NOF CORPORATION

Financial Statements 2003

For the year ended 31 March 2003

Consolidated Balance Sheets

As of March 31, 2002 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2003	2003
ASSETS			
Current Assets:			
Cash and time deposits	¥ 14,239	**¥ 15,700**	**$ 130,619**
Notes and accounts receivable	29,781	**32,852**	**273,308**
Less: Allowance for bad debts	(223)	**(192)**	**(1,597)**
	29,558	**32,660**	**271,711**
Inventories	19,937	**19,232**	**160,004**
Deferred tax assets (Note 9)	1,659	**1,909**	**15,882**
Other current assets (Note 5)	7,717	**4,650**	**38,678**
Total current assets	73,110	**74,151**	**616,894**
Investments and Advances:			
Investments in securities (Note 5)	37,520	**30,269**	**251,823**
Other long-term investments	7,287	**7,822**	**65,073**
	44,807	**38,091**	**316,896**
Property, Plant and Equipment:			
Buildings and structures	51,664	**52,262**	**434,790**
Machinery and equipment	76,358	**76,918**	**639,920**
Other	11,543	**12,079**	**100,487**
	139,565	**141,259**	**1,175,197**
Less: Accumulated depreciation	(101,539)	**(104,906)**	**(872,758)**
	38,026	**36,353**	**302,439**
Land	21,219	**21,100**	**175,540**
Construction in progress	935	**3,449**	**28,691**
	60,180	**60,902**	**506,670**
Deferred Tax Assets (Note 9)	3,156	**3,126**	**26,011**
Deferred Charges and Other Assets	2,138	**1,563**	**13,009**
	¥183,391	**¥177,833**	**$1,479,480**

The accompanying notes are an integral part of the statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	**2003**	**2003**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 6)	¥ 17,362	**¥ 19,451**	**$ 161,824**
Current portion of long-term debt (Note 6)	9,086	**2,515**	**20,919**
Notes and accounts payable	21,545	**22,850**	**190,098**
Accrued expenses	5,780	**6,249**	**51,990**
Income taxes payable (Note 9)	900	**881**	**7,332**
Advance received	2,784	**2,773**	**23,072**
Other current liabilities (Note 9)	5,414	**6,906**	**57,451**
Total current liabilities	62,871	**61,625**	**512,686**
Long-Term Debt (Note 6)	37,349	**37,592**	**312,748**
Deferred Tax Liabilities (Note 9)	6,453	**4,920**	**40,929**
Accrued Pension and Severance Cost (Note 10)	4,749	**4,862**	**40,450**
Accrued Retirement Benefits to Directors and Corporate Auditors	729	**616**	**5,123**
Other Long-Term Liabilities	948	**1,090**	**9,075**
Contingent Liabilities (Note 14)			
Minority Interest	3,338	**3,221**	**26,795**
Shareholders' Equity (Note 13)**:**			
Common stock:			
Authorised: 790,000,000 shares and 786,403,000 shares at March 31, 2002 and 2003 respectively			
Issued: 208,650,651 shares and 205,053,651 shares at March 31, 2002 and 2003, respectively	15,995	**15,995**	**133,068**
Capital surplus	13,372	**13,372**	**111,250**
Retained earnings	33,162	**33,224**	**276,409**
Unrealized gain on other securities	5,169	**2,709**	**22,533**
Foreign currency translation adjustments	(364)	**(745)**	**(6,197)**
Treasury stock	(380)	**(648)**	**(5,389)**
Total shareholders' equity	66,954	**63,907**	**531,674**
	¥183,391	**¥177,833**	**$1,479,480**

Consolidated Statements of Income

For the years ended March 31, 2002 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2003	2003
Net Sales	¥133,777	**¥136,309**	**$1,134,021**
Cost of Sales (Note 8)	98,354	**100,316**	**834,578**
Gross profit	35,423	**35,993**	**299,443**
Selling, General and Administrative Expenses (Notes 7 and 8)	29,352	**28,843**	**239,958**
Operating income	6,071	**7,150**	**59,485**
Other Income (Expenses):			
Interest and dividend income	533	**416**	**3,461**
Interest expenses	(912)	**(764)**	**(6,356)**
Gain or loss on sale/disposal of properties	1,022	**37**	**310**
Loss on disposal of obsolete inventory items	(275)	**(144)**	**(1,199)**
Gain or loss on sales of investments in securities	98	**1,705**	**14,182**
Loss on write-down of marketable securities and investment securities	(880)	**(4,390)**	**(36,522)**
Equity in earnings of affiliates	339	**351**	**2,920**
Gain on sale of coatings business	—	**772**	**6,426**
Expense for compensation	—	**(202)**	**(1,680)**
Loss from explosion accident	(267)	**—**	**—**
Loss on advanced depreciation of property, plant and equipment	(756)	**—**	**—**
Gain on insurance adjustment	756	**—**	**—**
Others, net	(221)	**(477)**	**(3,971)**
	(563)	**(2,696)**	**(22,429)**
Income before income taxes and minority interest	5,508	**4,454**	**37,056**
Income Taxes (Note 9)			
Current	1,624	**1,897**	**15,785**
Deferred	1,155	**108**	**899**
	2,779	**2,005**	**16,684**
Minority Interests in Earnings of Consolidated Subsidiaries	(136)	**(140)**	**(1,164)**
Net income	¥ 2,593	**¥ 2,309**	**$ 19,208**

	Yen		U.S. Dollars (Note 3)
Per Share:			
Net income—primary	¥ 12.2	**¥ 10.9**	**$ 0.09**
Net income—fully diluted	11.5	**10.5**	**0.09**
Cash dividends applicable to the year	6.0	**6.0**	**0.05**
	(thousands)		
Weighted Average Number of Shares	206,803	**205,026**	

The accompanying notes are an integral part of the statements.

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2002 and 2003

		Millions of Yen						
	Number of Shares of Common Stock (thousands)	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Other Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Shareholders' Equity
Balance at March 31, 2001	210,692	¥15,995	¥13,372	¥32,448	¥ —	¥(1,234)	¥(328)	¥60,253
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)
Balance at March 31, 2002	208,651	¥15,995	¥13,372	¥33,162	¥ 5,169	¥ (364)	¥(380)	¥66,954
Net income for the year ended March 31, 2003	—	—	—	2,309	—	—	—	2,309
Cash dividends	—	—	—	(1,235)	—	—	—	(1,235)
Bonuses to directors	—	—	—	(67)	—	—	—	(67)
Increase in consolidated subsidiaries and affiliates under equity method	—	—	—	101	—	—	—	101
Retirement of treasury stock	(3,597)	—	—	(1,046)	—	—	—	(1,046)
Unrealized gain on other securities	—	—	—	—	(2,460)	—	—	(2,460)
Adoption of new accounting standards	—	—	0	—	—	—	—	0
Foreign currency translation	—	—	—	—	—	(381)	—	(381)
Change in treasury stock	—	—	—	—	—	—	(268)	(268)
Balance at March 31, 2003	**205,054**	**¥15,995**	**¥13,372**	**¥33,224**	**¥ 2,709**	**¥ (745)**	**¥(648)**	**¥63,907**

		Thousands of U.S. Dollars (Note 3)						
	Number of Shares of Common Stock (thousands)	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Other Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total Shareholders' Equity
Balance at March 31, 2002	208,651	$133,068	$111,249	$275,893	$ 43,002	$(3,031)	$(3,159)	$557,022
Net income for the year ended March 31, 2003	—	—	—	19,208	—	—	—	19,208
Cash dividends	—	—	—	(10,271)	—	—	—	(10,271)
Bonuses to directors	—	—	—	(560)	—	—	—	(560)
Increase in consolidated subsidiaries and affiliates under equity method	—	—	—	839	—	—	—	839
Retirement of treasury stock	(3,597)	—	—	(8,700)	—	—	—	(8,700)
Unrealized gain on other securities	—	—	—	—	(20,469)	—	—	(20,469)
Adoption of new accounting standards	—	—	1	—	—	—	—	1
Foreign currency translation	—	—	—	—	—	(3,166)	—	(3,166)
Change in treasury stock	—	—	—	—	—	—	(2,230)	(2,230)
Balance at March 31, 2003	**205,054**	**$133,068**	**$111,250**	**$276,409**	**$ 22,533**	**$(6,197)**	**$(5,389)**	**$531,674**

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2002 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	**2003**	**2003**
Cash Flows from Operating Activities:			
Net income before income tax and minority interest	¥ 5,508	**¥ 4,454**	**$ 37,056**
Adjustments for:			
Depreciation	5,422	**5,301**	**44,101**
Amortization of excess costs of investments over equity in net assets	244	**229**	**1,905**
Net change in accrued pension and severance cost	(3,052)	**(1,354)**	**(11,268)**
Interest and dividend income	(533)	**(416)**	**(3,461)**
Interest expenses	912	**764**	**6,356**
Equity in earnings of affiliates	(339)	**(351)**	**(2,920)**
Gain on sale of properties	(1,268)	**(170)**	**(1,412)**
Loss on evaluation of investments in securities	880	**4,390**	**36,522**
Gain on sale of investments in securities, net	(98)	**(1,703)**	**(14,171)**
Gain on insurance adjustment	(756)	**—**	**—**
Loss on advanced depreciation of property, plant and equipment	756	**—**	**—**
Increase / decrease in notes and accounts receivable	5,761	**(1,331)**	**(11,076)**
Increase / decrease in inventories	(406)	**304**	**2,528**
Increase / decrease in notes and accounts payable	(2,948)	**1,990**	**16,553**
Gain on sale of coatings business	—	**(772)**	**(6,426)**
Loss from the explosion accident	267	**—**	**—**
Other, net	(867)	**1,630**	**13,573**
Subtotal	9,483	**12,965**	**107,860**
Interest and dividend income received	558	**431**	**3,583**
Interest expenses paid	(947)	**(733)**	**(6,097)**
Income tax paid	(5,607)	**(1,916)**	**(15,939)**
Payment for the explosion accident	777	**—**	**—**
Net cash provided by operating activities	4,264	**10,747**	**89,407**
Cash Flows from Investing Activities:			
Payments for purchase of marketable securities	(642)	**(30)**	**(250)**
Proceeds from sale and redemption of marketable securities	478	**588**	**4,893**
Payments for purchase of investments in securities	(2,490)	**(3,197)**	**(26,593)**
Proceeds from sales of investments in securities	1,292	**3,561**	**29,628**
Payments for purchase of property, plant and equipment	(9,519)	**(5,848)**	**(48,655)**
Proceeds from sales of property, plant and equipment	1,263	**389**	**3,240**
Payments for purchase of subsidiary securities	(462)	**—**	**—**
Net increase / decrease in short-term loan receivable	91	**(32)**	**(270)**
Payment for long-term loan receivable	(68)	**(92)**	**(765)**
Proceeds from long-term loan receivable	119	**81**	**673**
Proceeds from sale of business (Note 4)	—	**1,548**	**12,880**
Other, net	(293)	**480**	**3,988**
Net cash used in investing activities - forward	(10,231)	**(2,552)**	**(21,231)**
Cash Flows from Financing Activities:			
Net increase in short-term bank loans	928	**2,170**	**18,052**
Borrowing of long-term debt	11,550	**3,209**	**26,697**
Repayment of long-term loans	(8,784)	**(1,698)**	**(14,127)**
Cash dividends paid	(1,251)	**(1,235)**	**(10,271)**
Cash dividends to minority shareholders	(46)	**(46)**	**(384)**
Payments for redemption of debenture	—	**(7,646)**	**(63,611)**
Payment for purchase of treasury stock	(610)	**(1,342)**	**(11,161)**
Net cash provided by (used in) financing activities	1,787	**(6,588)**	**(54,805)**
Effect of Exchange Rate Change on Cash and Cash Equivalents	281	**(105)**	**(872)**
Net Increase / Decrease in Cash and Cash Equivalents	(3,899)	**1,502**	**12,499**
Cash and Cash Equivalents at Beginning of Year	17,625	**13,726**	**114,192**
Increase in Cash and Cash Equivalents Due to Consolidation of Subsidiaries	—	**62**	**514**
Decrease in Cash and Cash Equivalents Due to Exclusion of Subsidiaries	—	**(50)**	**(417)**
Cash and Cash Equivalents at End of Year (Note 4)	¥ 13,726	**¥ 15,240**	**$126,788**

The accompanying notes are an integral part of the statements.

Notes to the Consolidated Financial Statements

For the years ended March 31, 2002 and 2003

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 37 subsidiaries (majority-owned companies) as of March 31, 2003 (39 for 2002). The consolidated financial statements include the accounts of the Company and 27 of its subsidiaries for the year ended March 31, 2003 (28 for 2002).

The remaining 10 (11 for 2002) 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 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 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	70.0	
Taseto Co., Ltd.	81.1	
Showa Kinzoku Kogyo Co., Ltd.	74.7	
Nichiyu Solution Inc.	100.0	
Nippo Kogyo Co., Ltd.	89.3	
Pyro Safety Device Co., Ltd.	100.0	
Nichiyu Service Corporation	100.0	
Cactus Co., Ltd.	66.7	
Yuka Sangyo Co., Ltd.	100.0	
Nippon Yugyo Co., Ltd.	100.0	
Nichiyu Kogyo 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	
Dacral Manufacturing	100.0	
U.S. Paint Corporation	100.0	
NOF Europe (Belgium) NV	100.0	*1
P.T. NOF Mas Chemical Industries	89.6	

*1 This subsidiary was consolidated in the consolidated financial statements for the year ended March 31, 2003 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 March 31, except for Nippon Dacro Shamrock Co., Ltd., Metal Coatings International Inc., Michigan Metal Coatings Co., Georgia Metal Coatings Co., Dacral S.A., Metal Coatings Brazil Ind. E. Com Ltda., Dacral Manufacturing, U.S. Paint Corporation, NOF Europe (Belgium) NV and P.T. NOF Mas Chemical Industries. Those subsidiaries use a fiscal year ending on December 31. 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 2002).

The 5 affiliates accounted for by the equity method for the year ended March 31, 2003 are listed below:

Name of Affiliate	Percentage Owned by the Company
BASF NOF Coatings Co., Ltd.	50.0
Nagoya Dacro Co., Ltd.	45.6
Autoliv Nichiyu Co., Ltd.	40.0
Nissan Soap Co., Ltd.	32.8
P.T. Sinar Oleochemical International	32.4

(5) Financial Instruments

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

(a) Securities

Securities held by the Company and its subsidiaries are 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 prevailing at the end of the fiscal year. Net unrealized gains or losses on those securities are reported as a separate component of shareholders' equity at a net-of-tax amount.

Other securities for which market quotations are unavailable are stated at cost, principally 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 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 high correlation between changes in forward exchange rates and spot exchanges rates.

(6) Allowance for Doubtful Accounts
The balance of allowance for doubtful accounts represents the amount measured using a historical bad debt ratio 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 building) 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 10 years from the next year in which they arise.

Past service liabilities are amortized on a straight-line basis over the period of 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., Japex Corporation and Nichiyu Service 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 retire 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, and 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 Adjustment” 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 liabilities 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 (March 31). 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 September 30 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.

Basis for calculating net income per share

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
	2003	2003
Net income per share		
Net income	¥ 2,309	$19,208
Earnings appropriated to directors' bonuses	73	607
Amount of not belonging to shareholders	73	607
Net income related to common stock	2,236	18,601
Average number of shares outstanding (1,000 shares)	205,026	205,026
Net income per share (fully diluted)		
Interest expenses (net of tax)	51	425
Other	3	20
Amount of net income adjustment	54	445
Convertible bonds (1,000 shares)	13,768	13,768
Stock options (1,000 shares)	17	17
Amount of increase in number of shares (1,000 shares)	13,785	13,785
Shares not included in fully diluted net income per share calculation due to lack of dilution benefit (1,000 shares)	1,150	1,150

Effective April 1, 2002, the Company adopted the new accounting standard for net income per share and excluded bonuses to directors from net income available to shareholders in the computation of net income per share, as an appropriation of retained earnings applicable to the respective years. Net income per share for the year ended March 31, 2002 is presented based on the new standard.

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 ¥120.2 = U.S.$1, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2003. 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 ¥120.2 = U.S.$1 or at any other rate.

4. Supplementary Cash Flow Information

Relation between cash and cash equivalents as of March 31, 2002 and 2003 and the account booked in the balance sheet was as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2003	2003
Cash and time deposits	¥14,239	¥15,700	$130,619
Time deposits with maturity periods exceeding three months	(529)	(465)	(3,875)
Equity securities and debentures with maturity periods within three months	16	5	44
Cash and cash equivalents	¥13,726	¥15,240	$126,788

Assets transferred were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2003	2003
Current assets	—	¥393	$3,271
Non-current assets	—	4	31
Cash and cash equivalents	—	¥397	$3,302

5. Marketable Securities and Investments in Securities

(1) Held-to-maturity debt securities with market quotations
At March 31, 2002 and 2003, 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:

		Millions of Yen	
		2002	
Description	Book value	Fair market value	Unrealized gain or loss
Case 1 Government and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	100	100	0
Other	—	—	—
	100	100	0
Case 2 Government and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	401	384	(17)
Other	—	—	—
	401	384	(17)
Grand total	¥501	¥484	¥(17)

		Millions of Yen	
		2003	
Description	Book value	Fair market value	Unrealized gain or loss
Case 1 Government and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	—	—	—
Other	—	—	—
	—	—	—
Case 2 Government and municipal bonds	¥ —	¥ —	¥ —
Corporate bonds	100	97	(3)
Other	—	—	—
	100	97	(3)
Grand total	¥100	¥97	¥(3)

		Thousands of U.S. Dollars (Note 3)	
		2003	
Description	Book value	Fair market value	Unrealized gain or loss
Case 1 Government and municipal bonds	$ —	$ —	$ —
Corporate bonds	—	—	—
Other	—	—	—
	—	—	—
Case 2 Government and municipal bonds	$ —	$ —	$ —
Corporate bonds	832	811	(21)
Other	—	—	—
	832	811	(21)
Grand total	$832	$811	$(21)

Note: 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 gain or loss for other securities with fair value as of March 31, 2002 and 2003 were as follows:

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

		Millions of Yen	
		2003	
Description	Acquisition cost	Book value (Fair market value)	Unrealized gain or loss
Case 1 Shares	¥ 9,682	¥15,078	¥5,396
Bonds	10	10	0
Other	88	90	2
	9,780	15,178	5,398
Case 2 Shares	¥ 2,946	¥ 2,212	¥ (734)
Bonds	500	492	(8)
Other	260	193	(67)
	3,706	2,897	(809)
Grand total	¥13,486	¥18,075	¥4,589

		Thousands of U.S. Dollars (Note 3)		
		2003		
Description		Acquisition cost	Book value (Fair market value)	Unrealized gain or loss
Case 1	Shares	**$ 80,548**	**$125,437**	**$44,889**
	Bonds	**83**	**83**	**0**
	Other	**732**	**751**	**19**
		81,363	**126,271**	**44,908**
Case 2	Shares	**$ 24,511**	**$ 18,402**	**$ (6,109)**
	Bonds	**4,159**	**4,094**	**(65)**
	Other	**2,165**	**1,607**	**(558)**
		30,835	**24,103**	**(6,732)**
	Grand total	**$112,198**	**$150,374**	**$38,176**

Note: Case 1: Fair market value exceeds acquisition cost.
Case 2: Fair market value does not exceed acquisition cost.

(3) Other securities sold during the years ended March 31, 2002 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2003	2003
Proceeds from sales of available-for-sale securities	¥1,262	**¥3,458**	**$28,773**
Realized gain	207	**1,773**	**14,749**
Realized loss	34	**27**	**221**

(4) Book values of major securities without fair value as of March 31, 2002 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2003	2003
Unlisted stocks	¥ 943	**¥ 758**	**$6,307**
Preferred stocks	—	**1,000**	**8,319**
Preferred fund certificate	1,000	**1,000**	**8,319**
Money management fund	6	**5**	**44**
Fund certificate	28	**28**	**232**

(5) The schedule for redemption of available-for-sale securities with maturity and held-to-maturity debt securities as of March 31, 2003 was as follows:

	Millions of Yen			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Government and municipal bonds	**¥ 10**	**¥—**	**¥ —**	**¥—**
Corporate bonds	**100**	**—**	**492**	**—**
Other	**—**	**—**	**—**	**—**
	¥110	**¥—**	**¥492**	**¥—**

	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	**$ 83**	**$ —**	**$ —**	**$—**
Corporate bonds	**832**	**—**	**4,094**	**—**
Other	**—**	**—**	**—**	**—**
	$915	**$ —**	**$4,094**	**$—**

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 was 0.61% at March 2003.

Long-term debt as of March 31, 2002 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2003	2003
Loans, principally from banks and insurance companies, due fiscal 2004 to 2023 with interest rates ranging from 1.12% to 4.72%	¥21,789	**¥23,108**	**$192,245**
2.0 per cent. Yen convertible mortgage debentures due 2002	7,646	**—**	**—**
1.1 per cent. Yen convertible mortgage debentures due 2006	7,999	**7,999**	**66,547**
1.65 per cent. Bonds due on September 22, 2004	5,000	**5,000**	**41,597**
1.61 per cent. Bonds due on September 22, 2004	4,000	**4,000**	**33,278**
Total	46,434	**40,107**	**333,667**
Less: Current maturities of:			
Long-term loans	1,440	**2,515**	**20,919**
Convertible mortgage debentures	7,646	**—**	**—**
	¥37,349	**¥37,592**	**$312,748**

Long-term loans (excluding current maturities) from financial institutions bore interest at an annual average rate of 1.52% as of March 31, 2003.

Aggregate annual maturities of long-term debt subsequent to March 31, 2003 are as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars (Note 3)
2005	¥16,750	$139,348
2006	8,184	68,091
2007	9,930	82,611
2008	3,554	29,567
2009 and thereafter	1,694	14,096
	¥40,112	$333,713

Additional information with respect to the Company's convertible mortgage debentures and convertible debentures outstanding at March 31, 2003 was as follows:

	Principal amount at issue (Millions of Yen)	Issued on	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)
1.1 per cent. Yen convertible debentures due March 31, 2006	¥8,000	20 December 1996	¥581	13,767	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 March 31, 2003 are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
Marketable securities	¥ 273	$ 2,275
Property, plant and equipment at book value	25,498	212,125
	¥25,771	$214,400

7. Selling, General and Administrative Expenses

	Millions of Yen 2002	Millions of Yen 2003	Thousands of U.S. Dollars (Note 3) 2003
Delivery expense	¥4,986	**¥4,755**	**$39,558**
Salaries and bonuses	9,151	**9,024**	**75,075**
Accrued pension and severance cost	617	**852**	**7,091**
Accrued directors' retirement allowance	168	**158**	**1,318**
Research and development cost	4,100	**4,402**	**36,620**
Amortization on consolidated adjustment account	243	**262**	**2,180**

8. Research and Development Costs

The charges to income for research and development activities of the Group for the years ended March 31, 2002 and 2003 were as follows:

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

Millions of Yen 2003		
Selling, general and administrative expenses	Cost of sales	Total
¥4,402	**¥1,309**	**¥5,711**

Thousands of U.S. Dollars (Note 3) 2003		
Selling, general and administrative expenses	Cost of sales	Total
$36,620	**$10,896**	**$47,516**

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2002 and 2003 was 42.0%. At March 31, 2002 and 2003, significant components of deferred tax assets and liabilities were as follows:

	Millions of Yen 2002	Millions of Yen 2003	Thousands of U.S. Dollars (Note 3) 2003
Deferred tax assets:			
Accrued bonus	¥ 663	**¥ 846**	**$ 7,042**
Accrued retirement benefits	2,601	**1,990**	**16,552**
Unrealized earnings	2,500	**2,427**	**20,193**
Accrued enterprise tax	91	**100**	**829**
Tax loss carry forward	447	**361**	**3,000**
Valuation differences	1,042	**909**	**7,564**
Other	1,974	**2,034**	**16,921**
	9,318	**8,667**	**72,101**
Valuation allowance	(762)	**(604)**	**(5,022)**
Total deferred tax assets	8,556	**8,063**	**67,079**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(3,755)	**(1,910)**	**(15,887)**
Reserve for advanced depreciation of property, plant and equipment	(3,103)	**(2,943)**	**(24,485)**
Valuation differences	(2,129)	**(2,013)**	**(16,745)**
Gain on revaluation of assets trusted for retirement benefit	(859)	**(838)**	**(6,974)**
Other	(369)	**(257)**	**(2,140)**
Total deferred tax liabilities	(10,215)	**(7,961)**	**(66,231)**
Deferred income taxes, net	¥ (1,659)	**¥ 102**	**$ 848**

At March 31, 2002 and 2003, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

	2002	2003
Statutory tax rate	42.0%	**42.0%**
Increase (decrease) in taxes resulting from		
Entertainment expense	2.8	**3.2**
Amortization of cost in excess of net assets acquired	1.9	**2.2**
Equity income	—	**(1.7)**
Foreign tax credit	(1.6)	**—**
Loss on revaluation of investments in subsidiaries	3.1	**(1.2)**
Other	2.3	**0.5**
Effective tax rate	50.5%	**45.0%**

Adjustment of deferred tax assets and liabilities due to the change in tax rate.

Due to the change in local tax law during the year ended March 31, 2003, the effective tax rate used in the calculation of deferred tax assets and liabilities is revised from the prior fiscal year. As a result, deferred tax assets and liabilities decreased by ¥75 million and ¥207 million, respectively, and income taxes-deferred decreased by ¥72 million for the year ended March 31, 2003.

10. 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 cost as of March 31, 2002 and 2003 was analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	**2003**	**2003**
Projected benefit obligations	¥(29,803)	**¥(30,830)**	**$(256,493)**
Plan assets	19,517	**16,592**	**138,042**
Unfunded projected benefit obligations	(10,286)	**(14,238)**	**(118,451)**
Unrecognized actuarial differences	6,714	**12,005**	**99,878**
Unrecognized prior service cost	(121)	**(106)**	**(886)**
Book value - net	(3,693)	**(2,339)**	**(19,459)**
Prepaid pension expense	(1,056)	**(2,523)**	**(20,991)**
Accrued pension and severance cost	¥ (4,749)	**¥ (4,862)**	**$ (40,450)**

Notes: 1. The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.
2. Some consolidated subsidiaries provide for retirement allowance by using expediency methods.

Net pension expenses related to the retirement benefits for the years ended March 31, 2002 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	**2003**	**2003**
Service cost	¥1,340	**¥1,295**	**$10,774**
Interest cost	871	**841**	**6,998**
Expected return on plan assets	(666)	**(510)**	**(4,247)**
Amortization of actual differences	258	**697**	**5,800**
Amortization of prior service cost	(15)	**(15)**	**(127)**
Net pension expense	¥1,788	**¥2,308**	**$19,198**

Notes: 1. Employees' contribution for contributory pension plan (cover a portion of governmental pension) was deducted.
2. Pension expenses of consolidated subsidiaries which applied expediency methods are included in "Service Cost."

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

	2002	**2003**
Discount rate	mainly 3.0%	**2.5%**
Expected rate of return on plan assets	mainly 4.5%	**3.0%**
Method of attributing the projected benefits to periods of service	mainly point basis	**mainly point basis**
Amortization of unrecognized prior service cost	mainly 10 years	**10 years**
Amortization of unrecognized actual differences	mainly 10 years	**10 years**

11. Leases

The Group leases certain machinery and equipment and other assets. Total lease payments under these leases were ¥549 million and ¥404 million (US$3,363 thousand) for the years ended March 31, 2002 and 2003, respectively.

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 March 31, 2002 and 2003, was as follows:

	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	¥ 686	¥301	¥ 987

	Millions of Yen		
	2003		
	Furniture and fixtures	Other	Total
Acquisition costs	**¥1,172**	**¥571**	**¥1,743**
Accumulated depreciation	**629**	**316**	**945**
Net leased assets	**¥ 543**	**¥255**	**¥ 798**

	Thousands of U.S. Dollars (Note 3)		
	2003		
	Furniture and fixtures	Other	Total
Acquisition costs	**$9,749**	**$4,750**	**$14,499**
Accumulated depreciation	**5,232**	**2,629**	**7,861**
Net leased assets	**$4,517**	**$2,121**	**$ 6,638**

Future minimum lease payments under finance leases as of March 31, 2002 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	**2003**	**2003**
Due within one year	¥383	**¥321**	**$2,670**
Due over one year	604	**477**	**3,968**
Total	¥987	**¥798**	**$6,638**

The acquisition costs and future minimum lease payments under finance leases include the 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 ¥549 million and ¥404 million (US$3,363 thousand) for the years ended March 31, 2002 and 2003, respectively.

Obligations under non-cancelable operating leases as of March 31, 2002 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	**2003**	**2003**
Due within one year	¥ 88	**¥ 69**	**$574**
Due after one year	124	**44**	**367**
Total	¥212	**¥113**	**$941**

12. 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 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.

13. 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.

14. Contingent Liabilities

As of March 31, 2003, 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	¥ 810	$ 6,737
As a guarantor of indebtedness of:		
Amagasaki Utility Services	¥ 736	$ 6,127
P.T. Sinar Oleochemical International	541	4,502
Others	562	4,671
	¥2,649	$22,037

15. Subsequent Events

The appropriation of retained earnings including cash dividends in respect of the year ended March 31, 2003 was approved at the shareholders' meeting held on 27 June 2003 as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
Appropriations:		
Cash dividends (¥3.0 per share)	¥608	$5,062
Directors' bonuses	28	233
	¥636	$5,295

16. Segment Information

(1) Industry Segments

The Group operates principally in the following industry segments categorized based on similarity of products and markets. Segment information for the years ended March 31, 2002 and 2003 was as follows:

	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	¥ 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

	Millions of Yen						
	2003						
	Oleo Chemicals & Foods	Chemicals	Explosive & Propulsion	Others	Total	Elimination/ Corporate	Consolidated
Sales							
Sales to customers	**¥ 52,037**	**¥44,935**	**¥37,555**	**¥ 1,782**	**¥136,309**	**¥ —**	**¥136,309**
Inter-segment	**377**	**1,153**	**234**	**3,181**	**4,945**	**(4,945)**	**—**
Total	**52,414**	**46,088**	**37,789**	**4,963**	**141,254**	**(4,945)**	**136,309**
Operating expenses	**50,598**	**42,651**	**36,068**	**4,805**	**134,122**	**(4,963)**	**129,159**
Operating income	**¥ 1,816**	**¥ 3,437**	**¥ 1,721**	**¥ 158**	**¥ 7,132**	**¥ 18**	**¥ 7,150**
Assets	**¥ 37,928**	**¥41,977**	**¥50,861**	**¥14,480**	**¥145,246**	**¥32,587**	**¥177,833**
Depreciation	**1,277**	**2,185**	**1,770**	**69**	**5,301**	**—**	**5,301**
Capital expenditure	**3,423**	**1,665**	**1,891**	**14**	**6,993**	**(38)**	**6,955**

	Thousands of U.S. Dollars (Note 3)						
	2003						
	Oleo Chemicals & Foods	Chemicals	Explosive & Propulsion	Others	Total	Elimination/ Corporate	Consolidated
Sales							
Sales to customers	**$432,921**	**$373,836**	**$312,441**	**$ 14,823**	**$1,134,021**	**$ —**	**$1,134,021**
Inter-segment	**3,136**	**9,591**	**1,950**	**26,466**	**41,143**	**(41,143)**	**—**
Total	**436,057**	**383,427**	**314,391**	**41,289**	**1,175,164**	**(41,143)**	**1,134,021**
Operating expenses	**420,949**	**354,830**	**300,072**	**39,974**	**1,115,825**	**(41,289)**	**1,074,536**
Operating income	**$ 15,108**	**$ 28,597**	**$ 14,319**	**$ 1,315**	**$ 59,339**	**$ 146**	**$ 59,485**
Assets	**$315,545**	**$349,225**	**$423,138**	**$120,464**	**$1,208,372**	**$271,108**	**$1,479,480**
Depreciation	**10,621**	**18,181**	**14,725**	**574**	**44,101**	**—**	**44,101**
Capital expenditure	**28,475**	**13,851**	**15,736**	**112**	**58,174**	**(312)**	**57,862**

The amounts of assets included in the column "Elimination/Corporate" were ¥42,721 million and ¥34,576 million (US$287,651 thousand) for the years ended March 31, 2002 and 2003, respectively, which included 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 (Japan and Other) for the years ended March 31, 2002 and 2003 was as follows:

	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	¥ 4,673	¥ 1,375	¥ 6,048	¥ 23	¥ 6,071
Assets	¥135,886	¥12,032	¥147,917	¥35,474	¥183,391

	Millions of Yen				
	2003				
	Japan	Other (Note)	Total	Elimination/ Corporate	Consolidated
Sales					
Sales to customers	**¥122,834**	**¥13,475**	**¥136,309**	**¥ —**	**¥136,309**
Inter-segment	**850**	**98**	**948**	**(948)**	**—**
Total	**123,684**	**13,573**	**137,257**	**(948)**	**136,309**
Operating expenses	**117,761**	**12,350**	**130,111**	**(952)**	**129,159**
Operating income	**¥ 5,923**	**¥ 1,223**	**¥ 7,146**	**¥ 4**	**¥ 7,150**
Assets	**¥139,307**	**¥10,305**	**¥149,612**	**¥28,221**	**¥177,833**

	Thousands of U.S. Dollars (Note 3)				
	2003				
	Japan	Other (Note)	Total	Elimination/ Corporate	Consolidated
Sales					
Sales to customers	**$1,021,910**	**$112,111**	**$1,134,021**	**$ —**	**$1,134,021**
Inter-segment	**7,075**	**815**	**7,890**	**(7,890)**	**—**
Total	**1,028,985**	**112,926**	**1,141,911**	**(7,890)**	**1,134,021**
Operating expenses	**979,710**	**102,748**	**1,082,458**	**(7,922)**	**1,074,536**
Operating income	**$ 49,275**	**$ 10,178**	**$ 59,453**	**$ 32**	**$ 59,485**
Assets	**$1,158,964**	**$ 85,731**	**$1,244,695**	**$234,785**	**$1,479,480**

The amounts of assets included in the column “Elimination/Corporate” were ¥42,721 million and ¥34,576 million (US$287,651 thousand) for the years ended March 31, 2002 and 2003, respectively, which included 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 Foreign Customers

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	**2003**	**2003**
Overseas sales (Note)	¥ 22,563	**¥ 23,607**	**$ 196,400**
Consolidated sales	133,777	**136,309**	**1,134,021**
Ratio	16.87%	**17.32%**	

Note: Overseas sales represents North America, Europe and Asia.

17. Related Party Transactions

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2002 and 2003 were as follows:

					Relationship		Millions of Yen (Thousands of U.S. Dollars) (Note 3) Transactions			End of period account balance		
Name of related company	Address	Paid-in capital	Principal business	Percentage of equity ownership by the Company	Directors holding concurrent positions	Business relationship (Note)	Description of the Company's transactions	**2003**	2002	Account	**2003**	2002
BASF NOF Coatings Co., Ltd.	Yokohama City, Kanagawa Pref.	¥10 billion	Manufacture, sale, research and development of coatings products	Directly holds 50%	Hold the additional post 2 persons Seconded 2 persons	None	Loans	**—**	—	Short- and long-term loans	**¥4,950 ($41,181)**	¥4,950

The terms and conditions of the above transactions are on an arm's-length basis.

Note: Business relationship consists of operating, plant and equipment leasing and other noncontractual business transactions.

Report of Independent Auditors

To the Board of Directors
NOF CORPORATION

We have audited the accompanying consolidated balance sheets of NOF CORPORATION and its consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NOF CORPORATION and its consolidated subsidiaries as of March 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

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

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan
June 27, 2003

Corporate Information

BOARD OF DIRECTORS AND
STATUTORY AUDITORS
(as of June 2003)

Executive Chairman
Masayasu Uno

President & Chief Executive Officer
Youhei Nakajima

Directors & Senior Executive Operating Officers
Eiju Ishida
Shoichi Kobayashi

Directors & Executive Operating Officers
Hiroo Ohi
Hirokazu Ohike
Shigeo Suzuki
Katsuhide Hattori

Director & Operating Officer
Shigeyasu Togo

Statutory Auditors
Shingo Yamazaki
Shohei Sakai
Ritsuo Koakutsu
Hajime Hayasaka

CORPORATE DATA
(as of March 31, 2003)

Founded:	1 June 1937
Incorporated:	1 July 1949
Capital:	¥15,995 million
Employees:	1,656
Head Office:	Yebisu Garden Place Tower, 20-3, Ebisu 4-chome, Shibuya-ku, Tokyo 150-6019, Japan

Major Shareholders:

The Master Trust Bank of Japan, Ltd. (Trust Account)

Japan Trustee Services Bank, Ltd. (Trust Account)

Sompo Japan Insurance Inc.

Mizuho Corporate Bank, Ltd.

The Yasuda Mutual Life Insurance Co.

Japan Energy Corp.

Mizuho Asset Trust & Banking Co., Ltd.

Nichiyu Shineikai

UFJ Trust Bank Limited (Trust Account A)

NOF Investment Association

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

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