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# **NOF CORPORATION**

## **Financial Statements 1998**

For the year ended 31st March, 1998

# Non-Consolidated Balance Sheets

NOF CORPORATION

31st March, 1997 and 1998

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1997	1998	1998
<b>Current Assets:</b>			
Cash	¥ 1,682	¥ 1,658	\$ 12,551
Time deposits and certificate of deposits	11,210	4,857	36,768
Money trust for investment in marketable securities	3,264	800	6,056
Marketable securities (Note 5)	5,565	4,299	32,544
Receivables:			
Trade notes and accounts	25,309	24,099	182,430
Subsidiaries and affiliates	12,980	11,897	90,061
Other	1,024	13,978	105,813
	39,313	49,974	378,304
Less: Allowance for bad debts	(289)	(321)	(2,430)
	39,024	49,653	375,874
Inventories (Note 4)	15,648	16,969	128,455
Other current assets	950	638	4,830
Total current assets	77,343	78,874	597,078
<b>Investments and Advances:</b>			
Investments in securities (Note 5)	18,842	19,209	145,413
Investments in and advances to subsidiaries and affiliates (Note 6)	11,520	12,061	91,302
Long-term loans to employees	232	197	1,491
Other long-term investments	2,880	2,712	20,530
	33,474	34,179	258,736
<b>Property, Plant and Equipment</b> (Note 7):			
Buildings and structures	36,080	39,541	299,326
Machinery and equipment	67,514	69,368	525,117
	103,594	108,909	824,444
Less: Accumulated depreciation	(73,674)	(74,184)	(561,575)
	29,920	34,725	262,869
Land	11,028	11,175	84,595
Construction in progress	10,628	1,114	8,433
	51,576	47,014	355,897
<b>Deferred Charges and Other Assets</b>	2,003	2,325	17,600
	¥164,396	¥162,392	\$1,229,311

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1997	1998	1998
<b>Current Liabilities:</b>			
Short-term bank loans (Note 7)	¥ 11,551	¥ 13,523	\$ 102,370
Commercial paper	—	6,000	45,420
Current maturities of long-term debt (Note 7)	14,000	10,471	79,266
Payables:			
Trade notes and accounts	23,570	21,325	161,431
Subsidiaries and affiliates	4,219	3,384	25,617
Others	6,332	3,205	24,262
	34,121	27,914	211,310
Accrued expenses	4,612	4,767	36,086
Income taxes payable (Note 8)	1,111	292	2,210
Consumption tax withheld	122	483	3,657
Other current liabilities	3,946	3,743	28,334
Total current liabilities	69,463	67,193	508,653
<b>Long-Term Debt</b> (Note 7)	43,500	40,627	307,547
<b>Accrued Retirement Benefits to Directors and Statutory Auditors</b> (Note 9)	639	730	5,526
<b>Contingent Liabilities</b> (Note 10)			
<b>Shareholders' Equity:</b>			
Common stock:			
Authorised: 800,000,000 shares at 31st March, 1997 and 1998			
Issued, par value ¥50 per share: 218,648,930 shares at 31st March, 1997 and 1998	15,994	15,994	121,075
Additional paid-in capital	13,371	13,371	101,219
Legal reserve (Note 13)	2,549	2,686	20,333
Voluntary reserves (Note 13)	14,300	14,300	108,251
Special reserves (Note 12)	1,494	1,734	13,126
Retained earnings (Notes 13 and 19)	3,086	5,757	43,581
Total shareholders' equity	50,794	53,842	407,585
	¥164,396	¥162,392	\$1,229,311

# Non-Consolidated Statements of Income

NOF CORPORATION

For the years ended 31st March, 1996, 1997 and 1998

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	1996	1997	1998	1998
<b>Net Sales</b> (Note 15)	¥118,813	¥120,020	<b>¥118,050</b>	<b>\$893,641</b>
<b>Cost of Sales</b> (Notes 15 and 16)	91,094	92,670	<b>92,879</b>	<b>703,096</b>
Gross profit	27,719	27,350	<b>25,171</b>	<b>190,545</b>
<b>Selling, General and Administrative Expenses</b> (Note 16)	24,914	23,966	<b>23,682</b>	<b>179,273</b>
Operating income	2,805	3,384	<b>1,489</b>	<b>11,272</b>
<b>Other Income (Expenses):</b>				
Interest and dividend income (Note 15)	977	1,012	<b>1,103</b>	<b>8,350</b>
Interest expenses	(1,220)	(1,085)	<b>(996)</b>	<b>(7,540)</b>
New bond issue expense	(118)	(117)	<b>(117)</b>	<b>(886)</b>
Gain on sale/disposal of properties	172	452	<b>12,033</b>	<b>91,090</b>
Loss on disposal of obsolete inventory items (Note 2(1))	(157)	(133)	<b>(171)</b>	<b>(1,294)</b>
Gain on sales of investments in subsidiaries and affiliates	789	—	—	—
Loss from earthquake disaster (Note 18)	(122)	—	—	—
Loss on write-down of marketable securities and investment securities	(405)	—	<b>(1,077)</b>	<b>(8,153)</b>
Exchange loss on advances to subsidiaries	(279)	—	—	—
An extra retirement payment due to relocation of Mikuni factory to Ako	—	(344)	—	—
Loss resulting from reduction of acquisition cost of alternative assets	—	—	<b>(4,693)</b>	<b>(35,526)</b>
Loss on liquidation of affiliates	—	—	<b>(2,256)</b>	<b>(17,078)</b>
Expenses for relocation of factory	—	—	<b>(460)</b>	<b>(3,482)</b>
Other, net	629	416	<b>726</b>	<b>5,495</b>
	266	201	<b>4,092</b>	<b>30,976</b>
Income before income taxes	3,071	3,585	<b>5,581</b>	<b>42,248</b>
Income taxes (Note 8)	1,459	1,766	<b>1,189</b>	<b>9,000</b>
Net income	¥ 1,612	¥ 1,819	<b>¥ 4,392</b>	<b>\$ 33,248</b>
		Yen		U.S. Dollars (Note 3)
<b>Per Share</b> (Note 2(10)):				
Net income—primary	¥7.4	¥8.3	<b>¥20.1</b>	<b>\$0.152</b>
Net income—fully diluted	¥ —	¥8.1	<b>¥17.7</b>	<b>\$0.134</b>
Cash dividends applicable to the year	¥6.5	¥6.0	<b>¥ 6.0</b>	<b>\$0.045</b>
		Thousands		
<b>Weighted Average Number of Shares</b>	218,377	218,648	<b>218,648</b>	<b>218,648</b>

The accompanying notes are an integral part of the statements.

# Non-Consolidated Statements of Shareholders' Equity

NOF CORPORATION

For the years ended 31st March, 1996, 1997 and 1998

	Number of shares of common stock (thousands)	Millions of Yen					
		Common stock	Additional paid-in capital	Legal reserve	Voluntary reserves	Special reserves	Retained earnings
<b>Balance at 31st March, 1995</b>	218,206	¥ 15,850	¥ 13,227	¥ 2,267	¥ 13,900	¥ 1,124	¥ 3,520
Net income for the year ended 31st March, 1996	—	—	—	—	—	—	1,612
Cash dividends (fiscal year-end)	—	—	—	—	—	—	(654)
Officers' bonuses	—	—	—	—	—	—	(42)
Transfer to legal reserve	—	—	—	70	—	—	(70)
Transfer to voluntary reserves	—	—	—	—	400	—	(400)
Transfer to special reserves	—	—	—	—	—	285	(285)
Interim cash dividends	—	—	—	—	—	—	(654)
Transfer to legal reserve	—	—	—	66	—	—	(66)
Conversion of convertible debentures	442	144	144	—	—	—	—
<b>Balance at 31st March, 1996</b>	218,648	15,994	13,371	2,403	14,300	1,409	2,961
Net income for the year ended 31st March, 1997	—	—	—	—	—	—	1,819
Cash dividends (fiscal year-end)	—	—	—	—	—	—	(765)
Officers' bonuses	—	—	—	—	—	—	(43)
Transfer to legal reserve	—	—	—	81	—	—	(81)
Transfer to voluntary reserves	—	—	—	—	—	—	—
Transfer to special reserves	—	—	—	—	—	85	(85)
Interim cash dividends	—	—	—	—	—	—	(655)
Transfer to legal reserve	—	—	—	—	—	—	(65)
Conversion of convertible debentures	—	—	—	65	—	—	—
<b>Balance at 31st March, 1997</b>	218,648	15,994	13,371	2,549	14,300	1,494	3,086
Net income for the year ended 31st March, 1998	—	—	—	—	—	—	4,392
Cash dividends (fiscal year-end)	—	—	—	—	—	—	(656)
Officers' bonuses	—	—	—	—	—	—	(33)
Transfer to legal reserve	—	—	—	72	—	—	(72)
Transfer to voluntary reserves	—	—	—	—	—	—	—
Transfer to special reserves	—	—	—	—	—	240	(240)
Interim cash dividends	—	—	—	—	—	—	(655)
Transfer to legal reserve	—	—	—	65	—	—	(65)
<b>Balance at 31st March, 1998</b>	218,648	¥ 15,994	¥ 13,371	¥ 2,686	¥ 14,300	¥ 1,734	¥ 5,757

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 3)					
		Common stock	Additional paid-in capital	Legal reserve	Voluntary reserves	Special reserves	Retained earnings
<b>Balance at 31st March, 1997</b>	218,648	\$121,075	\$101,219	\$19,296	\$108,251	\$11,310	\$23,361
Net income for the year ended 31st March, 1998	—	—	—	—	—	—	33,248
Cash dividends (fiscal year-end)	—	—	—	—	—	—	(4,966)
Officers' bonuses	—	—	—	—	—	—	(250)
Transfer to legal reserve	—	—	—	545	—	—	(545)
Transfer to voluntary reserves	—	—	—	—	—	—	—
Transfer to special reserves	—	—	—	—	—	1,816	(1,816)
Interim cash dividends	—	—	—	—	—	—	(4,959)
Transfer to legal reserve	—	—	—	492	—	—	(492)
<b>Balance at 31st March, 1998</b>	218,648	\$121,075	\$101,219	\$20,333	\$108,251	\$13,126	\$43,581

The accompanying notes are an integral part of the statements.

# Non-Consolidated Statements of Cash Flows

NOF CORPORATION

For the years ended 31st March, 1996, 1997 and 1998

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	1996	1997	1998	1998
<b>Cash Flows from Operating Activities:</b>				
Net income	¥ 1,612	¥ 1,819	¥ 4,392	\$ 33,248
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	5,072	4,835	5,096	38,577
Amortisation	669	745	876	6,631
Gain on sale/disposal of properties	(172)	(452)	(12,033)	(91,090)
Other, net	(42)	(43)	(34)	(257)
Changes in assets and liabilities:				
Decrease/(increase) in receivables	(2,696)	(456)	(10,629)	(80,462)
Decrease/(increase) in inventories	289	(1,311)	(1,321)	(10,000)
Increase/(decrease) in payables	393	1,670	(6,207)	(46,987)
Increase/(decrease) in accrued expenses	327	(748)	155	1,173
Increase/(decrease) in income taxes payable	31	22	(819)	(6,200)
Increase/(decrease) in consumption tax withheld	121	(113)	360	2,725
Other, net	(220)	(673)	193	1,461
Net cash provided by (used in) operating activities	<u>5,384</u>	<u>5,295</u>	<u>(19,971)</u>	<u>(151,181)</u>
<b>Cash Flows from Investing Activities:</b>				
Acquisition of property, plant and equipment	(9,638)	(10,130)	(6,165)	(46,669)
Increase in deferred charges and other assets	(794)	(952)	(1,198)	(9,069)
Decrease/(increase) in investments in securities	445	(4)	(367)	(2,778)
Decrease/(increase) in investments in subsidiaries and affiliates	(1,036)	107	(541)	(4,095)
Decrease in long-term loans to employees	79	65	35	265
Proceeds from sales of property, plant and equipment	1,078	780	17,664	133,717
Decrease/(increase) in other long-term investments	(116)	112	168	1,271
Net cash used in (provided by) investing activities	<u>(9,982)</u>	<u>(10,022)</u>	<u>9,596</u>	<u>72,642</u>
<b>Cash Flows from Financing Activities:</b>				
Increase/(decrease) in short-term bank loans	9,175	(5,699)	1,972	14,928
Proceeds from issue of commercial paper	—	—	6,001	45,428
Borrowing of long-term loans	376	9,564	8,330	63,058
Proceeds from issue of convertible debentures	—	15,000	—	—
Redemption of mortgage debentures	—	(4,000)	—	—
Redemption of convertible mortgage debentures	(2,857)	(451)	(690)	(5,223)
Redemption of guaranteed notes with warrants	—	—	(13,415)	(101,552)
Cash dividends	(1,308)	(1,420)	(1,311)	(9,924)
Repayment of long-term loans	(3,960)	(2,228)	(618)	(4,678)
Net cash provided by financing activities	<u>1,426</u>	<u>10,766</u>	<u>269</u>	<u>2,037</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<u>(3,172)</u>	<u>6,039</u>	<u>(10,106)</u>	<u>(76,502)</u>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>18,854</u>	<u>15,682</u>	<u>21,721</u>	<u>164,428</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>¥15,682</u>	<u>¥21,721</u>	<u>¥11,615</u>	<u>\$ 87,926</u>

The accompanying notes are an integral part of the statements.

# Notes to the Non-Consolidated Financial Statements

NOF CORPORATION

For the years ended 31st March, 1996, 1997 and 1998

## 1. Basis of Presenting Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements have been prepared from accounts and records maintained by NOF CORPORATION (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles generally accepted in Japan.

Statements of cash flows and 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.

## 2. Summary of Significant Accounting Policies

### (1) Inventories

Inventories are stated at cost, cost being determined by the moving-average method.

When the net realisable value of certain inventory items is substantially less than the cost, and the decline of value is not expected to be recoverable, appropriate write-downs are recorded on such items.

### (2) Valuation of Securities

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

Marketable securities held under designated money trusts managed by Japanese trust banking institutions are valued at cost which is determined by the moving-average method.

Appropriate write-downs are recorded for securities in cases when their value has declined substantially and such impairments of the value are not expected to recover in the near future.

### (3) Investments in Subsidiaries and Affiliates

Investments in subsidiaries (majority-owned companies) and affiliates (meaning 20 per cent. to 50 per cent. owned companies) are valued at cost. The equity method of accounting for investments in common stock of subsidiaries and affiliates is not applied in the accompanying non-consolidated financial statements. Accordingly, only such dividends which may be received from subsidiaries and affiliates, are recognised as income of the Company.

### (4) Property, Plant and Equipment

Depreciation of property, plant and equipment is principally computed by the declining-balance method, 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 2 to 60 years for buildings and structures and from 2 to 15 years for machinery, equipment, furniture and tools.

### (5) Repairs and Maintenance

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

### (6) Amortisation

Amortisation of intangible assets consisting primarily of trademarks is computed by the straight-line method, principally from 8 to 35 years. New share issue expenses and debt securities (notes, bonds and debentures) issue expenses are deferred and amortised in equal instalments over a three-year period. Discounts on bond issue are deferred and amortised on a straight-line basis over a period up to the maturity of the relevant bonds. Research and development costs are accounted for as production costs and allocated to cost of sales and inventories except for costs incurred by the research centers which are charged to income as incurred (See Note 16).

### (7) Foreign Currency Translation

The Company translates foreign currency transactions in accordance with the provisions of newly issued statement to revise the "Accounting Standards for Translation of Foreign Currency Transactions and Other", promulgated by the Business Accounting Deliberations Council, an accounting standards setting body in Japan.

Under the method, foreign currencies and short-term receivables and payables (including current maturities of long-term debt) denominated in foreign currencies are translated into Japanese yen at the current exchange rate prevailing at the respective balance sheet dates. Resulting translation gains or losses are included in the determination of net income for the year.

Long-term receivables and payables denominated in foreign currencies including investments in overseas subsidiaries and affiliates are translated at the historical rates prevailing at the transaction dates.

Exceptionally, short-term and long-term payables in foreign currencies which are hedged by a forward exchange contract are translated into yen at the contracted rates of exchange.

Revenue and expense items arising from the Company's transactions denominated in foreign currencies are translated into Japanese yen at relevant exchange rates prevailing during the year.

### (8) Income Taxes

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

### (9) Appropriation of Retained Earnings

Under the Japanese Commercial Code and Articles of Incorporation of the Company, the plan for appropriation of retained earnings (primarily for 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 reflected in the accompanying non-consolidated financial statements represents the results of such appropriations applicable to the immediately preceding financial year. Dividends are paid to

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

The Japanese Commercial Code provides that interim cash dividends may be distributed upon approval of the Board of Directors. The Company had paid such interim dividends to its shareholders on the shareholders' register at 30th September each year.

#### (10) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares outstanding during each fiscal period. In accordance with the amendments to the Japanese securities and exchange regulations, net income per share adjusted for dilution (assuming full conversion of all convertible debentures of the Company outstanding with related reduction in interest expenses) has been disclosed from the fiscal year ended 31st March, 1996.

Cash dividends per share shown for each fiscal period in the accompanying non-consolidated statements of income represent dividends declared as applicable to the respective years.

#### (11) Accounting for Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method that is applicable to ordinary operating leases.

#### (12) Accounting for 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 imposed on the Company's sales to customers is withheld by the Company at the time of sale. The consumption tax withheld upon sale and the consumption tax paid by the Company on the purchases of products, merchandise and services from vendors, are not included in the related amounts in the accompanying non-consolidated statements of income. The consumption tax paid is generally offset against the balance of consumption tax withheld, and the balance is shown in the accompanying non-consolidated balance sheets as "Consumption tax withheld".

### 3. U.S. 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 ¥132.10=U.S.\$1, the approximate rate of exchange prevailing on the latest balance sheet date of 31st March, 1998. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realised or settled in dollars at ¥132.10=U.S.\$1 or at any other rate.

### 4. Inventories

Inventories at 31st March, 1997 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1997	1998	1998
Finished goods	¥ 7,740	¥ 8,512	\$ 64,436
Semi-finished and by-products	3,111	3,545	26,835
Raw materials	3,420	3,599	27,245
Work in process	1,282	1,131	8,562
Supplies	95	182	1,377
	<u>¥15,648</u>	<u>¥16,969</u>	<u>\$128,455</u>

### 5. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at 31st March, 1997 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1997	1998	1998
<b>Marketable securities (current portfolio):</b>			
Listed corporate shares	¥ 2,408	¥ 3,071	\$ 23,248
Government bonds	8	8	61
Corporate bonds and other	3,149	1,220	9,235
	<u>¥ 5,565</u>	<u>¥ 4,299</u>	<u>\$ 32,544</u>
<b>Investments in securities (non-current portfolio):</b>			
Listed corporate shares	¥17,727	¥17,971	\$136,041
Unlisted corporate shares	859	982	7,434
Corporate bonds and other	256	256	1,938
	<u>¥18,842</u>	<u>¥19,209</u>	<u>\$145,413</u>

The aggregate market value of listed corporate shares at 31st March, 1997 and 1998 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1997	1998	1998
Listed corporate shares in:			
Current portfolio	¥ 6,561	¥ 4,080	\$ 30,886
Non-current portfolio	¥40,947	¥30,443	\$230,454

## 6. Investments in and Advances to Subsidiaries and Affiliates

Investments in and advances to subsidiaries and affiliates of the Company at 31st March, 1997 and 1998 were as follows:

	Millions of Yen					Thousands of U.S. Dollars
	1997	1998				1998
	Total	Percentage of ownership (directly and indirectly held)	Investments in common shares	Advances and other	Total	Total
<b>Subsidiaries:</b>						
U.S. Paint Corporation	¥ 2,984	100.0%	¥ 2,218	¥574	¥ 2,792	\$21,136
Nichiyu Giken Kogyo Co., Ltd. (*)	400	66.7	400	—	400	3,028
Nichiyu Trading Co., Ltd.	150	100.0	150	—	150	1,136
Taseto Co., Ltd.	88	100.0	88	—	88	666
Nippon Chemical Paint Co., Ltd.	100	99.6	130	—	130	984
Showa Kinzoku Kogyo Co., Ltd.	179	74.7	179	—	179	1,355
Metal Coatings International Inc., U.S.A.	1,849	100.0	1,849	—	1,849	13,997
Nippon Dacro Shamrock Co., Ltd.	188	100.0	188	—	188	1,423
Nichiyu Konac Co., Ltd.	810	100.0	810	—	810	6,132
NOF Europe N.V.	652	100.0	448	164	612	4,633
Hokkaido NOF CORPORATION	220	100.0	220	—	220	1,665
P.T. NOF MAS CHEMICAL INDUSTRIES	726	55.0	726	—	726	5,496
Nippo Kogyo Co., Ltd.	89	89.3	89	—	89	674
NOF JOTUN Co., Ltd.	127	100.0	—	—	—	—
TAIWAN NOF COATINGS CORPORATION	78	70.0	78	—	78	590
Others	382	—	321	84	405	3,065
	<u>9,022</u>		<u>7,894</u>	<u>822</u>	<u>8,716</u>	<u>65,980</u>
<b>Affiliates:</b>						
TAIWAN NICHYU CHEMICAL CO., LTD.	127	50.0	127	—	127	962
Nissan Sekken Co., Ltd.	203	32.8	203	—	203	1,537
Nippon R-M Co., Ltd.	100	50.0	100	—	100	757
Panapharm Laboratories, Inc.	200	25.0	200	—	200	1,514
Chiba Fatty Acid Co., Ltd.	90	30.0	90	—	90	681
P.T. SINAR OLEOCHEMICAL INTERNATIONAL	894	30.0	1,697	—	1,697	12,846
CORRO-COAT NOF (THAILAND) LTD.	248	20.0	248	—	248	1,877
ICI-NOF POWDER COATINGS (MALAYSIA) SDN. BHD	107	29.0	107	—	107	810
Others	529	—	572	1	573	4,338
	<u>2,498</u>		<u>3,344</u>	<u>1</u>	<u>3,345</u>	<u>25,322</u>
Total	<u>¥11,520</u>		<u>¥11,238</u>	<u>¥823</u>	<u>¥12,061</u>	<u>\$91,302</u>

(\*) Market value quoted on the over-the-counter market of shares of Nichiyu Giken Kogyo Co., Ltd. held by the Company was ¥2,240 million at 31st March, 1998.

## 7. Short-term Bank Loans and Long-term Debt

Short-term bank loans outstanding are generally represented by notes payable issued by the Company to banks and bear interest at annual rates from 0.70 per cent. to 1.625 per cent. at 31st March, 1997 and annual rates from 0.82 per cent. to 2.35 per cent. at 31st March, 1998. Customarily these notes are renewed at maturity.

Additional information with respect to short-term bank loans outstanding for the years ended 31st March, 1997 and 1998 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1997	1998	1998
Maximum month-end balance	<u>¥18,600</u>	<u>¥22,322</u>	<u>\$168,978</u>
Average month-end balance	<u>¥15,304</u>	<u>¥15,890</u>	<u>\$120,288</u>

Long-term debt at 31st March, 1997 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1997	1998	1998
Long-term loans from financial institutions with mortgage or collateral due up to 2023 at interest rates indicated below	¥ 10,220	<b>¥17,932</b>	<b>\$135,746</b>
2.0 per cent. yen convertible mortgage debentures due 2002	8,883	<b>8,193</b>	<b>62,021</b>
1.8 per cent. yen convertible debentures due 1998	9,901	<b>9,901</b>	<b>74,951</b>
1.1 per cent. yen convertible debentures due 2006	8,000	<b>8,000</b>	<b>60,560</b>
0 per cent. yen convertible debentures due 2000	7,000	<b>7,000</b>	<b>52,990</b>
1.0 per cent. U.S. dollar guaranteed notes due 17th June, 1997 with warrants	10,455	—	—
0.875 per cent. Swiss franc guaranteed notes due 17th June, 1997 with warrants	2,960	—	—
Other	81	<b>72</b>	<b>545</b>
Total	57,500	<b>51,098</b>	<b>386,813</b>
Less: Current maturities of:			
Long-term loans	(585)	<b>(570)</b>	<b>(4,315)</b>
Convertible mortgage debentures	(13,415)	<b>(9,901)</b>	<b>(74,951)</b>
	<u>¥ 43,500</u>	<u><b>¥40,627</b></u>	<u><b>\$307,547</b></u>

Long-term loans from financial institutions bear interest at annual rates from 1.85 per cent. to 4.632 per cent. at 31st March, 1997 and from 1.85 per cent. to 3.15 per cent. at 31st March, 1998.

Additional information with respect to the Company's convertible mortgage debentures and convertible debentures outstanding at 31st March, 1998 were as follows:

	Principal amount at issue (million)	Issued in	Current conversion/exercise price per share (subject to adjustment in certain circumstances)	Number of shares issuable upon full conversion/exercise (in thousands)	Annual/Semi-Annual sinking fund requirements (subject to amount reduction for subsequent conversions, repurchases and redemption)
2.0 per cent. yen convertible mortgage debentures due 15th July, 2002	¥10,000	July 1987	¥1,334.9	6,138	¥750 million on 30th November, 1998 and 1999, ¥1,500 million on 30th November, 2000 and 2001
1.8 per cent. yen convertible debentures due 30th September, 1998	¥10,000	June 1989	¥1,167.0	8,484	None
1.1 per cent. yen convertible debentures due 31st March, 2006	¥ 8,000	December 1996	¥ 581.0	13,769	None
0 per cent. yen convertible debentures due 20th December, 2000	¥ 7,000	December 1996	¥ 581.0	<u>12,048</u> <u>40,439</u>	None

The redemption clauses of the Company's convertible bonds and convertible mortgage debentures are outlined below:

	Redeemable at the option of the Company
2.0 per cent. yen convertible mortgage debentures due 15th July, 2002	At 106 per cent. to 100 per cent. of the principal amount on and after 1st December, 1995
1.8 per cent. yen convertible debentures due 30th September, 1998	At 103 per cent. to 100 per cent. of the principal amount on and after 1st October, 1994
1.1 per cent. yen convertible debentures due 31st March, 2006	At 103 per cent. to 100 per cent. of the principal amount on and after 1st April, 2002

In accordance with customary business practices in Japan, the Company maintains substantial deposit balances with institutions from which the Company has borrowings. Withdrawal of such deposits is not restricted legally or by contract.

The Company's assets pledged as collateral for short-term and long-term loans from banks and other financial institutions (including current maturities), convertible mortgage debentures and convertible debentures at 31st March, 1998 were summarised as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment at book value	<u>¥20,796</u>	<u>\$157,426</u>

## 8. Income Taxes

Income taxes in Japan applicable to the Company for each of the three years in the period ended 31st March, 1998 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income		
	1996	1997	1998
For the year ended 31st March,			
Corporate income tax	37.5%	37.5%	<b>37.5%</b>
Enterprise tax	12.6	12.6	<b>12.6</b>
Resident income taxes	7.5	7.5	<b>7.5</b>
	<u>57.6%</u>	<u>57.6%</u>	<u>57.6%</u>
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	<u>51.2%</u>	<u>51.2%</u>	<u>51.2%</u>

Unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid. Although the enterprise tax is presented as selling, general and administrative expenses in the basic financial statements disclosed in conformity with the accounting practices in Japan, the enterprise tax has been reclassified in the accompanying non-consolidated financial statements to include all taxes based on income mentioned above.

"Income Taxes" as shown in the accompanying non-consolidated statements of income are different from the amounts computed by applying the above-mentioned statutory tax rates to "Income before income taxes". The principal reasons such differences arise are that no tax effects have been recognised on certain timing differences between financial accounting and tax reporting primarily in relation to certain accrued expenses and accrued enterprise tax not deductible until paid. The difference also arises because essentially domestic dividend income earned is not taxable, and entertainment expenses are not allowed tax deductions.

In addition, under the Special Tax Measures Law, certain tax-purpose special reserves are provided by means of appropriation of retained earnings, which is allowed deduction for tax purpose. Such reserves are reversed from retained earnings but such reversals are added to taxable income. See Note 12 below for further details of the special reserves.

## 9. Retirement Plan

The Company has a pension plan (funded and non-contributory) to cover employees (excluding directors and statutory auditors) of the Company. The benefits under this plan are determined generally by reference to the average rate of pay, length of service and conditions under which retirement occurs. The pension plan of the Company provides for a lump-sum payment or annuity payments for a 10-year period after retirement, at the option of the employees when they retire with at least 20 years of participation in the plan and at the age of 50 or older. Employees retiring with less than 20 years of participation are entitled to a lump-sum payment.

The unfunded prior service cost of the pension plan is being amortised over about a 10-year period. As at 31st March, 1998, the most recent valuation date of fund assets, the accumulated balance of the fund assets aggregated ¥9,753 million (\$73,830 thousand).

The amounts of costs for the pension plan charged to income for each of the three years in the period ended 31st March, 1998 were as follows:

For the year ended 31st March,	Millions of Yen
1996	¥2,299
1997	2,201
<b>1998</b>	<b>1,671 (\$12,650 thousand)</b>

As is a customary practice in Japan, the Company provides for lump-sum retirement benefits to directors or statutory auditors upon retirement. The Company provides for accrued retirement benefits on an accrual basis, in an amount equivalent to 100 per cent. of the liabilities the Company would have been required to pay under the Company's internal rules, upon retirement of all eligible directors and statutory auditors.

## 10. Contingent Liabilities

As at 31st March, 1998, the Company was contingently liable for guarantees of loans as follows:

	Millions of Yen	Thousands of U.S. Dollars
Loans borrowed by:		
P.T. SINAR OLEOCHEMICAL INTERNATIONAL	¥3,417	\$25,867
P.T. NOF MAS CHEMICAL INDUSTRIES	3,104	23,497
Panapharm Laboratories, Inc.	2,144	16,230
Others	888	6,722
	<u>¥9,553</u>	<u>\$72,316</u>

## 11. Derivative Financial Instruments

The Company uses derivative financial instruments, which comprise principally foreign exchange forward contracts and interest rate and currency swap agreements, to reduce its exposure to market risks from fluctuations in foreign currency exchange and interest rates. The Company does not hold or issue financial instruments for trading purposes.

### (1) Foreign exchange transactions

The Company has entered into foreign exchange forward contracts as a hedge against transactions in foreign currencies.

The foreign exchange forward contracts at 31st March, 1998 are summarized as follows:

	Currency (contracted) value	Fair value	Valuation gain (loss)
To sell:			
U.S. dollars	¥59	¥60	¥(1)

### (2) Interest rate transactions

The Company also has various interest rate swap agreements with financial institutions. These agreements were arranged to hedge against exposure of interest rate fluctuations of certain assets and liabilities on the balance sheet.

The interest rate swap contracts outstanding at 31st March, 1998 are summarized as follows:

	Notional principals	Fair value	Valuation gain (loss)
Interest rate swap:			
• Receiving fixed rates and paying floating rates	¥1,300	¥ 73	¥ 73
• Receiving floating rates and paying fixed rates	¥2,800	¥(74)	¥(74)

## 12. Special Reserves

Special reserves are provided by the Company by means of appropriations of retained earnings. Such reserves are allowed as deductions in one year and reversals are added back to taxable income in subsequent years, pursuant to the provisions of the Special Taxation Measures Law of Japan. Essentially, special reserves result in deferral of income tax payments. The Company carries special reserves relative to deferred capital gains and bonus depreciation (direct deduction of certain percentages of the acquisition cost of qualified property, plant and equipment).

## 13. Shareholders' Equity

The Japanese Commercial Code provides that an amount equal to at least 10 per cent. of cash distributions paid out of retained earnings (cash dividends and officers' bonuses) each year should be appropriated to legal reserve until such reserve equals 25 per cent. of paid-in capital. This reserve may be transferred to common stock or used to reduce a deficit through suitable shareholder and director actions, but is not available for dividend payment.

The Company's Board of Directors, with subsequent approval by the shareholders, has made annual appropriation of retained earnings for various purposes, the accumulated balance of which is presented as "Voluntary reserves" in the accompanying non-consolidated financial statements. Any disposition of such appropriations shall be at the discretion of the Board of Directors and shareholders.

## 14. Restriction on Dividends

Under the term of indenture for 1.8 per cent. yen convertible bonds due 1998, the Company's accumulated cash dividend payments are restricted not to exceed the amount equivalent to accumulated net income earned during the years for which the bonds have been outstanding plus ¥1,700 million.

## 15. Related Party Transactions

The Company's transactions with subsidiaries and affiliates for each of the three years ended 31st March, 1998 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
For the year ended 31st March,	1996	1997	1998	1998
Sales	<u>¥28,218</u>	<u>¥33,305</u>	<u>¥32,847</u>	<u>\$248,653</u>
Purchases (cost of sales)	<u>¥14,496</u>	<u>¥15,026</u>	<u>¥14,951</u>	<u>\$113,179</u>
Interest and dividend income	<u>¥ 509</u>	<u>¥ 534</u>	<u>¥ 648</u>	<u>\$ 4,905</u>
Income from real estate	<u>¥ 690</u>	<u>¥ 636</u>	<u>¥ 498</u>	<u>\$ 3,770</u>

## 16. Research and Development Costs

The charges to income for research and development activities of the Company for each of the three years in the period ended 31st March, 1998 were as follows:

For the year ended 31st March,	Millions of Yen		
	S, G & A expenses	Cost of sales	Total
1996	¥4,257	¥1,612	¥5,869
1997	4,060	1,792	5,852
<b>1998</b>	<b>3,813</b>	<b>1,927</b>	<b>5,740</b>

  

1998	Thousands of U.S. Dollars		
	\$28,864	\$14,587	\$43,452

## 17. Accounting for Leases

As disclosed in Note 2 (11), finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are generally accounted for by the method that is applicable to ordinary operating leases. Certain key information on such lease contracts of the Company as a lessee for the year ended 31st March, 1997 and 1998 were as follows:

Financial lease transaction excluded leased assets of which ownership is transferred from lessor to lessee is as follows:

### (1) Acquisition costs, accumulated depreciation and net balance of leased assets at 31st March, 1998

	31st March, 1998			Thousands of U.S. Dollars
	Millions of Yen			
	Acquisition cost	Accumulated depreciation	Net balance	Net balance
Machinery and equipment	¥1,562	¥(558)	¥1,004	\$7,600
Other	323	(150)	173	1,310
	<u>¥1,885</u>	<u>¥(708)</u>	<u>¥1,177</u>	<u>\$8,910</u>

(Note) The amount of above acquisition cost included the portion of interest thereon because the outstanding balance of minimum lease payments at 31st March, 1998 has been immaterial as compared with the outstanding balance of fixed assets at that date.

### (2) Minimum lease payments

	Millions of Yen		Thousands of U.S. Dollars
	1997	1998	1998
Minimum lease payments			
due within one year	¥268	¥ 374	\$2,831
due over one year	607	803	6,079
Total minimum lease payment	<u>¥875</u>	<u>¥1,177</u>	<u>\$8,910</u>

(Note) The amount of outstanding minimum lease payments due at 31st March, 1997 and 1998 included the portion of interest thereon.

## (3) Lease expense and depreciation

For the year ended 31st March,	Millions of Yen			Thousands of U.S. Dollars
	1996	1997	1998	1998
Lease expenses	<u>¥237</u>	<u>¥238</u>	<u>¥358</u>	<u>\$2,710</u>
Depreciation		<u>¥238</u>	<u>¥358</u>	<u>\$2,710</u>

### (4) The method of computation of depreciation

Depreciation is computed on the straight-line method over the lease periods with no residual value.

## 18. Earthquake Disaster

The Company suffered from the loss caused by the Hanshin Awaji Earthquake on January 17, 1995, which is shown as such separately in the accompanying non-consolidated statements of income for the year ended 31st March, 1996, 1997 and 1998. The loss consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	1996	1997	1998	1998
Restoration and reconstruction of plant and equipment	¥122	¥—	¥—	\$—
Disposal of damaged goods and other	—	—	—	—
Total	<u>¥122</u>	<u>¥—</u>	<u>¥—</u>	<u>\$—</u>

## 19. Subsequent Events

The appropriation of retained earnings including cash dividends in respect of the year ended 31st March, 1998, proposed by the Board of Directors on 18th May, 1998 for approval at the shareholders' meeting to be held on 26th June, 1998 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Retained earnings at 31st March, 1998	¥5,757
Transfer from special reserves	334	2,528
	<u>6,091</u>	<u>46,109</u>
Appropriations:		
Year-end cash dividends (¥3.0 per share)	656	4,965
Officers' bonuses	22	167
Transfer to legal reserve	68	515
Transfer to special reserves	4,026	30,477
	<u>4,772</u>	<u>36,124</u>
Retained earnings to be carried forward	<u>¥1,319</u>	<u>\$ 9,985</u>

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

To: The Board of Directors  
NOF CORPORATION

We have audited the non-consolidated balance sheets of NOF CORPORATION as at 31st March, 1997 and 1998, and the related non-consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended 31st March, 1998, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of NOF CORPORATION as at 31st March, 1997 and 1998, and the non-consolidated results of its operations and the cash flows for each of the three years in the period ended 31st March, 1998, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

CHUO AUDIT CORPORATION

26th June, 1998  
Tokyo, Japan

# Corporate Information

## BOARD OF DIRECTORS AND AUDITORS

### President & Chief Executive Officer

Masayasu Uno

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### Vice President

Mamoru Yamada

---

### Senior Managing Directors

Shohei Sakai

Hiroshi Sakai

Mitsuta Shibata

---

### Managing Directors

Shoichi Kobayashi

Go Saito

Jun Chino

---

### Directors

Eiju Ishida

Ichiro Kamishima

Kunihiko Tanaka

Yohei Nakajima

Shingo Yamazaki

Tatsuyuki Yamanaka

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### Statutory Auditors

Kohzo Enomoto

Yukinori Haruta

Toyohisa Kishi

Hiroshi Hasegawa

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(as of June 1998)

## CORPORATE DATA

**Founded:** June 1, 1937

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**Incorporated:** July 1, 1949

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**Capital:** ¥15,994 million (as of March 31, 1998)

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**Employees:** 2,236 (as of March 31, 1998)

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**Head Office:** Yebisu Garden Place Tower,  
20-3, Ebisu 4-chome,  
Shibuya-ku, Tokyo 150-6019, Japan

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### Major Shareholders:

The Yasuda Trust & Banking Co., Ltd.

The Fuji Bank, Ltd.

Nissan Motor Co., Ltd.

The Nissan Fire & Marine Insurance Co., Ltd.

The Yasuda Fire & Marine Insurance Co., Ltd.

The Yasuda Mutual Life Insurance Co.

The Toyo Trust & Banking Co., Ltd.

Hitachi, Ltd.

Japan Energy Corp.

The Industrial Bank of Japan, Ltd.

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