2,604,447
Cost of sales	241,367	2,273,829
Selling, general and administrative expenses	26,032	245,238
Operating income	9,063	85,380
Non-Operating Income	2,055	19,359
Non-Operating Expenses	(6,097)	(57,438)
Special Losses	(16,800)	(158,267)
Income before income taxes and minority interests	(11,779)	(110,966)
Income taxes :		
Current	457	4,305
Deferred	(13,308)	(125,370)
Minority interests in income of consolidated subsidiaries	(12,851)	(121,065)
Net income	¥ 637	\$ 6,001

The accompanying notes are an integral part of the statements.

(Reference-Unaudited)

NIPPON STEEL CHEMICAL CO., LTD. and Its Consolidated Subsidiaries

Consolidated Statement of Cash Flows

For the year ended March 31, 2000

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
	2000	2000
Cash Flows from Operating Activities:		
Loss before income taxes and minority interests	¥(11,779)	¥(110,966)
Adjustments for:		
Depreciation and amortization	18,513	174,404
Amortization of deferred charges	2,949	27,781
Interest and dividend income	(405)	(3,815)
Interest expenses	4,671	44,004
Equity in income of non-consolidated subsidiaries and affiliates	(360)	(3,391)
Write-down of investments in securities	3,502	32,991
Decrease in trade receivables	837	7,885
Decrease in inventories	2,554	24,060
Increase in trade payables	1,740	16,392
Other	(4,628)	(43,598)
Subtotal	17,594	165,747
Interest and dividend income received	441	4,154
Interest expenses paid	(4,853)	(45,718)
Income taxes paid	(411)	(3,872)
Net cash provided by operating activities	12,771	120,311
Cash Flows from Investing Activities:		
Proceeds from sales of marketable securities	341	3,212
Payments for purchase of property, plant and equipment	(8,489)	(79,972)
Proceeds from sales of property, plant and equipment	6,839	64,428
Payments for purchase of investments in securities	(1,649)	(15,535)
Other	(271)	(2,553)
Net cash used in investing activities	(3,229)	(30,420)
Cash Flows from Financing Activities:		
Increase in short-term debt, net	3,209	30,231
Issuance of long-term debt	9,202	86,689
Repayment of long-term debt	(43,947)	(414,008)
Payments for purchase of convertible bonds for retirement	(1,140)	(10,740)
Cash dividends paid to minority shareholders	(120)	(1,130)
Net cash used in financing activities	(32,796)	(308,958)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(415)	(3,910)
Net Decrease in Cash and Cash Equivalents	(23,669)	(222,977)
Cash and Cash Equivalents at Beginning of Year	45,485	428,497
Cash and Cash Equivalents of New Consolidated Subsidiaries	259	2,440
Cash and Cash Equivalents at End of Year	¥22,075	¥207,960

The accompanying notes are an integral part of the statements.

Notes to the Consolidated Financial Statements

1. Market Value Information

Market value information on marketable securities and investments in securities held by the Company and its consolidated subsidiaries at March 31, 2000 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	¥222	¥229	¥7	\$2,091	\$2,157	\$66
Other securities	1,465	953	(512)	13,802	8,978	(4,824)
	¥1,687	¥1,182	¥(505)	\$15,893	\$11,135	\$(4,758)
Investments in securities:						
Corporate shares						
Market value available	¥17,358	¥14,748	¥(2,610)	\$163,523	\$138,935	\$(24,588)
Market value not available	6,353	—	—	59,849	—	—
Bonds and debentures	10	10	(0)	94	94	(0)
	¥23,721	¥14,758	¥(2,610)	\$223,466	\$139,029	\$(24,588)

2. Information on Derivatives

The Company and certain subsidiaries use derivative financial instruments, which comprise interest rate swap and interest option transactions to reduce their exposure to market risks from fluctuations in interest rates. The Company and certain subsidiaries do not hold or issue financial instruments for trading or speculative purposes.

Although the Company and certain subsidiaries may be exposed to losses in the event of nonperformance by counterparties or interest rate fluctuations, no significant losses are anticipated from the arrangements described above.

Interest rate transactions

The Company and certain subsidiaries have some interest rate swap and interest option transactions with financial institutions. These transactions are arranged to hedge against exposure of interest rate fluctuations of certain liabilities on the balance sheet.

The interest rate swap and interest option contracts outstanding at March 31, 2000 are summarized as follows:

	Millions of Yen		
	Contract value	Fair value	Valuation gain (loss)
Interest rate swap transactions:			
Receipt floating rate payment fixed rate	¥6,300	¥(122)	¥(122)
Receipt fixed rate payment floating rate	5,130	0	0
Interest cap:			
Purchased	680	—	—
[Premium fee paid]	[22]	[9]	(13)
Total gain (loss)			¥(135)

	Thousands of U.S. Dollars		
	Contract value	Fair value	Valuation gain (loss)
Interest rate swap transactions:			
Receipt floating rate payment fixed rate	\$59,350	\$(1,149)	\$(1,149)
Receipt fixed rate payment floating rate	48,328	0	0
Interest cap:			
Purchased	6,406	—	—
[Premium fee paid]	[207]	[85]	(122)
Total gain (loss)			\$(1,271)

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 financial institutions.

3. United States Dollar Amounts

The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥106.15 = 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 ¥106.15 = U.S.\$1 or at any other rate.

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 Factory
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 Branch

Osaka Branch

Nagoya Branch

WORKS

Kyushu Works

Hirohata Works

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

Tetsuo Seki

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, 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

NSCC Compounds (Malaysia) Sdn. Bhd.

Lot 72, Jalan Sementa 27/91 Section 27, 40400 Shah Alam Selangor D.E., Malaysia

NSCC ASIA Ltd.

Room F, 5/F, Cameron Plaza, 23 Cameron Road, Tsim Sha Tsui, Kowloon, Hong Kong, China

Meiyang Hong Kong Ltd.

Room F, 5/F, Cameron Plaza, 23 Cameron Road, Tsim Sha Tsui, Kowloon, Hong Kong, China

Shenzhen Meiyang Plastic Ltd.

Che Gong Miao Industrial District, Shenzhen, China

Dalian Nitto Plastic Molding Co., Ltd.

1A-5-1, Free Trade Zone, Dalian, China