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# **NOF CORPORATION**

## **Financial Statements 2002**

For the year ended 31 March 2002

# Consolidated Balance Sheets

NOF CORPORATION AND CONSOLIDATED SUBSIDIARIES

31 March 2001 and 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
<b>Current Assets:</b>			
Cash, time deposits and certificate of deposits	¥ 17,242	¥ 14,239	\$ 106,859
Marketable securities (Note 4)	1,733	761	5,709
Notes and accounts receivable	35,237	29,781	223,500
Less: Allowance for bad debts	(229)	(223)	(1,672)
	35,008	29,558	221,828
Inventories	19,311	19,937	149,619
Deferred tax assets (Note 7)	1,757	1,659	12,448
Other current assets	6,799	6,956	52,206
Total current assets	81,850	73,110	548,669
<b>Investments and Advances:</b>			
Investments in securities (Note 4)	27,768	37,520	281,575
Other long-term investments	6,151	7,287	54,690
	33,919	44,807	336,265
<b>Property, Plant and Equipment:</b>			
Buildings and structures	49,993	51,664	387,725
Machinery and equipment	74,838	76,358	573,047
Others	11,321	11,543	86,627
	136,152	139,565	1,047,399
Less: Accumulated depreciation	(98,854)	(101,539)	(762,023)
	37,298	38,026	285,376
Land	17,527	21,219	159,240
Construction in progress	1,432	935	7,014
	56,257	60,180	451,630
<b>Deferred Tax Assets</b> (Note 7)	2,803	3,156	23,684
<b>Deferred Charges and Other Assets</b>	2,335	2,138	16,046
	¥177,164	¥183,391	\$1,376,294

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
<b>Current Liabilities:</b>			
Short-term bank loans (Note 6)	¥ 16,290	¥ 17,362	\$ 130,296
Current portion of long-term debt (Note 6)	8,757	9,086	68,185
Notes and accounts payable	24,320	21,545	161,690
Accrued expenses	5,945	5,780	43,378
Income taxes payable (Note 7)	4,656	900	6,753
Advance received	2,697	2,784	20,894
Other current liabilities	6,486	5,414	40,634
Total current liabilities	69,151	62,871	471,830
<b>Long-Term Debt</b> (Note 6)	34,551	37,349	280,291
<b>Deferred Tax Liabilities</b> (Note 7)	1,524	6,453	48,426
<b>Accrued Pension and Severance Cost</b> (Note 8)	6,745	4,749	35,642
<b>Accrued Retirement Benefits to Directors and Corporate Auditors</b>	587	729	5,471
<b>Other Long-Term Liabilities</b>	962	948	7,111
<b>Contingent Liabilities</b> (Note 9)			
<b>Minority Interest</b>	3,391	3,338	25,053
<b>Shareholders' Equity</b> (Note 10):			
Common stock:			
Authorised: 792,042,000 shares and 790,000,000 shares at March 31, 2001 and 2002, respectively			
Issued: 210,692,651 shares and 208,650,651 shares at March 31, 2001 and 2002, respectively	15,995	15,995	120,036
Additional paid-in capital	13,372	13,372	100,354
Retained earnings	32,448	33,162	248,873
Unrealized gain on other securities	—	5,169	38,790
Foreign currency translation adjustments	(1,234)	(364)	(2,734)
Treasury stock	(328)	(380)	(2,849)
Total shareholders' equity	60,253	66,954	502,470
	¥177,164	¥183,391	\$1,376,294

# Consolidated Statements of Income

NOF CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the years ended 31 March 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
<b>Net Sales</b>	¥144,764	<b>¥133,777</b>	<b>\$1,003,953</b>
<b>Cost of Sales</b> (Note 13)	106,235	<b>98,354</b>	<b>738,111</b>
Gross profit	38,529	<b>35,423</b>	<b>265,842</b>
<b>Selling, General and Administrative Expenses</b> (Notes 12 and 13)	31,273	<b>29,352</b>	<b>220,279</b>
Operating income	7,256	<b>6,071</b>	<b>45,563</b>
<b>Other Income (Expenses):</b>			
Interest and dividend income	598	<b>533</b>	<b>4,002</b>
Interest expenses	(1,225)	<b>(912)</b>	<b>(6,845)</b>
Gain or loss on sale/disposal of properties	2,821	<b>1,022</b>	<b>7,671</b>
Loss on disposal of obsolete inventory items	(158)	<b>(275)</b>	<b>(2,067)</b>
Gain or loss on sales of investments in securities	342	<b>98</b>	<b>737</b>
Loss on write-down of marketable securities and investment securities	(986)	<b>(880)</b>	<b>(6,604)</b>
Equity in earnings of affiliates	212	<b>339</b>	<b>2,541</b>
Gain on sale of Coatings Business	7,639	—	—
Gain on revaluation of assets trusted for retirement benefit	2,044	—	—
Amortization of transition amount arising from adopting new account for retirement benefit	(11,170)	—	—
Loss from explosion accident	(3,728)	<b>(267)</b>	<b>(2,006)</b>
Loss on advanced depreciation of property, plant and equipment	—	<b>(756)</b>	<b>(5,672)</b>
Gain on insurance adjustment	—	<b>756</b>	<b>5,672</b>
Others, net	282	<b>(221)</b>	<b>(1,656)</b>
	(3,329)	<b>(563)</b>	<b>(4,227)</b>
Income before income taxes and minority interest	3,927	<b>5,508</b>	<b>41,336</b>
<b>Income Taxes</b> (Note 7)			
Current	6,331	<b>1,624</b>	<b>12,191</b>
Deferred	(4,225)	<b>1,155</b>	<b>8,668</b>
	2,106	<b>2,779</b>	<b>20,859</b>
<b>Minority Interests in Earnings of Consolidated Subsidiaries</b>	125	<b>136</b>	<b>1,019</b>
Net income	¥ 1,696	<b>¥ 2,593</b>	<b>\$ 19,458</b>
	Yen		U.S. Dollars (Note 3)
<b>Per Share:</b>			
Net income—primary	¥7.8	<b>¥12.5</b>	<b>\$0.09</b>
Net income—fully diluted	7.3	<b>11.8</b>	<b>0.09</b>
Cash dividends applicable to the year	6.0	<b>6.0</b>	<b>0.05</b>
	Thousands		
<b>Weighted Average Number of Shares</b>	216,497	<b>206,803</b>	

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 2001 and 2002

	Millions of Yen							
	Number of Shares of Common Stock (thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Other Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Shareholders' Equity
<b>Balance at March 31, 2000</b>	218,650	¥ 15,995	¥ 13,372	¥ 33,953	¥ —	¥ —	¥ —	¥ 63,320
Net income for the year ended								
March 31, 2001	—	—	—	1,696	—	—	—	1,696
Cash dividends	—	—	—	(1,308)	—	—	—	(1,308)
Bonuses to directors	—	—	—	(78)	—	—	—	(78)
Increase in consolidated subsidiaries and affiliates under equity method	—	—	—	117	—	—	—	117
Retirement of treasury stock	(7,958)	—	—	(1,931)	—	—	—	(1,931)
Foreign currency translation	—	—	—	—	—	(1,234)	—	(1,234)
Change in treasury stock	—	—	—	—	—	—	(328)	(328)
<b>Balance at March 31, 2001</b>	<u>210,692</u>	<u>15,995</u>	<u>13,372</u>	<u>32,448</u>	<u>—</u>	<u>(1,234)</u>	<u>(328)</u>	<u>60,253</u>
Net income for the year ended								
March 31, 2002	—	—	—	2,593	—	—	—	2,593
Cash dividends	—	—	—	(1,251)	—	—	—	(1,251)
Bonuses to directors	—	—	—	(69)	—	—	—	(69)
Increase in consolidated subsidiaries and affiliates under equity method	—	—	—	—	—	—	—	—
Retirement of treasury stock	(2,041)	—	—	(559)	—	—	—	(559)
Adoption of new accounting standards	—	—	—	—	5,169	—	—	5,169
Foreign currency translation	—	—	—	—	—	870	—	870
Change in treasury stock	—	—	—	—	—	—	(52)	(52)
<b>Balance at March 31, 2002</b>	<u>208,651</u>	<u>¥ 15,995</u>	<u>¥ 13,372</u>	<u>¥ 33,162</u>	<u>¥ 5,169</u>	<u>¥ (364)</u>	<u>¥ (380)</u>	<u>¥ 66,954</u>

	Thousands of U.S. Dollars (Note 3)							
	Number of Shares of Common stock (thousands)	Common stock	Additional paid-in capital	Retained Earnings	Unrealized Gain on Other Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Shareholders' Equity
<b>Balance at March 31, 2001</b>	210,692	\$ 120,036	\$ 100,354	\$ 243,513	\$ —	\$ (9,261)	\$ (2,465)	\$ 452,177
Net income for the year ended								
March 31, 2002	—	—	—	19,458	—	—	—	19,458
Cash dividends	—	—	—	(9,386)	—	—	—	(9,386)
Bonuses to directors	—	—	—	(518)	—	—	—	(518)
Increase in consolidated subsidiaries and affiliates under equity method	—	—	—	—	—	—	—	—
Retirement of treasury stock	(2,041)	—	—	(4,194)	—	—	—	(4,194)
Adoption of new accounting standards	—	—	—	—	38,790	—	—	38,790
Foreign currency translation	—	—	—	—	—	6,527	—	6,527
Change in treasury stock	—	—	—	—	—	—	(384)	(384)
<b>Balance at March 31, 2002</b>	<u>208,651</u>	<u>\$ 120,036</u>	<u>\$ 100,354</u>	<u>\$ 248,873</u>	<u>\$ 38,790</u>	<u>\$ (2,734)</u>	<u>\$ (2,849)</u>	<u>\$ 502,470</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 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
<b>Cash Flows from Operating Activities:</b>			
Net income before income tax and minority interest	¥ 3,927	¥ 5,508	\$ 41,336
Adjustments for:			
Depreciation	5,943	5,422	40,692
Amortization of excess costs of investments over equity in net assets	178	244	1,827
Net change in accrued pension and severance cost	5,605	(3,052)	(22,902)
Interest and dividend income	(598)	(533)	(4,002)
Interest expenses	1,225	912	6,845
Equity in earnings of affiliates	(212)	(339)	(2,541)
Gain on sale of properties	(3,048)	(1,268)	(9,514)
Loss on evaluation of investments in securities	986	880	6,604
Gain and loss on sale of investments in securities, net	(342)	(98)	(737)
Gain on insurance adjustment	—	(756)	(5,762)
Loss on advanced depreciation of property, plant and equipment	—	756	5,762
Increase in notes and accounts receivable	2,037	5,761	43,237
Decrease in inventories	(942)	(406)	(3,047)
Decrease in notes and accounts payable	(6,389)	(2,948)	(22,123)
Gain on sale of Coatings Business	(7,639)	—	—
Loss from explosion accident	3,728	267	2,006
Proceeds from sale of accounts receivable relating to Coatings Business	10,003	—	—
Other, net	(1,790)	(867)	(6,512)
Subtotal	12,673	9,483	71,169
Interest and dividend income received	621	558	4,184
Interest expenses paid	(1,237)	(947)	(7,106)
Income tax paid	(3,101)	(5,607)	(42,078)
Payment for explosion accident	(4,110)	777	5,827
Net cash provided by operating activities	4,846	4,264	31,996
<b>Cash Flows from Investing Activities:</b>			
Payments for purchase of marketable securities	(201)	(642)	(4,820)
Proceeds from sales of marketable securities	880	478	3,587
Payments for purchase of investments in securities	(10,435)	(2,490)	(18,690)
Proceeds from sales of investments in securities	872	1,292	9,697
Payments for purchase of property, plant and equipment	(5,339)	(9,519)	(71,437)
Proceeds from sales of property, plant and equipment	3,527	1,263	9,481
Payments for purchase of subsidiary securities	—	(462)	(3,464)
Net increase (decrease) in short-term loan receivable	(2,130)	91	685
Payment for long-term loan receivable	(3,255)	(68)	(509)
Proceeds from long-term loan receivable	—	119	897
Proceeds from sale of coatings business other than related accounts receivable	30,251	—	—
Other, net	67	(293)	(2,209)
Net cash provided by (used in) investing activities	14,237	(10,231)	(76,782)
<b>Cash Flows from Financing Activities:</b>			
Increase (decrease) in short-term bank loans, net	(10,943)	928	6,966
Borrowing of long-term debt	3,860	11,550	86,679
Repayment of long-term loans	(10,121)	(8,784)	(65,919)
Cash dividends paid	(1,308)	(1,251)	(9,386)
Cash dividends to minority shareholders	(38)	(46)	(347)
Proceeds from issuance of debenture	8,951	—	—
Payments for redemption of debenture	(7,000)	—	—
Payment for purchase of treasury stock	(2,259)	(610)	(4,578)
Net cash provided by (used in) financing activities	(18,858)	1,787	13,415
<b>Effect of Exchange Rate Change on Cash and Cash Equivalents</b>	138	281	2,109
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	363	(3,899)	(29,262)
<b>Cash and Cash Equivalents at Beginning of Year</b>	17,209	17,625	132,270
<b>Adjustments of New Consolidated Subsidiaries on Cash and Cash Equivalents</b>	53	—	—
<b>Cash and Cash Equivalents at End of Year</b>	¥ 17,625	¥ 13,726	\$103,008

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 2001 and 2002

## 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 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 39 subsidiaries (majority-owned companies) as at 31 March 2002 (38 for 2001). The consolidated financial statements include the accounts of the Company and 28 of its subsidiaries for the year ended 31 March 2002 (27 for 2001).

The remaining 11 (11 for 2001) subsidiaries, whose combined assets, 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 28 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 subsidiaries)		
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	
Nippo Kogyo Co., Ltd.	89.3	
Pyro Safety Device Co., Ltd.	97.5	
Nichiyu Service Corporation	100.0	
Cactus Co., Ltd.	66.7	*1
Yuka Sangyo Co., Ltd.	60.0	
Nichiyu Build Co., Ltd.	60.0	
Nippon Yogyo 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 subsidiaries)		
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	
U.S. Paint Corporation	100.0	
NOF Europe N.V.	100.0	
P.T. NOF Mas Chemical Industries	89.6	

\*1 This subsidiary was consolidated in the consolidated financial statements for the year ended 31 March 2002 due to significance of those 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 statements 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 (5 for 2001).

The 5 affiliates accounted for by the equity method as at and for the year ended 31 March 2002 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	32.4

## **(5) Financial Instruments**

Until the year ended 31 March 2001, marketable securities (current assets) and investments in securities (non-current assets) both quoted and unquoted are principally valued at a cost determined by the moving-average method.

Effective from the year ended 31 March 2002 the Company and its subsidiaries adapted the new accounting standard for financial instruments on other securities.

### **(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 fair value.

As a result of adoption of a new standard, net unrealized gains or losses on these securities were reported as a separate item in "Shareholders' equity" at a net-of-tax amount of unrealized gain on other securities amounting to ¥8,907 million (\$66,847 thousand), and ¥5,168 million (\$38,790 thousand), net of taxes, was reported in a separate component of "Shareholders' equity".

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



#### **(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 the 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 the opportunity to evaluate the effectiveness of its hedging activities on interest rate swaps because they were not stated at fair value.

The Company also waived the opportunity to evaluate the effectiveness of its hedging of forward exchange transactions because settlement dates, currency types, amounts, and other significant conditions are the same, and because there is a high correlation between changes in forward exchange rates and spot exchange rates.

#### **(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 principally 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 (excluding attachment to 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 7 to 50 years for buildings and structures and from 6 to 12 years for machinery, equipment, furniture and tools.

#### **(9) Intangible Assets**

Intangible assets are amortized on the straight-line method.

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

#### **(10) Accrued Pension and Severance Cost**

Employees of the Company and some consolidated subsidiaries are covered by a funded retirement plan. Benefits under this retirement plan are generally based on average basic salaries during the period and length of services.

Unrecognized actual differences are amortized on a straight-line basis over the period of mainly 10 years from the next year in which they arise.

Past service liabilities are amortized on a straight-line basis over the period of mainly 10 years.

#### **(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., Nichibu Sangyo Co., Ltd. and Japex Corporation 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**

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

### **(13) Translation of Foreign Currency Transactions**

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated into yen at the year-end rate. The resulting translation gains or losses are charged or credited to income.

In translating the financial statements of foreign subsidiaries, all assets and liabilities are translated at current exchange rates, while capital stock and retained earnings are translated at historical exchange rates. All revenue and expense items for the year are translated at current exchange rates.

The net difference arising from the translation of the foreign currency financial statements is shown as "Foreign currency translation adjustments" in the accompanying consolidated balance sheets.

### **(14) Income Taxes**

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

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.

### **(15) 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 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".

### **(16) 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 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 30 September each year.

### **(17) 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 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  $\text{¥}133.25 = \text{U.S.}\$1$ , the approximate rate of exchange prevailing on the latest balance sheet date of 31 March 2000. 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  $\text{¥}133.25 = \text{U.S.}\$1$  or at any other rate.

#### 4. Marketable Securities and Investments in Securities

(1) Held-to-maturity debt securities with market quotations  
At 31 March 2001 and 2002, the carrying amount and aggregate fair value of the securities classified as held-to-maturity debt securities for which market quotations were available were as follows:

Description	Millions of Yen		
	2001		
	Book value	Fair market Value	Unrealized gain or loss
Case 1 Government and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	—	—	—
Others	228	228	0
	<u>228</u>	<u>228</u>	<u>0</u>
Case 2 Government and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	402	387	(15)
Others	—	—	—
	<u>402</u>	<u>387</u>	<u>(15)</u>
Total	<u>¥630</u>	<u>¥615</u>	<u>¥(14)</u>

Description	Millions of Yen		
	2002		
	Book value	Fair market Value	Unrealized gain or loss
Case 1 Government and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	100	100	0
Others	—	—	—
	<u>100</u>	<u>100</u>	<u>0</u>
Case 2 Government and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	401	384	(17)
Others	—	—	—
	<u>401</u>	<u>384</u>	<u>(17)</u>
Total	<u>¥501</u>	<u>¥484</u>	<u>¥(17)</u>

Description	Thousands of U.S. Dollars (Note 3)		
	2002		
	Book value	Fair market value	Unrealized gain or loss
Case 1 Government and municipal bonds	\$ —	\$ —	\$ —
Corporate bonds	748	750	2
Others	—	—	—
	<u>748</u>	<u>750</u>	<u>2</u>
Case 2 Government and municipal bonds	\$ —	\$ —	\$ —
Corporate bonds	3,014	2,885	(129)
Others	—	—	—
	<u>3,014</u>	<u>2,885</u>	<u>(129)</u>
Total	<u>\$3,762</u>	<u>\$3,634</u>	<u>\$ (127)</u>

Notes: Case 1: Fair market value exceeds book value  
Case 2: Fair market value does not exceed book value.

(2) The cost, book value and unrealized gains or losses for other securities with fair value as of 31 March 2002 were as follows:

Description	Millions of Yen		
	2002		
	Acquisition cost	Book value (Fair market value)	Unrealized gain or loss
Case 1 Shares	¥ 8,325	¥19,848	¥11,523
Bonds	197	201	4
Others	55	55	0
	<u>8,577</u>	<u>20,104</u>	<u>11,527</u>
Case 2 Shares	¥ 8,111	¥ 5,577	¥ (2,534)
Bonds	523	485	(38)
Others	235	187	(48)
	<u>8,869</u>	<u>6,249</u>	<u>(2,620)</u>
Total	<u>¥17,446</u>	<u>¥26,353</u>	<u>¥ 8,907</u>

Description	Thousands of U.S. Dollars (Note 3)		
	2002		
	Acquisition cost	Book value (Fair market value)	Unrealized gain or loss
Case 1 Shares	\$ 62,473	\$148,950	\$ 86,477
Bonds	1,476	1,506	30
Others	415	415	0
	<b>64,364</b>	<b>150,871</b>	<b>86,507</b>
Case 2 Shares	\$ 60,871	\$ 41,854	\$(19,017)
Bonds	3,923	3,640	(283)
Others	1,764	1,404	(360)
	<b>66,558</b>	<b>46,898</b>	<b>(19,660)</b>
Total	<b>\$130,922</b>	<b>\$197,769</b>	<b>\$ 66,847</b>

Notes: Case 1: Fair market value exceeds acquisition cost.

Case 2: Fair market value does not exceed acquisition cost.

No comparative figures are presented due to the accounting change having taken place from this fiscal year.

(3) Other securities sold during the year ended 31 March 2001 and 2002, were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
Proceeds from sales of available-for-sale securities	¥1,349	¥1,262	\$9,469
Realized gain	526	207	1,552
Realized loss	28	34	257

(4) Book value of major securities without fair value as of 31 March 2001 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
Unlisted stocks	¥ 946	¥ 943	\$7,079
Preferred Fund certificate	—	1,000	7,505
Money management fund	1,096	6	43
Fund certificate	27	28	209

(5) Schedule for redemption of available-for-sale securities with maturity and held-to-maturity debt securities as of 31 March 2002.

	Millions of Yen			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Government and municipal bonds	¥ 10	¥ —	¥—	¥—
Corporate bonds	401	100	—	—
Others	152	—	—	—
	<b>¥563</b>	<b>¥100</b>	<b>¥—</b>	<b>¥—</b>

	Thousands of U.S. Dollars (Note 3)			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Government and municipal bonds	\$ 75	\$ —	\$—	\$—
Corporate bonds	3,011	750	—	—
Others	1,136	—	—	—
	<b>\$4,222</b>	<b>\$750</b>	<b>\$—</b>	<b>\$—</b>

## 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 the 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 the weighted average interest rate was 0.71% at March 2002.

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

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
Loans, principally from banks and insurance companies, due fiscal 2003 to 2023 with interest rates ranging from 1.12% to 4.83%	¥18,663	¥21,789	\$163,523
2.0 per cent. yen convertible mortgage debentures due 2002	7,646	7,646	57,381
1.1 per cent. yen convertible debentures due 2006	7,999	7,999	60,030
1.65 per cent. bonds due on September 22, 2004	5,000	5,000	37,523
1.61 per cent. bonds due on September 22, 2004	4,000	4,000	30,019
Total	43,308	46,434	348,476
Less: Current maturities of:			
Long-term loans	8,757	1,440	10,804
Convertible mortgage debentures	—	7,646	57,381
	¥34,551	¥37,349	\$280,291

Long-term loans (excluding current maturities) from financial institutions bore interest at an annual average rate of 1.78% as at 31 March 2002.

Aggregate annual maturities of long-term debt subsequent to 31 March 2002 are as follows:

Year ending 31 March	Millions of Yen	Thousands of U.S. Dollars (Note 3)
2004	¥ 2,663	\$ 19,988
2005	16,777	125,904
2006	8,198	61,525
2007	4,180	31,367
2008 and thereafter	5,531	41,507
	¥37,349	\$280,291

Additional information with respect to the Company's convertible mortgage debentures and convertible debentures outstanding at 31 March 2002 is as follows:

	Principal amount at issue (Millions of Yen)	Issued in	Current conversion/exercise price per share (Yen) (subject to adjustment in certain circumstances)	Number of shares issuable upon full conversion/exercise (Thousands)	Annual sinking fund requirements (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	13,767 <u>19,494</u>	None

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 2002 are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
Marketable securities	¥ 1,013	\$ 7,604
Property, plant and equipment at book value	25,692	192,812
	<u>¥26,705</u>	<u>\$200,416</u>

## 7. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of 31 March 2001 and 2002 was 42.0%, respectively. At 31 March 2001 and 2002, significant components of deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
Deferred tax assets:			
Accrued bonus	¥ 449	¥ 663	\$ 4,978
Accrued retirement benefits	3,681	2,601	19,517
Unrealized earnings	2,590	2,500	18,759
Accrued enterprise tax	430	91	679
Tax loss carry forward	475	447	3,354
Valuation differences	1,285	1,042	7,820
Others	1,342	1,974	14,825
	10,252	9,318	69,932
Valuation allowance	(743)	(762)	(5,723)
Total deferred tax assets	9,509	8,556	64,209
Deferred tax liabilities:			
Unrealized gain on other securities	—	(3,755)	(28,181)
Reserve for advanced depreciation of property, plant and equipment	—	(3,103)	(23,290)
Accelerated depreciation	(3,445)	—	—
Valuation differences	(2,097)	(2,129)	(15,981)
Gain on revaluation of assets trusted for retirement benefit	(859)	(859)	(6,444)
Others	(98)	(369)	(2,765)
Total deferred tax liabilities	(6,499)	(10,215)	(76,661)
Net deferred tax assets or liabilities	¥ 3,010	¥ (1,659)	\$(12,452)

At 31 March 2001 and 2002, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

	2001	2002
Statutory tax rate	42.0%	42.0%
Increase (decrease) in taxes resulting from		
Entertainment expense	5.9	2.8
Amortization of cost in excess of net assets acquired	1.9	1.9
Dividends received	1.2	—
Foreign tax credit	(0.7)	(1.6)
Loss on revaluation of investments in subsidiaries	—	3.1
Adjustment of valuation allowance	6.4	—
Others	(3.1)	2.3
Effective tax rate	<u>53.6%</u>	<u>50.5%</u>

## 8. Accrued Pension and Severance Cost

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.

Accrued pension and severance costs as of 31 March 2001 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	As of 31 March 2001	As of 31 March 2002	As of 31 March 2002
Projected benefit obligations	¥(29,859)	¥(29,803)	\$(223,661)
Plan assets	20,674	19,517	146,471
Unfunded projected benefit obligations	(9,185)	(10,286)	(77,190)
Unrecognized actuarial differences	2,577	6,714	50,385
Unrecognized prior service cost	(137)	(121)	(913)
Book value—net	(6,745)	(3,693)	(27,718)
Prepaid pension expense	—	(1,056)	(7,924)
Accrued pension and severance cost	¥ 6,745	¥ (4,749)	\$ (35,642)

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 expenses related to the retirement benefits for the years ended 31 March 2001 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	For the year ended 31 March 2001	For the year ended 31 March 2002	For the year ended 31 March 2002
Service cost	¥ 1,363	¥1,340	\$10,055
Interest cost	862	871	6,538
Expected return on plan assets	(589)	(666)	(4,995)
Amortization of transition amount	11,170	—	—
Amortization of actual differences	—	258	1,934
Amortization of prior service cost	(15)	(15)	(114)
Net pension expense	¥12,791	¥1,788	\$13,418

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

\*2 Pension expenses 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	As of 31 March 2002
Discount rate	mainly 3.0%	mainly 3.0%
Expected rate of return on plan assets	mainly 4.5%	mainly 4.5%
Method of attributing the projected benefits to periods of services	mainly point basis	mainly point basis
Amortization of unrecognized prior service cost	mainly 10 years	mainly 10 years
Amortization of unrecognized actuarial differences	mainly 10 years	mainly 10 years
Amortization of transition amount	Entirely charged to income in the current year.	—

## 9. Contingent Liabilities

As at 31 March 2002, the Group was contingently liable for guarantees of loans as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
As an endorser of notes discounted or endorsed	¥1,244	\$ 9,337
As a guarantor of indebtedness of:		
P.T. Sinar Oleochemical International	¥1,145	\$ 8,591
Amagasaki Utility Services	780	5,853
Others	702	5,266
	¥2,626	\$19,710

## 10. Shareholders' Equity

The Japanese Commercial Code requires all the Companies to appropriate as an earned reserve an amount equivalent to at least 10% of cash payments for appropriation of retained earnings until the legal reserves equals 25% of stated capital. Earned reserve may be transferred to unappropriated retained earnings to the extent that the legal reserves do not fall below 25% of stated capital.

Legal reserves may be transferred to stated capital through suitable directors' actions or offset against deficit through suitable shareholders' actions.

The Company's Board of Directors, with subsequent approval by the shareholders, has made annual appropriation of retained earnings for various purposes. 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 ¥584 million and ¥549 million (US\$4,117 thousand) for the years ended 31 March 2001 and 2002, 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 2001 and 2002, is as follows:

	Millions of Yen		
	2001		
	Furniture and fixtures	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>

	Millions of Yen		
	2002		
	Furniture and fixtures	Other	Total
Acquisition costs	¥1,692	¥702	¥2,394
Accumulated depreciation	1,006	401	1,407
Net leased assets	<u>¥ 686</u>	<u>¥301</u>	<u>¥ 987</u>

	Thousands of U.S. Dollars (Note 3)		
	2002		
	Furniture and fixtures	Other	Total
Acquisition costs	\$12,697	\$ 5,266	\$17,963
Accumulated depreciation	7,549	3,008	10,557
Net leased assets	<u>\$ 5,148</u>	<u>\$ 2,258</u>	<u>\$ 7,406</u>

Future minimum lease payments under finance leases as of 31 March 2001 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
	Due within one year	¥ 494	¥383
Due over one year	716	604	4,532
Total	<u>¥1,210</u>	<u>¥987</u>	<u>\$7,406</u>

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 ¥584 million and ¥549 million (US\$4,117 thousand) for the years ended 31 March 2001 and 2002, respectively.



Obligations under non-cancelable operating leases as of 31 March 2001 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
Due within one year	¥ 77	¥ 88	\$ 659
Due after one year	182	124	934
Total	<u>¥259</u>	<u>¥212</u>	<u>\$1,593</u>

## 12. Selling, General and Administrative Expenses

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
Delivery expense	¥5,753	¥4,986	\$37,420
Salaries and bonuses	9,272	9,151	68,672
Accrued pension and severance cost	701	617	4,628
Accrued director's retirement allowance	120	168	1,258
Research and development costs	4,322	4,100	30,770
Amortization on consolidated adjustment account	178	243	1,827

## 13. Research and Development Costs

The charges to income for research and development activities of the Group for the years ended 31 March 2001 and 2002 were as follows:

Millions of Yen		
2001		
Selling, general and administrative expenses	Cost of sales	Total
¥4,322	¥1,413	¥5,735

Millions of Yen		
2002		
Selling, general and administrative expenses	Cost of sales	Total
¥4,100	¥1,263	¥5,363

Thousands of U.S. Dollars (Note 3)		
2002		
Selling, general and administrative expenses	Cost of sales	Total
\$30,770	\$9,478	\$40,249

## 14. Segment Information

### (1) Industry Segments

The Group principally operates the following industry segments categorized based on similarity of products and markets. Segment information for the years ended 31 March 2001 and 2002 is as follows:

	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/(loss)	¥ 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

	Millions of Yen						
	2002						
	Oleo Chemicals & Foods	Chemicals	Explosive & Propulsion	Others	Total	Elimination/Corporate	Consolidated
Sales							
Sales to customers	¥ 49,861	¥ 43,794	¥ 38,166	¥ 1,955	¥ 133,777	¥ —	¥ 133,777
Inter-segment	331	649	172	3,237	4,389	(4,389)	—
Total	50,192	44,443	38,338	5,192	138,165	(4,389)	133,777
Operating expenses	48,210	41,658	37,187	5,065	132,119	(4,413)	127,706
Operating income/(loss)	¥ 1,982	¥ 2,786	¥ 1,151	¥ 128	¥ 6,047	¥ 25	¥ 6,071
Assets	¥ 33,264	¥ 42,080	¥ 51,146	¥ 14,886	¥ 141,376	¥ 42,015	¥ 183,391
Depreciation	1,348	2,167	1,834	74	5,422	—	5,422
Capital expenditure	1,654	1,956	2,862	42	6,513	3,605	10,119

	Thousands of U.S. Dollars (Note 3)						
	2002						
	Oleo Chemicals & Foods	Chemicals	Explosive & Propulsion	Others	Total	Elimination/Corporate	Consolidated
Sales							
Sales to customers	\$ 374,191	\$ 328,662	\$ 286,425	\$ 14,675	\$ 1,003,953	\$ —	\$ 1,003,953
Inter-segment	2,483	4,870	1,289	24,292	32,934	(32,934)	—
Total	376,674	333,532	287,714	38,967	1,036,888	(32,934)	1,003,953
Operating expenses	361,801	312,628	279,073	38,008	991,510	(33,119)	958,390
Operating income/(loss)	\$ 14,873	\$ 20,905	\$ 8,641	\$ 959	\$ 45,378	\$ 185	\$ 45,563
Assets	\$ 249,638	\$ 315,799	\$ 383,837	\$ 111,712	\$ 1,060,985	\$ 315,309	\$ 1,376,294
Depreciation	10,113	16,263	13,762	554	40,692	—	40,692
Capital expenditure	12,410	14,676	21,481	313	48,881	27,058	75,939

The amounts of assets included in the column "Elimination/Corporate" are ¥31,054 million and ¥42,721 million (US\$320,612 thousand) for the years ended 31 March 2001 and 2002, respectively, which includes surplus working fund (cash and securities), long-term investment fund (investment in securities), and deferred tax assets.

## (2) Geographic Segments

Segment information classified by geographic area (inside and outside Japan) for years ended 31 March 2001 and 2002 is as follows:

	Millions of Yen				
	2001				
	Japan	Other (Note)	Total	Elimination/ Corporate	Consolidated
Sales					
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/(loss)	¥ 5,782	¥ 1,451	¥ 7,233	¥ 24	¥ 7,256
Assets	¥ 141,305	¥ 10,978	¥ 152,283	¥ 24,882	¥ 177,164

	Millions of Yen				
	2002				
	Japan	Other (Note)	Total	Elimination/ Corporate	Consolidated
Sales					
Sales to customers	¥ 118,761	¥ 15,016	¥ 133,777	¥ —	¥ 133,777
Inter-segment	475	105	580	(580)	—
Total	119,236	15,121	134,357	(580)	133,777
Operating expenses	114,563	13,746	128,309	(603)	127,706
Operating income/(loss)	¥ 4,673	¥ 1,375	¥ 6,048	¥ 23	¥ 6,071
Assets	¥ 135,886	¥ 12,032	¥ 147,917	¥ 35,474	¥ 183,391

	Thousands of U.S. Dollars (Note 3)				
	2002				
	Japan	Other (Note)	Total	Elimination/ Corporate	Consolidated
Sales					
Sales to customers	\$ 891,261	\$ 112,692	\$ 1,003,953	\$ —	\$ 1,003,953
Inter-segment	3,564	788	4,352	(4,352)	—
Total	894,825	113,481	1,008,305	(4,352)	1,003,953
Operating expenses	859,756	103,162	962,918	(4,528)	958,390
Operating income/(loss)	\$ 35,069	\$ 10,318	\$ 45,387	\$ 175	\$ 45,563
Assets	\$ 1,019,781	\$ 90,293	\$ 1,110,074	\$ 266,220	\$ 1,376,294

The amounts of assets included in the column "Elimination/Corporate" are ¥31,054 million and 42,721 million (US\$320,612 thousand) for the years ended 31 March 2001 and 2002, respectively, which includes surplus working fund (cash and securities), long-term investment fund (investment in securities), and deferred tax assets.

(Note)

"Other" represents North America, Europe and Asia.

### (3) Sales to Overseas Customers

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
Overseas sales (Note)	¥ 21,605	¥ <b>22,563</b>	\$ <b>169,327</b>
Consolidated sales	144,764	<b>133,777</b>	<b>1,003,953</b>
Ratio	14.92%	<b>16.87%</b>	

(Note)

“Overseas sales” represents sales to customers in North America, Europe and Asia.

### 15. Related Party Transactions

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries that are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements for the years ended 31 March 2001 and 2002 were as follows:

Name of related company	Location	Paid-in capital	Principal business	Percentage of equity ownership by the Company	Relationship		Description of the Company's transactions	Millions of Yen (Thousands of U.S. Dollars) (Note 3)				
					Directors holding concurrent positions	Business relationship		Transactions		End of period account balance		
								2002	2001	Account	2002	2001
BASF NOF Coatings Co., Ltd.	Yokohama City, Kanagawa Pref.	¥10 million	Manufacture, sale, research and development of coating products	Directly holds 50%	Holds additional post: 1 person	None	Loans	—	¥9,250	Short and long-term loans	¥4,950 (\$37,148)	¥4,950
					Seconded: 1 person		Subscription of capital increase	—	¥9,750	Investments in securities	¥9,850 (\$73,925)	¥9,850
							Business transfer					
							Proceeds from sale of Coatings Business	—	¥39,155			
							Gain on sale of Coatings Business	—	¥10,527			

The terms and conditions of the above transactions are on an arm's-length basis. The above transaction amounts exclude consumption taxes, but consumption taxes are included in the end of period balances.

## 16. Supplementary Cash Flow Information

The relation between cash and cash equivalents as at 31 March 2001 and 2002 and the amount booked in the balance sheets is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2002	2002
Cash, time deposits and certificate of deposits	¥17,242	¥14,239	\$106,859
Time deposits with maturity periods exceeding three months	(759)	(529)	(3,970)
Equity securities and debentures with maturity periods within three months	1,142	16	119
Cash and cash equivalents	<u>¥17,625</u>	<u>¥13,726</u>	<u>\$103,008</u>

## 17. Subsequent Events

The appropriation of retained earnings including cash dividends in respect of the year ended 31 March 2002 was approved at the shareholders' meeting held on 27 June 2002 as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
	Appropriations:	
Cash dividends (¥3.0 per share)	¥622	\$4,667
Directors' bonuses	28	210
	<u>¥650</u>	<u>\$4,878</u>

# 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 March 31, 2001 and 2002, 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 March 31, 2002, 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 March 31, 2001 and 2002, and the consolidated results of their operations for the years then ended and their cash flows for the years ended March 31, 2001 and 2002, 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 March 31, 2002, NOF CORPORATION and its consolidated subsidiaries have adopted new Japanese accounting standards for financial instruments.

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



Tokyo, Japan  
June 27, 2002

# Corporate Information

## BOARD OF DIRECTORS AND AUDITORS

### Executive Chairman

Masayasu Uno

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### President & Chief Executive Officer

Youhei Nakajima

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### Directors & Senior Executive Operating Officers

Eiju Ishida

Shoichi Kobayashi

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### Directors & Executive Operating Officers

Hiroo Ohi

Shingo Yamazaki

---

### Directors & Operating Officers

Hirokazu Ohike

Shigeyasu Togo

---

### Statutory Auditors

Tatsuyuki Yamanaka

Shohei Sakai

Mitsuru Annen

Hajime Hayasaka

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(as of June 2002)

## 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 2002)

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**Employees:** 1,675 (as of 31 March 2002)

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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:

Sompo Japan Insurance Inc.

Mizuho Corporate Bank, Ltd.

Mizuho Asset Trust & Banking Co., Ltd.

The Mitsubishi Trust & Banking Corp., Shintaku Acc.

Japan Trustee Services Bank, Ltd., Shintaku Acc.

The Yasuda Mutual Life Insurance Co.

Japan Energy Corp.

Nichiyu Sineikai

Mizuho Bank, Ltd.

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 **NOF CORPORATION**

Yebisu Garden Place Tower,  
20-3, Ebisu 4-chome,  
Shibuya-ku, Tokyo 150-6019, Japan  
Tel: (03) 5424-6600  
Fax: (03) 5424-6800  
URL: <http://www.nof.co.jp>  
e-mail: [info@nof.co.jp](mailto:info@nof.co.jp)