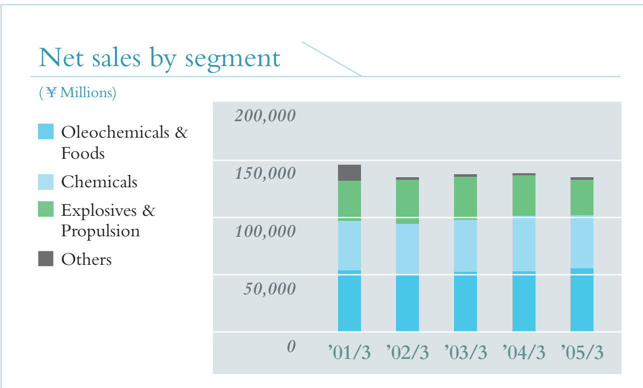
Financial Statements 2005

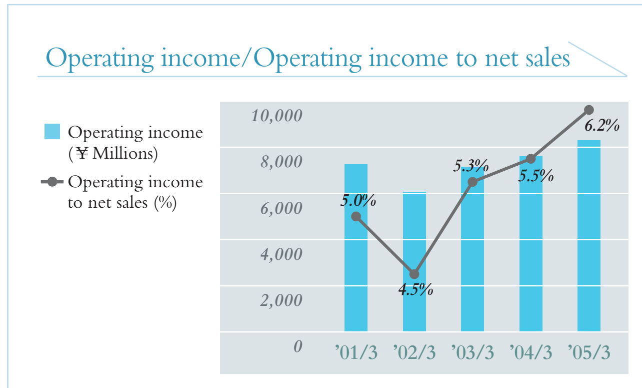
For the year ended March 31, 2005

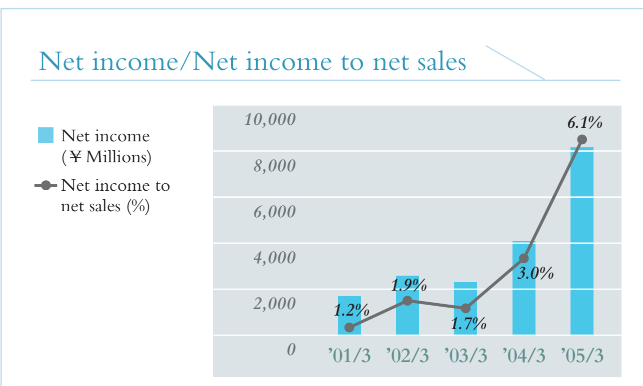
NOF CORPORATION

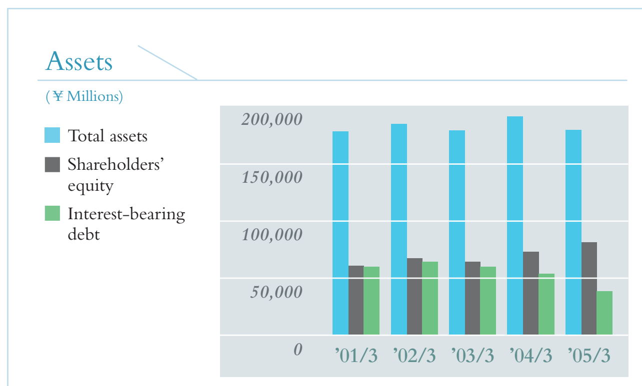
MAJOR FINANCIAL INDICATORS

NOF CORPORATION and Consolidated Subsidiaries
For the years ended March 31



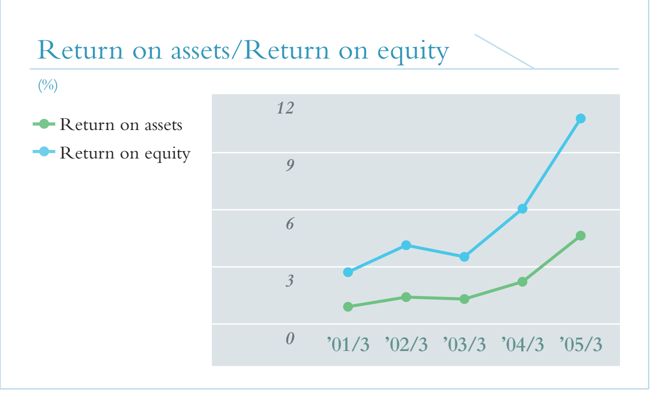


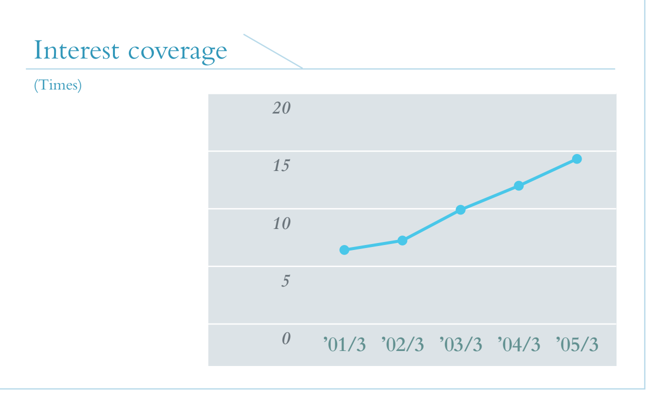


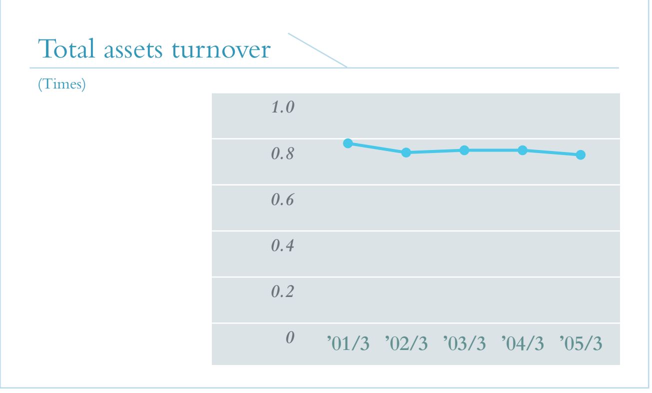


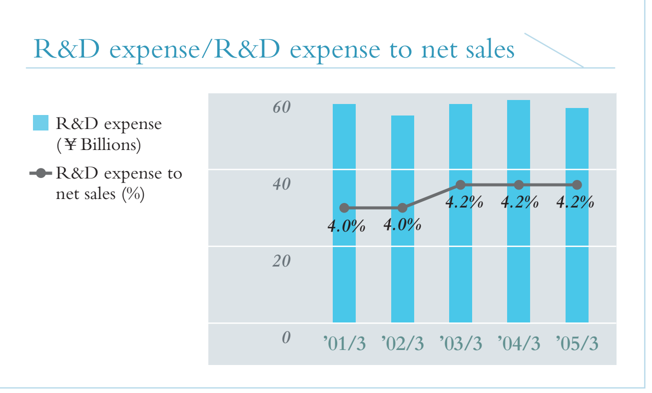
¥ Millions

	2001/3	2002/3	2003/3	2004/3	**2005/3**
Net sales by segment (total)	¥ 144,764	¥ 133,776	¥ 136,309	¥ 137,478	**¥ 133,682**
Oleochemicals & Foods	53,136	49,860	52,037	52,326	**54,843**
Chemicals	43,114	43,794	44,935	48,236	**46,314**
Explosives & Propulsion	34,750	38,166	37,555	35,090	**30,784**
Others	13,763	1,955	1,781	1,824	**1,740**
Operating income	7,256	6,071	7,150	7,599	**8,305**
Operating income to net sales (%)	5.0	4.5	5.3	5.5	**6.2**
Net income	1,695	2,592	2,309	4,083	**8,167**
Net income to net sales (%)	1.2	1.9	1.7	3.0	**6.1**
Total assets	177,164	183,391	177,833	190,159	**178,206**
Shareholders' equity	60,252	66,954	63,907	72,271	**80,648**
Interest-bearing debt	59,597	63,794	59,557	53,156	**38,209**









	2001/3	2002/3	2003/3	2004/3	**2005/3**
Return on assets (%)	0.9	1.4	1.3	2.2	**4.6**
Return on equity (%)	2.7	4.1	3.5	6.0	**10.7**
Interest coverage (times)	6.42	7.24	9.91	11.99	**14.87**
Total assets turnover (times)	0.78	0.74	0.75	0.75	**0.73**
R&D expense (¥ billions)	5.7	5.4	5.7	5.8	**5.6**
R&D expense to net sales (%)	4.0	4.0	4.2	4.2	**4.2**

Notes: Return on assets = Net income/Total assets × 100
Return on equity = Net income/Shareholders' equity (Yearly average) × 100
Total assets turnover = Net sales/Total assets (Yearly average)

CONSOLIDATED BALANCE SHEETS

NOF CORPORATION and Consolidated Subsidiaries
As of March 31, 2004 and 2005

ASSETS	Millions of Yen 2004	Millions of Yen 2005	Thousands of U.S. Dollars (Note 3) 2005
Current Assets:			
Cash and time deposits	¥ 12,703	¥ 9,942	$ 92,578
Notes and accounts receivable	34,335	33,703	313,838
Less: Allowance for bad debts	(57)	(94)	(871)
	34,278	33,609	312,967
Inventories	19,804	20,834	194,002
Deferred tax assets (Note 9)	2,366	2,079	19,359
Other current assets (Note 5)	5,871	4,265	39,715
Total current assets	75,022	70,729	658,621
Investments and Advances:			
Investments in securities (Note 5)	42,113	38,474	358,268
Other long-term investments	7,084	6,596	61,419
	49,197	45,070	419,687
Property, Plant and Equipment (Note 6)**:**			
Buildings and structures	49,775	50,770	472,763
Machinery and equipment	76,322	79,378	739,154
Others	12,098	11,792	109,805
	138,195	141,940	1,321,722
Less: Accumulated depreciation	(105,336)	(103,921)	(967,697)
	32,859	38,019	354,025
Land	20,693	20,124	187,393
Construction in progress	8,636	1,533	14,271
	62,188	59,676	555,689
Deferred Tax Assets (Note 9)	2,554	957	8,908
Deferred Charges and Other Assets (Note 10)	1,198	1,775	16,531
Total assets	¥ 190,159	¥ 178,207	$1,659,436

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2005	Thousands of U.S. Dollars (Note 3) 2005
Current Liabilities:			
Short-term bank loans (Note 6)	¥ 15,523	¥ 6,896	$ 64,216
Current portion of long-term debts (Note 6)	16,270	8,165	76,029
Notes and accounts payable	23,375	22,505	209,561
Accrued expenses	8,344	6,600	61,458
Income taxes payable	2,265	2,090	19,461
Advances received	3,263	3,222	30,004
Other current liabilities (Note 9)	7,107	4,873	45,380
Total current liabilities	76,147	54,351	506,109
Long-Term Debts (Note 6)	21,365	23,150	215,569
Deferred Tax Liabilities (Note 9)	10,219	11,891	110,731
Accrued Pension and Severance Costs (Note 10)	5,110	3,309	30,810
Accrued Retirement Benefits to Directors and Corporate Auditors	649	687	6,393
Other Long-term Liabilities	1,039	646	6,012
Total liabilities	114,529	94,034	875,624
Minority Interests	3,359	3,525	32,825
Contingent Liabilities (Note 14)			
Shareholders' Equity (Note 13)**:**			
Common stock:			
Authorised: 783,828,000 shares and 783,828,000 shares at March 31, 2004 and 2005, respectively			
Issued: 202,478,651 shares and 202,478,651 shares at March 31, 2004 and 2005, respectively	15,995	15,995	148,941
Capital surplus	13,381	13,377	124,561
Retained earnings	34,965	41,857	389,769
Unrealized gain on other securities	9,514	10,841	100,948
Foreign currency translation adjustments	(817)	(695)	(6,465)
Treasury stock	(767)	(727)	(6,767)
Total shareholders' equity	72,271	80,648	750,987
Total liabilities and shareholders' equity	¥ 190,159	¥ 178,207	$1,659,436

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENTS OF INCOME

NOF CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Net Sales	¥ 137,478	¥ 133,683	$1,244,834
Cost of Sales (Notes 8 and 10)	101,009	98,625	918,377
Gross profit	36,469	35,058	326,457
Selling, General and Administrative Expenses (Notes 7, 8 and 10)	28,870	26,753	249,120
Operating income	7,599	8,305	77,337
Other Income (Expenses):			
Interest and dividend income	434	423	3,939
Interest expenses	(670)	(587)	(5,471)
Gain on sale/disposal of properties	2,365	395	3,680
Loss on disposal of obsolete inventory items	(183)	(254)	(2,365)
Gain on sale of investments in securities	44	1,282	11,938
Loss on write-down of marketable securities and investment securities	(61)	(3)	(24)
Equity in earnings of affiliates	223	300	2,798
Gain on settlement of coatings business	–	3,773	35,135
Gain on settlement of the employees' pension fund	–	1,252	11,654
Loss on sale of investments in affiliated companies	(1,159)	–	–
Others, net	(322)	(506)	(4,718)
	671	6,075	56,566
Income before income taxes and minority interest	8,270	14,380	133,903
Income Taxes (Note 9)			
Current	3,306	3,445	32,077
Deferred	660	2,555	23,793
	3,966	6,000	55,870
Minority Interests in Earnings of Consolidated Subsidiaries	(221)	(212)	(1,978)
Net income	¥ 4,083	¥ 8,168	$ 76,055

	Yen		U.S. Dollars (Note 3)
Per Share:			
Net income — primary	19.9	40.4	0.38
Net income — fully diluted	18.8	38.0	0.35
Cash dividends applicable to the year	6.0	8.0	0.07

	Thousands	
Weighted Average Number of Shares	201,708	200,582

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

NOF CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2005

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, 2003	205,054	¥15,995	¥13,372	¥33,224	¥ 2,709	¥(745)	¥(648)	¥63,907
Net income for the year ended March 31, 2004	–	–	–	4,083	–	–	–	4,083
Cash dividends	–	–	–	(1,211)	–	–	–	(1,211)
Bonuses to directors	–	–	–	(71)	–	–	–	(71)
Retirement of treasury stock	(2,575)	–	–	(1,060)	–	–	–	(1,060)
Unrealized gain on other securities	–	–	–	–	6,805	–	–	6,805
Adoption of new accounting standards	–	–	9	–	–	–	–	9
Foreign currency translation	–	–	–	–	–	(72)	–	(72)
Change in treasury stock	–	–	–	–	–	–	(119)	(119)
Balance at March 31, 2004	202,479	¥15,995	¥13,381	¥34,965	¥ 9,514	¥(817)	¥(767)	¥72,271
Net income for the year ended March 31, 2005	**–**	**–**	**–**	**8,168**	**–**	**–**	**–**	**8,168**
Cash dividends	**–**	**–**	**–**	**(1,204)**	**–**	**–**	**–**	**(1,204)**
Bonuses to directors	**–**	**–**	**–**	**(72)**	**–**	**–**	**–**	**(72)**
Retirement of treasury stock	**–**	**–**	**(4)**	**–**	**–**	**–**	**–**	**(4)**
Unrealized gain on other securities	**–**	**–**	**–**	**–**	**1,327**	**–**	**–**	**1,327**
Foreign currency translation	**–**	**–**	**–**	**–**	**–**	**122**	**–**	**122**
Change in treasury stock	**–**	**–**	**–**	**–**	**–**	**–**	**40**	**40**
Balance at March 31, 2005	**202,479**	**¥15,995**	**¥13,377**	**¥41,857**	**¥10,841**	**¥(695)**	**¥(727)**	**¥80,648**

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, 2004	202,479	$148,941	$124,605	$325,590	$ 88,593	$(7,604)	$(7,144)	$672,981
Net income for the year ended March 31, 2005	**–**	**–**	**–**	**76,055**	**–**	**–**	**–**	**76,055**
Cash dividends	**–**	**–**	**–**	**(11,206)**	**–**	**–**	**–**	**(11,206)**
Bonuses to directors	**–**	**–**	**–**	**(670)**	**–**	**–**	**–**	**(670)**
Retirement of treasury stock	**–**	**–**	**(44)**	**–**	**–**	**–**	**–**	**(44)**
Unrealized gain on other securities	**–**	**–**	**–**	**–**	**12,355**	**–**	**–**	**12,355**
Foreign currency translation	**–**	**–**	**–**	**–**	**–**	**1,139**	**–**	**1,139**
Change in treasury stock	**–**	**–**	**–**	**–**	**–**	**–**	**377**	**377**
Balance at March 31, 2005	**202,479**	**$148,941**	**$124,561**	**$389,769**	**$100,948**	**$(6,465)**	**$(6,767)**	**$750,987**

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOF CORPORATION and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Cash Flows from Operating Activities:			
Net income before income tax and minority interest	¥ 8,270	¥ 14,380	$ 133,903
Adjustments for:			
Depreciation	4,983	5,338	49,707
Amortization of excess costs of investments over equity in net assets	221	45	423
Net change in accrued pension and severance cost	(152)	(2,495)	(23,237)
Interest and dividend income	(434)	(423)	(3,940)
Interest expenses	670	588	5,471
Equity in earnings of affiliates	(223)	(300)	(2,798)
Gain on sale of properties	(2,574)	(548)	(5,099)
Loss on evaluation of investments in securities	60	3	25
Loss on sale of investments in affiliated companies	1,159	–	–
Loss on sale of investments in securities, net	–	40	377
Gain on sale of investments in securities, net	(43)	(1,323)	(12,315)
Gain on settlement of coatings business	–	(3,773)	(35,135)
Increase in notes and accounts receivable	(1,987)	(716)	(6,665)
Increase in inventories	(995)	(788)	(7,337)
Increase in notes and accounts payable	801	9	79
Others, net	771	(64)	(596)
Sub total	10,527	9,973	92,863
Interest and dividends received	488	542	5,051
Interest paid	(700)	(594)	(5,532)
Income tax paid	(1,855)	(3,618)	(33,685)
Net cash provided by operating activities	8,460	6,303	58,697
Cash Flows from Investing Activities:			
Proceeds from sale and redemption of marketable securities	130	0	0
Payments for purchase of investments in securities	(185)	(446)	(4,150)
Proceeds from sale of investments in securities	225	13,105	122,029
Proceeds from sale of investments in affiliated securities	413	112	1,038
Payments for purchase of property, plant and equipment	(9,394)	(8,691)	(80,929)
Proceeds from sale of property, plant and equipment	4,360	651	6,057
Net increase in short-term loans receivable	1,284	642	5,977
Payment for long-term loans receivable	(4)	(134)	(1,244)
Proceeds from long-term loans receivable	483	3,110	28,962
Others, net	(121)	(1,325)	(12,335)
Net cash provided by (used in) investing activities	(2,809)	7,024	65,405
Cash Flows from Financing Activities:			
Net decrease in short-term bank loans	(3,653)	(8,619)	(80,254)
Borrowing of long-term debts	184	10,509	97,854
Repayments of long-term loans	(2,536)	(7,812)	(72,741)
Payment for redemption of bond	–	(9,000)	(83,807)
Proceeds from sales of treasury stock	–	36	333
Cash dividends paid	(1,211)	(1,200)	(11,179)
Cash dividends to minority shareholders'	(45)	(44)	(408)
Payments for purchase of treasury stock	(1,171)	–	–
Net cash used in financing activities	(8,432)	(16,130)	(150,202)
Effect of exchange rate change on cash and cash equivalents	(221)	264	2,461
Net decrease in cash and cash equivalents	(3,002)	(2,539)	(23,639)
Cash and cash equivalents at beginning of year	15,240	12,238	113,956
Cash and cash equivalents at end of year (Note 4)	¥ 12,238	¥ 9,699	$ 90,317

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 March 31, 2004 and 2005

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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting 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 33 subsidiaries (majority-owned companies) as of March 31, 2005 (36 for 2004). The consolidated financial statements include the accounts of the Company and 21 of its subsidiaries for the year ended March 31, 2005 (25 for 2004).

The remaining 12 (11 for 2004) 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 21 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
(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
Showa Kinzoku Kogyo Co., Ltd.	74.7
Nichiyu Solution Inc.	100.0
Nippo Kogyo Co., Ltd.	89.3
Nichiyu Logistics Co., Ltd.	100.0
Cactus Co., Ltd.	66.7
Yuka Sangyo Co., Ltd.	100.0
Nichiyu Kogyo Co., Ltd.	100.0

Name of Subsidiary	Percentage owned by the Company
(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 do Brazil Ind. E. Com. Ltda.	90.0
Dacral Manufacturing NV	100.0
NOF Europe (Belgium) NV	100.0
P.T. NOF Mas Chemical Industries	89.6

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 do Brazil Ind. E. Com. Ltda., Dacral Manufacturing NV, 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 the fiscal year and necessary adjustments have been made for any 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 period for amortization on a straight-line basis, where possible. The other differences are deferred and amortized over a 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 in 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 4 affiliates (5 for 2004).

The 4 affiliates accounted for by the equity method for the year ended March 31, 2005 are listed below:

Name of Subsidiary	Percentage owned by the Company
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

(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.

Available-for-sale 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.

Available-for-sale 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 exchange rates.

(6) Allowance for Bad Debts

The balance of allowance for bad debts 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. Depreciation of buildings (excluding attachments to buildings) is principally computed using 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) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 31, 2005.

The Company has not yet applied this new standard nor has it determined the effect of applying it on the Company's consolidated financial statements.

(10) Intangible Assets

Intangible assets are amortized using the straight-line method.

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

(11) Accrued Pension and Severance Cost

The 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 salary 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.

(12) 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., Japex Corporation, Nichiyu Solution Inc., Nippon Dacro Shamrock Co., Ltd. and Nichiyu Logistics Co., Ltd., provide retirement allowance for 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 were to retire the portion at the balance sheet dates.

The portion of accrued retirement benefits for directors and corporate auditors subject to incumbency before the termination of the pertinent system of retirement benefits on June 29, 2004 has been included in Accrued Retirement Benefits to Directors and Corporate Auditors for the year under review.

(13) 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.

(14) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' 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. Such payment therefore constitutes part of the aforementioned appropriations.

The Japanese Commercial Code provides that interim cash dividends may be distributed upon approval of the board of directors. The Company pays such interim dividends to the 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)
	2005	2005
Net income per share		
Net income	¥ 8,168	$ 76,055
Amount not available to shareholders	72	671
Earnings appropriated to directors' bonuses	(72)	(671)
Net income related to common stock	8,095	75,383
Average number of shares outstanding (1,000 shares)	200,582	200,582
Net income per share (fully diluted)		
Interest expenses (net of tax)	52	483
Others	2	24
Net income adjustment	54	507
Convertible bonds (1,000 shares)	13,768	13,768
Stock options (1,000 shares)	235	235
Increase in number of shares (1,000 shares)	14,003	14,003
Shares not included in fully diluted net income per share calculation due to lack of dilution effect (1,000 shares)	525	525

(18) Reclassification of Accounts

Certain prior year amounts have been reclassified to conform to the current year's presentation.

In the year ended March 31, 2005, the Company transferred the accounts of building and land amounting to ¥723 million and ¥503 million, respectively, to the account of Inventory due to a change in holding objectives.

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 ¥107.4=U.S.$1, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2005. 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 ¥107.4=U.S.$1 or at any other rate.

4. Supplementary Cash Flow Information

The relationship between cash and cash equivalents as of March 31, 2004 and 2005 and the account booked in the balance sheet is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Cash and time deposits	¥ 12,703	¥ 9,942	$92,578
Time deposits with maturity periods exceeding three months	(470)	(248)	(2,310)
Equity securities and bonds with maturity periods within three months	5	5	49
Cash and cash equivalents	¥ 12,238	¥ 9,699	$90,317

Assets and liabilities related to companies excluded from consolidation

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Current assets	¥ 791	¥ 1,967	$18,315
Non-current assets	736	55	517
Total assets	¥ 1,527	¥ 2,022	$18,832
Current liabilities	¥ 330	¥ 1,912	$17,807
Non-current liabilities	7	10	94
Total liabilities	¥ 337	¥ 1,922	$17,901

5. Marketable Securities and Investments in Securities

(1) The cost, book value and unrealized gains or losses for available-for-sale securities with fair value as of March 31, 2004 and 2005 were as follows:

	Millions of Yen		
	2004		
Description	Acquisition cost	Book value (Fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Shares	¥ 11,261	¥ 27,563	¥ 16,302
Bonds	532	542	10
Others	158	169	11
	¥ 11,951	¥ 28,274	¥ 16,323
Fair market value does not exceed acquisition cost			
Shares	¥ 1,297	¥ 1,113	¥ (184)
Bonds	31	28	(3)
Others	104	88	(16)
	1,432	1,229	(203)
Grand total	¥ 13,383	¥ 29,503	¥ 16,120

Description	Millions of Yen 2005 Acquisition cost	Book value (Fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Shares	¥ 11,260	¥ 29,706	¥ 18,446
Bonds	522	534	12
Others	15	18	3
	¥ 11,797	¥ 30,258	¥ 18,461
Fair market value does not exceed acquisition cost			
Shares	¥ 568	¥ 502	¥ (66)
Bonds	28	27	(1)
Others	120	103	(17)
	716	632	(84)
Grand total	¥ 12,513	¥ 30,890	¥ 18,377

Description	Thousands of U.S. Dollars (Note 3) 2005 Acquisition cost	Book value (Fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Shares	$104,847	$276,617	$171,770
Bonds	4,863	4,976	113
Others	141	169	28
	$109,851	$281,762	$171,911
Fair market value does not exceed acquisition cost			
Shares	$ 5,294	$ 4,668	$ (626)
Bonds	263	253	(10)
Others	1,114	961	(153)
	6,671	5,882	(789)
Grand total	$116,522	$287,644	$171,122

(2) Available-for-sale securities sold during the year ended March 31, 2004 and 2005 were as follows:

	Millions of Yen 2004	2005	Thousands of U.S. Dollars (Note 3) 2005
Proceeds from sale of available-for-sale securities	¥ 225	¥ 2,620	$24,393
Realized gain	56	1,322	12,315
Realized loss	12	40	377

(3) The book value of major securities without fair value as of March 31, 2004 and 2005 was as follows:

	Millions of Yen 2004	2005	Thousands of U.S. Dollars (Note 3) 2005
Unlisted stocks	¥ 667	¥ 703	$6,548
Preferred stocks	1,000	1,000	9,312
Preferred fund certificates	1,000	1,000	9,312
Money management funds	5	5	49
Fund certificates	10	22	209

(4) Schedule for redemption of available-for-sale securities with maturity as of March 31, 2005.

Millions of Yen	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Corporate bonds	¥ –	¥ –	¥ 508	¥ –
	–	–	508	–

Thousands of U.S. Dollars (Note 3)	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Corporate bonds	$ –	$ –	$4,728	$ –
	–	–	4,728	–

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. The weighted average interest rate was 0.67% at March 31, 2005.

Long-term debt as of March 31, 2004 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Loans, principally from banks and insurance companies, due fiscal 2005 to 2023 with interest rates ranging from 1.18% to 4.65%	¥ 20,636	¥ 23,316	$217,112
1.1% Yen convertible bonds due on March 31, 2006	7,999	7,999	74,486
1.65% Bonds due on September 22, 2004	5,000	–	–
1.61% Bonds due on September 22, 2004	4,000	–	–
Total	37,635	31,315	291,598
Less: Current maturities of:			
Long-term loans	7,270	166	1,543
Bonds	9,000	–	–
Convertible bonds	–	7,999	74,486
	¥ 21,365	¥ 23,150	$215,569

Aggregate annual maturities of long-term debt subsequent to March 31, 2005 is as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars (Note 3)
2007	¥ 9,692	$ 90,248
2008	10,815	100,702
2009	914	8,515
2010	314	2,928
2011 and thereafter	1,415	13,176
	¥ 23,150	$215,569

Additional information with respect to the Company's convertible bonds outstanding at March 31, 2005 was as follow:

	Principal amount at issue (Millions of Yen)	Issued in	Current conversion/exercise price per share (Yen)	Number of shares issuable upon full conversion/exercise (thousands)	Annual sinking fund requirements
			(subject to adjustment in certain circumstances)		(subject to amount reduction for subsequent conversions, repurchases and redemption)
1.1% Yen convertible bond due March 31, 2006	¥ 8,000	December 20, 1996	¥ 581	13,768	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) at March 31, 2005 was summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
Property, plant and equipment at book value	¥ 16,326	$152,024
	¥ 16,326	$152,024

7. Selling, General and Administrative Expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2004 and 2005 were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Delivery expenses	¥5,135	¥4,701	$43,776
Salaries and bonuses	8,577	7,925	73,796
Accrued pension and severance costs	1,075	887	8,257
Accrued retirement benefits to directors and corporate auditors	211	126	1,174
Research and development costs	4,514	4,774	44,451
Amortization of consolidated adjustment account	254	78	730

8. Research and Development Costs

The charges to income for the research and development activities of the Group for the year ended March 31, 2004 and 2005 were as follows:

Millions of Yen 2004		
Selling, general and administrative expenses	Cost of sales	Total
¥4,514	¥1,250	¥5,764

Millions of Yen 2005		
Selling, general and administrative expenses	Cost of sales	Total
¥4,774	¥827	¥5,601

Thousands of U.S. Dollars (Note 3) 2005		
Selling, general and administrative expenses	Cost of sales	Total
$44,451	$7,704	$52,155

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2004 and 2005 was 42.0% and 41.0%, respectively. At March 31, 2004 and 2005, significant components of deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Deferred tax assets:			
Accrued bonus	¥ 1,057	¥ 1,018	$ 9,479
Accrued retirement benefits	2,117	2,084	19,409
Unrealized earnings	2,331	267	2,485
Accrued enterprise tax	253	237	2,205
Tax loss carry forwards	356	–	–
Accrued retirement benefits to directors and corporate auditors	–	280	2,606
Valuation differences	833	760	7,078
Others	1,867	1,938	18,045
	8,814	6,584	61,307
Valuation allowance	(1,029)	(862)	(8,023)
Total deferred tax assets	7,785	5,722	53,284
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(6,601)	(7,519)	(70,014)
Reserve for advanced depreciation of property plant and equipment	(2,842)	(3,421)	(31,860)
Valuation differences	(2,011)	(2,313)	(21,540)
Gain on revaluation of assets trusted for retirement benefit	(838)	(838)	(7,805)
Others	(871)	(514)	(4,790)
Total deferred tax liabilities	(13,163)	(14,605)	(136,009)
Deferred income taxes, net	¥ (5,378)	¥ (8,883)	$ (82,725)

At March 31, 2004, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

	2004
Statutory tax rate	42.0%
Increase (decrease) in taxes resulting from	
Entertainment expenses	2.0
Tax deduction	(6.2)
Amortization of cost in excess of net assets acquired	1.1
Dividends received	4.6
Lower tax rates in foreign countries	(1.3)
Increase in valuation allowance	5.2
Others	0.6
Effective tax rate	48.0%

At March 31, 2005, as the difference between the statutory tax rate and the Group's effective income tax rate was not significant. As it was below 5%, no reconciliation between those rates was provided.

10. Accrued Pension and Severance Cost

The Company has a pension plan (funded and non-contributory) to cover the 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 March 31, 2004 and 2005 were analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
As of March 31,	2004	2005	2005
Projected benefit obligations	¥ (29,282)	**¥(19,251)**	**$(179,264)**
Plan assets	20,565	**16,363**	**152,371**
Unfunded projected benefit obligations	(8,717)	**(2,888)**	**(26,893)**
Unrecognized actuarial differences	6,621	**3,512**	**32,700**
Unrecognized prior service costs	(91)	**(315)**	**(2,929)**
Book value — net	(2,187)	**309**	**2,878**
Prepaid pension expenses	(2,923)	**(3,618)**	**(33,688)**
Accrued pension and severance costs	¥ (5,110)	**¥ (3,309)**	**$ (30,810)**

Notes: *1 A consolidated subsidiary recognized a gain on settlement of the governmental pension fund, amounting to ¥1,252 million (US$11,654 thousand).
*2 Some consolidated subsidiaries provide for retirement allowance by using expediency methods.
*3 A net pension expense of ¥1,145 million (US$10,658 thousand), which was realized on the change in employment due to the settlement of coatings business, and an additional payment of ¥141 million (US$1,312 thousand) incurred on retirement are deducted from gain on settlement of coatings business.

Net pension expenses related to the retirement benefits for the year ended March 31, 2004 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
For the year ended March 31,	2004	2005	2005
Service costs	¥ 1,534	**¥ 1,559**	**$14,517**
Interest costs	726	**681**	**6,344**
Expected return on plan assets	(447)	**(489)**	**(4,560)**
Amortization of actual differences	1,296	**887**	**8,262**
Amortization of prior service costs	(15)	**(40)**	**(371)**
Net pension expenses	¥ 3,094	**¥ 2,598**	**$24,192**

Notes: *1 Employees' contributions to the contributory pension plan (covering a portion of governmental pension) were deducted.
*2 The pension expenses of consolidated subsidiaries which applied the expediency method are included in "Service costs".

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

	2004	2005
Discount rate	2.5%	**2.5%**
Expected rate of return on plan assets	3.0%	**3.0%**
Method of attributing the projected benefits to periods of service	mainly point basis	**mainly point basis**
Amortization of unrecognized prior service costs	10 years	**10 years**
Amortization of unrecognized actual differences	10 years	**10 years**

11. Leases

The Group leases certain machinery and equipment and other assets. Total lease payments under these leases were ¥608 million and ¥546 million (US$5,081 thousand) for the years ended March 31, 2004 and 2005, 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, 2004 and 2005, is as follows:

	Millions of Yen		
	2004		
	Furniture and fixtures	Others	Total
Acquisition costs	¥ 2,427	¥ 505	¥ 2,932
Accumulated depreciation	1,072	285	1,357
Net leased assets	¥ 1,355	¥ 220	¥ 1,575

	Millions of Yen		
	2005		
	Furniture and fixtures	Others	Total
Acquisition costs	**¥ 2,124**	**¥ 529**	**¥ 2,653**
Accumulated depreciation	**1,144**	**349**	**1,493**
Net leased assets	**¥ 980**	**¥ 180**	**¥ 1,160**

	Thousands of U.S. Dollars (Note 3)		
	2005		
	Furniture and fixtures	Others	Total
Acquisition costs	**$19,776**	**$4,933**	**$24,709**
Accumulated depreciation	**10,654**	**3,255**	**13,909**
Net leased assets	**$ 9,122**	**$1,678**	**$10,800**

Future minimum lease payments under finance leases as of March 31, 2004 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	**2005**	**2005**
Due within one year	¥ 571	**¥ 492**	**$ 4,580**
Due over one year	1,004	**668**	**6,220**
Total	¥ 1,575	**¥ 1,160**	**$10,800**

The acquisition costs and future minimum lease payments under finance leases include the interest expense portion because the amount of accrued lease payments was immaterial to the balance of property, plant and equipment as of March 31, 2005.

The depreciation expense, which is not reflected in the accompanying consolidated statement of income, computed using the straight-line method, would have been ¥608 million and ¥546 million (US$5,081 thousand) for the years ended March 31, 2004 and 2005, respectively.

Obligations under non-cancelable operating leases as of March 31, 2004 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	**2005**	**2005**
Due within one year	¥ 64	**¥ 68**	**$ 629**
Due after one year	52	**143**	**1,329**
Total	¥ 116	**¥ 211**	**$1,958**

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 reserve equals 25% of stated capital. The 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 appropriate action by the directors or offset against deficit through appropriate shareholders' actions.

The Company's board of directors, with subsequent approval by the shareholders, has made annual appropriations of retained earnings for various purposes. Any disposal such appropriations shall be at the discretion of the board of directors and shareholders.

14. Contingent Liabilities

As of March 31, 2005, 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 endorsed	¥ 174	$1,620
As a guarantor of indebtedness of:		
Amagasaki Utility Services	481	4,475
Others	364	3,394
	¥ 1,019	$9,489

15. Subsequent Events

The appropriation of retained earnings including cash dividends in respect of the year ended March 31, 2005 was approved at the shareholders' meeting held on June 29, 2005 as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
Appropriations:		
Cash dividends (¥5.0 per share)	¥ 1,003	$9,340
Directors' bonuses	30	279
	¥ 1,033	$9,619

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, 2004 and 2005 is as follows:

	Millions of Yen						
	2004						
	Oleochemicals & Foods	Chemicals	Explosives & Propulsion	Others	Total	Elimination/ Corporate	Consolidated
Sales							
Sales to customers	¥ 52,327	¥ 48,237	¥ 35,090	¥ 1,824	¥ 137,478	¥ –	¥ 137,478
Inter-segment	398	1,172	266	3,326	5,162	(5,162)	–
Total	52,725	49,409	35,356	5,150	142,640	(5,162)	137,478
Operating expenses	51,295	44,891	33,787	5,072	135,045	(5,166)	129,879
Operating income	¥ 1,430	¥ 4,518	¥ 1,569	¥ 78	¥ 7,595	¥ 4	¥ 7,599
Assets	¥ 42,338	¥ 42,996	¥ 49,651	¥ 15,050	¥ 150,035	¥ 40,124	¥ 190,159
Depreciation	1,116	2,190	1,624	53	4,983	–	4,983
Capital expenditure	4,869	3,690	1,260	41	9,860	–	9,860

	Millions of Yen						
	2005						
	Oleochemicals & Foods	Chemicals	Explosives & Propulsion	Others	Total	Elimination/ Corporate	Consolidated
Sales							
Sales to customers	**¥ 54,843**	**¥ 46,315**	**¥ 30,785**	**¥ 1,740**	**¥ 133,683**	**¥ –**	**¥ 133,683**
Inter-segment	**17**	**1,222**	**29**	**4,669**	**5,937**	**(5,937)**	**–**
Total	**54,860**	**47,537**	**30,814**	**6,409**	**139,620**	**(5,937)**	**133,683**
Operating expenses	**53,849**	**42,207**	**29,066**	**6,189**	**131,311**	**(5,933)**	**125,378**
Operating income/(loss)	**¥ 1,011**	**¥ 5,330**	**¥ 1,748**	**¥ 220**	**¥ 8,309**	**¥ (4)**	**¥ 8,305**
Assets	**¥ 43,093**	**¥ 46,029**	**¥ 48,173**	**¥ 3,330**	**¥ 140,625**	**¥ 37,582**	**¥ 178,207**
Depreciation	**1,688**	**2,104**	**1,509**	**37**	**5,338**	**–**	**5,338**
Capital expenditure	**2,209**	**2,411**	**792**	**34**	**5,446**	**–**	**5,446**

	Thousands of U.S. Dollars (Note 3)						
	2005						
	Oleochemicals & Foods	Chemicals	Explosives & Propulsion	Others	Total	Elimination/ Corporate	Consolidated
Sales							
Sales to customers	**$510,691**	**$431,273**	**$286,665**	**$16,205**	**$1,244,834**	**$ –**	**$1,244,834**
Inter-segment	**161**	**11,378**	**273**	**43,475**	**55,287**	**(55,287)**	**–**
Total	**510,852**	**442,651**	**286,938**	**59,680**	**1,300,121**	**(55,287)**	**1,244,834**
Operating expenses	**501,434**	**393,024**	**270,658**	**57,634**	**1,222,750**	**(55,253)**	**1,167,497**
Operating income/(loss)	**$ 9,418**	**$ 49,627**	**$ 16,280**	**$ 2,046**	**$ 77,371**	**$ (34)**	**$ 77,337**
Assets	**$401,279**	**$428,617**	**$448,578**	**$31,008**	**$1,309,481**	**$349,955**	**$1,659,436**
Depreciation	**15,721**	**19,592**	**14,048**	**345**	**49,707**	**–**	**49,707**
Capital expenditure	**20,572**	**22,447**	**7,373**	**316**	**50,709**	**–**	**50,709**

The amounts of assets included in the column "Elimination/ Corporate" are ¥42,065 million and ¥39,287 million (US$365,840 thousand) for the years ended March 31, 2004 and 2005, respectively, which include the 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 the years ended March 31, 2004 and 2005 is as follows:

	Millions of Yen				
	2004				
	Japan	Others (Note 1)	Total	Elimination/ Corporate	Consolidated
Sales					
Sales to customers	¥ 125,915	¥ 11,563	¥ 137,478	¥ –	¥ 137,478
Inter-segment	1,308	154	1,462	(1,462)	–
Total	127,223	11,717	138,940	(1,462)	137,478
Operating expenses	120,631	10,717	131,348	(1,469)	129,879
Operating income	¥ 6,592	¥ 1,000	¥ 7,592	¥ 7	¥ 7,599
Assets	¥ 145,288	¥ 7,433	¥ 152,721	¥ 37,438	¥ 190,159

	Millions of Yen				
	2005				
	Japan	Others (Note 1)	Total	Elimination/ Corporate	Consolidated
Sales					
Sales to customers	**¥ 124,410**	**¥ 9,273**	**¥ 133,683**	**¥ –**	**¥ 133,683**
Inter-segment	**1,420**	**198**	**1,618**	**(1,618)**	**–**
Total	**125,830**	**9,471**	**135,301**	**(1,618)**	**133,683**
Operating expenses	**118,633**	**8,386**	**127,019**	**(1,641)**	**125,378**
Operating income	**¥ 7,197**	**¥ 1,085**	**¥ 8,282**	**¥ 23**	**¥ 8,305**
Assets	**¥ 136,567**	**¥ 7,141**	**¥ 143,708**	**¥ 34,499**	**¥ 178,207**

	Thousands of U.S. Dollars (Note 3)				
	2005				
	Japan	Others (Note 1)	Total	Elimination/ Corporate	Consolidated
Sales					
Sales to customers	**$1,158,489**	**$86,345**	**$1,244,834**	**$ –**	**$1,244,834**
Inter-segment	**13,225**	**1,844**	**15,069**	**(15,069)**	**–**
Total	**1,171,714**	**88,189**	**1,259,903**	**(15,069)**	**1,244,834**
Operating expenses	**1,104,694**	**78,086**	**1,182,780**	**(15,283)**	**1,167,497**
Operating income	**$ 67,020**	**$10,103**	**$ 77,123**	**$ 214**	**$ 77,337**
Assets	**$1,271,693**	**$66,497**	**$1,338,190**	**$321,246**	**$1,659,436**

The amount of assets included in the column "Elimination/ Corporate" are ¥42,065 million and ¥39,287 million (US$365,840 thousand) for the years ended March 31, 2004 and 2005, respectively, which include the surplus working fund (cash and securities), the long-term investment fund (investment in securities) and deferred tax assets.

(Note 1)
Others represents .... North America, Europe, and Asia

(3) Sales to Foreign Customers

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Overseas sales (Note 1)	¥ 21,447	¥ 19,421	$ 19,421
Consolidated sales	137,478	133,683	133,683
Ratio	15.60%	14.53%	

(Note 1)
Overseas sales represents .... North America, Europe and Asia

17. Related Party Transactions

Material transactions of the Company with 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, 2004 and 2005 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	Description of the Company's transactions	2005	2004	Account	2005	2004
BASF NOF Coatings Co., Ltd.	Yokohama City, Kanagawa Pref.	¥10 billion	Manufacture, sale, research and development of coatings products	–	–	None	–	–	–	Short and long-term loans	–	¥ 3,644 ($34,476)

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
NOF CORPORATION

We have audited the accompanying consolidated balance sheets of NOF CORPORATION and its subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated financial position of NOF CORPORATION and its subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 29, 2005

ChuoAoyama PricewaterhouseCoopers

CORPORATE INFORMATION

BOARD OF DIRECTORS AND STATUTORY AUDITORS

(as of June 2005)

EXECUTIVE CHAIRMAN

Masayasu Uno

PRESIDENT & CHIEF EXECUTIVE OFFICER

Youhei Nakajima

DIRECTOR & SENIOR EXECUTIVE OPERATING OFFICER

Eiju Ishida

DIRECTORS & EXECUTIVE OPERATING OFFICERS

Hiroo Ohi

Hirokazu Ohike

Shigeo Suzuki

Katsuhide Hattori

DIRECTOR & OPERATING OFFICER

Shigeyasu Togo

STATUTORY AUDITORS

Shoichi Kobayashi

Ritsuo Koakutsu

Hajime Hayasaka

Shingo Yamazaki

CORPORATE DATA

(as of March 31, 2005)

FOUNDED:

June 1, 1937

INCORPORATED:

July 1, 1949

EMPLOYEES:

3,437

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.

Meiji Yasuda Life Insurance Company

Nippon Mining Holdings, Inc.

Mizuho Trust & Banking Co., Ltd.

Nichiyu Shineikai

Nichiyu Kyoeikai

NOF Investment Association

NOF CORPORATION

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