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# **NOF CORPORATION**

## **Financial Statements 2001**

For the year ended 31 March 2001

# Consolidated Balance Sheets

NOF CORPORATION AND CONSOLIDATED SUBSIDIARIES

31 March 2000 and 2001

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	2001	2001
<b>Current Assets:</b>			
Cash, time deposits and certificate of deposits	¥ 17,251	¥ 17,242	\$ 139,160
Marketable securities (Note 4)	2,181	1,733	13,984
Notes and accounts receivable	45,969	35,237	284,400
Less: Allowance for bad debts	(334)	(229)	(1,844)
	45,635	35,008	282,556
Inventories	21,717	19,311	155,859
Deferred tax assets (Note 7)	1,567	1,757	14,179
Other current assets	3,337	6,799	54,878
Total current assets	91,688	81,850	660,616
<b>Investments and Advances:</b>			
Investments in securities (Note 4)	28,123	27,768	224,118
Other long-term investments	3,422	6,151	49,646
	31,545	33,919	273,764
<b>Property, Plant and Equipment (Note 6):</b>			
Buildings and structures	56,507	49,993	403,497
Machinery and equipment	81,006	74,838	604,020
Others	14,003	11,321	91,372
	151,516	136,152	1,098,889
Less: Accumulated depreciation	(106,252)	(98,854)	(797,859)
	45,264	37,298	301,030
Land	21,312	17,527	141,458
Construction in progress	1,411	1,432	11,562
	67,987	56,257	454,050
<b>Deferred Tax Assets (Note 7)</b>	539	2,803	22,625
<b>Deferred Charges and Other Assets</b>	2,997	2,335	18,844
<b>Foreign Currency Translation Adjustments</b>	1,637	—	—
	¥196,393	¥177,164	\$1,429,899

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	2001	2001
<b>Current Liabilities:</b>			
Short-term bank loans (Note 6)	¥ 26,722	¥ 16,290	\$ 131,478
Current portion of long-term debt (Note 6)	15,460	8,757	70,676
Notes and accounts payable	29,774	24,320	196,290
Accrued expenses	6,573	5,945	47,979
Income taxes payable (Note 7)	1,494	4,656	37,579
Advance received	3,579	2,697	21,766
Other current liabilities	4,914	6,486	52,355
Total current liabilities	88,516	69,151	558,123
<b>Long-Term Debt</b> (Note 6)	31,818	34,551	278,865
<b>Deferred Tax Liabilities</b> (Note 7)	3,312	1,524	12,299
<b>Accrued Retirement Benefits to Employees</b> (Note 8)	4,424	6,745	54,440
<b>Accrued Retirement Benefits to Directors and Corporate Auditors</b>	668	587	4,737
<b>Other Long-Term Liabilities</b>	1,142	962	7,762
<b>Contingent Liabilities</b> (Note 9)			
<b>Minority Interest</b>	3,193	3,391	27,372
<b>Shareholders' Equity</b> (Note 10):			
Common stock: par value at ¥50 per share:			
Authorised: 800,000,000 shares and 792,042,000 shares at 31 March 2000 and 2001, respectively			
Issued: 218,650,651 shares and 210,692,651 shares at 31 March 2000 and 2001, respectively	15,995	15,995	129,095
Additional paid-in capital	13,372	13,372	107,927
Retained earnings (Note 17)	33,953	32,448	261,890
Foreign currency translation adjustments	—	(1,234)	(9,960)
Treasury stock	0	(328)	(2,651)
Total shareholders' equity	63,320	60,253	486,301
	¥196,393	¥177,164	\$1,429,899

# Consolidated Statements of Income

NOF CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the years ended 31 March 2000 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	2001	2001
<b>Net Sales</b> (Note 15)	¥152,407	¥144,764	\$1,168,394
<b>Cost of Sales</b> (Notes 15)	110,779	106,235	857,421
Gross profit	41,628	38,529	310,973
<b>Selling, General and Administrative Expenses</b> (Note 12 and 15)	32,862	31,273	252,407
Operating income	8,766	7,256	58,566
<b>Other Income (Expenses):</b>			
Interest and dividend income	540	598	4,827
Interest expenses	(1,155)	(1,225)	(9,886)
Gain on sale/disposal of properties	2,471	2,821	22,768
Loss on disposal of obsolete inventory items	(425)	(158)	(1,274)
Gain on sales of investments in securities	501	342	2,764
Loss on write-down of marketable securities and investment securities	(2,277)	(986)	(7,958)
An extra retirement payment due to the closure of Shinmei Plant	(239)	—	—
Equity in earnings of affiliates	(11)	212	1,714
Gain on sale of coatings business (Note 14)	—	7,639	61,653
Gain on revaluation of assets trusted for retirement benefit	—	2,044	16,501
Amortization of transition amount arising from adopting new account for retirement benefit	—	(11,170)	(90,155)
Loss from explosion accident (Note 13)	—	(3,728)	(30,091)
Others, net	(437)	282	2,269
	(1,032)	(3,329)	(26,868)
Income before income taxes	7,734	3,927	31,698
<b>Income Taxes</b> (Note 7)			
Current	3,007	6,331	51,099
Deferred	406	(4,225)	(34,099)
	3,413	2,106	17,000
<b>Minority Interests in Earnings of Consolidated Subsidiaries</b>	189	125	1,013
Net income	¥ 4,132	¥ 1,696	\$ 13,685
	Yen		U.S. Dollars (Note 3)
<b>Per Share:</b>			
Net income—primary	¥ 18.9	¥ 7.8	\$ 0.06
Net income—fully diluted	17.1	7.3	0.06
Cash dividends applicable to the year	6.0	6.0	0.05
	Thousands		
<b>Weighted Average Number of Shares</b>	218,650	216,497	

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Shareholders' Equity

NOF CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the years ended 31 March 2000 and 2001

	Number of shares of common stock (thousands)	Millions of Yen		
		Common stock	Additional paid-in capital	Retained earnings
<b>Balance at 31 March 1999</b>	<u>218,648</u>	<u>¥ 15,994</u>	<u>¥ 13,371</u>	<u>¥ 31,379</u>
Net income for the year ended 31 March 2000	—	—	—	4,132
Cash dividends	—	—	—	(1,311)
Bonuses to directors	—	—	—	(51)
Conversion of convertible debentures	2	1	1	—
Prior years' tax effect	—	—	—	(196)
<b>Balance at 31 March 2000</b>	<u>218,650</u>	<u>¥ 15,995</u>	<u>¥ 13,372</u>	<u>¥ 33,953</u>
Net income for the year ended 31 March 2001	—	—	—	1,696
Cash dividends	—	—	—	(1,308)
Bonuses to directors	—	—	—	(78)
Increase in consolidated subsidiaries and affiliates under equity method	—	—	—	117
Retirement of treasury stock	(7,958)	—	—	(1,931)
<b>Balance at 31 March 2001</b>	<u>210,692</u>	<u>¥ 15,995</u>	<u>¥ 13,372</u>	<u>¥ 32,448</u>

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 3)		
		Common stock	Additional paid-in capital	Retained earnings
<b>Balance at 31 March 2000</b>	<u>218,650</u>	<u>\$129,095</u>	<u>\$107,927</u>	<u>\$274,039</u>
Net income for the year ended 31 March 2001	—	—	—	13,685
Cash dividends	—	—	—	(10,560)
Bonuses to directors	—	—	—	(633)
Increase in consolidated subsidiaries and affiliates under equity method	—	—	—	945
Retirement of treasury stock	(7,958)	—	—	(15,586)
<b>Balance at 31 March 2001</b>	<u>210,692</u>	<u>\$129,095</u>	<u>\$107,927</u>	<u>\$261,890</u>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

NOF CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the years ended 31 March 2000 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2000	2001	2001
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes	¥ 7,734	¥ 3,927	\$ 31,698
Adjustments for:			
Depreciation	6,273	5,943	47,963
Amortization of excess costs of investments over equity in net assets	202	178	1,440
Net change in accrued retirement benefit increase	—	5,605	45,238
Interest and dividend income	(541)	(598)	(4,827)
Interest expenses	1,155	1,225	9,886
Equity in earnings of affiliates	11	(212)	(1,714)
Gain on sale of properties	(2,606)	(3,048)	(24,597)
Loss on evaluation of investments in securities	2,277	986	7,958
Gain and loss on sale of investments in securities, net	(501)	(342)	(2,764)
Increase (decrease) in notes and accounts receivable	(3,569)	2,037	16,444
Increase (decrease) in inventories	1,162	(942)	(7,603)
Decrease in notes and accounts payable	(1,881)	(6,389)	(51,564)
Gain on sale of coatings business	—	(7,639)	(61,653)
Loss on explosion accident	—	3,728	30,091
Proceeds from the sale of accounts receivable relating to coatings business	—	10,003	80,735
Other, net	(878)	(1,790)	(14,450)
Subtotal	8,838	12,673	102,281
Interest and dividend income received	557	621	5,008
Interest expenses paid	(1,159)	(1,237)	(9,981)
Income tax paid	(3,153)	(3,101)	(25,027)
Payment for explosion accident	—	(4,110)	(33,172)
Net cash provided by operating activities	5,083	4,846	39,109
<b>Cash Flows from Investing Activities:</b>			
Payments for purchase of marketable securities	(497)	(201)	(1,624)
Proceeds from sales of marketable securities	1,353	880	7,102
Payments for purchase of investments in securities	(4,170)	(10,435)	(84,222)
Proceeds from sales of investments in securities	3,445	872	7,037
Payments for purchase of property, plant and equipment	(6,054)	(5,339)	(43,091)
Proceeds from sales of property, plant and equipment	3,562	3,527	28,464
Payments for purchase of subsidiary securities	(4,013)	—	—
Net increase in short-term loan receivable	—	(2,130)	(17,192)
Payment for long-term loan receivable	—	(3,255)	(26,271)
Proceeds from sale of coatings business other than related accounts receivable	—	30,251	244,155
Other, net	1,712	67	548
Net cash provided by (used in) investing activities	(4,662)	14,237	114,906
<b>Cash Flows from Financing Activities:</b>			
Increase in short-term bank loans, net	426	(10,943)	(88,320)
Borrowing of long-term debt	649	3,860	31,155
Repayment of long-term loans	(1,198)	(10,121)	(81,686)
Cash dividends paid	(1,311)	(1,308)	(10,560)
Cash dividends to minority interests	(63)	(38)	(308)
Proceeds from issuance of (corporate) debenture	—	8,951	72,244
Payments for redemption of (corporate) debenture	—	(7,000)	(56,497)
Payment for purchase of treasury stock	—	(2,259)	(18,233)
Net cash used in financing activities	(1,497)	(18,858)	(152,205)
<b>Effect of Exchange Rate Change on Cash and Cash Equivalents</b>	(189)	138	1,115
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,265)	363	2,925
<b>Cash and Cash Equivalents at Beginning of Year</b>	18,474	17,209	138,901
<b>Adjustments of New Consolidated Subsidiaries on Cash and Cash Equivalents</b>	—	53	426
<b>Cash and Cash Equivalents at End of Year</b>	¥17,209	¥ 17,625	\$ 142,252

The accompanying notes are an integral part of these statements.

# Notes to the Consolidated Financial Statements

NOF CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the years ended 31 March 2000 and 2001

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by NOF CORPORATION (the "Company") and its subsidiaries in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, 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 consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated statements of cash flows have been required to be prepared with effect from the year ended 31 March 2000, in accordance with a new accounting standard.

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

## 2. Summary of Significant Accounting Policies

### (1) Scope of Consolidation

The Company had 38 subsidiaries (majority-owned companies) as at 31 March 2001 (44 for 2000). The consolidated financial statements include the accounts of the Company and 27 of its subsidiaries for the year ended 31 March 2001 (24 for 2000).

The remaining 11 (20 for 2000) subsidiaries, whose combined asset, net sales and net income in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from consolidation.

The accompanying consolidated financial statements include the accounts of the 27 majority owned subsidiaries listed below (the Company and these consolidated subsidiaries are together, referred to as the "Group"):

Name of Subsidiary	Percentage owned by the Company	(Footnote)
(Domestic subsidiary)		
Nippon Koki Co., Ltd.	95.0	
Nichiyu Giken Kogyo Co., Ltd.	66.7	
Nippon Dacro Shamrock Co., Ltd.	100.0	
Hokkaido NOF Corporation	100.0	
Nichiyu Trading Co., Ltd.	100.0	
Japex Corporation	68.8	
Taseto Co., Ltd.	81.1	
Showa Kinzoku Kogyo Co., Ltd.	74.7	
Agromedic Co., Ltd.	100.0	*1
Nippo Kogyo Co., Ltd.	89.3	
Pyro Safety Device Co., Ltd.	97.5	
Nichiyu Service Corporation	100.0	
Yuka Sangyo Co., Ltd.	60.0	
Nichiyu Build Co., Ltd.	60.0	*1
Nippon Yugyo Co., Ltd.	100.0	
Nichiyu Kogyo Co., Ltd.	100.0	
Nichiyu Jidosha Unyu Co., Ltd.	100.0	
Nichibu Sangyo Co., Ltd.	100.0	
Nichiyu Estate Co., Ltd.	100.0	
(Overseas subsidiary)		
Metal Coatings International Inc.	100.0	
Michigan Metal Coatings Co.	100.0	
Georgia Metal Coatings Co.	100.0	
Dacral S.A.	100.0	
Metal Coatings Brazil Ind. E. Com. Ltda.	90.0	*1
U.S. Paint Corporation	100.0	
NOF Europe N.V.	100.0	
P.T. NOF Mas Chemical Industries	56.0	

\*1 These subsidiaries were consolidated in the consolidated financial statements for the year ended 31 March 2001 due to the significance of their aggregated total assets, net sales, net income and retained earnings.

The Company and all of its consolidated subsidiaries use a fiscal year ending 31 March, except for Nippon Dacro Shamrock Co., Ltd., Metal Coatings International Inc., Michigan Metal Coatings Co., Georgia Metal Coatings Co., Dacral S.A., U.S. Paint Corporation, NOF Europe N.V., P.T. NOF Mas Chemical Industries and Metal Coatings Brazil Ind. E. Com. Ltda. Those subsidiaries use a fiscal year ending on 31 December. The accounts of those subsidiaries have been consolidated by using the result of operations and account balances for such fiscal year and necessary adjustments have been made for material translation that occurred between the different fiscal year-ends.

## **(2) Consolidation and Elimination**

For the purposes of preparing the accompanying consolidated financial statements, any gains/losses in relation to inter-company transactions have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

Applicable inter-company accounts have been eliminated. The cost of investments in the common stock of consolidated subsidiaries is offset by the underlying equity in net assets of such subsidiaries. Assets and liabilities in the consolidated subsidiaries are revalued at fair market value when the majority interest in the subsidiaries is purchased.

The differences between the cost of an investment and the amount of underlying equity in net assets of such subsidiaries are deferred and amortized over the estimated years on a straight-line basis, if possible. The other differences are deferred and amortized over 5-year period on a straight-line basis.

## **(3) Cash and Cash Equivalents**

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

## **(4) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates**

The equity method is applied to investments in 5 affiliates (4 for 2000). The equity method has been applied to BASF NOF Coatings Co., Ltd. in the consolidated financial statements for the year ended 31 March 2001, due to the significance of its net income and retained earnings.

The 5 affiliates accounted for by the equity method as at and for the year ended 31 March 2001 are listed below:

Name of Subsidiary	Percentage owned by the Company
BASF NOF Coatings Co., Ltd.	50.0
Nagoya Dacro Co., Ltd.	45.6
Nissan Sekken Co., Ltd.	32.8
Autoliv Nichiyu Co., Ltd.	40.0
P.T. Sinar Oleochemical International	30.0

## **(5) Financial Instruments**

Until the year ended 31 March 2000, valuation of securities were made as follows.

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

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

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

Effective from the year ended 31 March 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after 1 April 2000. Adoption of the new standard made no impact on the net income for the year ended 31 March 2001.

### **(a) Securities**

Securities held by the Company and its subsidiaries are, under the new standard, classified into the following categories.

Held-to-maturity debt securities, that the Company and its subsidiaries have intent to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, which are amortized over the period to maturity.

Other securities for which market quotations are available are stated at cost determined by the moving-average method.

Other securities for which market quotations are unavailable are stated at cost. These are principally valued at cost determined by the moving-average method.

Under the new standard, debt securities due within one year are presented as "current" and all the other securities are presented as "non-current". The securities held by the Company and its subsidiaries have been reclassified as of 1 April 2000 (the beginning of year). As a result of such reclassification, the securities in the current portfolio have decreased by ¥314 million and the securities in the non-current portfolio have increased by the same amount.



If the other securities for which market quotations are available had been valued at fair value as of 31 March 2001, the related amount would have been as follows:

	Millions of Yen	Thousands of U.S. Dollars
Book value	¥17,841	\$144,000
Fair value	31,556	254,696
Unrecognized gain (net of tax)	7,958	64,233
Deferred tax liabilities	5,760	46,492
Minority interest	(3)	(29)

#### (b) Hedge Accounting

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally interest swaps and forward exchange contracts. The related hedged items are trade accounts receivable and payable, and long-term bank loans.

The Company has a policy to utilize the forward exchange contracts in order to reduce the Company's exposure to the risk of foreign currency exchange rate fluctuation. The Company also has a policy to utilize the interest rate swaps in order to reduce the Company's exposure to the risk of interest rate fluctuation. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Company evaluates effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges. The Company waived to evaluate effectiveness of its hedging activities on interest rate swaps because they were not stated at fair value.

#### (6) Allowance for Doubtful Accounts

The balance of allowance for doubtful accounts represents the amount of the limit established by the incidence of doubtful accounts loss plus an amount deemed necessary to cover possible losses estimated on an individual account basis.

#### (7) Inventories

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

#### (8) 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. Depreciation of buildings is principally computed by the straight-line method, based on the estimated useful lives of assets. The range of useful lives is principally from 3 to 60 years for buildings and structures and from 2 to 20 years for machinery, equipment, furniture and tools.

#### (9) Intangible Assets

Intangible assets are amortized by the straight-line method.

Software for internal use is amortized by the straight-line method over its useful life of 5 years.

#### (10) Accrued Retirement Benefit to Employees

Until the year ended 31 March 2000, employees' retirement benefits, covering employees of the Company and certain consolidated subsidiaries, were provided through unfunded lump-sum benefit plans and funded non-contributory pension plans.

The Company, Nichiyu Trading Co., Ltd., Taseto Co., Ltd., Nichiyu Jidosha Unyu Co., Ltd., Nippo Kogyo Co., Ltd., Hokkaido NOF Corporation, Nichiyu Giken Kogyo Co., Ltd., Nichiyu Kogyo Co., Ltd. and Nichiyu Service Corporation have tax qualified pension plans.

Nippon Koki Co., Ltd. has defined benefit retirement plans covering substantially all employees, which are governed by the regulations of the Japanese Welfare Pension Insurance Law.

Nippon Dacro Shamrock Co., Ltd., Showa Kinzoku Kogyo Co., Ltd. and Yuka Sangyo Co., Ltd. provide the lump-sum retirement benefit at 100% of the amount that would be required if all eligible employees voluntarily retired at the balance sheet date. The other consolidated subsidiaries provided the lump-sum retirement benefit at 40% of those amount.

Balance of the accrual as of 31 March 2000 includes ¥3,059 million (US\$28,818 thousand) by revaluation of the relating assets and liabilities of the consolidated subsidiaries.

Effective from the year ended 31 March 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for retirement benefits, which is effective for periods beginning on or after 1 April 2000. In accordance with the new standard, the reserve for retirement benefits as of 31 March 2001 represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, the unrecognized transition amount arising from adopting the new standard of ¥11,170 million at 1 April 2000 (the beginning of year) is amortized within the end of the fiscal year, and the unrecognized prior service cost and unrecognized actuarial differences are amortized on a straight-line basis over the period of 10 years from the current year and the next year, respectively.

As a result of adopting the new standard, net pension expense for the year ended 31 March 2001 has increased by ¥7,659 million and income before income taxes has decreased by ¥7,619 million as compared with the amounts which would have been reported if the previous standard had been applied consistently.

#### **(11) Accrued Retirement Benefit to Directors and Corporate Auditors**

The Company, Nichiyu Trading Co., Ltd., Nichiyu Giken Kogyo Co., Ltd., Yuka Sangyo Co., Ltd., Showa Kinzoku Kogyo Co., Ltd., Nippo Kogyo Co., Ltd., Taseto Co., Ltd. and Nichibu Sangyo Co., Ltd. provide for retirement allowance to directors and corporate auditors, which is calculated as the amount that would be required, based on the pertinent rules of the companies, if all directors and corporate auditors retired at the balance sheet dates.

#### **(12) Leases**

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

#### **(13) Income Taxes**

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

Effective for the year ended 31 March 2000, the Company and its subsidiaries adopted the deferred tax accounting method in accordance with the amended regulations for preparation of consolidated financial statements. Income taxes were determined using the assets and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. The cumulative effect of adopting deferred tax accounting as 1 April 1999 was charged to retained earnings.

In the year ended 31 March 2001, income taxes of the Company and its domestic subsidiaries were provided for at an amount currently payable based on the tax returns filed with tax authorities.

#### **(14) 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 and its domestic subsidiaries' sales to customers is withheld by the Company and its domestic subsidiaries at the time of sale. The consumption tax withheld upon sale and the consumption tax paid by the Company and its domestic subsidiaries on the purchases of products, merchandise and services from vendors, are not included in the related amounts in the accompanying 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 consolidated balance sheets as "Other current liabilities".

#### **(15) Appropriation of Retained Earnings**

Under the 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 at the shareholders' meeting, which must be held within three months after the year end. The appropriation of retained earnings reflected in the accompanying 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 corporate 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 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 30 September each year.

### (16) 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.

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.

### 3. United States Dollar Amounts

The Company maintains its accounting records in yen. 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 ¥123.9=U.S.\$1, the approximate rate of exchange prevailing on the latest balance sheet date of 31 March 2001. 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, realized or settled in dollars at ¥123.9=U.S.\$1 or at any other rate.

### 4. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at 31 March 2000, consisted of the following:

	Millions of Yen		
	2000		
	Book value	Market value	Unrealized gain (loss)
Marketable securities:			
Market value available			
Equity securities	¥ 203	¥ 358	¥ 155
Bonds and debentures	100	83	(17)
Other securities	696	691	(5)
	999	—	—
Market value not available	1,182	—	—
Total	¥ 2,181	¥ 1,132	¥ 133
Investments in securities:			
Market value available			
Listed corporate shares	¥21,290	¥38,245	¥16,955
Unlisted corporate shares	362	383	21
Corporate bonds and other	1	1	—
	21,653	—	—
Market value not available	6,470	—	—
Total	¥28,123	¥38,629	¥16,976

At 31 March 2001, the carrying amount and aggregate fair value of the securities classified as held-to-maturity debt securities for which market quotations are available were as follows. This note has been required to be prepared in the consolidated financial statements with effect for the year ended 31 March 2001, in accordance with a new accounting standard.

	Millions of Yen			
	2001			
	Cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	¥630	¥0	¥14	¥615

	Thousands of U.S. dollars			
	2001			
	Cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	\$5,085	\$4	\$121	\$4,968

### 5. Derivative Financial Instruments

The Group uses derivative financial instruments, which comprise principally forward exchange contracts and interest rate swap agreements, to reduce its exposure to market risks from fluctuations in foreign currency exchange and interest rates. The Group has established a control environment which includes policies and procedures for the approval of and monitoring of transactions involving derivative financial instruments. The Group does not hold or issue financial instruments for trading purposes.

The Group is exposed to certain market risks arising from its forward exchange contracts and interest rate swap agreements. The Group is also exposed to the risk of credit loss in the event of non-performance by the counterparties to currency and interest; however, the Group does not anticipate non-performance by any of these counterparties all of whom are domestic financial institutions with high credit ratings.

## 6. 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 weighted average interest rate is 1.028% at 31 March 2001.

Long-term debt as at 31 March 2000 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Long-term loans from financial institutions with mortgage or collateral due up to 2023 at interest rates indicated below	¥24,632	<b>¥18,663</b>	<b>\$150,631</b>
2.0 per cent yen convertible mortgage debentures due 2002	7,646	<b>7,646</b>	<b>61,711</b>
1.1 per cent yen convertible debentures due 2006	7,999	<b>7,999</b>	<b>64,560</b>
0 per cent yen convertible debentures due 2000	7,000	—	—
1.65 per cent bonds due on 20 September 2004	—	<b>5,000</b>	<b>40,355</b>
1.61 per cent bonds due on 20 September 2004	—	<b>4,000</b>	<b>32,284</b>
Total	47,277	<b>43,308</b>	<b>349,541</b>
Less: Current maturities of:			
Long-term loans	8,460	<b>8,757</b>	<b>70,676</b>
Convertible mortgage debentures	7,000	—	—
	<u>¥31,818</u>	<u><b>¥34,551</b></u>	<u><b>\$278,865</b></u>

Long-term loans (excluding current maturities) from financial institutions bear interest at annual average rate of 2.674 per cent as at 31 March 2001.

Additional information with respect to the Company's convertible mortgage debentures and convertible debentures outstanding at 31 March 2001 were as follows:-

	Principal amount at issue	Issued in	Current conversion/exercise price per share	Number of shares issuable upon full conversion/exercise	Annual sinking fund requirements
	(Millions of Yen)		(Yen)	(Thousands)	(Subject to amount reduction for subsequent conversions, repurchases and redemption)
2.0 per cent yen convertible mortgage debentures due 15 July 2002	¥10,000	15 July 1987	¥1,334.9	5,727	¥1,500 million on 30 November 2000 and 2001
1.1 per cent yen convertible debentures due 31 March 2006	¥ 8,000	20 December 1996	¥ 581.0	<u>13,767</u>	None
				<u>19,494</u>	

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 maturity), convertible mortgage debentures and convertible debentures at 31 March 2001 were summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Marketable securities	¥ 414	\$ 3,344
Property, plant and equipment at book value	21,057	169,954
	<u>¥21,472</u>	<u>\$173,298</u>

## 7. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of 31 March 2001 was 42.0%. At 31 March 2001, significant components of deferred tax assets and liabilities are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Deferred tax assets:		
Accrued bonus	¥ 449	\$ 3,621
Accrued retirement benefits	3,681	29,706
Unrealized earnings	2,590	20,907
Accrued enterprise tax	430	3,476
Tax loss carry forward	475	3,837
Valuation differences	1,285	10,370
Others	1,342	10,830
	<u>10,252</u>	<u>82,747</u>
Valuation allowance	(743)	(6,000)
Total deferred tax assets	<u>9,509</u>	<u>76,747</u>
Deferred tax liabilities:		
Special depreciation	(3,445)	(27,801)
Valuation differences	(2,097)	(16,927)
Gain on revaluation of assets trusted for retirement benefit	(859)	(6,930)
Others	(98)	(793)
Total deferred tax liabilities	<u>(6,499)</u>	<u>(52,451)</u>
Net deferred tax liabilities	<u>¥ 3,010</u>	<u>\$ 24,296</u>

At 31 March 2000 and 2001, the reconciliation of the statutory tax rate to the effective income tax rate is as follows:

	2000	2001
Statutory tax rate	42.0%	42.0%
Increase (decrease) in taxes resulting from:		
Entertainment expense	3.2	5.9
Amortization of cost in excess of net assets acquired	1.1	1.9
Dividends received	0.9	1.2
Foreign tax credit	(2.6)	(0.7)
Tax loss carry forward utilized	(1.4)	—
Adjustment of valuation allowance	—	6.4
Others	0.9	(3.1)
Effective tax rate	<u>44.1%</u>	<u>53.6%</u>

## 8. Accrued Retirement Benefits to Employees

The Company has a pension plan (funded and non-contributory) to cover employees (excluding directors and corporate 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 reserve for retirement benefits as of 31 March 2001 is analyzed as follows:

	Millions of Yen	Thousands of U.S. Dollars
	As of 31 March 2001	As of 31 March 2001
Projected benefit obligations	¥29,859	\$240,994
Plan assets	20,674	166,860
Unfunded projected benefit obligations	9,185	74,134
Unrecognized actuarial differences	2,577	20,798
Unrecognized prior service cost	(137)	(1,104)
Reserve for retirement benefits	<u>¥ 6,745</u>	<u>\$ 54,440</u>

Notes: \*1 The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.

\*2 Some of consolidated subsidiaries provide for retirement allowance by using expediency methods.

Net pension expense related to the retirement benefits for the year ended 31 March 2001 was as follows:

	Thousands of	
	Millions of Yen	U.S. Dollars
	For the year ended 31 March 2001	For the year ended 31 March 2001
Service cost	¥ 1,363	\$ 11,005
Interest cost	862	6,961
Expected return on plan assets	(589)	(4,761)
Amortization of transition amount	11,170	90,155
Amortization of prior service cost	(15)	(123)
Net pension expense	<u>¥12,791</u>	<u>\$103,237</u>

Notes: \*1 Employees' contribution for contributory pension plan (cover a portion of governmental pension) was deducted.

\*2 Pension expense of consolidated subsidiaries which applied expediency method are included in "Service Cost."

Assumptions used in calculation of the above information were as follows:

As of 31 March 2001	
Discount rate	3.0%
Expected rate of return on plan assets	4.5%
Method of attributing the projected benefits to periods of services	mainly point basis
Amortization of unrecognized prior service cost	mainly 10 years
Amortization of unrecognized actuarial differences	mainly 10 years
Amortization of transition amount	Entirely changed to income in the current year.

## 9. Contingent Liabilities

As at 31 March 2001, the Group was contingently liable for guarantees of loans as follows:

	Thousands of	
	Millions of Yen	U.S. Dollars
As an endorser of notes discounted or endorsed	<u>¥1,682</u>	<u>\$13,575</u>
As a guarantor of indebtedness of:		
P.T. Sinar Oleochemical International	¥1,650	\$13,316
Amagasaki Utility Services	911	7,355
Others	743	5,998
	<u>¥3,304</u>	<u>\$26,669</u>

## 10. 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.

## 11. Leases

The Group leases certain machinery and equipment and other assets. Total lease payments under these leases were ¥602 million and ¥584 million (US\$4,713 thousand) for the years ended 31 March 2000 and 2001, respectively.

Pro forma information relating to acquisition costs, accumulated depreciation and future minimum payments for assets held under finance leases which do not transfer ownership of the leased assets to the lessee on an "as if capitalized" basis for the years ended 31 March 2000 and 2001, is as follows:

	Millions of Yen		
	2000		
	Machinery and equipment	Other	Total
Acquisition costs	¥2,065	¥1,038	¥3,103
Accumulated depreciation	(1,110)	(656)	(1,766)
Net leased assets	<u>¥ 955</u>	<u>¥ 382</u>	<u>¥1,337</u>
	Millions of Yen		
	2001		
	Machinery and equipment	Other	Total
Acquisition costs	¥1,883	¥ 762	¥ 2,645
Accumulated depreciation	1,052	383	1,435
Net leased assets	<u>¥ 831</u>	<u>¥ 379</u>	<u>¥ 1,210</u>

	Thousands of U.S. Dollars		
	2001		
	Machinery and equipment	Other	Total
Acquisition costs	\$ 15,197	\$ 6,148	\$ 21,345
Accumulated depreciation	8,489	3,089	11,578
Net leased assets	\$ 6,708	\$ 3,059	\$ 9,767

Future minimum lease payments under finance leases as of 31 March 2000 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
	Due within one year	¥ 540	¥ 494
Due after one year	797	716	5,782
Total	¥1,337	¥1,210	\$9,767

The acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated statement of income, computed by the straight-line method, would have been ¥602 million and ¥584 million (US\$4,713 thousand) for the years ended 31 March 2000 and 2001, respectively.

Obligations under non-cancelable operating leases as of 31 March 2000 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
	Due within one year	¥ 40	¥ 77
Due after one year	114	182	1,469
Total	¥154	¥259	\$2,090

## 12. Research and Development Costs

The charges to income for research and development activities of the Group for the year ended 31 March 2000 and 2001 were as follows:

	Millions of Yen		
	2000		
	Selling, General and Administrative Expenses	Cost of sales	Total
	¥4,446	¥1,462	¥5,908

	Millions of Yen		
	2001		
	Selling, General and Administrative Expenses	Cost of sales	Total
	¥4,322	¥1,413	¥5,735

	Thousands of U.S. Dollars		
	2001		
	Selling, General and Administrative Expenses	Cost of sales	Total
	\$35,886	\$11,404	\$46,290

## 13. Loss from Explosion Accident

In August 2000, the Company had an explosion accident at the smokeless powder site of Taketoyo Plant. The Ministry of Economy, Trade and Industry (METI) ordered the Company to suspend the powder production at Taketoyo Plant, causing considerable impact on the Company's production and sales activities of the Explosive & Propulsion business segment. Since then, the Company made efforts to meet its customers' request and to keep the sales level, by production at its affiliates and by importing the products. In March 2001, as a result of the Company's effort for recovery, the Company resumed powder production, by getting approval of METI. The production has been recovered to a normal level.

## 14. Transfer of Coatings Business

The Company transferred the coatings business to BASF NOF Coatings Co., Ltd. (BNC) on 30 September 2000, in order to reform the structure of the coatings business and to establish a competitive position as a global supplier for our customers. The Company owns 50% of shares for BNC and the equity method is applied to BNC. The business transfer was approved at the 77th shareholders' meeting on 29 June 2000.

Summary of the business transfer is as follows:

- (i) Production, sales and R&D activities in relation to various types of paints for automotive, industrial, marine and building coatings.
- (ii) Consideration for the transferred assets: ¥41,655 million (\$336,199 thousand)
- (iii) Gain on the transfer: ¥7,639 million (\$61,653 thousand)

## 15. Segment Information

### (1) Industry Segments

The Group operates principally the following industry segments categorized based on similarity of products and markets.

The Company changed its categories of industry segments. Accordingly the segment information for the year ended 31 March 2000 has been restated as follows:

	Millions of Yen						
	2000						
	Oleo Chemicals & Foods	Chemicals	Explosive & Propulsion	Others	Total	Elimination/Corporate	Consolidated
Sales							
Sales to customers	¥ 52,638	¥ 39,311	¥ 36,119	¥ 24,337	¥ 152,407	¥ —	¥ 152,407
Inter-segment	204	233	737	6,571	7,746	(7,746)	—
Total	52,843	39,544	36,857	30,908	160,154	(7,746)	152,407
Operating expenses	51,743	36,283	33,015	30,391	151,433	(7,792)	143,640
Operating income	¥ 1,100	¥ 3,261	¥ 3,841	¥ 517	¥ 8,720	¥ 45	¥ 8,766
Assets	¥ 36,820	¥ 41,942	¥ 55,131	¥ 32,311	¥ 166,205	¥ 30,187	¥ 196,393
Depreciation	1,423	1,935	1,538	1,376	6,273	—	6,273
Capital expenditure	931	4,096	1,641	700	7,370	—	7,370

	Millions of Yen						
	2001						
	Oleo Chemicals & Foods	Chemicals	Explosive & Propulsion	Others	Total	Elimination/Corporate	Consolidated
Sales							
Sales to customers	¥ 53,137	¥ 43,114	¥ 34,750	¥ 13,764	¥ 144,764	¥ —	¥ 144,764
Inter-segment	627	380	222	4,300	5,528	(5,528)	—
Total	53,763	43,493	34,972	18,063	150,292	(5,528)	144,764
Operating expenses	51,838	40,129	33,505	17,587	143,059	(5,551)	137,508
Operating income	¥ 1,925	¥ 3,365	¥ 1,467	¥ 476	¥ 7,233	¥ 24	¥ 7,256
Assets	¥ 36,600	¥ 42,671	¥ 52,476	¥ 14,954	¥ 146,701	¥ 30,464	¥ 177,164
Depreciation	1,428	2,058	1,756	701	5,943	—	5,943
Capital expenditure	1,178	1,729	1,963	303	5,173	—	5,173

	Thousands of U.S. Dollars						
	2001						
	Oleo Chemicals & Foods	Chemicals	Explosive & Propulsion	Others	Total	Elimination/Corporate	Consolidated
Sales							
Sales to customers	\$ 428,866	\$ 347,971	\$ 280,471	\$ 111,086	\$ 1,168,394	\$ —	\$ 1,168,394
Inter-segment	5,059	3,065	1,790	34,702	44,615	(44,615)	—
Total	433,925	351,036	282,261	145,788	1,213,010	(44,615)	1,168,394
Operating expenses	418,385	323,880	270,421	141,948	1,154,634	(44,805)	1,109,829
Operating income	\$ 15,540	\$ 27,156	\$ 11,839	\$ 3,840	\$ 58,376	\$ 190	\$ 58,566
Assets	\$ 295,396	\$ 344,399	\$ 423,539	\$ 120,691	\$ 1,184,025	\$ 245,873	\$ 1,429,899
Depreciation	11,529	16,606	14,170	5,658	47,963	—	47,963
Capital expenditure	9,510	13,952	15,842	2,447	41,750	—	41,750



The amounts of assets included in the column "Elimination/Corporate" are ¥33,731 million and ¥31,054 million (US\$250,635 thousand) for the years ended 31 March 2000 and 2001, respectively, which includes surplus working fund (cash and securities), long-term investment fund (investment in securities).

## (2) Geographic Segments

Segment information classified by geographic area (inside and outside Japan) for years ended 31 March 2000 and 2001 is as follows:

	Millions of Yen				
	2000				
	Japan	Other	Total	Elimination/ Corporate	Consolidated
<b>Sales</b>					
Sales to customers	¥ 141,487	¥ 10,920	¥ 152,407	¥ —	¥ 152,407
Inter-segment	575	340	915	(915)	—
Total	142,062	11,260	153,322	(915)	152,407
Operating expenses	134,741	9,852	144,593	(952)	143,641
Operating income	¥ 7,321	¥ 1,408	¥ 8,729	¥ 37	¥ 8,766
<b>Assets</b>	¥ 158,455	¥ 10,823	¥ 169,278	¥ 27,115	¥ 196,393

	Millions of Yen				
	2001				
	Japan	Other	Total	Elimination/ Corporate	Consolidated
<b>Sales</b>					
Sales to customers	¥ 131,362	¥ 13,402	¥ 144,764	¥ —	¥ 144,764
Inter-segment	541	101	641	(641)	—
Total	131,902	13,503	145,406	(641)	144,764
Operating expenses	126,121	12,052	138,173	(665)	137,508
Operating income	¥ 5,782	¥ 1,451	¥ 7,233	¥ 24	¥ 7,256
<b>Assets</b>	¥ 141,305	¥ 10,978	¥ 152,283	¥ 24,882	¥ 177,164

	Thousands of U.S. Dollars				
	2001				
	Japan	Other	Total	Elimination/ Corporate	Consolidated
<b>Sales</b>					
Sales to customers	\$ 1,060,222	\$ 108,172	\$ 1,168,394	\$ —	\$ 1,168,394
Inter-segment	4,365	812	5,177	(5,177)	—
Total	1,064,588	108,984	1,173,572	(5,177)	1,168,394
Operating expenses	1,017,922	97,276	1,115,198	(5,369)	1,109,829
Operating income	\$ 46,666	\$ 11,708	\$ 58,374	\$ 192	\$ 58,566
<b>Assets</b>	\$ 1,140,477	\$ 88,601	\$ 1,229,077	\$ 200,822	\$ 1,429,899

The amounts of assets included in the column "Elimination/Corporate" are ¥33,731 million and ¥31,054 million (US\$250,635 thousand) for the years ended 31 March 2000 and 2001, respectively, which includes surplus working fund (cash and securities), long-term investment fund (investment in securities).

### (3) Sales to Foreign Customers

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Overseas sales	¥ 19,010	¥ 21,605	\$ 174,377
Consolidated sales	152,407	144,764	1,168,394
Ratio	12.50%	14.92%	

### 16. Supplementary Cash Flow Information

Relation between cash and cash equivalents as at 31 March 2000 and 2001 and the account booked in the balance sheet is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Cash, time deposits and certificate of deposits	¥ 17,251	¥ 17,242	\$ 139,160
	17,251	17,242	139,160
Time deposits with maturity periods exceeding three months	(888)	(759)	(6,127)
Equity securities and debentures with maturity periods within three months	846	1,142	9,219
Cash and cash equivalents	¥ 17,209	¥ 17,625	\$ 142,252

Assets transferred to BASF NOF Coatings Co., Ltd. are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Current assets	¥ 14,054	\$ 113,431
Non-current assets	12,417	100,220
Total	¥ 26,471	\$ 213,651

### 17. Subsequent Events

The appropriation of retained earnings including cash dividends in respect of the year ended 31 March 2001 was approved at the shareholders' meeting held on 29 June 2001 as follows:

	Millions of Yen	Thousands of U.S. Dollars
Appropriations:		
Cash dividends (¥3.0 per share)	¥ 629	\$ 5,074
Directors' bonuses	31	250
	¥ 660	\$ 5,324

# Report of Independent Certified Public Accountants

The Board of Directors  
NOF CORPORATION

We have audited the accompanying consolidated balance sheets of NOF CORPORATION and its consolidated subsidiaries as at 31 March 2000 and 2001, and the related consolidated statements of income and shareholders' equity for the years then ended and the statement of cash flows for the year ended 31 March 2001, 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 consolidated financial statements referred to above present fairly the consolidated financial position of NOF CORPORATION and its consolidated subsidiaries as at 31 March 2000 and 2001, and the consolidated results of their operations for the years then ended and their cash flows for the years ended 31 March 2000 and 2001, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2, effective for the year ended 31 March 2001, NOF CORPORATION and its consolidated subsidiaries have adopted new Japanese accounting standards for financial instruments, retirement benefits, and foreign currency translation.

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

Tokyo, Japan  
28 June 2001

*Chuoogama Audit Corporation*

**Non-Consolidated Balance Sheets (Unaudited)**

NOF CORPORATION

31 March 2000 and 2001

ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
<b>Current Assets:</b>			
Cash, time deposits and certificate of deposits	¥ 9,466	¥ 9,140	\$ 73,770
Money trust for investment in marketable securities	—	—	—
Marketable securities	53	—	—
Receivables:			
Trade notes and accounts	24,527	13,414	108,264
Subsidiaries and affiliates	10,109	9,232	74,513
Others	1,450	2,385	19,245
	36,086	25,031	202,022
Less: Allowance for bad debts	(203)	(107)	(860)
	35,883	24,924	201,162
Inventories	15,305	11,906	96,095
Deferred tax assets	1,116	1,360	10,977
Other current assets	1,288	11,888	95,945
Total current assets	63,111	59,218	477,949
<b>Investments and Advances:</b>			
Investments in securities	22,185	17,809	143,743
Investments in and advances to subsidiaries and affiliates	18,311	27,604	222,790
Long-term loans to employees	196	131	1,059
Other long-term investments	1,832	1,801	14,532
	42,524	47,345	382,124
<b>Property, Plant and Equipment:</b>			
Buildings and structures	40,833	33,869	273,355
Machinery and equipment	70,698	61,039	492,650
	111,531	94,908	766,005
Less: Accumulated depreciation	(80,145)	(71,354)	(575,899)
	31,386	23,554	190,106
Land	12,376	8,562	69,104
Construction in progress	1,286	1,359	10,966
	45,048	33,475	270,176
<b>Deferred Charges and Other Assets</b>	1,651	1,114	8,992
	¥152,334	¥141,152	\$1,139,241

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥123.9 to U.S.\$1, the exchange rate prevailing on 31 March 2001.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
<b>Current Liabilities:</b>			
Short-term bank loans	¥ 15,847	¥ 10,647	\$ 85,932
Commercial paper	—	500	4,036
Current maturities of long-term debt	14,119	7,379	59,559
Payables:			
Trade notes and accounts	21,073	14,132	114,064
Subsidiaries and affiliates	3,081	2,492	20,109
Others	3,446	3,546	28,621
	27,600	20,170	162,794
Accrued expenses	4,969	4,305	34,743
Income taxes payable	817	4,125	33,292
Consumption tax withheld	244	708	5,714
Other current liabilities	3,486	3,790	30,592
Total current liabilities	67,082	51,624	416,662
<b>Long-Term Debt</b>	27,927	31,615	255,168
<b>Other Liabilities</b>	3,048	3,060	24,688
<b>Shareholders' Equity:</b>			
Common stock:			
Authorized: 800,000,000 shares and 792,042,000 shares at 31 March 2000 and 2001, respectively			
Issued, par value ¥50 per share: 218,650,651 shares and 210,692,651 shares at 31 March 2000 and 2001, respectively	15,994	15,995	129,095
Additional paid-in capital	13,372	13,372	107,927
Legal reserve	2,951	3,087	24,913
Voluntary reserves	14,300	14,800	119,455
Special reserves	3,424	4,297	34,681
Retained earnings	4,236	3,302	26,652
Total shareholders' equity	54,277	54,853	442,723
	¥152,334	¥141,152	\$1,139,241

**Non-Consolidated Statements of Income (Unaudited)**

NOF CORPORATION

For the years ended 31 March 2000 and 2001

	Millions of Yen		Thousands of U.S.Dollars
	2000	2001	2001
<b>Net Sales</b>	¥111,421	¥ 93,303	\$ 753,051
<b>Cost of Sales</b>	84,412	70,917	572,375
Gross profit	27,009	22,386	180,676
<b>Selling, General and Administrative Expenses</b>	22,183	18,863	152,244
Operating income	4,826	3,523	28,432
<b>Other Income (Expenses):</b>			
Interest and dividend income	1,107	1,236	9,974
Interest expenses	(789)	(786)	(6,344)
Gain on sale/disposal of properties	2,446	2,832	22,854
Loss on disposal of obsolete inventory items	(343)	—	—
Gain on sales of investments in securities	467	416	3,361
Gain on bad debt reserve	—	97	782
Loss on write-down of marketable securities and investment securities	(2,229)	(1,381)	(11,147)
An extra retirement payment due to the closure of Shinmei Plant	(220)	—	—
Gain on sale of coatings business	—	13,027	105,146
Gain on revaluation of assets trusted for retirement benefit	—	2,044	16,501
Amortization of transition amount arising from adopting new account for retirement benefit	—	(10,858)	(87,634)
Loss from explosion accident	—	(3,728)	(30,091)
Loss resulting from reduction of acquisition cost of alternative assets	(43)	—	—
Loss on liquidation of affiliates	(600)	—	—
Others, net	26	343	2,766
	(178)	3,242	26,168
Income before income taxes	4,648	6,765	54,600
<b>Income Taxes</b>	1,798	(2,915)	(23,526)
Net income	¥ 2,850	¥ 3,850	\$ 31,074
	Yen		U.S. Dollars
<b>Per Share:</b>			
Net income—primary	¥ 13.0	¥ 17.7	\$ 0.143
Net income—fully diluted	11.9	16.3	0.131
Cash dividends applicable to the year	6.0	6.0	0.048
	Thousands		
<b>Weighted Average Number of Shares</b>	218,650	217,294	

# Corporate Information

## BOARD OF DIRECTORS AND AUDITORS

### President & Chief Executive Officer

Masayasu Uno

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### Senior Managing Directors

Shohei Sakai  
Mitsuta Shibata

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### Managing Directors

Eiju Ishida  
Hiroo Ohi  
Shoichi Kobayashi  
Yohei Nakajima  
Shingo Yamazaki

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### Statutory Auditors

Mamoru Yamada  
Tatsuyuki Yamanaka  
Mitsuru Annen  
Kohzo Enomoto

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(as of June 2001)

## CORPORATE DATA

**Founded:** 1 June 1937

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**Incorporated:** 1 July 1949

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**Capital:** ¥15,994 million (as of 31 March 2001)

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**Employees:** 1,677 (as of 31 March 2001)

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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.

Mizuho Trust & Banking Co., Ltd., Shintaku A Acc.

The Nissan Fire & Marine Insurance Co., Ltd.

The Fuji Bank, Ltd.

The Yasuda Fire & Marine Insurance Co., Ltd.

The Yasuda Mutual Life Insurance Co.

Japan Energy Corp.

The Industrial Bank of Japan, Ltd.

The Mitsubishi Trust & Banking Corp., Shintaku Acc.

Nichiyu Sineikai

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 **NOF CORPORATION**

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e-mail: [info@nof.co.jp](mailto:info@nof.co.jp)