Nippon Steel Chemical Co., Ltd.

ANNUAL REPORT 2002
APRIL 1.2001-MARCH 31.2002

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.

Contents

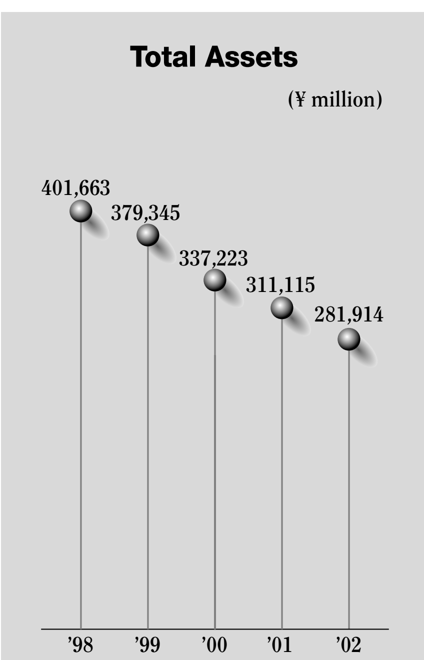
Financial Highlights

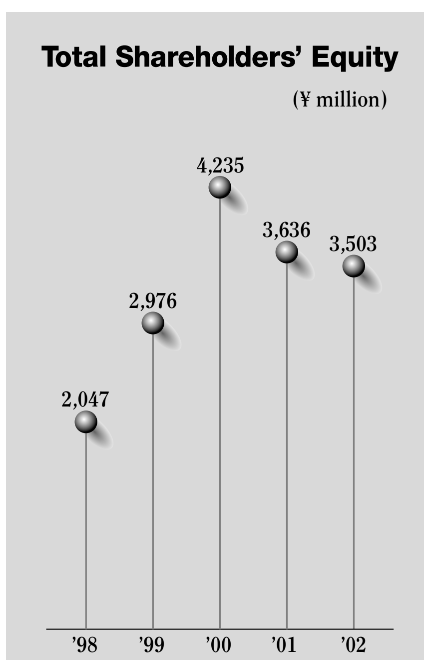
As of or for the years ended March 31, 2002 and 2001

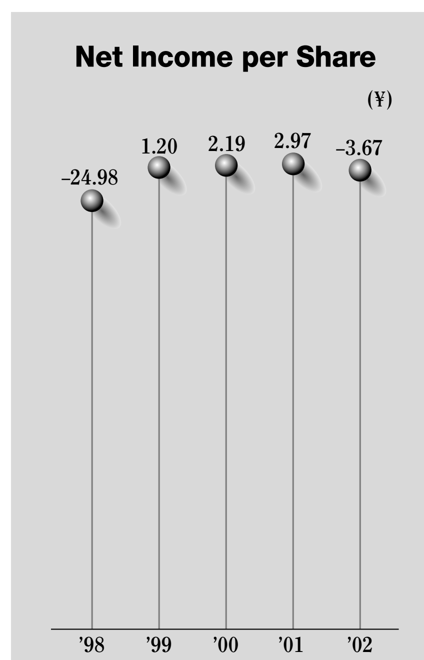
(Yen in millions, U.S. dollars in thousands, except per share amount)

	2002	2001	% Change	***2002***
For the Year				
Net Sales	**¥280,102**	¥296,369	(5.5)	***$ 2,102,079***
Operating Income	**9,223**	10,288	(10.4)	***69,216***
Net Income (Loss)	**(1,071)**	864	—	***(8,037)***
At Year-End				
Total Assets	**¥281,914**	¥311,115	(9.4)	***$ 2,115,677***
Total Shareholders' Equity	**3,503**	3,636	(3.7)	***26,289***
Per Share				
Net Income (Loss)	**¥ (3.67)**	¥ 2.97	—	***$ (0.03)***

Note: US$ amounts are calculated solely for the readers' convenience, at the rate of US$1=¥133.25 for the year ended March 31st, 2002.







To Our Shareholders

Chairman Takaki Yamatoya (seated) and President Tsuneyoshi Nishi

While a worldwide economic slowdown became apparent, the Japanese economy remained mired in an extremely serious situation during the term under review (year ended March 31, 2002). Given the severity of employment and income environments following financial unrest and a prolonged deflationary trend, personal consumption remained anemic and both public works expenditures and private investment in plant and equipment continued to dwindle.

The harsh business climate persisted for the Japanese chemical industry. Despite lower crude oil and raw-material naphtha prices toward the latter half of the year, the industry faced the plunge in product prices and aggravating export environment over an extended period, in addition to a slackening in domestic demand especially from IT-related industries.

Under such severe circumstances, Nippon Steel Chemical made a concerted effort to press ahead with profitability improvement measures. The aim was not only to attain the cost-curtailment target set for the mid-year of the three-year Mid-Term Consolidated Management Plan started in April 2000 but also to cope with far greater-than-anticipated deterioration in business environment. In addition to withdrawals from unprofitable businesses, a special committee for bailout measures was organized to pursue stepped-up cost-cutting to a maximum extent and implement the fine-tuned production of certain products in light of demand trends.

Review of Operations

• Carbon Materials and Industrial Gases

In the business of carbon materials for the year, production and sales quantity of metallurgical coke remained little changed from the previous year, although Nippon Steel Corporation, a leading customer, instituted production curtailment. Sales quantity of pitch coke also remained virtually at the same level as in the previous year, because of active exports which more than offset decreased domestic sales reflecting the continued production cutback by domestic electric-furnace steelmakers, major sales outlets. But, as product prices hovered at low levels, extreme severity continued throughout the year in terms of profitability.

NSCC Techno-Carbon Co., Ltd., a subsidiary of Nippon Steel Chemical, reached a basic agreement with Nippon Carbon Co., Ltd. to integrate their specialty carbon businesses, and began specific examinations for the inauguration of a new company, slated to take place in January 2003.

In the business of industrial gases, sluggish demand especially from steel and IT-related industries caused sales quantity to decrease and product prices to fall, thus diminishing profit margins in the industrial gas business.

As a result, consolidated sales in the business of carbon materials and industrial gases amounted to ¥94,297 million for the year ended March 31, 2002, up ¥7,548 million over the previous year, and consolidated operating profit to ¥4,514 million, up ¥1,356 million.

• Basic Chemicals

In the business of basic chemicals for the year, production and sales quantity kept a firm pace owing to strenuous sales efforts in the midst of a severe supply-demand situation. But, styrene monomer, a main product, saw a rapid plunge in overseas market prices, putting a squeeze on earnings during the year.

The construction of a bisphenol A plant as a joint venture in Korea proceeded smoothly, with completion slated for September 2002.

In the resin materials business, both sales quantity and earnings decreased, attributable to an overall decline in overseas market prices of styrene resins and also to the restoration of MS resin lines at overseas manufacturers, the operation of which had been ceased in the previous year due to equipment failures.

Nippon Steel Chemical has established as a new business its own materials recycling technology for plastics used for TV cabinets, thus actively responding to the issue of environmental conservation.

Domestic subsidiaries for resin compound and molding faced extremely severe operating environments attributable mainly to slumping domestic business activity and the users' accelerating shift of production bases abroad. Meanwhile, resin molding affiliates in China operated at a steady pace.

As a result, consolidated sales in the basic chemicals sector in the year amounted to ¥108,648 million, down ¥14,032 million from the previous year, and consolidated operating profit to ¥2,074 million, down ¥2,603 million.

• Specialty Chemicals

In the business of specialty chemicals, such new products as thermosensitive chemicals, organic EL (electroluminescense) materials and oligomer resins came to be accepted by the market and saw steady sales growth. But such traditional products as dyes and pigments and heat-transfer mediums were affected by domestic demand doldrums and increasingly fierce competition with imported products, and both their sales quantity and earnings declined.

In October 2001, Nippon Steel Chemical newly introduced multi-purpose hydrogen production equipment at its Hirohata Works to produce special solvents, medical and agricultural chemical raw materials and other various high-performance chemicals. Nippon Steel Chemical is thus fully prepared for a manufacturing system that not only responds to the company's own sales needs but also allows the company to undertake commissioned hydrogen production in and after 2002.

In the paint business, slumping domestic business caused the sales quantity of general-purpose tar-epoxy resin, a main product, to decrease. Lower product prices also led to a decline in earnings. However, sales of such high-performance paint systems as Aroma Ace and NB Coat Super 3000GW showed a steady increase, contributing to the improvement of profit performance in this business sector.

In the area of electronic materials, demand abruptly plunged into stagnancy against a backdrop of slumping IT-related industries. The effects were conspicuous especially in display and semiconductor-related materials. However, the sales of ESPANEX, adhesive-free copper-clad laminated sheet for flexible printed circuit boards, remained unchanged from the previous year, attributable to its competitive edge in terms of quality and technology involved. Another factor was its growing demand in Korea and Taiwan. Nippon Steel Chemical continued to be prompt to develop new products, as typified by the commercialization of a heat-resistant negative film and an ultrahigh heat-resistant plastic cell substrate for flat-panel display materials. Production capacities for adhesive-free copper-clad laminated sheet were strengthened in rapid succession, with an eye toward its still greater sales growth henceforth.

Meanwhile, the profit performance of printed circuit board business at the company's subsidiaries and affiliates in Japan and abroad deteriorated during the year. Users' inventory adjustments and the shift of production bases abroad by domestic customers led to a substantial decline in shipment quantities.

As a result, consolidated sales in the specialty chemicals sector in the year amounted to ¥35,856 million, down ¥6,180 million from the previous year, and consolidated operating profit to ¥1,637 million, down ¥822 million.

• Other Businesses

In light of future outlook for each business operation, Nippon Steel Chemical implemented drastic business restructuring especially as to businesses for which the chances of a substantial profitability improvement appear dim. This led to withdrawal from its composite materials business, by transferring to other entities the carbon fiber composite roll and other businesses in April 2001 and the prepreg business in October 2001. Another withdrawal took place in June 2001 from the wooden composite floor business in the sector of building materials.

Reflecting a slowdown in demand for spraying fibers, sales in the rock wool business at a subsidiary company declined. But, profits showed an improvement due to stepped-up cost curtailment and other endeavors, thus attesting to the fact that the effectiveness of business alliances was gradually showing up.

As a result, consolidated sales in the sector of other businesses in the year amounted to ¥41,300 million, down ¥3,602 million from the previous year, and consolidated operating profit to ¥968 million, up ¥992 million.

Operating Revenues

Consolidated sales for the year ended March 31, 2002, totaled ¥280,102 million, a decrease of ¥16,266 million from the previous year, and consolidated ordinary profit amounted to ¥6,711 million, a decline of ¥823 million. Thus, despite strenuous management endeavors in all directions, consolidated ordinary profit fell short of the original target set. As a result of special losses booked, including a loss on business restructuring and an amortization of transition obligation in respect of new accounting standard for retirement benefits, the year saw consolidated net loss of ¥1,071 million, a reduction of ¥1,935 million from the previous year.

Regrettably, these operational results compelled the company to forgo the cash dividends for the year ended March 31, 2002.

Future Management Tasks

There are indeed several bright spots on the economic horizon, including the progress of stockpile adjustments and a business upswing in East Asia, including China and Korea, in addition to signs of recovery of the U.S. economy. These are expected to put a curb on the decline of business activity. But, the apprehension today is that such adverse factors as the harsh environment surrounding employment and income levels, precarious moves in corporate earnings and the issue of huge bad loans and financial uncertainty will cause a further slackening in domestic demand. In the chemical industry, the prices of crude oil and naphtha that had once appeared to follow a downtrend began to soar in April 2002, a grave factor putting a squeeze on corporate profits. Thus, the harsh business climate will doubtless continue for the time being.

The year beginning April 1, 2002, marks the final stage of the three-year Mid-Term Consolidated Management Plan started in April 2000. Given such an anticipated business environment, its achievement is a formidable challenge to the Nippon Steel Chemical group. To tide over the present difficulties, the group companies will, with concerted endeavors, strive for strengthening sales forces and promoting higher agility in research and technological development, while at the same time pursuing higher earning power by going all-out to reduce costs on entire management fronts. As an attempt to promote business restructuring, the reinforcement and expansion of the specialty chemicals business will be further accelerated, and all possible steps beyond the framework of existing management will flexibly and aggressively be taken. Thus, the Nippon Steel Chemical group is firmly committed to realizing solid business foundations having higher profitability and growth potential over an extended period.

Takaki Yamatoya
Chairman

Tsuneyoshi Nishi
President

June 25, 2002

Highlights of the Year

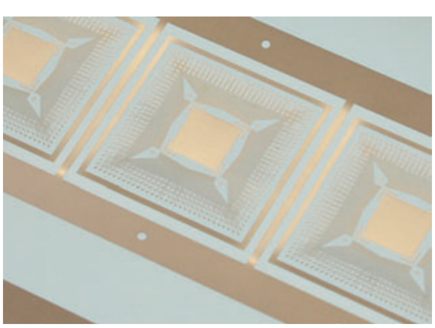
(For the year ended March 31, 2002)

May 2001

ESPANEX L-Series—Adhesive-free Copper-clad Laminated Sheets Employing Liquid Crystal Polymer Film as Insulation Layer

As a major product in its electronic material business, Nippon Steel Chemical markets ESPANEX—adhesive-free copper-clad laminated sheets for flexible printed circuit boards—for use as material for circuit boards of cell phones, displays and other electronic components. Recently, Nippon Steel Chemical and Kuraray Co., Ltd. have jointly developed ESPANEX L-Series employing liquid crystal polymer film produced by Kuraray.

The ESPANEX L-Series offers excellent electrical characteristics in the high-frequency region and at the same time delivers better performances in water absorption coefficient, dimensional stability, thermal conductivity and other properties than conventional circuit board materials. Nippon Steel Chemical is promoting market developments in such targeted areas of application as short-distance communication circuits, high-frequency circuit boards and packaging boards.

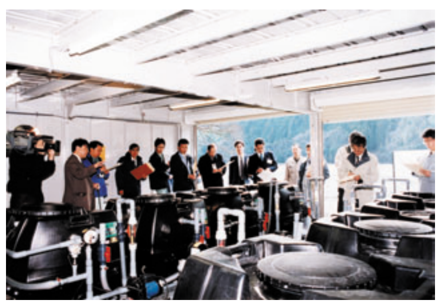


Fabrication example for ESPANEX L-Series

July 2001

Nitrate Nitrogen Removal System Adopted as Environmental Technology Development Project of the Ministry of the Environment

R&D on the nitrate nitrogen removal system by means of biological treatment, which is underway at the Eco-technology Group of Nippon Steel Chemical's Research & Development Laboratories, was selected as one of the



Site visit to the proving test facilities

"projects to develop environmental technologies for fiscal 2001" of the Ministry of the Environment." Of all the ten R&D projects selected from among 192 applications, this was the one and only private company's project selected.

The proving tests for the nitrate nitrogen removal system by means of biological treatment will be carried out over the next two years jointly with the National Institute for Vegetable and Tea Science of the National Agricultural Research Organization and the Shizuoka Prefectural Tea Laboratory and at three testing sites in Shizuoka Prefecture. The system is expected to contribute to earlier solution of the problem of underground water contamination caused by nitrate nitrogen, attributable to excess feeding of nitrogenous fertilizers and excrement from the livestock industry.

November 2001

Japan's First Mass-produced Dry Film-type Permanent Photo Resist—PDF Series

Nippon Steel Chemical has developed PDF Series—dry film-type permanent photo resist. It is a Japan's first mass-produced photo resist of the negative-film type. The PDF Series offers high resolution and heat resistance and realizes the high reliability in the temperature cyclic test, which conventionally could not be expected of photosensitive resins.

Demand for the PDF Series is expected to increase in the future as a permanent insulation film in the micro-processing field such as for chip-size packaging interposer substrates, re-wiring layer for wafer-level packaging and next-generation built-up substrates, destined for cell phones and personal digital assistants (PDAs), notebook personal computers and other portable electronic products.

November 2001

Highly Heat-resistant Plastic Cell Substrates for Flat-panel Displays

Nippon Steel Chemical has developed HT Series—plastic cell substrates having ultrahigh-heat resistance and transparency, destined for flat-display panels. Realization of extremely high glass transition temperature, 400ºC, will allow practical application of active matrix-type displays, conventionally difficult with plastic cell substrates.

Thinner gauges, lighter weight and improved impact resistance are being called for cell phones and PDAs. By meeting these emerging requirements, the highly heat-resistant plastic cell substrates developed as substitutes for glass substrates will find growing use in cell phones and PDAs.

December 2001

Used TV Plastic Recycling Technology

Nippon Steel Chemical and Toshiba Corporation have jointly promoted enhanced recycling of plastics used for TVs and recently established a recycling technology with which plastics similar to the virgin material in terms of moldability, physical properties and product appearance can be obtained from recycled plastics.

This development allows structuring of a closed material recycling loop in which used TV plastics can be recycled to new TV production, thus greatly reducing discharge of wastes—a step forward toward a zero-emission process. Establishment of such a technology to recycle plastics of used TVs into the materials for new TVs is the industry's first achievement.

(left) Used TV cabinets and plastics before treatment
(right) Recycled TV cabinets and plastics after treatment

February 2002

Multi-purpose Hydrogen Production Equipment to Manufacture Specialty Chemicals

A batch-type multi-purpose hydrogen production equipment with an annual capacity of 2,000 tons has been newly installed and put into commercial operations at the Hirohata Works. The equipment manufactures diverse kinds of specialty chemicals such as aroma-free special solvents, medical and agricultural chemical materials and heat-transfer mediums using polynuclear aromatics as the material.

The new equipment demonstrates excellent performances. For example, Nippon Steel Chemical's proprietary technology applied in the equipment can treat high melting-point materials, which has so far been difficult with conventional equipment. The in-line cleaning process is adopted so as to meet multi-purpose applications, which allows easy change of production items from a chemical to another. The company plans to use the equipment both for the production of its own products and for commissioned production of hydrogen.

March 2002

Innovative Highly Heat-resistant Organic EL Materials

Nippon Steel Chemical has expanded its line-up of light emitting materials used for organic EL (electro-luminescence) displays such as hole transport materials and hole pouring materials. The company has recently succeeded in developing new hole transport materials that have electrical characteristics similar to those of conventional materials and feature higher heat resistance by about 40ºC than the conventional level (80~90ºC). Following the development, application range of light emitting materials has been expanded to include highly heat-resistant uses.

Organic El material production equipment

The newly developed material, while maintaining electrical characteristics, has realized compatible performances of greatly improved Tg (glass transition temperature), an index of heat resistance, and film formability by incorporating the company's original organic EL material design concept into the polynuclear aromatic compound-related technologies. It has a structure not in conflict with the patent of Eastman Kodak Company, and the patent application has been made by Nippon Steel Chemical.

Financial Statements

Financial Review

• Income Analysis

Net sales of Nippon Steel Chemical Co., Ltd. and its consolidated subsidiaries for the year ended March 31, 2002, decreased by 5.5 percent, or ¥16,267 million, to 280,102 million (US$2,102 million).

Operating income decreased by 10.4 percent, or ¥1,065 million, to ¥9,223 million (US$69 million) while net loss was ¥1,071 million (US$8 million).

• Financial Position

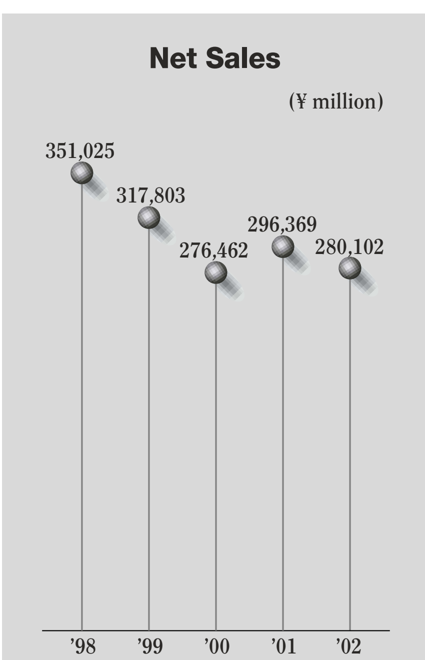
Total assets at March 31, 2002, decreased by 9.4 percent, or ¥29,201 million, to ¥281,914 million (US$2,115 million). Current assets decreased by 16.6 percent, or ¥17,179 million, to ¥86,256 million (US$647 million). Investments and advances decreased by 15.6 percent, or ¥6,035 million, to ¥32,715 million (US$245 million). Property, plant and equipment decreased by 5.9 percent, or ¥8,713 million, to ¥139,803 million (US$1,049 million).

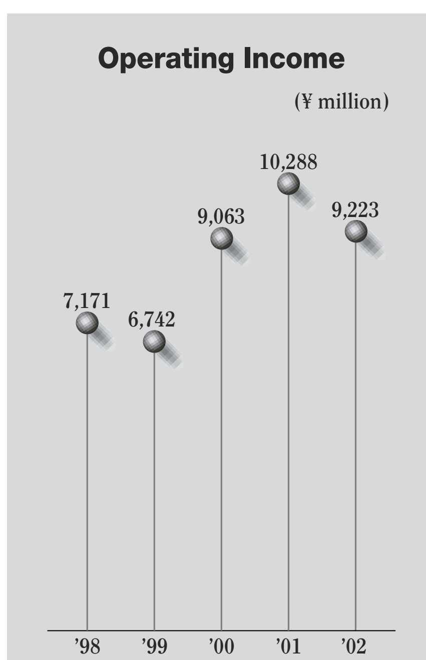
On the other side of the balance sheet, current liabilities decreased by 9.4 percent, or ¥22,381 million, to ¥216,836 million (US$1,627 million). Long-term debt decreased by 10.4 percent, or ¥5,543 million, to ¥47,782 million (US$359 million). Shareholders' equity decreased by 3.7 percent, or ¥133 million, to ¥3,503 million (US$26 million). The shareholders' equity ratio at the end of the year was 1.2 percent, compared with 1.2 percent at the end of the previous year.

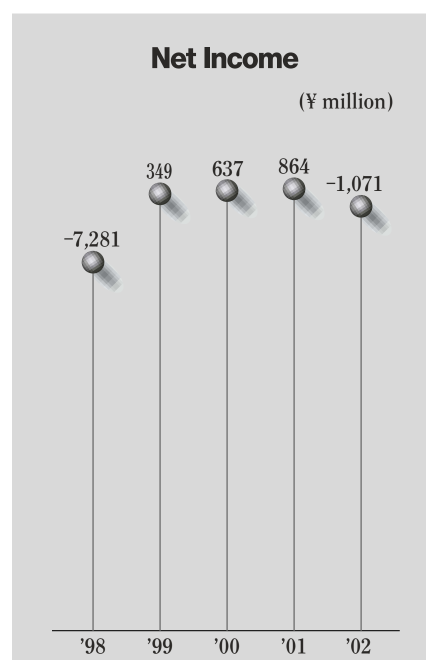
• Cash Flows

A consolidated statement of cash flows was prepared with effect for the year ended March 31, 2002.

Net cash provided by operating activities was ¥21,073 million (US$158 million). Net cash of ¥4,065 million (US$31 million) was used in investing activities. Net cash of ¥21,243 million (US$159 million) was used in financing activities. As a result of the above, there was a ¥3,897 million decrease in cash and cash equivalents to ¥8,435 million (US$63 million).







Consolidated Balance Sheets

March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	***2002***
ASSETS			
Current assets:			
Cash and bank deposits (Note 4)	**¥ 6,867**	¥ 12,334	***$ 51,535***
Notes and accounts receivable-trade:			
Outside customers	**36,996**	51,692	***277,643***
"NSC"	**5,477**	1,788	***41,103***
Non-consolidated subsidiaries and affiliates	**1,572**	740	***11,797***
	44,045	54,220	***330,543***
Allowance for doubtful accounts	**(172)**	(238)	***(1,290)***
	43,873	53,982	***329,253***
Inventories (Note 7)	**27,583**	31,317	***207,002***
Deferred income taxes (Note 11)	**605**	473	***4,540***
Other current assets (Note 4)	**7,328**	5,329	***54,995***
Total current assets	**86,256**	103,435	***647,325***
Fixed assets:			
Property, plant and equipment (Note 8):			
Buildings and structures	**76,973**	76,643	***577,658***
Machinery and equipment	**335,257**	335,282	***2,516,000***
	412,230	411,925	***3,093,658***
Accumulated depreciation	**(308,457)**	(298,746)	***(2,314,874)***
	103,773	113,179	***778,784***
Land (Note 15)	**32,716**	31,995	***245,523***
Construction-in-progress	**3,314**	3,342	***24,871***
	139,803	148,516	***1,049,178***
Investments and advances:			
Investments in securities (Notes 5 and 8)	**5,787**	9,171	***43,430***
Investments in and advances to non-consolidated subsidiaries and affiliates	**15,828**	14,798	***118,784***
Long-term loans and other investments	**11,100**	14,781	***83,302***
	32,715	38,750	***245,516***
Deferred income taxes (Note 11)	**22,450**	19,349	***168,480***
Deferred charges and intangibles	**690**	1,065	***5,178***
Total fixed assets	**195,658**	207,680	***1,468,352***
	¥281,914	¥311,115	***$2,115,677***

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

March 31, 2002 and 2001

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2002	2001	***2002***
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 8)	**¥147,720**	¥174,737	***$1,108,593***
Current portion of long-term debt (Note 8)	**20,051**	11,511	***150,477***
Notes and accounts payable-trade:			
Outside suppliers	**21,958**	29,903	***164,788***
"NSC"	**5,678**	5,533	***42,612***
Non-consolidated subsidiaries and affiliates	**2,380**	2,955	***17,861***
	30,016	38,391	***225,261***
Income taxes payable (Note 11)	**295**	238	***2,214***
Accrued expenses	**8,357**	8,840	***62,717***
Other current liabilities	**10,397**	5,500	***78,026***
Total current liabilities	**216,836**	239,217	***1,627,288***
Long-term liabilities:			
Long-term debt (Note 8)	**47,782**	53,325	***358,589***
Accrued employees' retirement benefits (Note 9)	**7,567**	7,131	***56,788***
Accrual for loss on restructuring measures under the Mid-Term Management Plan (Note 14)	**—**	1,983	***—***
Deferred income tax related to land revaluation (Note 15)	**1,277**	1,220	***9,583***
Other long-term liabilities	**3,057**	2,937	***22,942***
Total long-term liabilities	**59,683**	66,596	***447,902***
Minority interests	**1,892**	1,666	***14,198***
Contingent liabilities (Note 10)			
Shareholders' equity:			
Common stock (Note 16):			
Authorized: 600,000,000 shares at March 31, 2002 and 2001			
Issued: 291,455,003 shares at March 31, 2002 and 2001	**40,966**	40,966	***307,437***
Reserve for revaluation of land (Note 15)	**1,763**	1,685	***13,231***
Accumulated deficit (Note 18)	**(38,806)**	(37,648)	***(291,227)***
Unrealized holding losses on other securities (Note 5)	**(779)**	(480)	***(5,846)***
Foreign currency translation adjustment	**359**	(887)	***2,694***
Total shareholders' equity	**3,503**	3,636	***26,289***
	¥281,914	¥311,115	***$2,115,677***

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income (Loss)

For the two years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	***2002***
Net sales (Note 12)	**¥280,102**	¥296,369	***$2,102,079***
Cost of sales (Note 12)	**248,685**	261,168	***1,866,304***
Gross profit	**31,417**	35,201	***235,775***
Selling, general and administrative expenses (Note 13)	**22,194**	24,913	***166,559***
Operating income	**9,223**	10,288	***69,216***
Other income (expenses):			
Interest and dividend income	**274**	345	***2,056***
Interest expense	**(3,072)**	(4,020)	***(23,054)***
Gain on sales of investment securities (Note 5)	**116**	3,851	***871***
Loss on disposal of property	**(3,066)**	(3,635)	***(23,009)***
Loss on restructuring measures (Note 14)	**(1,259)**	(2,774)	***(9,448)***
Special retirement benefits paid	**(831)**	(353)	***(6,236)***
Write-down of investment securities	**(1,365)**	(6,346)	***(10,244)***
Write-down of inventories	**(1,092)**	—	***(8,195)***
Foreign exchange gain, net	**492**	659	***3,691***
Amortization of cumulative effect of change in accounting for employees' retirement benefits	**(2,239)**	(2,239)	***(16,803)***
Equity in income of affiliates	**152**	463	***1,140***
Other, net	**(613)**	(964)	***(4,600)***
	(12,503)	(15,013)	***(93,831)***
Loss before income taxes and minority interests	**(3,280)**	(4,725)	***(24,615)***
Income taxes (Note 11):			
Current	**488**	474	***3,662***
Deferred	**(2,942)**	(6,039)	***(22,079)***
	(2,454)	(5,565)	***(18,417)***
Minority interests in loss (income) of consolidated subsidiaries	**(245)**	24	***(1,839)***
Net income (loss)	**¥ (1,071)**	¥ 864	***$ (8,037)***
	Yen		U.S. Dollars (Note 3)
Per share data:			
Net income (loss)	**¥(3.67)**	¥2.97	***$(0.03)***
Weighted average number of shares of common stock (in thousands)	**291,455**	291,455	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

March 31, 2002 and 2001

	Number of shares of common stock	Millions of yen				
		Common stock	Reserve for revaluation of land	Accumulated deficit	Unrealized holding losses on other securities	Foreign currency translation adjustment
Balance at March 31, 2000	291,455,003	40,966	1,521	(38,252)	—	—
Net income	—	—	—	864	—	—
Effect of increase/decrease in equity-method affiliates	—	—	—	(87)	—	—
Transfer of reserve for revaluation of land	—	—	164	(164)	—	—
Unrealized holding losses on other securities	—	—	—	—	(480)	—
Foreign currency translation adjustment	—	—	—	—	—	(887)
Other	—	—	—	(9)	—	—
Balance at March 31, 2001	**291,455,003**	**40,966**	**1,685**	**(37,648)**	**(480)**	**(887)**
Net loss	**—**	**—**	**—**	**(1,071)**	**—**	**—**
Transfer of reserve for revaluation of land	**—**	**—**	**78**	**(78)**	**—**	**—**
Unrealized holding losses on other securities	**—**	**—**	**—**	**—**	**(299)**	**—**
Foreign currency translation adjustment	**—**	**—**	**—**	**—**	**—**	**1,246**
Other	**—**	**—**	**—**	**(9)**	**—**	**—**
Balance at March 31, 2002	**291,455,003**	**¥40,966**	**¥1,763**	**¥(38,806)**	**¥(779)**	**¥359**

	Number of shares of common stock	*Thousands of U.S. dollars (Note 3)*				
		Common stock	Reserve for revaluation of land	Accumulated deficit	Unrealized holding losses on other securities	Foreign currency translation adjustment
Balance at March 31, 2001	***291,455,003***	***$307,437***	***$12,646***	***$(282,536)***	***$(3,602)***	***$(6,657)***
Net loss	—	—	—	***(8,037)***	—	—
Transfer of reserve for revaluation of land	—	—	***585***	***(585)***	—	—
Unrealized holding losses on other securities	—	—	—	—	***(2,244)***	—
Foreign currency translation adjustment	—	—	—	—	—	***9,351***
Other	—	—	—	***(69)***	—	—
Balance at March 31, 2002	***291,455,003***	***$307,437***	***$13,231***	***$(291,227)***	***$(5,846)***	***$2,694***

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the two years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	***2002***
Cash flows from operating activities:			
Loss before income taxes and minority interests	**¥(3,280)**	¥(4,725)	***$ (24,615)***
Adjustments for:			
Depreciation and amortization	**15,665**	17,362	***117,561***
Interest and dividend income	**(274)**	(345)	***(2,056)***
Interest expenses	**3,072**	4,020	***23,054***
Equity in income of affiliates	**(152)**	(463)	***(1,141)***
Loss on disposal of property	**3,204**	3,299	***24,045***
Write-down of investment securities	**1,365**	6,346	***10,244***
Gain on sales of investment securities	**(116)**	(3,851)	***(871)***
Loss on planned restructuring measures	**—**	2,774	***—***
Provision for retirement benefits	**2,239**	2,239	***16,803***
Decrease in trade receivables	**10,788**	324	***80,961***
Decrease in inventories	**3,647**	560	***27,370***
Increase (decrease) in trade payables	**(9,014)**	4,166	***(67,647)***
Other	**(2,952)**	967	***(22,154)***
Subtotal	**24,192**	32,673	***181,554***
Interest and dividend income received	**337**	401	***2,528***
Interest paid	**(3,023)**	(3,973)	***(22,687)***
Income taxes paid	**(433)**	(483)	***(3,249)***
Net cash provided by operating activities	**21,073**	28,618	***158,146***
Cash flows from investing activities:			
Proceeds from sales of marketable securities	**—**	770	***—***
Payments for purchases of property, plant and equipment	**(11,008)**	(9,960)	***(82,612)***
Proceeds from sales of property, plant and equipment	**2,330**	2,093	***17,486***
Payments for purchases of investment securities	**(26)**	(5,378)	***(195)***
Proceeds from sales of investments securities	**1,525**	—	***11,445***
Proceeds from sales of investments in subsidiaries	**—**	8,346	***—***
Other	**3,114**	980	***23,370***
Net cash used in investing activities	**(4,065)**	(3,149)	***(30,506)***
Cash flows from financing activities:			
Decrease in short-term debt, net	**(23,777)**	(22,998)	***(178,439)***
Proceeds from borrowing of long-term debt	**17,011**	21,391	***127,662***
Repayment of long-term debt	**(13,517)**	(31,082)	***(101,441)***
Payments for purchase of convertible bonds for retirement	**(823)**	(84)	***(6,176)***
Cash dividends paid to minority shareholders	**(137)**	(65)	***(1,028)***
Issuance of new shares to minority shareholders	**—**	60	***—***
Net cash used in financing activities	**(21,243)**	(32,778)	***(159,422)***
Effect of exchange rate changes on cash and cash equivalents	**341**	197	***2,559***
Net decrease in cash and cash equivalents	**(3,894)**	(7,112)	***(29,223)***
Cash and cash equivalents at beginning of year	**12,332**	22,075	***92,548***
Effect of change on scope of consolidated subsidiaries	**(3)**	—	***(23)***
Effect of policy change on scope of cash and cash equivalents	**—**	(2,631)	***—***
Cash and cash equivalents at end of year (Note 4)	**¥ 8,435**	¥12,332	***$ 63,302***

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

(1) Accounting Principles

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

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan, as required by the Securities and Exchange Law of Japan, have been reclassified for the convenience of readers outside Japan.

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

(2) Significant Shareholder

The Company is a subsidiary of Nippon Steel Corporation ("NSC"), who owned 196,978 thousand and 195,530 thousand shares of common stock of the Company at March 31, 2002 and 2001, respectively, representing 67.58% and 67.09% of the shares outstanding at March 31, 2002 and 2001, respectively.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany accounts and transactions have been eliminated on consolidation.

Investments in major affiliates are accounted for using the equity method.

The excess of the purchase price over the value of the net assets of businesses acquired is amortized generally over a 5-year period using the straight-line method.

(2) Cash and Cash Equivalents

"Cash and cash equivalents" shown on the consolidated statements of cash flows comprises cash on hand, bank deposits withdrawable on demand and short-term investments with an original maturity of 3 months or less, which are subject to a minor risk of fluctuations in value.

With effect from the year ended March 31, 2001, the Company and its consolidated subsidiaries changed their policy on the scope of cash equivalents to exclude money trusts. This change of policy was made in response to the reclassification of money trusts as long-term investments as of April l, 2000, as a result of the adoption of the new accounting standard for financial instruments (See Note 2 (3) below).

(3) Financial Instruments

With effect from the year ended March 31, 2001, the Company and its consolidated subsidiaries adopted the new Japanese financial accounting standard for financial instruments. The effect of adopting this new standard was to increase "Loss before income taxes and minority interests" by ¥6,124 million for the year ended March 31, 2001.

a) Debt and equity securities:

Under the new standard, debt securities which the Company and its consolidated subsidiaries have both the positive intent and ability to hold to maturity are classified as 'held-to-maturity debt securities' and carried at amortized cost. Trading securities, of which the Company and its consolidated subsidiaries had none at March 31, 2002 and 2001, are carried at fair value with changes in fair value recognized in income in the year in which they occur. Securities other than 'held-to-maturity debt securities,' 'trading securities' and 'equity investments in non-consolidated subsidiaries and affiliates' are called 'other securities' (available-for-sale securities) and are carried at fair value with any unrealized holding gains and losses, net of tax, being reported as a separate component of "Shareholders' equity". For the purpose of computing gains and losses on securities sold, the cost of securities is determined using the moving average method. Securities that do not have readily determinable fair values are recorded at cost.

Until the year ended March 31, 2000, marketable equity securities were stated at cost.

As a result of adopting the new standard, the Company and its consolidated subsidiaries initially recognized unrealized net holding losses on 'other securities' of ¥480 million, net of the applicable deferred tax asset of ¥396 million, as a separate component of "Shareholders' equity" at March 31, 2001.

Under the new standard, trading securities and debt securities due within one year are presented as "Marketable securities" under "Current assets" and all other securities are presented as "Investments in securities" or "Long-term loans and other investments."

Additional information on marketable debt and equity securities is presented in Note 5.

b) Derivatives

The new standard for financial instruments also requires that derivative financial instruments be measured at fair value, if determinable, and resulting gains or losses be included in net income, with the exception that gains or losses on certain qualified hedging instruments may be deferred as an asset or liability until the gains or losses on the hedged items are recognized. The Company and its consolidated subsidiaries enter into interest rate swap and cap agreements only as hedges against interest rate exposure on outstanding debt issued by the Company and its consolidated subsidiaries. The differential to be paid or received on such interest rate swap agreements as well as the amortization of cap premiums is recognized over the life of the agreements.

Additional information on derivatives is presented in Note 6.

(4) Allowance for Doubtful Accounts

An allowance for doubtful accounts has been provided at the estimated amount of specific probable bad debts plus an amount calculated by applying historical credit loss rates to the remainder of outstanding receivables.

(5) Inventories

Coke operations inventories are stated at the lower of cost or market value, cost being determined by the moving average method. Other inventories are stated at the lower of cost or market value, cost being determined principally by the last-in, first-out method.

(6) Property, Plant and Equipment, and Depreciation

Property, plant and equipment, including significant renewals and additions, are stated at cost. Repairs and maintenance expenses are charged to income as incurred.

Depreciation is computed on the straight-line method.

(7) Accrued Employees' Retirement Benefits
"Accrued employees' retirement benefits" represents the estimated present value of projected benefit obligations in excess of the fair value of plan assets, except for the unrecognized transition amount, unrecognized prior service costs and unrecognized actuarial differences. The unrecognized transition amount of ¥11,197 million is being amortized on a straight-line basis over a 5-year period and charged to "Other income (expenses)". Unrecognized prior service costs are amortized on a straight-line basis over a 5-year period. Unrecognized actuarial differences are amortized on a straight-line basis over 13 years from the year following that in which they arise.

Until the year ended March 31, 2000, these liabilities were provided for at approximately 50% of the amount that would have been required if all employees had terminated their service with the relevant companies involuntarily at the balance-sheet date. The Company and its 7 domestic consolidated subsidiaries have additional plans to cover all or part of the retirement benefits payable. The annual contributions for pension benefits include current service costs, amortization of past service costs over a 15-year period and interest on the unfunded portion of past service costs. Until the year ended March 31, 2000, such contributions were charged to income when paid.

With effect from the year ended March 31, 2001, the Company and its consolidated subsidiaries adopted the new Japanese financial accounting standard for employees' retirement benefits. This standard requires the retirement benefit liability, based on employees' service to date, to be computed at the actuarial present value, which is commonly referred to as the projected benefit obligation.

As a result of adopting the new standard, the net pension benefit expense and "Loss before income taxes and minority interests" increased by ¥2,568 million for the year ended March 31, 2001.

(8) Research and Development Costs, and Computer Software
Research and development expenditure is charged to income when incurred. Expenditure on 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.

(9) Income Taxes
Income taxes payable are provided for on the basis of income tax returns. Deferred income taxes are recorded for the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(10) Leases
Finance leases, other than those in which the ownership of the leased assets is deemed to transfer to the lessees, are accounted for using a method similar to that applicable to operating leases.

(11) Foreign Currency Translation
All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year or, alternatively, using the exchange rates prevailing at the balance sheet date. The resulting translation adjustments are reported as a separate component of "Shareholders' equity", except for the minority interest portion which is allocated to "Minority interests."

With effect from the year ended March 31, 2001, the Company and its consolidated subsidiaries adopted the amended Japanese financial accounting standard for foreign currency translation. Until the year ended March 31, 2000, non-current monetary items denominated in foreign currencies were translated at the exchange rate on the date the transactions were recorded. Adoption of the amended standard increased "Loss before income taxes and minority interests" for the year ended March 31, 2001 by ¥163 million.

(12) Consumption Tax
Consumption tax is imposed, with certain exemptions, at a flat rate of 5% on all domestic consumption of goods and services. Consumption tax is recorded separately and is not included in each profit or loss account.

(13) Appropriation of Retained Earnings (Disposal of Accumulated Deficit)
Under the Japanese Commercial Code and the Articles of Incorporation of the Company, any plan proposed by the Board of Directors, for the appropriation of retained earnings, (or the disposal of an accumulated deficit) including cash dividend payments, should be approved at the shareholders' meeting which must be held within 3 months of the end of each financial year. Such an appropriation of retained earnings (or disposal of an accumulated deficit) is reflected in the consolidated statement of shareholders' equity in the financial year in which the appropriation or disposal is approved at the shareholders' meeting.

(14) Net Income (Loss) per Share
Net income (loss) per share of common stock is based upon the weighted average number of shares of common stock outstanding during the respective year.

Since net loss per share was recorded for the year ended March 31, 2002, and there is no dilutive effect on the net income per share resulting from convertible notes for the year ended March 31, 2001, diluted net income per share has not been disclosed.

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 ¥133.25 = U.S.$1, the approximate effective rate of exchange on March 31, 2002. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that the yen amounts have been or could have been converted, realized or settled in dollars at this or any other rate.

4. Cash and Cash Equivalents

Cash and cash equivalents for the purpose of statements of cash flows at March 31, 2002 and 2001 consisted of:

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Cash and bank deposits	**¥6,867**	¥12,334	***$51,535***
Less: Time deposits with an original maturity of more than 3 months	**—**	(2)	***—***
Other current assets (liquid money deposited)	**1,568**	—	***11,767***
Cash and cash equivalents	**¥8,435**	¥12,332	***$63,302***

5. Investments in Securities

Investments in debt and equity securities that have a readily determinable fair value at March 31, 2002 and 2001 and which are included in "Investments in securities" are summarized as follows:

	Millions of yen			
	2002			
	Cost	Fair value	Gross unrealized gains	Gross unrealized losses
Held-to-maturity debt securities	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Other securities:				
Marketable equity securities	**5,450**	**4,128**	**113**	**1,435**
Fund trust	**—**	**—**	**—**	**—**
Total other securities	**5,450**	**4,128**	**113**	**1,435**
	¥5,450	**¥4,128**	**¥113**	**¥1,435**

	Millions of yen			
	2001			
	Cost	Fair value	Gross unrealized gains	Gross unrealized losses
Held-to-maturity debt securities	¥ —	¥ —	¥ —	¥ —
Other securities:				
Marketable equity securities	7,600	6,724	188	1,064
Fund trust	375	375	—	—
Total other securities	7,975	7,099	188	1,064
	¥7,975	¥7,099	¥188	¥1,064

	Thousands of U.S. dollars			
	2002			
	Cost	Fair value	Gross unrealized gains	Gross unrealized losses
Held-to-maturity debt securities	***$ —***	***$ —***	***$ —***	***$ —***
Other securities:				
Marketable equity securities	***40,900***	***30,979***	***848***	***10,769***
Fund trust	***—***	***—***	***—***	***—***
Total other securities	***40,900***	***30,979***	***848***	***10,769***
	$40,900	***$30,979***	***$848***	***$10,769***

The proceeds from sales of other securities for the years ended March 31, 2002 and 2001 were ¥1,525 million *($11,445 thousand)* and ¥612 million, respectively. The gross realized gains on those sales for the years ended March 31, 2002 and 2001 were ¥82 million *($615 thousand)* and ¥412 million, respectively, and gross realized losses were ¥231 million *($1,734 thousand)* and ¥25 million, respectively.

Aggregate costs of contractual maturities of debt securities classified as other securities at March 31, 2001 are summarized below. At March 31, 2002, the Company and its consolidated subsidiaries had no debt securities.

	Millions of yen
	2001
Due within 1 year	¥ —
Due after 1 year through 5 years	375
Due after 5 years through 10 years	—
	¥375

6. Information on Derivatives

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

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

The Company's Board of Directors decides the limit on the volume of derivative transactions (swap transactions) annually, and management in charge of derivative transactions (swap transactions) report to the Board of Directors quarterly on transactions entered into in the quarter.

Information on contract value, fair value and valuation gain or loss in respect of interest rate swap and cap contracts outstanding at March 31, 2002 and 2001 are not presented as they are not required because hedge accounting has been applied, as explained in Note 2 (3).

7. Inventories

Inventories at March 31, 2002 and 2001 consisted of:

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Products	**¥12,679**	¥14,447	***$95,152***
Semi-finished products	**4,614**	4,561	***34,627***
Raw materials and supplies	**10,290**	12,309	***77,223***
	¥27,583	¥31,317	***$207,002***

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

Short-term bank loans outstanding at March 31, 2002 and 2001 generally represented notes with several months maturities issued by the Company and its consolidated subsidiaries to banks, bearing interest at a weighted average annual rate of 1.2% and 1.4% at March 31, 2002 and 2001, respectively. Customarily these notes are renewed at maturity subject to renegotiation of interest rates and other factors.

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Long-term borrowings from banks and other financial institutions secured by collateral/mortgages, bearing interest at a weighted average annual rate of 1.6% and 2.2% at March 31, 2002 and 2001, respectively, due through 2011 in installments	**¥54,621**	¥50,800	***$409,914***
2.2% convertible mortgage notes due March 2003 in yen	**2,508**	2,687	***18,822***
2.5% convertible mortgage notes due March 2004 in yen	**5,261**	5,539	***39,482***
2.0% convertible mortgage notes due March 2005 in yen	**5,443**	5,810	***40,848***
	67,833	64,836	***509,066***
Less: Portion due within one year	**(20,051)**	(11,511)	***(150,477)***
	¥47,782	¥53,325	***$358,589***

Additional information with respect to the Company's convertible notes outstanding at March 31, 2002 is as follows:

			Other conditions		
Description	Issued in	Initial principal	Conversion price per share (*1)	Number of shares issuable upon full conversion	Other conditions
		(millions)		(in thousands)	
2.2% convertible mortgage notes due March 2003 in yen	**Dec. 1987**	**¥10,000**	**¥880.1**	**2,850**	(*2) (*3)
2.5% convertible mortgage notes due March 2004 in yen	**Dec. 1988**	**10,000**	**947.8**	**5,551**	(*2) (*4)
2.0% convertible mortgage notes due March 2005 in yen	**Feb. 1990**	**15,000**	**1,210.0**	**4,498**	(*2) (*5)
				12,899	

(*1) Subject to adjustment for subsequent free share distribution or 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) Annual sinking fund payments are required as follows: ¥500 million on March 31, 1997 and 1998, ¥1,000 million on March 31, 1999 and 2000 and ¥1,500 million on March 31, 2001 and 2002, reduced by subsequent conversions, repurchases and redemptions.
(*4) Annual sinking fund payments are required as follows: ¥500 million on March 31, 1998 and 1999, ¥1,000 million on March 31, 2000 and 2001 and ¥1,500 million on March 31, 2002 and 2003, reduced by subsequent conversions, repurchases and redemptions.
(*5) Annual sinking fund payments are required as follows: ¥750 million on March 31, 1999 and 2000, ¥1,500 million on March 31, 2001 and 2002 and ¥2,250 million on March 31, 2003 and 2004, reduced by subsequent conversions, repurchases and redemptions.

The Company's and its consolidated subsidiaries' assets pledged as collateral for short and long-term debt at March 31, 2002 are summarized as follows:

	Millions of yen	*Thousands of U.S. dollars*
Property, plant and equipment, net of accumulated depreciation:		
Buildings and structures	**¥23,880**	***$179,212***
Machinery and equipment	**52,100**	***390,994***
Land	**17,805**	***133,621***
	¥93,785	***$703,827***
Investments in securities and other	**¥3,633**	***$27,265***

The aggregate annual maturities of long-term debt outstanding at March 31, 2002 during the succeeding 5-year period are as follows:

Year ending March 31,	Millions of yen	*Thousands of U.S. dollars*
2003	**¥20,051**	***$150,477***
2004	**21,376**	***160,420***
2005	**19,003**	***142,612***
2006	**3,426**	***25,711***
2007	**2,456**	***18,431***
2008 and after	**1,521**	***11,415***
	¥67,833	***$509,066***

9. Retirement Plan

The following table sets forth the benefit obligation, plan assets and funded status of the Company and its consolidated subsidiaries at March 31, 2002 and 2001:

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Projected benefit obligation	**¥25,030**	¥26,458	***$187,842***
Fair value of plan assets	**(8,680)**	(9,725)	***(65,141)***
Benefit obligation in excess of plan assets	**16,350**	16,733	***122,701***
Unrecognized prior service cost	**817**	1,088	***6,131***
Unrecognized actuarial net loss	**(2,882)**	(1,732)	***(21,628)***
Unrecognized net transition obligation	**(6,718)**	(8,958)	***(50,416)***
Accrued retirement benefits recognized in the consolidated balance sheet	**¥7,567**	¥7,131	***$56,788***

Severance and retirement expenses of the Company and its consolidated subsidiaries included the following components for the years ended March 31, 2002 and 2001:

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Service cost	**¥913**	¥999	***$6,852***
Interest cost	**852**	905	***6,394***
Expected return on plan assets	**(321)**	(370)	***(2,409)***
Amortization of prior service cost	**(272)**	(272)	***(2,041)***
Amortization of unrecognized actuarial net loss	**133**	—	***998***
Amortization of net transition obligation	**2,239**	2,239	***16,803***
Net benefit expense	**¥3,544**	¥3,501	***$26,597***

In addition to the above benefit expense, the Company and its consolidated subsidiaries paid retirement benefits to resigned employees of ¥875 million *($6,567 thousand)* and ¥399 million during the years ended March 31, 2002 and 2001, respectively.

Assumptions used in accounting for the retirement benefit plans for the years ended March 31, 2002 and 2001 are as follows:

Discount rate	3.50%
Expected rate of return on plan assets	3.50%
Method of attributing the projected benefits to periods of service	Straight-line basis
Amortization of unrecognized prior service cost	5 years
Amortization of unrecognized actuarial differences (amortization starts in the year following the year in which the differences arise)	13 years
Amortization of unrecognized transition obligation	5 years

10. Contingent Liabilities and Lease Commitments

At March 31, 2002, the Company was contingently liable for guarantees amounting to ¥429 million *($3,219 thousand)* and forward guarantees amounting to ¥980 million *($7,354 thousand)* for the loans and other debt of affiliates.

In addition, contingent liabilities at March 31, 2002 for notes discounted and endorsed in the ordinary course of business amounted to ¥2,810 million *($21,088 thousand)* and ¥37 million *($278 thousand)*, respectively.

The Company and its consolidated subsidiaries have various lease contracts as a lessor or a lessee. As described in Note 2 (10), of the lease contracts classified as finance leases, only those in which the ownership is deemed to transfer to the lessee are accounted for as finance lease under the Japanese accounting standard for leases. Others, although classified as finance leases, are accounted for as operating leases with disclosure assuming that they have been capitalized as below.

For a lessee contracts, assumed data as to acquisition cost, accumulated depreciation, net book value and the depreciation expense of leased assets, which includes the portion of interest thereon at March 31, 2002 and 2001, is summarized as follows:

	Millions of yen						*Thousands of U.S. dollars*		
	2002			2001			***2002***		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	**¥1,372**	**¥759**	**¥613**	¥3,115	¥1,623	¥1,492	***$10,296***	***$5,696***	***$4,600***
Others	**739**	**347**	**392**	484	253	231	***5,546***	***2,604***	***2,942***
	¥2,111	**¥1,106**	**¥1,005**	¥3,599	¥1,876	¥1,723	***$15,842***	***$8,300***	***$7,542***

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Depreciation	**¥399**	¥652	***$2,994***

Depreciation is calculated using 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, 2002 and 2001 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Due within one year	**¥317**	¥578	***$2,379***
Due after one year	**688**	1,145	***5,163***
	¥1,005	¥1,723	***$7,542***
Lease rental expenses for the year	**¥399**	¥652	***$2,994***

For lessor contracts, acquisition cost, accumulated depreciation, net book value and the depreciation expense of leased assets, which includes the portion of interest thereon at March 31, 2002 and 2001, is summarized as follows:

	Millions of yen						*Thousands of U.S. dollars*		
	2002			2001			***2002***		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	**¥176**	**¥97**	**¥79**	¥829	¥298	¥531	***$1,321***	***$728***	***$593***
Others	**195**	**99**	**96**	457	199	258	***1,463***	***743***	***720***
	¥371	**¥196**	**¥175**	¥1,286	¥497	¥789	***$2,784***	***$1,471***	***$1,313***

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Depreciation	**¥110**	¥184	***$826***

The scheduled maturities of future lease rental receipts on such lease contracts at March 31, 2002 and 2001 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Due within one year	**¥72**	¥240	***$540***
Due after one year	**54**	477	***405***
	¥126	¥717	***$945***
Lease rental revenue for the year	**¥174**	¥290	***$1,306***

11. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local), which in aggregate result in normal statutory rates of approximately 41.8% for the years ended March 31, 2002 and 2001. Foreign consolidated subsidiaries are subject to the income taxes of the countries in which they operate.

During the years ended March 31, 2002 and 2001, the Company incurred a loss for both financial reporting and tax reporting purposes. Under current Japanese tax law, a loss is not allowed to be carriedback, but may be carried forward for a five-year period for offset against future taxable income.

The components of deferred tax assets and deferred tax liabilities at March 31, 2002 and 2001 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Deferred tax assets due to:			
Depreciable assets	**¥695**	¥729	***$5,216***
Accrued employees' retirement benefits	**2,989**	2,707	***22,431***
Accrual for loss on restructuring measures	**—**	832	***—***
Loss carryforwards	**18,178**	18,279	***136,420***
Other	**9,257**	8,559	***69,471***
Gross deferred tax assets	**31,119**	31,106	***233,538***
Valuation allowance	**(8,064)**	(11,283)	***(60,518)***
Deferred tax assets	**¥23,055**	¥19,823	***$173,020***

12. Related Party Transactions

Sales to and purchases from NSC for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Sales	**¥75,262**	¥68,048	***$564,818***
Purchases (cost of sales)	**53,431**	47,897	***400,983***

13. Research and Development Expenses

Research and development costs charged to income for the years ended March 31, 2002 and 2001 amounted to ¥2,451 million *($18,394 thousand)* and ¥2,271 million, respectively.

14. Accrual for Loss on Restructuring Measures

During the year ended March 31, 1997, the Company established the "Mid-Term Management Plan 1997 ("the Plan")" aimed at the restructuring of business operations, for improved efficiency and cost reductions.

Under the Plan, a decision was made to liquidate several unprofitable subsidiaries and affiliates of the Company and in connection therewith, the Company made an accrual for the losses to be recognized upon ultimate dissolution of these group companies for ¥14,771 million during the year ended March 31, 1997.

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

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

During the year ended March 31, 2001, the Company reviewed the Plan, and recorded the loss resulting from transfer of certain business segments as below.

In addition, during the year ended March 31, 2002, the Company recorded loss on restructuring of composite materials and construction-related products businesses.

	Millions of yen		*Thousands of U.S. dollars*
	2002	2001	***2002***
Provision for loss on restructuring measurements under the Plan	**¥—**	¥1,647	
Loss on retirement of production facilities under the Plan	**—**	1,127	
Loss on restructuring of composite materials and construction-related products businesses	**1,259**	—	***$9,448***
	¥1,259	¥2,774	***$9,448***

15. Land Revaluation

In accordance with the Law concerning Revaluation of Land enacted on March 31, 1998 and amended on March 31, 1999, land owned by the Company and used for business 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." The related 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, ¥1,101 million and ¥1,521 million, 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 and after revaluation was ¥7,607 million.

Certain revalued pieces of land were sold during the years ended March 31, 2002 and 2001. As a result, part of the "Reserve for revaluation of land", in the amount of ¥78 million *($585 thousand)* and ¥164 million, were reclassified to "Accumulated deficit" during the years ended March 31, 2002 and 2001, respectively. The excess of the book value over the market value of the remaining land after revaluation were ¥426 million *($3,197 thousand)* and ¥64 million at March 31, 2002 and 2001, respectively.

16. Common Stock

As a result of the revision of the Japanese Commercial Code, which became effective on October 1, 2001, all of the Company's common shares which previously had a par value of ¥500 *($3.75)* per share were changed to non-par value shares.

17. Segment Information

The Company and its consolidated subsidiaries' business segments, which are required to be disclosed pursuant to regulations on consolidated financial statements in Japan, consisted of the following, classified based upon marketing methods and internal operating segments:

(1) Carbon materials and industrial gases
Manufacture and sale of coke, carbon materials, special carbon products, industrial gases, etc.

(2) Basic chemicals
Manufacture and sale of basic chemicals, styrene resins, plastic compounds and moldings, etc.

(3) Specialty chemicals
Manufacture and sale of specialty and precision chemicals, paints, electronic materials, fine resins, etc.

(4) Other businesses
Manufacture and sale of construction-related products, composite materials, various types of construction, distribution and trading, services, analysis, etc.

Segment information by business segment for the years ended March 31, 2002 and 2001 is summarized as follows:

	Millions of yen						
	Carbon materials and industrial gases	Basic chemicals	Specialty chemicals	Other businesses	Total	Elimination and Corporate assets*	Consolidated
2002:							
Net sales							
Outside customers	**¥94,297**	**¥108,648**	**¥35,856**	**¥41,301**	**¥280,102**	**¥ —**	**¥280,102**
Inter-segment sales	**3,633**	**4,189**	**2,561**	**10,957**	**21,340**	**(21,340)**	**—**
Total	**97,930**	**112,837**	**38,417**	**52,258**	**301,442**	**(21,340)**	**280,102**
Operating expenses	**93,416**	**110,763**	**36,780**	**51,288**	**292,247**	**(21,368)**	**270,879**
Operating income	**¥ 4,514**	**¥ 2,074**	**¥ 1,637**	**¥ 970**	**¥ 9,195**	**¥ 28**	**¥ 9,223**
Assets, depreciation and capital expenditures:							
Assets	**¥75,870**	**¥84,903**	**¥61,999**	**¥37,899**	**¥260,671**	**¥21,243**	**¥281,914**
Depreciation	**6,329**	**5,789**	**2,241**	**1,334**	**15,693**	**(28)**	**15,665**
Capital expenditures	**3,608**	**3,247**	**3,505**	**309**	**10,669**	**0**	**10,669**

	Millions of yen						
	Carbon materials and industrial gases	Basic chemicals	Specialty chemicals	Other businesses	Total	Elimination and Corporate assets*	Consolidated
2001:							
Net sales							
Outside customers	¥86,748	¥122,681	¥42,036	¥44,904	¥296,369	¥ —	¥296,369
Inter-segment sales	3,758	3,576	2,786	10,932	21,052	(21,052)	—
Total	90,506	126,257	44,822	55,836	317,421	(21,052)	296,369
Operating expenses	87,349	121,578	42,363	55,859	307,149	(21,068)	286,081
Operating income (loss)	¥ 3,157	¥ 4,679	¥ 2,459	¥ (23)	¥ 10,272	¥ 16	¥ 10,288
Assets, depreciation and capital expenditures:							
Assets	¥78,206	¥100,835	¥61,887	¥50,782	¥291,710	¥19,405	¥311,115
Depreciation	6,223	7,131	2,548	1,489	17,391	(29)	17,362
Capital expenditures	5,436	3,481	1,203	668	10,788	(13)	10,775

	Thousands of U.S. dollars						
	Carbon materials and industrial gases	Basic chemicals	Specialty chemicals	Other businesses	Total	Elimination and Corporate assets*	Consolidated
2002:							
Net sales							
Outside customers	*$707,670*	*$815,370*	*$269,088*	*$309,951*	*$2,102,079*	*$ —*	*$2,102,079*
Inter-segment sales	*27,264*	*31,437*	*19,219*	*82,229*	*160,149*	*(160,149)*	*—*
Total	*734,934*	*846,807*	*288,307*	*392,180*	*2,262,228*	*(160,149)*	*2,102,079*
Operating expenses	*701,058*	*831,242*	*276,022*	*384,901*	*2,193,223*	*(160,360)*	*2,032,863*
Operating income	*$ 33,876*	*$ 15,565*	*$ 12,285*	*$ 7,279*	*$ 69,005*	*$ 211*	*$ 69,216*
Assets, depreciation and capital expenditures:							
Assets	*$569,381*	*$637,171*	*$465,283*	*$284,420*	*$1,956,255*	*$159,422*	*$2,115,677*
Depreciation	*47,497*	*43,445*	*16,818*	*10,011*	*117,771*	*(210)*	*117,561*
Capital expenditures	*27,077*	*24,368*	*26,304*	*2,318*	*80,067*	*0*	*80,067*

*Inter-segment transactions are eliminated from the consolidated financial statements. Corporate assets of ¥21,989 million *($165,021 thousand)* and ¥24,185 million at March 31, 2002 and 2001, respectively, were included in the consolidated financial statements. Major corporate assets consisted of parent company surplus funds and deferred tax assets.

As described in Note 2 to the consolidated financial statements, the Company and its consolidated subsidiaries adopted the new or amended accounting standards for financial instruments, employees' retirement benefits, and foreign currency translation. As a result, the following items for the year ended March 31, 2001 increased or decreased as compared with the amounts which would have been reported had the previous methods been applied:

	Millions of yen						
	Carbon materials and industrial gases	Basic chemicals	Specialty chemicals	Other businesses	Total	Elimination and Corporate assets	Consolidated
2001:							
Adoption of employees' retirement benefit accounting							
Decrease in operating income	¥ (336)	¥ (193)	¥(204)	¥ (47)	¥ (780)	¥—	¥ (780)
Adoption of financial instrument accounting							
Decrease in assets	(2,071)	(3,494)	(479)	(848)	(6,892)	—	(6,892)
Adoption of amended foreign currency translation accounting							
Increase (decrease) in assets	63	76	(78)	4	65	—	65

Segment information by geographic area for the years ended March 31, 2002 and 2001 is not disclosed pursuant to regulations on consolidated financial statements in Japan, as both net sales and assets in Japan were more than 90% of consolidated net sales and assets.

Information on overseas sales, which consisted of export sales by the Company and its domestic subsidiaries and overseas sales of overseas consolidated subsidiaries, for the years ended March 31, 2002 and 2001 is summarized as follows:

	Millions of yen				
	North America	Europe	Asia	Other areas	Total
2002:					
Overseas sales	**¥417**	**¥3,034**	**¥42,323**	**¥229**	**¥46,003**
Consolidated net sales					**¥280,102**
Percentage of overseas sales against consolidated net sales	**0.1%**	**1.1%**	**15.1%**	**0.1%**	**16.4%**

	Millions of yen				
	North America	Europe	Asia	Other areas	Total
2001:					
Overseas sales	¥3,996	¥5,052	¥39,141	¥141	¥48,330
Consolidated net sales					¥296,369
Percentage of overseas sales against consolidated net sales	1.4%	1.7%	13.2%	0.0%	16.3%

	Thousands of U.S. dollars				
	North America	Europe	Asia	Other areas	Total
2002:					
Overseas sales	***$3,129***	***$22,769***	***$317,621***	***$1,719***	***$345,238***
Consolidated net sales					***$2,102,079***
Percentage of overseas sales against consolidated net sales	***0.1%***	***1.1%***	***15.1%***	***0.1%***	***16.4%***

18. Appropriations (Disposal) of Accumulated Deficit

No cash dividends were proposed or approved at the ordinary general meeting of shareholders of the Company held on June 25, 2002.

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated balance sheets of Nippon Steel Chemical Co., Ltd. and its consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income (loss), shareholders' equity, and of cash flows for the years then ended, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Steel Chemical Co., Ltd. and its consolidated subsidiaries as of March 31, 2002 and 2001, and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the change, with which we concur, in respect of the scope of cash equivalents for the purposes of the consolidated statements of cash flows with effect from the year ended March 31, 2001 as described in Note 2 (2) to the consolidated financial statements.

The amounts 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 consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

June 25, 2002
Tokyo, Japan

Corporate Directory

(As of June 2002)

ORGANIZATION CHART

HEAD OFFICE

- **Personnel Department**
- **General Administration Department**
- **Corporate Planning Department**
- **Budget, Accounts & Finance Department**
- **Purchase & Physical Distribution Department**

Technical Planning Bureau

- **Technical Department**
  - Market Development Section
- **Research & Development Planning Department**
- **Environment, Safety & Quality Assurance Department**
  Kisarazu R&D Administration Center

Research & Development Laboratories

- Process Development & Engineering Center

New Business Promotion Bureau

Carbon Materials & Gas Division

- **Coke Department**
- **Kimitsu Works**
- **Carbon Materials Department**
- **Gas Department**

Basic Chemicals Division

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

Specialty Chemicals Division

- Planning & Administration Section
- **Specialty Chemicals Department**
  - OEL Section
  - Tribology Center
- **Fine Chemicals Department**
- **Paints Department**
  - Kisarazu Paints Plant
  - Inorganic Coating Section

Advanced Materials Division

- California Branch
- **Kisarazu Works**
- **Electronic Materials Research & Development Laboratories**

- **Construction Materials Department**

BRANCHES

Kyushu Branch
Osaka Branch
Nagoya Branch

SALES OFFICES

Hikari Sales Office
Hirohata Sales Office
Muroran Sales Office

WORKS

Kyushu Works
Hirohata Works

BOARD OF DIRECTORS

Chairman

Takaki Yamatoya

President

Tsuneyoshi Nishi

Vice President

Kouji Kadotani

Managing Directors

Takao Nakanishi

Masateru Nose

Takashi Mizuno

Yoshiharu Horita

Directors

Haruhiko Aoi

Kazuhiro Mikoshi

Hiroshi Yasunaga

Junichi Kikuchi

Hidehiro Katahira

Tadashi Komoto

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 Chemicals

Benzene, toluene, xylene, cyclohexane, styrene monomer, ammonium sulfate, naphthalene, phthalic anhydride, ammonia, phenol, bisphenol A, methanol, styrene resin

Specialty Chemicals

Medical and agricultural raw material and intermediate, information recording material, dye and pigment material and intermediate, functional resin and material, coumarone resin, perfume material, electronic material and raw material, special solvent, heat-transfer medium, high-performance synthetic lubricant, marine paint, industrial equipment and steel water piping paint, circuit board material, display material, semiconductor material

Other Businesses

Rockwool spray work for fire protection

MAJOR SUBSIDIARIES

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

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

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

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

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, Fukuoka Pref. 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

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

Nippon Rockool Corporation
7-21-11, Nishi-Gotanda Shinagawa-ku, Tokyo 141-0031

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

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

SA Carbon Co., Ltd.
46-94, Oaza Nakabaru Sakinohama Tobata-ku, Kita-Kyushu, Fukuoka Pref. 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, Tochigi Pref. 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, 5F, Cameron Plaza, 23 Cameron Road, Tsim Sha Tsui, Kowloon, Hong Kong, China

Meiyang Hong Kong Ltd.
Room F, 5F, Cameron Plaza, 23 Cameron Road, Tsim Sha Tsui, Kowloon, Hong Kong, China

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

Kumho P&B Chemicals, Inc.
Kumho Bldg. 14 Fl, #57 Shinmunro 1-Ga, Jongro-Gu, Seoul 110-061, Korea

Dalian Nitto Plastic Molding Co., Ltd.
1A-5-1, Free Trade Zone, Dalian, China