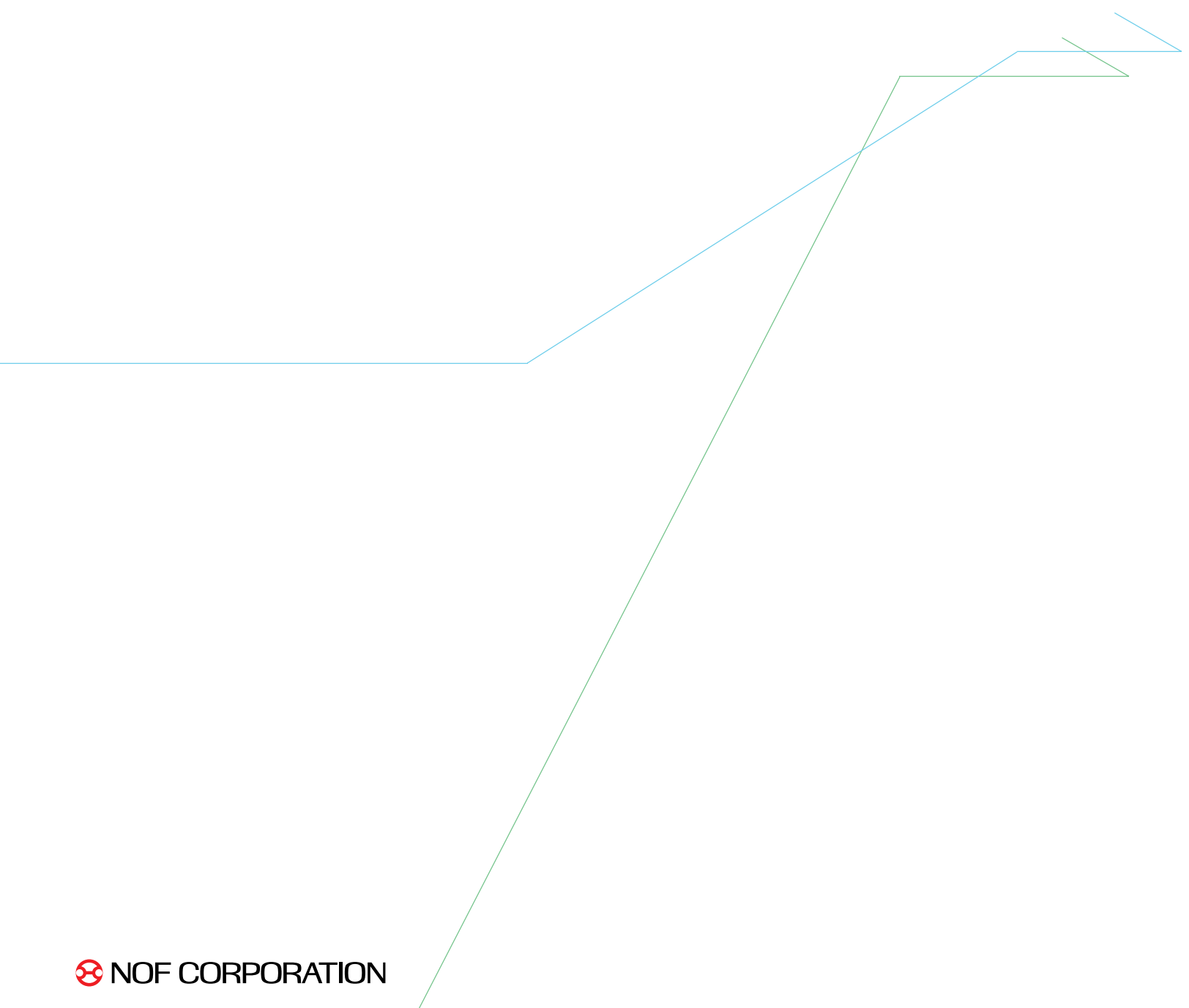


Financial Statements 2004

For the year ended March 31, 2004

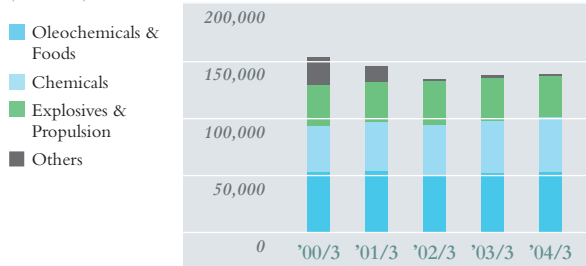


MAJOR FINANCIAL INDICATORS

NOF CORPORATION and Consolidated Subsidiaries
For the years ended March 31

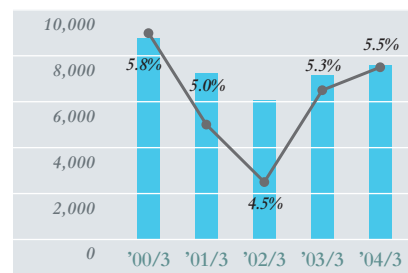
Net sales by segment

(¥ Millions)



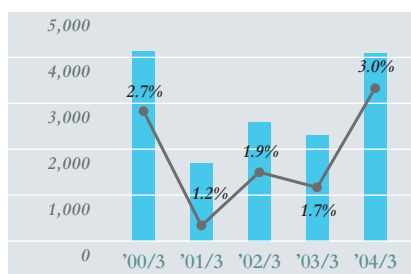
Operating income/Operating income to net sales

Operating income (¥ Millions)
Operating income to net sales (%)



Net income/Net income to net sales

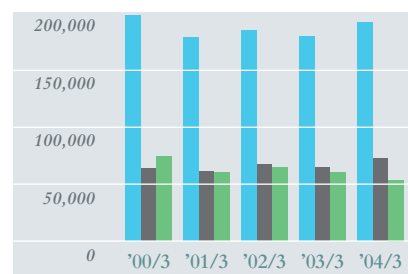
Net income (¥ Millions)
Net income to net sales (%)



Assets

(¥ Millions)

Total assets
Shareholders' equity
Interest-bearing debt



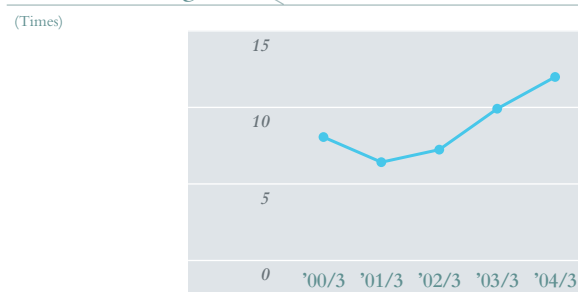
¥ Millions

	2000/3	2001/3	2002/3	2003/3	2004/3
Net sales by segment (total)	¥ 152,407	¥ 144,764	¥ 133,776	¥ 136,309	¥ 137,478
Oleochemicals & Foods	52,639	53,136	49,860	52,037	52,326
Chemicals	39,312	43,114	43,794	44,935	48,236
Explosives & Propulsion	36,119	34,750	38,166	37,555	35,090
Others	24,337	13,763	1,955	1,781	1,824
Operating income	8,766	7,256	6,071	7,150	7,599
Operating income to net sales (%)	5.8	5.0	4.5	5.3	5.5
Net income	4,132	1,695	2,592	2,309	4,083
Net income to net sales (%)	2.7	1.2	1.9	1.7	3.0
Total assets	196,393	177,164	183,391	177,833	190,159
Shareholders' equity	63,319	60,252	66,954	63,907	72,271
Interest-bearing debt	73,999	59,597	63,794	59,557	53,156

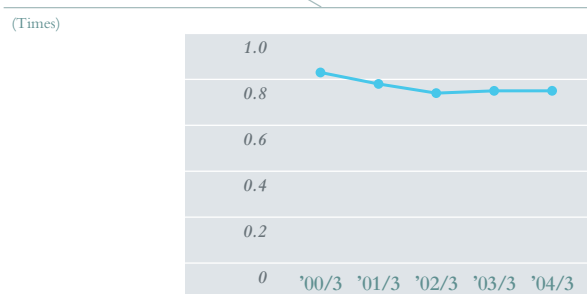
Return on assets/Return on equity



Interest coverage



Total assets turnover



R&D expense/R&D expense to net sales



	2000/3	2001/3	2002/3	2003/3	2004/3
Return on assets (%)	2.2	0.9	1.4	1.3	2.2
Return on equity (%)	6.7	2.7	4.1	3.5	5.9
Interest coverage (times)	8.06	6.42	7.24	9.91	11.99
Total assets turnover (times)	0.83	0.78	0.74	0.75	0.75
R&D expense (¥ billions)	5.9	5.7	5.4	5.7	5.8
R&D expense to net sales (%)	3.9	4.0	4.0	4.2	4.2

Notes: Return on assets=Net income/Total assets (Yearly average)×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, 2003 and 2004

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Current Assets:			
Cash and time deposits	¥ 15,700	¥ 12,703	\$ 120,192
Notes and accounts receivable	32,852	34,335	324,861
Less: Allowance for bad debts	(192)	(57)	(537)
	32,660	34,278	324,324
Inventories	19,232	19,804	187,375
Deferred tax assets (Note 9)	1,909	2,366	22,387
Other current assets (Note 5)	4,650	5,871	55,554
Total current assets	74,151	75,022	709,832
Investments and Advances:			
Investments in securities (Note 5)	30,269	42,113	398,457
Other long-term investments	7,822	7,084	67,025
	38,091	49,197	465,482
Property, Plant and Equipment:			
Buildings and structures	52,262	49,775	470,950
Machinery and equipment	76,918	76,322	722,132
Others	12,079	12,098	114,470
	141,259	138,195	1,307,552
Less: Accumulated depreciation	(104,906)	(105,336)	(996,652)
	36,353	32,859	310,900
Land	21,100	20,693	195,789
Construction in progress	3,449	8,636	81,713
	60,902	62,188	588,402
Deferred tax assets (Note 9)	3,126	2,554	24,161
Deferred charges and other assets	1,563	1,198	11,342
Total assets	¥ 177,833	¥ 190,159	\$ 1,799,219

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Current Liabilities:			
Short-term bank loans (Note 6)	¥ 19,451	¥ 15,523	\$ 146,872
Current portion of long-term debt (Note 6)	2,515	16,270	153,936
Notes and accounts payable	22,850	23,375	221,161
Accrued expenses	6,249	8,344	78,945
Income taxes payable (Note 9)	881	2,265	21,435
Advance received	2,773	3,263	30,878
Other current liabilities (Note 9)	6,906	7,107	67,245
Total current liabilities	61,625	76,147	720,472
Long-term debt (Note 6)	37,592	21,365	202,149
Deferred tax liabilities (Note 9)	4,920	10,219	96,691
Accrued pension and severance cost (Note 10)	4,862	5,110	48,345
Accrued retirement benefits to directors and corporate auditors	616	649	6,143
Other long-term liabilities	1,090	1,039	9,827
Total liabilities	110,705	114,529	1,083,627
Minority Interest	3,221	3,359	31,787
Contingent Liabilities (Note 14)			
Shareholders' Equity (Note 13):			
Common stock:			
Authorized: 786,403,000 shares and 783,828,000 shares at March 31, 2003 and 2004 respectively			
Issued: 205,053,651 shares and 202,478,651 shares at March 31, 2003 and 2004, respectively	15,995	15,995	151,337
Capital surplus	13,372	13,381	126,609
Retained earnings	33,224	34,965	330,827
Unrealized gain on other securities	2,709	9,514	90,017
Foreign currency translation adjustments	(745)	(817)	(7,726)
Treasury stock	(648)	(767)	(7,259)
Total shareholders' equity	63,907	72,271	683,805
Total liabilities and shareholders' equity	¥ 177,833	¥ 190,159	\$ 1,799,219

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, 2003 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Net Sales	¥ 136,309	¥ 137,478	\$1,300,770
Cost of sales (Note 8)	100,316	101,009	955,718
Gross profit	35,993	36,469	345,052
Selling, general and administrative expenses (Notes 7 and 8)	28,843	28,870	273,152
Operating income	7,150	7,599	71,900
Other Income (Expenses):			
Interest and dividend income	416	434	4,104
Interest expenses	(764)	(670)	(6,343)
Gain on sale/disposal of properties	37	2,365	22,381
Loss on disposal of obsolete inventory items	(144)	(183)	(1,727)
Gain on sales of investments in securities	1,705	44	413
Loss on write-down of marketable securities and investment securities	(4,390)	(61)	(571)
Equity in earnings of affiliates	351	223	2,109
Gain on sale of coatings business	772	—	—
Expense for compensation	(202)	—	—
Loss on sale of investments in affiliated companies	—	(1,159)	(10,968)
Others, net	(477)	(322)	(3,047)
	(2,696)	671	6,351
Income before income taxes and minority interest	4,454	8,270	78,251
Income Taxes (Note 9)			
Current	1,897	3,306	31,275
Deferred	108	660	6,248
	2,005	3,966	37,523
Minority interests in earnings of consolidated subsidiaries	(140)	(221)	(2,092)
Net income	¥ 2,309	¥ 4,083	\$ 38,636
		Yen	U.S. Dollars (Note 3)
Per Share:			
Net income — primary	10.9	19.9	0.19
Net income — fully diluted	10.5	18.8	0.18
Cash dividends applicable to the year	6.0	6.0	0.06
		(thousands)	
Weighted average number of shares	205,026	201,708	

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, 2003 and 2004

	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, 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
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

	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, 2003	205,054	\$151,337	\$126,523	\$314,357	\$25,627	\$(7,048)	\$(6,129)	\$604,667
Net income for the year ended								
March 31, 2004	—	—	—	38,636	—	—	—	38,636
Cash dividends	—	—	—	(11,455)	—	—	—	(11,455)
Bonuses to directors	—	—	—	(675)	—	—	—	(675)
Retirement of treasury stock	(2,575)	—	—	(10,036)	—	—	—	(10,036)
Unrealized gain on other securities . . .	—	—	—	—	64,390	—	—	64,390
Adoption of new accounting standards	—	—	86	—	—	—	—	86
Foreign currency translation	—	—	—	—	—	(678)	—	(678)
Change in treasury stock	—	—	—	—	—	—	(1,130)	(1,130)
Balance at March 31, 2004	202,479	\$151,337	\$126,609	\$330,827	\$90,017	\$(7,726)	\$(7,259)	\$683,805

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, 2003 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Cash Flows From Operating Activities:			
Net income before income tax and minority interest	¥ 4,454	¥ 8,270	\$ 78,251
Adjustments for:			
Depreciation	5,301	4,983	47,144
Amortization of excess costs of investments over equity in net assets	229	221	2,093
Net change in accrued pension and severance cost	(1,354)	(152)	(1,443)
Interest and dividend income	(416)	(434)	(4,104)
Interest expenses	764	670	6,343
Equity in earnings of affiliates	(351)	(223)	(2,109)
Gain on sale of properties	(170)	(2,574)	(24,354)
Loss on evaluation of investments in securities	4,390	60	571
Loss on sale of investments in affiliated companies	—	1,159	10,968
Gain on sale of investments in securities, net	(1,703)	(43)	(413)
Increase in notes and accounts receivable	(1,331)	(1,987)	(18,803)
(Increase) decrease in inventories	304	(995)	(9,418)
Increase in notes and accounts payable	1,990	801	7,581
Gain on sale of coatings business	(772)	—	—
Others, net	1,630	771	7,297
Subtotal	12,965	10,527	99,604
Interest and dividends received	431	488	4,618
Interest paid	(733)	(700)	(6,628)
Income tax paid	(1,916)	(1,855)	(17,551)
Net cash provided by operating activities	10,747	8,460	80,043
Cash Flows From Investing Activities:			
Payments for purchases of marketable securities	(30)	0	0
Proceeds from sales of redemption of marketable securities	588	130	1,230
Payments for purchases of investments in securities	(3,197)	(185)	(1,751)
Proceeds from sales of investments in securities	3,561	225	2,135
Proceeds from sales of investments in affiliated securities (Note 4)	—	413	3,905
Payments for purchases of property, plant and equipment	(5,848)	(9,394)	(88,884)
Proceeds from sales of property, plant and equipment	389	4,360	41,251
Net increase (decrease) in short-term loans receivable	(32)	1,284	12,146
Payment for long-term loans receivable	(92)	(4)	(39)
Proceeds from long-term loans receivable	81	483	4,574
Proceeds from sale of business (Note 4)	1,548	—	—
Others, net	480	(121)	(1,141)
Net cash used in investing activities	(2,552)	(2,809)	(26,574)
Cash Flows From Financing Activities:			
Net increase (decrease) in short-term bank loans	2,170	(3,653)	(34,562)
Borrowing of long-term debt	3,209	184	1,741
Repayments of long-term loans	(1,698)	(2,536)	(23,992)
Cash dividends paid	(1,235)	(1,211)	(11,456)
Cash dividends to minority shareholders	(46)	(45)	(433)
Payments for redemption of debenture	(7,646)	—	—
Payments for purchase of treasury stock	(1,342)	(1,171)	(11,080)
Net cash used in financing activities	(6,588)	(8,432)	(79,782)
Effect of exchange rate change on cash and cash equivalents	(105)	(221)	(2,092)
Net increase (decrease) in cash and cash equivalents	1,502	(3,002)	(28,405)
Cash and cash equivalents at beginning of year	13,726	15,240	144,194
Increase in cash and cash equivalents due to consolidation of subsidiaries	62	—	—
Decrease in cash and cash equivalents due to exclusion of subsidiaries	(50)	—	—
Cash and cash equivalents at end of year (Note 4)	¥ 15,240	¥ 12,238	\$ 115,789

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, 2003 and 2004

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 Japanese 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 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 36 subsidiaries (majority-owned companies) as of March 31, 2004 (37 for 2003). The consolidated financial statements include the accounts of the Company and 25 of its subsidiaries for the year ended March 31, 2004 (27 for 2003).

The remaining 11 (10 for 2003) 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 25 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 subsidiary)	
Nippon Koki Co., Ltd.	95.0%
Nichiyu Giken Kogyo Co., Ltd.	66.7
Nippon Dacro Shamrock Co., Ltd.	100.0
Hokkaido NOF Corporation	100.0
Nichiyu Trading Co., Ltd.	100.0
Japex Corporation	70.0
Taseto Co., Ltd.	100.0
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
Nichiyu Kogyo Co., Ltd.	100.0
Nichibu Sangyo Co., Ltd.	100.0
Nichiyu Estate Co., Ltd.	100.0

Name of Subsidiary	Percentage owned by the Company
(Overseas subsidiary)	
Metal Coatings International Inc.	100.0%
Michigan Metal Coatings Co.	100.0
Georgia Metal Coatings Co.	100.0
Dacral S.A.	100.0
Metal Coatings Brazil Ind. E. Com. Ltda.	90.0
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 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 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 a 5-year period on a straight-line basis.

(3) Cash and Cash Equivalents

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

(4) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The equity method is applied to investments in 5 affiliates (5 for 2003).

The 5 affiliates accounted for by the equity method for the year ended March 31, 2004 are listed below:

Name of Subsidiary	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.

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, 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 which are prescribed. Depreciation of buildings (excluding attachments to buildings) is principally computed by the straight-line method, based on the estimated useful lives of assets. The range of useful lives is principally from 7 to 50 years for buildings and structures and from 6 to 12 years for machinery, equipment, furniture and tools.

(9) 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 30, 2005.

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

(10) 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.

(11) 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 a period of 10 years from the next year in which they arise.

Past service liabilities are amortized on a straight-line basis over a 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., Taseto Co., Ltd., Nichibu Sangyo Co., Ltd., Japex Corporation, Nichiyu Solution Inc. 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.

(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) 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.

(15) 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.

(16) 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".

(17) 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.

(18) 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)
	2004	2004
Net income per share		
Net income	¥ 4,083	\$ 38,636
Amount not available to shareholders . .	76	726
Earnings appropriated to directors bonuses	(76)	(726)
Net income related to common stock . . .	4,007	37,910
Average number of shares outstanding (1,000 shares)	201,708	201,708
Net income per share (fully diluted)		
Interest expenses (net of tax)	51	491
Others	3	24
Net income adjustment	54	515
Convertible bonds (1,000 shares)	13,768	13,768
Stock options (1,000 shares)	527	527
Increase in number of shares (1,000 shares)	14,295	14,295
Shares not included in fully diluted net income per share calculation due to lack of dilution effect (1,000 shares)	525	525

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 common 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 ¥105.7=U.S.\$1, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2004. 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 ¥105.69=U.S.\$1 or at any other rate.

4. Supplementary Cash Flow Information

Relation between cash and cash equivalents as of March 31, 2003 and 2004 and the account booked in the balance sheet were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Cash and time deposits	¥ 15,700	¥ 12,703	\$ 120,192
Time deposits with maturity periods exceeding three months	(465)	(470)	(4,453)
Equity securities and debentures with maturity periods within three months	5	5	50
Cash and cash equivalents	¥ 15,240	¥ 12,238	\$ 115,789

Assets transferred were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Current assets	¥ 393	¥ -	\$ -
Non-current assets	4	-	-
Total assets	¥ 397	¥ -	\$ -

Assets and liabilities related to companies excluded from consolidation

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Current assets	¥ -	¥ 791	\$ 7,379
Non-current assets	-	736	6,875
Total assets	¥ -	¥ 1,527	\$ 14,254
Current liabilities	¥ -	¥ 330	\$ 3,079
Non-current liabilities	-	7	66
Total liabilities	¥ -	¥ 337	\$ 3,145

5. Marketable Securities and Investments in Securities

(1) Held-to-maturity debt securities with market quotations

At March 31, 2003 and 2004, the carrying amount and aggregate fair value of the securities classified as held-to-maturity debt securities for which market quotations were available were as follows:

Description	Millions of Yen		
	Book value	Fair market value	Unrealized gain or loss
Fair market value exceeds book value			
Government and municipal bonds	¥ -	¥ -	¥ -
Corporate bonds	-	-	-
Others	-	-	-
	-	-	-
Fair market value does not exceed book value			
Government and municipal bonds	¥ -	¥ -	¥ -
Corporate bonds	100	97	(3)
Others	-	-	-
	100	97	(3)
Grand total	¥ 100	¥ 97	¥ (3)

Description	Millions of Yen		
	2004		
	Book value	Fair market value	Unrealized gain or loss
Fair market value exceeds book value			
Government and municipal bonds	¥ -	¥ -	¥ -
Corporate bonds	-	-	-
Others	-	-	-
	-	-	-
Fair market value does not exceed book value			
Government and municipal bonds	¥ -	¥ -	¥ -
Corporate bonds	-	-	-
Others	-	-	-
	-	-	-
Grand total	¥ -	¥ -	¥ -

Description	Thousands of U.S. Dollars (Note 3)		
	2004		
	Book value	Fair market value	Unrealized gain or loss
Fair market value exceeds book value			
Government and municipal bonds	\$ -	\$ -	\$ -
Corporate bonds	-	-	-
Others	-	-	-
	-	-	-
Fair market value does not exceed book value			
Government and municipal bonds	\$ -	\$ -	\$ -
Corporate bonds	-	-	-
Others	-	-	-
	-	-	-
Grand total	\$ -	\$ -	\$ -

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

Description	Millions of Yen		
	2003		
	Acquisition cost	Book value (Fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Shares	¥ 9,682	¥ 15,078	¥ 5,396
Bonds	10	10	0
Others	88	90	2
	¥ 9,780	¥ 15,178	¥ 5,398
Fair market value does not exceed acquisition cost			
Shares	¥ 2,946	¥ 2,212	¥ (734)
Bonds	500	492	(8)
Others	260	193	(67)
	3,706	2,897	(809)
Grand total	¥ 13,486	¥ 18,075	¥ 4,589

Description	Millions of Yen		
	2004		
	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	Thousands of U.S. Dollars (Note 3)		
	2004		
	Acquisition cost	Book value (Fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Shares	\$106,547	\$260,789	\$154,242
Bonds	5,040	5,137	97
Others	1,493	1,599	106
	<u>\$113,080</u>	<u>\$267,525</u>	<u>\$154,445</u>
Fair market value does not exceed acquisition cost			
Shares	\$ 12,270	\$ 10,534	\$ (1,736)
Bonds	292	261	(31)
Others	986		
	<u>13,548</u>	<u>11,629</u>	<u>(1,919)</u>
Grand total	<u>\$126,628</u>	<u>\$279,154</u>	<u>\$152,526</u>

(3) Available-for-sale securities sold during the years ended March 31, 2003 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Proceeds from sale of available-for-sale securities . . .	¥ 3,458	¥ 225	\$2,130
Realized gain	1,773	56	529
Realized loss	27	12	116

(4) Book value of major securities without fair value as of March 31, 2003 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Unlisted stocks	¥ 758	¥ 667	\$6,309
Preferred stocks	1,000	1,000	9,462
Preferred fund certificate	1,000	1,000	9,462
Money management fund	5	5	50
Fund certificate	28	10	97

(5) Schedule for redemption of available-for-sale securities with maturity and held-to-maturity debt securities as of March 31, 2004.

	Millions of yen			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Government and municipal				
bonds	¥10	¥ -	¥ -	¥ -
Corporate bonds	-	-	508	52
Others	-	-	-	-
	<u>¥10</u>	<u>¥ -</u>	<u>¥ 508</u>	<u>¥ 52</u>
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	\$95	\$ -	\$ -	\$ -
Corporate bonds	-	-	4,807	496
Others	-	-	-	-
	<u>\$95</u>	<u>\$ -</u>	<u>\$4,807</u>	<u>\$496</u>

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 0.57% at March 2004.

Long-term debt as of March 31, 2003 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Loans, principally from banks and insurance companies, due fiscal 2005 to 2022 with interest rates ranging from 1.18% to 4.65%	¥ 23,108	¥ 20,636	\$195,247
1.1% Yen convertible mortgage debentures due 2006	7,999	7,999	75,684
1.65% Bonds due on September 22, 2004	5,000	5,000	47,308
1.61% Bonds due on September 22, 2004	4,000	4,000	37,846
Total	<u>40,107</u>	<u>37,635</u>	<u>356,085</u>
Less: Current maturities of:			
Long-term loans	2,515	7,270	68,781
Bonds	-	9,000	85,155
	<u>¥ 37,592</u>	<u>¥ 21,365</u>	<u>\$202,149</u>

Long-term loans (excluding current maturities) from financial institutions bear interest at an annual average rate of 1.43% as of March 31, 2004.

Aggregate annual maturities of long-term debt subsequent to March 31, 2004 are as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars (Note 3)
2006	¥ 8,524	\$ 80,650
2007	9,696	91,742
2008	3,127	29,593
2009	3	25
2010 and thereafter	15	139
	<u>¥ 21,365</u>	<u>\$ 202,149</u>

Additional information with respect to the Company's convertible mortgage debentures and convertible debentures outstanding at March 31, 2004 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 at March 31, 2006	December 20, 1996	¥ 581	13,768	None
		¥ 8,000		

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, 2004 are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
Marketable securities	¥ 1,095	\$ 10,357
Property, plant and equipment at book value	14,979	141,722
	<u>¥ 16,074</u>	<u>\$ 152,079</u>

7. Selling, General and Administrative Expenses

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Delivery expenses	¥ 4,755	¥ 5,135	\$ 48,585
Salaries and bonuses	9,024	8,577	81,153
Accrued pension and severance cost	852	1,075	10,174
Accrued retirement benefits to directors and corporate auditors	158	211	1,998
Research and development cost	4,402	4,514	42,710
Amortization of consolidated adjustment account	262	254	2,407

8. Research and Development Costs

The charges to income for research and development activities of the Group for the year ended March 31, 2003 and 2004 were as follows:

Millions of Yen		
2003		
Selling, general and administrative expenses	Cost of sales	Total
¥ 4,402	¥ 1,309	¥ 5,711
Millions of Yen		
2004		
Selling, general and administrative expenses	Cost of sales	Total
¥ 4,514	¥ 1,250	¥ 5,764
Thousands of U.S. Dollars (Note 3)		
2004		
Selling, general and administrative expenses	Cost of sales	Total
\$42,710	\$11,829	\$54,539

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2003 and 2004 was 42.0%. At March 31, 2003 and 2004, significant components of deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Deferred tax assets:			
Accrued bonus	¥ 846	¥ 1,057	\$ 10,001
Accrued retirement benefits	1,990	2,117	20,027
Unrealized earnings	2,427	2,331	22,058
Accrued enterprise tax	100	253	2,392
Tax loss carry forward	361	356	3,367
Valuation differences	909	833	7,886
Others	2,034	1,867	17,667
	8,667	8,814	83,398
Valuation allowance	(604)	(1,029)	(9,737)
Total deferred tax assets	8,063	7,785	73,661
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(1,910)	(6,601)	(62,458)
Reserve for advanced depreciation of lost of property plant and equipment	(2,943)	(2,842)	(26,888)
Valuation differences	(2,013)	(2,011)	(19,029)
Gain on revaluation of assets trusted for retirement benefit	(838)	(838)	(7,931)
Others	(257)	(871)	(8,238)
Total deferred tax liabilities	(7,961)	(13,163)	(124,544)
Deferred income taxes, net	¥ 102	¥ (5,378)	\$ (50,883)

At March 31, 2003 and 2004, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

	2003	2004
Statutory tax rate	42.0 %	42.0 %
Increase (decrease) in taxes resulting from		
Entertainment expense	3.2	2.0
Tax deduction	—	(6.2)
Amortization of cost in excess of net assets acquired	2.2	1.1
Equity income	(1.7)	—
Dividends received	—	4.6
Lower tax rates in foreign countries	—	(1.3)
Increase in valuation allowance	—	5.2
Loss on revaluation of investments in subsidiaries	(1.2)	—
Others	0.5	0.6
Effective tax rate	45.0 %	48.0 %

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 costs as of March 31, 2003 and 2004 were analyzed as follows:

As of March 31,	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Projected benefit obligations	¥(30,830)	¥(29,282)	\$(277,056)
Plan assets	16,592	20,565	194,583
Unfunded projected benefit obligations	(14,238)	(8,717)	(82,473)
Unrecognized actuarial differences	12,005	6,621	62,650
Unrecognized prior service cost	(106)	(91)	(863)
Book value — net	(2,339)	(2,187)	(20,686)
Prepaid pension expenses	(2,523)	(2,923)	(27,659)
Accrued pension and severance cost	¥ (4,862)	¥ (5,110)	\$ (48,345)

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

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

Net pension expenses related to the retirement benefits for the year ended March 31, 2003 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
For the year ended March 31,			
Service cost	¥ 1,295	¥ 1,534	\$ 14,515
Interest cost	841	726	6,873
Expected return on plan assets . .	(510)	(447)	(4,227)
Amortization of actual differences	697	1,296	12,262
Amortization of prior service cost	(15)	(15)	(144)
Net pension expenses	¥ 2,308	¥ 3,094	\$ 29,279

Notes: *1 The employees' contributions to the contributory pension plan (covering a portion of the governmental pension) was deducted.

*2 The pension expenses of consolidated subsidiaries, which applied expediency methods, are included in "Service Cost".

Assumptions used in calculating the above information were as follows:

	2003	2004
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 cost	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 ¥404 million and ¥608 million (US\$5,753 thousand) for the years ended March 31, 2003 and 2004, 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, 2003 and 2004, was as follows:

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

	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

	Thousands of U.S. Dollars (Note 3)		
	2004		
	Furniture and fixtures	Others	Total
Acquisition costs	\$ 22,965	\$ 4,780	\$ 27,745
Accumulated depreciation . . .	10,143	2,694	12,837
Net leased assets	\$ 12,822	\$ 2,086	\$ 14,908

Future minimum lease payments under finance leases as of March 31, 2003 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Due within one year	¥ 321	¥ 571	\$ 5,403
Due over one year	477	1,004	9,504
Total	¥ 798	¥ 1,575	\$ 14,907

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, 2004.

Depreciation expense, which is not reflected in the accompanying consolidated statement of income, computed by the straight-line method, would have been ¥404 million and ¥608 million (US\$5,753 thousand) for the years ended March 31, 2003 and 2004, respectively.

Obligations under non-cancelable operating leases as of March 31, 2003 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Due within one year	¥ 69	¥ 64	\$ 610
Due after one year	44	52	488
Total	¥ 113	¥ 116	\$ 1,098

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, 2004, 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	¥ 823	\$ 7,785
As a guarantor of indebtedness of:		
Amagasaki Utility Services	606	5,734
Others	583	5,521
	<u>¥2,012</u>	<u>\$19,040</u>

15. Subsequent Events

The appropriation of retained earnings including cash dividends in respect of the year ended March 31, 2004 was approved at the shareholders' meeting held on June 29, 2004 as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
Appropriations:		
Cash dividends (¥3.0 per share)	¥601	\$5,689
Directors' bonuses	30	284
	<u>¥631</u>	<u>\$5,793</u>

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, 2003 and 2004 was as follows:

	Millions of Yen						
	Oleochemicals & Foods	Chemicals	Explosives & Propulsion	Others	Total	Elimination/Corporate	Consolidated
2003							
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
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
Thousands of U.S. Dollars (Note 3)							
2004							
	Oleochemicals & Foods	Chemicals	Explosives & Propulsion	Others	Total	Elimination/Corporate	Consolidated
Sales							
Sales to customers	\$ 495,095	\$ 456,398	\$ 332,013	\$ 17,264	\$ 1,300,770	\$ –	\$ 1,300,770
Inter-segment	3,768	11,084	2,519	31,469	48,840	(48,840)	–
Total	498,863	467,482	334,532	48,733	1,349,610	(48,840)	1,300,770
Operating expenses	485,331	424,741	319,685	47,989	1,277,746	(48,876)	1,228,870
Operating income	\$ 13,532	\$ 42,741	\$ 14,847	\$ 744	\$ 71,864	\$ 36	\$ 71,900
Assets	\$ 400,582	\$ 406,816	\$ 469,780	\$ 142,399	\$ 1,419,577	\$ 379,642	\$ 1,799,219
Depreciation	10,557	20,721	15,365	501	47,144	–	47,144
Capital expenditure	46,070	34,913	11,917	392	93,292	–	93,292

The amounts of assets included in the column “Elimination/Corporate” were ¥34,576 million and ¥42,065 million (US\$398,013 thousand) for the years ended March 31, 2003 and 2004, respectively, which includes the surplus working fund (cash and securities), long-term investment fund (investment in securities) and deferred tax assets.

The total amount of deferred tax assets, which were previously included in “Elimination/Corporate”, is allocated to each segment for this fiscal year. Due to this change, the amount of “Elimination/Corporate” decreased by ¥4,919 million compared to the amount it would have been if calculated as in previous fiscal years.

(2) Geographic Segments

Segment information classified by geographic area (Japan and Others) for the years ended March 31, 2003 and 2004 was as follows:

	Millions of Yen				
	2004				
	Japan	Others (Note 1)	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
	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
	Thousands of U.S. Dollars (Note 3)				
	2004				
	Japan	Others (Note 1)	Total	Elimination/ Corporate	Consolidated
Sales					
Sales to customers	\$ 1,191,367	\$ 109,403	\$ 1,300,770	\$ –	\$ 1,300,770
Inter-segment	12,377	1,451	13,828	(13,828)	–
Total	1,203,744	110,854	1,314,598	(13,828)	1,300,770
Operating expenses	1,141,361	101,403	1,242,764	(13,894)	1,228,870
Operating income	\$ 62,383	\$ 9,451	\$ 71,834	\$ 66	\$ 71,900
Assets	\$ 1,374,660	\$ 70,327	\$ 1,444,987	\$ 354,232	\$ 1,799,219

The amounts of assets included in the column “Elimination/Corporate” are ¥34,576 million and ¥42,065 million (US\$398,013 thousand) for the years ended March 31, 2003 and 2004, respectively, which includes the surplus working fund (cash and securities), long-term investment fund (investment in securities) and deferred tax assets. The total amount of deferred tax assets, which were previously included in “Elimination/Corporate”, is allocated to each segment for this fiscal year. Due to this change, the amount of “Elimination/Corporate” decreased by ¥4,919 million compared to the amount it would have been if calculated as in previous fiscal years.

(Note 1)

Others represents North America, Europe, and Asia

(3) Sales to Foreign Customers

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2004	2004
Overseas sales (Note 1)	¥ 23,607	¥ 21,447	\$ 202,926
Consolidated sales	136,309	137,478	1,300,770
Ratio	17.32%	15.60%	

(Note 1)

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, 2003 and 2004 were as follows:

Name of related company	Address	Paid-in capital	Principal business	Percentage of equity ownership by the Company	Relationship		Description of the Company's transactions	Millions of Yen (Thousands of U.S. Dollars) (Note 3)				
					Directors holding concurrent positions	Business relationship		Transactions		End of period account balance		
								2004	2003	Account	2004	2003
BASF NOF Coatings Co., Ltd	Yokohama City, Kanagawa Pref.	¥ 10 Billion	Manufacture, sale, research and development of coating products	Directly holds 50%	Hold an additional post: 2 persons Seconded: 2 persons	None	Loans	—	—	Short and long-term loans	¥ 3,644 (\$34,476)	¥ 4,950

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

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, 2004 and 2003, 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, 2004 and 2003, 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, 2004

ChuoAoyama PricewaterhouseCoopers

CORPORATE INFORMATION

**BOARD OF DIRECTORS AND
STATUTORY AUDITORS**

(as of June 2004)

EXECUTIVE CHAIRMAN

Masayasu Uno

PRESIDENT & CHIEF EXECUTIVE OFFICER

Youhei Nakajima

**DIRECTORS & 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, 2004)

FOUNDED:

1 June 1937

INCORPORATED:

1 July 1949

CAPITAL:

¥15,994 million

EMPLOYEES:

1,632

HEAD OFFICE:Yebisu Garden Place Tower, 20-3, Ebisu 4-chome, Shibuya-ku,
Tokyo 150-6019, Japan**MAJOR SHAREHOLDERS:**

Japan Trustee Services Bank, Ltd. (Trust Account)

The Master Trust Bank of Japan, 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 Kyoekai

NOF Investment Association



Head Office

Yebisu Garden Place Tower, 20-3, Ebisu 4-chome,
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