
NOF CORPORATION

Financial Statements 1999

For the year ended March 31, 1999

Non-Consolidated Balance Sheets

NOF CORPORATION

31st March, 1998 and 1999

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1998	1999	1999
Current Assets:			
Cash	¥ 1,658	¥ 6,017	\$ 49,913
Time deposits and certificate of deposits	4,857	6,003	49,797
Money trust for investment in marketable securities	800	650	5,392
Marketable securities (Note 5)	4,299	2,938	24,372
Receivables:			
Trade notes and accounts	24,099	22,081	183,169
Subsidiaries and affiliates	11,897	10,432	86,537
Other	13,978	1,392	11,547
	49,974	33,905	281,253
Less: Allowance for bad debts	(321)	(392)	(3,252)
	49,653	33,513	278,001
Inventories (Note 4)	16,969	15,052	124,861
Other current assets	638	929	7,706
Total current assets	78,874	65,102	540,041
Investments and advances:			
Investments in securities (Note 5)	19,209	20,386	169,108
Investments in and advances to subsidiaries and affiliates (Note 6)	12,061	13,806	114,525
Long-term loans to employees	197	181	1,501
Other long-term investments	2,712	3,091	25,641
	34,179	37,464	310,776
Property, Plant and Equipment (Note 7):			
Buildings and structures	39,541	40,024	332,012
Machinery and equipment	69,368	70,151	581,925
	108,909	110,175	913,936
Less: Accumulated depreciation	(74,184)	(77,557)	(643,360)
	34,725	32,618	270,577
Land	11,175	10,793	89,531
Construction in progress	1,114	1,001	8,304
	47,014	44,412	368,411
Deferred Charges and Other Assets	2,325	1,987	16,483
	¥162,392	¥148,965	\$1,235,711

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1998	1999	1999
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 13,523	¥ 15,847	\$ 131,456
Commercial paper	6,000	—	—
Current maturities of long-term debt (Note 7)	10,471	574	4,762
Payables:			
Trade notes and accounts	21,325	20,668	171,448
Subsidiaries and affiliates	3,384	3,069	25,458
Others	3,205	2,599	21,560
	27,914	26,336	218,465
Accrued expenses	4,767	4,725	39,195
Income taxes payable (Note 8)	292	748	6,205
Consumption tax withheld	483	515	4,272
Other current liabilities	3,743	3,878	32,169
Total current liabilities	67,193	52,623	436,524
Long-Term Debt (Note 7)	40,627	42,129	349,473
Accrued Retirement Benefits to Directors and Statutory Auditors (Note 9)	730	564	4,679
Contingent Liabilities (Note 10)			
Shareholders' Equity:			
Common stock:			
Authorised: 800,000,000 shares at 31st March, 1998 and 1999			
Issued, par value ¥50 per share: 218,648,930 shares at 31st March, 1998 and 1999	15,994	15,994	132,675
Additional paid-in capital	13,371	13,371	110,917
Legal reserve (Note 13)	2,686	2,817	23,368
Voluntary reserves (Note 13)	14,300	14,300	118,623
Special reserves (Note 12)	1,734	5,427	45,019
Retained earnings (Notes 13 and 18)	5,757	1,740	14,434
Total shareholders' equity	53,842	53,649	445,035
	¥162,392	¥148,965	\$1,235,711

Non-Consolidated Statements of Income

NOF CORPORATION

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

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	1997	1998	1999	1999
Net Sales (Note 15)	¥120,020	¥118,050	¥111,252	\$922,870
Cost of Sales (Notes 15 and 16)	92,670	92,879	87,465	725,550
Gross profit	27,350	25,171	23,787	197,321
Selling, General and Administrative Expenses (Note 16)	23,966	23,682	22,384	185,682
Operating income	3,384	1,489	1,403	11,638
Other Income (Expenses):				
Interest and dividend income (Note 15)	1,012	1,103	1,362	11,298
Interest expenses	(1,085)	(996)	(964)	(7,997)
New bond issue expense	(117)	(117)	(117)	(971)
Gain on sale/disposal of properties	452	12,033	2,283	18,938
Loss on disposal of obsolete inventory items (Note 2(1))	(133)	(171)	(323)	(2,679)
Gain on sales of investments in securities	—	—	1,797	14,907
Gain on bad debt reserve	—	—	71	589
Loss on write-down of marketable securities and investment securities	—	(1,077)	(2,376)	(19,710)
An extra retirement payment due to the removal of Mikuni factory to Ako	(344)	—	—	—
Loss resulting from reduction of acquisition cost of alternative assets	—	(4,693)	—	—
Loss on liquidation of affiliates	—	(2,256)	(234)	(1,941)
Expenses for land improvement (Note 19)	—	—	(1,178)	(9,772)
Expenses for relocation of factory	—	(460)	—	—
Other, net	416	726	610	5,060
	201	4,092	931	7,723
Income before income taxes	3,585	5,581	2,334	19,361
Income Taxes (Note 8)	1,766	1,189	1,193	9,896
Net income	<u>¥ 1,819</u>	<u>¥ 4,392</u>	<u>¥ 1,141</u>	<u>\$ 9,465</u>

	Yen			U.S. Dollars (Note 3)
Per Share (Note 2(10)):				
Net income — primary	¥8.3	¥20.1	¥5.2	\$0.043
Net income — fully diluted	¥8.1	¥17.7	¥4.8	\$0.040
Cash dividends applicable to the year	¥6.0	¥ 6.0	¥6.0	\$0.050

	Thousands			
Weighted Average Number of Shares	218,648	218,648	218,648	—

The accompanying notes are an integral part of the statements.

Non-Consolidated Statements of Shareholders' Equity

NOF CORPORATION

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

	Number of shares of common stock (thousands)	Millions of Yen					
		Common stock	Additional paid-in capital	Legal reserve	Voluntary reserves	Special reserves	Retained earnings
Balance at 31st March, 1996	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 special reserves	—	—	—	—	—	85	(85)
Interim cash dividends	—	—	—	—	—	—	(655)
Transfer to legal reserve	—	—	—	65	—	—	(65)
Balance at 31st March, 1997	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 special reserves	—	—	—	—	—	240	(240)
Interim cash dividends	—	—	—	—	—	—	(655)
Transfer to legal reserve	—	—	—	65	—	—	(65)
Balance at 31st March, 1998	218,648	15,994	13,371	2,686	14,300	1,734	5,757
Net income for the year ended 31st March, 1999	—	—	—	—	—	—	1,141
Cash dividends (fiscal year-end)	—	—	—	—	—	—	(656)
Officers' bonuses	—	—	—	—	—	—	(22)
Transfer to legal reserve	—	—	—	67	—	—	(67)
Transfer to special reserves	—	—	—	—	—	3,693	(3,693)
Interim cash dividends	—	—	—	—	—	—	(656)
Transfer to legal reserve	—	—	—	64	—	—	(64)
Balance at 31st March, 1999	218,648	¥ 15,994	¥ 13,371	¥ 2,817	¥ 14,300	¥ 5,427	¥ 1,740

	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
Balance at 31st March, 1998	218,648	\$132,675	\$110,917	\$22,281	\$118,623	\$14,384	\$47,756
Net income for the year ended 31st March, 1999	—	—	—	—	—	—	9,465
Cash dividends (fiscal year-end)	—	—	—	—	—	—	(5,442)
Officers' bonuses	—	—	—	—	—	—	(191)
Transfer to legal reserve	—	—	—	556	—	—	(556)
Transfer to special reserves	—	—	—	—	—	30,635	(30,635)
Interim cash dividends	—	—	—	—	—	—	(5,442)
Transfer to legal reserve	—	—	—	531	—	—	(531)
Balance at 31st March, 1999	218,648	\$132,675	\$110,917	\$23,368	\$118,623	\$45,019	\$14,434

The accompanying notes are an integral part of the statements.

Non-Consolidated Statements of Cash Flows

NOF CORPORATION

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

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	1997	1998	1999	1999
Cash Flows from Operating Activities:				
Net income	¥ 1,819	¥ 4,392	¥ 1,141	\$ 9,465
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	4,835	5,096	4,820	39,983
Amortisation	745	876	922	7,623
Gain on sale/disposal of properties	(452)	(12,033)	(2,283)	(18,938)
Other, net	(43)	(33)	(22)	(191)
Changes in assets and liabilities:				
Decrease (increase) in receivables	(456)	(10,629)	16,140	133,886
Decrease (increase) in inventories	(1,311)	(1,321)	1,917	15,902
Increase (decrease) in payables	1,670	(6,207)	(1,578)	(13,090)
Increase (decrease) in accrued expenses	(748)	155	(42)	(348)
Increase (decrease) in income taxes payable	22	(819)	456	3,783
Increase (decrease) in consumption tax withheld	(113)	361	32	274
Other, net	(673)	192	(322)	(2,655)
Net cash provided by (used in) operating activities	<u>5,295</u>	<u>(19,968)</u>	<u>21,179</u>	<u>175,695</u>
Cash Flows from Investing Activities:				
Acquisition of property, plant and equipment	(10,130)	(6,165)	(2,963)	(24,579)
Increase in deferred charges and other assets	(952)	(1,198)	(581)	(4,820)
Decrease (increase) in investments in securities	(4)	(367)	(1,177)	(9,764)
Decrease (increase) in investments in subsidiaries and affiliates	107	(541)	(1,745)	(14,475)
Decrease in long-term loans to employees	65	35	16	133
Proceeds from sales of property, plant and equipment	780	17,664	3,029	25,127
Decrease (increase) in other long-term investments	112	168	(379)	(3,144)
Net cash provided by (used in) investing activities	<u>(10,022)</u>	<u>9,596</u>	<u>(3,800)</u>	<u>(31,522)</u>
Cash Flows from Financing Activities:				
Increase (decrease) in short-term bank loans	(5,699)	1,972	2,324	19,278
Proceeds from issue of commercial paper	—	6,000	(6,000)	(49,780)
Borrowing of long-term loans	9,564	8,328	2,634	21,850
Proceeds from issue of convertible debentures	15,000	—	—	—
Redemption of mortgage debentures	(4,000)	—	—	—
Redemption of convertible mortgage debentures	(451)	(690)	(10,448)	(86,669)
Redemption of guaranteed notes with warrants	—	(13,415)	—	—
Cash dividends	(1,420)	(1,311)	(1,312)	(10,875)
Repayment of long-term loans	(2,228)	(618)	(584)	(4,853)
Net cash provided by (used in) financing activities	<u>10,766</u>	<u>266</u>	<u>(13,386)</u>	<u>(111,049)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>6,039</u>	<u>(10,106)</u>	<u>3,993</u>	<u>33,123</u>
Cash and Cash Equivalents at Beginning of Year	<u>15,682</u>	<u>21,721</u>	<u>11,615</u>	<u>96,350</u>
Cash and Cash Equivalents at End of Year	<u>¥ 21,721</u>	<u>¥ 11,615</u>	<u>¥ 15,608</u>	<u>\$ 129,473</u>

The accompanying notes are an integral part of these statements.

Notes to the Non-Consolidated Financial Statements

NOF CORPORATION

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

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 and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the non-consolidated financial statements filed with the Ministry of Finance (the "MOF") in Japan have been reclassified for the convenience of readers outside Japan. In addition, the non-consolidated financial statements of cash flows are not required to be filed with the MOF, but have been prepared and included in the non-consolidated financial statements.

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

2. 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 (excluding buildings) 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.

According to revision of the tax regulations, the Company changed depreciation methods from the declining-balance method to the straight-line method for those buildings (except building fixtures) newly acquired during the year ended 31st March, 1999. This change was made in order to allocate more reasonably the cost of buildings that are to be used in stable for a long-term period. As a result of this change, depreciation expense and net income before income taxes for the year ended 31st March, 1999, decreased by ¥475 million (\$3,940 thousand) and increased by ¥412 million (US\$3,418 thousand), respectively.

In addition, according to the revision of the tax regulations, the Company reduced useful lives of buildings (except building equipment). As a result of this change, depreciation expenses and net income before income taxes for the year ended 31st March, 1999, increased by ¥144 million (US\$1,195 thousand) and decreased by ¥125 million (US\$1,037 thousand), respectively.

(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 trade marks 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. United States Dollar Amounts

The Company maintains its accounting records in yen. The dollar amounts included in the non-consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥120.55=U.S.\$1, the approximate rate of exchange prevailing on the latest balance sheet date of 31st March, 1999. 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 ¥120.55=U.S.\$1 or at any other rate.

4. Inventories

Inventories at 31st March, 1998 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1999	1999
Finished goods	¥ 8,512	¥ 7,223	\$ 59,917
Semi-finished and by-products	3,545	3,364	27,905
Raw materials	3,599	3,213	26,653
Work in process	1,131	1,122	9,307
Supplies	182	130	1,078
	<u>¥16,969</u>	<u>¥15,052</u>	<u>\$124,861</u>

5. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at 31st March, 1998 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1999	1999
Marketable securities (current portfolio):			
Listed corporate shares	¥ 3,071	¥ 2,572	\$ 21,336
Government bonds	8	18	149
Corporate bonds and other	1,220	348	2,887
	<u>¥ 4,299</u>	<u>¥ 2,938</u>	<u>\$ 24,372</u>
Investments in securities (non-current portfolio):			
Listed corporate shares	¥17,971	¥19,159	\$158,930
Unlisted corporate shares	982	983	8,154
Corporate bonds and other	256	244	2,024
	<u>¥19,209</u>	<u>¥20,386</u>	<u>\$169,108</u>

In this year, ¥488 million has been transferred from current portfolio to non-current portfolio.

The aggregate market value of listed corporate shares at 31st March, 1998 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1999	1999
Listed corporate shares in:			
Current portfolio	¥ 4,080	¥ 3,636	\$ 30,162
Non-current portfolio	¥30,443	¥29,290	\$242,970

6. Investments in and Advances to Subsidiaries and Affiliates

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

	Millions of Yen					Thousands of U.S. Dollars
	1998	1999				1999
	Total	Percentage of ownership (directly and indirectly held)	Investments in common shares	Advances and other	Total	Total
Subsidiaries:						
U.S. Paint Corporation	¥ 2,792	100.0%	¥ 2,218	¥ —	¥ 2,218	\$ 18,399
Nichiyu Giken Kogyo Co., Ltd. (*)	400	66.7	400	—	400	3,318
Nichiyu Trading Co., Ltd.	150	100.0	150	—	150	1,244
Taseto Co., Ltd.	88	100.0	88	—	88	730
Nippon Chemical Paint Co., Ltd.	130	99.6	130	—	130	1,078
Showa Kinzoku Kogyo Co., Ltd.	179	74.7	179	—	179	1,485
Metal Coatings International Inc., U.S.A.	1,849	100.0	1,849	—	1,849	15,338
Nippon Dacro Shamrock Co., Ltd.	188	100.0	188	—	188	1,559
Nichiyu Konac Co., Ltd.	810	100.0	810	—	810	6,719
NOF Europe N.V.	612	100.0	448	—	448	3,716
Hokkaido NOF CORPORATION	220	100.0	220	—	220	1,825
P.T. NOF MAS CHEMICAL INDUSTRIES	726	55.0	726	—	726	6,022
Nippo Kogyo Co., Ltd.	89	89.3	89	—	89	738
NOF JOTUN Co., Ltd.	—	100.0	—	—	—	—
Nichiyu Estate	—	60.0	6	2,410	2,416	20,041
TAIWAN NOF COATINGS CORPORATION	78	70.0	78	—	78	647
Others	405	—	357	116	473	3,924
	8,716		7,936	2,526	10,462	86,785
Affiliates:						
TAIWAN NICHYU CHEMICAL CO., LTD.	127	50.0	127	—	127	1,054
Nissan Sekken Co., Ltd.	203	32.8	203	—	203	1,684
Nippon R-M Co., Ltd.	100	50.0	100	—	100	829
Panapharm Laboratories, Inc.	200	25.0	200	—	200	1,659
Chiba Fatty Acid Co., Ltd.	90	30.0	90	—	90	747
P.T. SINOR OLEOCHEMICAL INTERNATIONAL	1,697	30.0	1,697	—	1,697	14,077
CORRO-COAT NOF (THAILAND) LTD.	248	20.0	248	—	248	2,057
ICI-NOF POWDER COATINGS (MALAYSIA) SDN. BHD	107	29.0	107	—	107	888
Others	573	—	571	1	572	4,745
	3,345		3,343	1	3,344	27,740
Total	¥12,061		¥11,279	¥2,527	¥13,806	\$114,525

(*) Market value quoted on the over-the-counter market of shares of Nichiyu Giken Kogyo Co., Ltd. held by the Company was ¥2,544 million at 31st March, 1999.

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 0.82 per cent. to 2.35 per cent. at 31st March, 1998 and annual rates from 0.88 per cent. to 1.769 per cent. at 31st March, 1999. Customarily these notes are renewed at maturity.

Additional information with respect to short-term bank loans outstanding for the years ended 31st March, 1998 and 1999 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1999	1999
Maximum month-end balance	<u>¥22,322</u>	<u>¥16,522</u>	<u>\$137,055</u>
Average month-end balance	<u>¥15,890</u>	<u>¥15,503</u>	<u>\$128,602</u>

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

	Millions of Yen		Thousands of U.S. Dollars
	1998	1999	1999
Long-term loans from financial institutions with mortgage or collateral due up to 2023 at interest rates indicated below	¥17,932	¥19,980	\$165,740
2.0 per cent. yen convertible mortgage debentures due 2002	8,193	7,646	63,426
1.8 per cent. yen convertible debentures due 1998	9,901	—	—
1.1 per cent. yen convertible debentures due 2006	8,000	8,000	66,363
0 per cent. yen convertible debentures due 2000	7,000	7,000	58,067
Other	72	77	639
Total	51,098	42,703	354,235
Less: Current maturities of:			
Long-term loans	(570)	(574)	(4,762)
Convertible mortgage debentures	(9,901)	—	—
	<u>¥40,627</u>	<u>¥42,129</u>	<u>\$349,473</u>

Long-term loans from financial institutions bear interest at annual rates from 1.85 per cent. to 3.15 per cent. at 31st March, 1998 and from 1.65 per cent. to 2.36 per cent. at 31st March, 1999.

Additional information with respect to the Company's convertible mortgage debentures and convertible debentures outstanding at 31st March, 1999 were as follows:-

	Principal amount at issue (Millions of Yen)	Issued in	Current conversion/exercise price per share (Subject to adjustment in certain circumstances)	Number of shares issuable upon full conversion/exercise (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, 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>	None
				<u>40,439</u>	

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, 1999 were summarised as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment at book value	<u>¥19,747</u>	<u>\$163,808</u>

8. Income Taxes

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

For the year ended 31st March,	Rates on taxable income		
	1997	1998	1999
Corporate income tax	37.5%	37.5%	34.5%
Enterprise tax	12.6	12.6	11.6
Resident income taxes	7.5	7.5	7.1
	<u>57.6%</u>	<u>57.6%</u>	<u>53.2%</u>
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	<u>51.2%</u>	<u>51.2%</u>	<u>47.7%</u>

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, 1999, the most recent valuation date of fund assets, the accumulated balance of the fund assets aggregated ¥11,023 million (\$91,439 thousand).

The amounts of costs for the pension plan charged to income for each of the three years in the period ended 31st March, 1999 were as follows:

For the year ended 31st March,	Millions of Yen
1997	¥2,201
1998	1,671
1999	1,582 (\$13,123 thousand)

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, 1999, the Company was contingently liable for guarantees of loans as follows:

	Millions of Yen	Thousands of U.S. Dollars
Loans borrowed by:		
P.T. SINOR OLEOCHEMICAL INTERNATIONAL	¥ 2,709	\$22,472
P.T. NOF MAS CHEMICAL INDUSTRIES	3,375	27,997
Panapharm Laboratories, Inc.	1,918	15,910
Others	<u>2,011</u>	<u>16,682</u>
	<u>¥10,013</u>	<u>\$83,061</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, 1999 are summarized as follows:

	Millions of Yen		
	Carrying (contracted) value	Fair value	Valuation gain (loss)
To sell:			
U.S. dollars	¥31	¥31	¥0
To buy:			
Sterling pound	¥ 1	¥ 1	¥0

(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 non-consolidated balance sheets.

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

	Millions of Yen		
	Notional principals	Fair value	Valuation gain (loss)
Interest rate swap:			
• Receiving fixed rates and paying floating rates	¥1,300	¥ 98	¥ 98
• Receiving floating rates and paying fixed rates	¥2,800	¥(71)	¥(71)

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, 1999 were as follows:

For the year ended 31st March,	Millions of Yen			Thousands of U.S. Dollars
	1997	1998	1999	1999
Sales	¥33,305	¥32,847	¥30,099	\$249,681
Purchases (cost of sales)	15,026	14,951	12,883	106,869
Interest and dividend income	534	648	845	7,010
Income from real estate	636	498	413	3,426

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, 1999 were as follows:

For the year ended 31st March,	Millions of Yen		
	SG & A expenses	Cost of sales	Total
1997	¥4,060	¥1,792	¥5,852
1998	3,813	1,927	5,740
1999	3,530	1,553	5,083

	Thousands of U.S. Dollars		
1999	\$29,282	\$12,883	\$42,165

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, 1998 and 1999 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, 1999

	31st March, 1999			Thousands of U.S. Dollars
	Millions of Yen		Net balance	
	Acquisition cost	Accumulated depreciation	Net balance	Net balance
Machinery and equipment	¥1,604	¥(759)	¥845	\$7,010
Other	341	(209)	132	1,095
	<u>¥1,945</u>	<u>¥(968)</u>	<u>¥977</u>	<u>\$8,105</u>

Note: The amount of above acquisition cost included the portion of interest thereon because that the outstanding balance of minimum lease payments at 31st March, 1999 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
	1998	1999	1999
Minimum lease payments due within one year	¥ 374	¥371	\$3,078
due over one year	803	606	5,027
Total minimum lease payment	¥1,177	¥977	\$8,105

Note: The amount of outstanding minimum lease payments due at 31st March, 1998 and 1999 included the portion of interest thereon.

(2) Lease Expense and Depreciation

For the year ended 31st March,	Millions of Yen			Thousands of U.S. Dollars
	1997	1998	1999	1999
Lease expenses	¥238	¥358	¥412	\$3,418
Depreciation	238	358	412	3,418

(4) Method of Computation of Depreciation

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

18. Subsequent Events

The appropriation of retained earnings including cash dividends in respect of the year ended 31st March, 1999, proposed by the Board of Directors on 26th May, 1999 for approval at the shareholders' meeting held on 29th June, 1999 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings at 31st March, 1999	¥1,740	\$14,434
Transfer from special reserves	305	2,530
	2,045	16,964
Appropriations:		
Year-end cash dividends (¥3.0 per share)	656	5,442
Officers' bonuses	22	182
Transfer to legal reserve	68	564
Transfer to special reserves	784	6,504
	<u>1,530</u>	<u>12,692</u>
Retained earnings to be carried forward	¥ 515	\$ 4,272

19. Expense for Land Equipment

The Company paid improvement cost for soil and underground water at the site of Mikuni factory.

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, 1998 and 1999, 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, 1999, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

As described in Note 2 (4) of the Notes to the Non-Consolidated Financial Statements, according to revision of the tax regulations, the Company changed depreciation methods from the declining-balance method to the straight-line method for those buildings (except building fixtures) newly acquired during the year ended 31st March, 1999. This change was made in order to allocate more reasonably the cost of buildings that are to be used in stable for a long-term period. As a result of this change, depreciation expense and net income before income taxes for the year ended 31st March, 1999 decreased by ¥475 million (\$3,940 thousand) and increased by ¥412 million (US\$3,418 thousand), respectively. We concur in the change as appropriate.

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



CHUO AUDIT CORPORATION

29th June, 1999
Tokyo, Japan

Corporate Information

BOARD OF DIRECTORS AND AUDITORS

President & Chief Executive Officer

Masayasu Uno

Executive Vice President

Mamoru Yamada

Senior Managing Directors

Shohei Sakai
Hiroshi Sakai
Mitsuta Shibata

Managing Directors

Shoichi Kobayashi
Jun Chino
Yohei Nakajima

Directors

Eiju Ishida
Osamu Ohe
Kunihiko Tanaka
Shingo Yamazaki
Tatsuyuki Yamanaka

Statutory Auditors

Kohzo Enomoto
Yukinori Haruta
Toyohisa Kishi
Hiroshi Hasegawa

(as of June 1999)

CORPORATE DATA

Founded: June 1, 1937

Incorporated: July 1, 1949

Capital: ¥15,994 million (as of March 31, 1999)

Employees: 2,153 (as of March 31, 1999)

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

Major Shareholders:

The Yasuda Trust & Banking Co., Ltd.

The Fuji Bank, Ltd.

The Nissan Fire & Marine Insurance Co., Ltd.

The Yasuda Fire & Marine Insurance Co., Ltd.

Nissan Motor Co., Ltd.

The Yasuda Mutual Life Insurance Co.

Japan Energy Corp.

The Industrial Bank of Japan, Ltd.

 **NOF CORPORATION**

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