

**NOF CORPORATION**

**Consolidated Financial Statements**

For the years ended March 31, 2022 and 2021

## Independent Auditor's Report

The Board of Directors  
NOF CORPORATION

### **Opinion**

We have audited the accompanying consolidated financial statements of NOF CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition in the Life Science business	
Description of Key Audit Matter	Auditor's Response
<p>As stated in Note 37 (Segment Information, etc.), the Company has recorded sales to customers amounting to ¥33,745 million in the Life Science business for the year ended March 31, 2022.</p> <p>The Life Science business manufactures and sells MPC-related products, raw materials for DDS drug formulation, edible oils, functional foods. Some sales transactions in the Life Science business have relatively high margin of profit and are made primarily with overseas customers. The Company recognizes these revenues based on the terms of transaction specified in the contract or the purchase order.</p> <p>For these transactions, it is necessary to determine the point in time of revenue recognition based on the terms of the transactions. The impact on the consolidated financial statements of these transactions is large because of the relatively high margin of profit.</p> <p>Based on the above, we have determined that appropriateness of revenue recognition in the Life Science business as a key audit matter.</p>	<p>We conducted the following audit procedures in order to examine the appropriateness of the revenue recognition in the Life Science business, among others:</p> <ul style="list-style-type: none"> <li>• We understood the sales process, and evaluated the design of the related internal controls and tested their operating effectiveness.</li> <li>• In order to understand the outline of sales transactions and the their terms and conditions, we conducted discussed with managers of business divisions and the management.</li> <li>• In order to evaluate whether the point in time of revenue recognition is in line with the terms of transaction, we inspected the contract or the purchase order, the shipping documents, the delivery record of the delivery company and the exporter.</li> <li>• We performed an external confirmation procedure with regard to the balances as of March 31, 2022 of accounts receivables, which were selected on the basis of risk and significance of the balance.</li> </ul>

### Other Information

The other information comprises the information included in the disclosure document that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that the other information does not exist. Accordingly, we have not performed any work related to the other information.

### Responsibilities of Management, the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 7 to the consolidated financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan

September 30, 2022

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/s/Shigeyuki Kano  
Designated Engagement Partner  
Certified Public Accountant

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/s/Tetsuya Kawawaki  
Designated Engagement Partner  
Certified Public Accountant

# NOF CORPORATION and Subsidiaries

## Consolidated Balance Sheet

**As of March 31,**

Thousands of  
U.S. dollars  
(Note 7)

	Millions of yen		2022
	2022	2021	
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and deposits (Notes 26 and 28).....	¥ 85,430	¥ 78,669	\$698,015
Notes and accounts receivable - trade (Notes 12 and 28).....	—	39,529	—
Notes and accounts receivable - trade, and contract assets( Notes 8 ,12 ,28 and 36) .....	42,424	—	346,637
Electronically recorded monetary claims-operating (Note 28).....	2,813	2,441	22,984
Merchandise and finished goods.....	25,655	18,860	209,623
Work in process .....	1,693	2,898	13,837
Raw materials and supplies.....	12,552	10,568	102,562
Other .....	2,937	2,415	23,999
Allowance for doubtful accounts.....	(185)	(205)	(1,514)
<b>Total current assets</b> .....	<b>173,322</b>	<b>155,176</b>	<b>1,416,146</b>
<b>Non-current assets:</b>			
<b>Property, plant and equipment (Notes 9 and 10):</b>			
Buildings and structures .....	75,771	73,842	619,096
Accumulated depreciation .....	(51,758)	(49,891)	(422,895)
Buildings and structures, net .....	24,013	23,951	196,201
Machinery, equipment and vehicles .....	106,729	103,485	872,040
Accumulated depreciation .....	(93,181)	(91,163)	(761,352)
Machinery, equipment and vehicles, net .....	13,547	12,322	110,688
Land.....	20,706	20,327	169,183
Leased assets.....	438	426	3,584
Accumulated depreciation .....	(242)	(186)	(1,979)
Leased asset, net .....	196	239	1,604
Construction in progress .....	1,423	3,291	11,628
Other .....	16,191	15,759	132,294
Accumulated depreciation .....	(14,132)	(13,679)	(115,474)
Other, net.....	2,058	2,080	16,820
<b>Total property, plant and equipment</b> .....	<b>61,944</b>	<b>62,212</b>	<b>506,126</b>
<b>Intangible assets:</b>			
Other .....	947	989	7,738
<b>Total Intangible assets</b> .....	<b>947</b>	<b>989</b>	<b>7,738</b>
<b>Investments and other assets:</b>			
Investments securities (Notes 9 ,11 ,28 and 30) .....	47,812	47,744	390,654
Long-term loans receivable .....	2	5	18
Deferred tax assets (Note 33).....	985	918	8,052
Retirement benefit asset (Note 31) .....	3,148	2,856	25,728
Other .....	1,521	1,688	12,428
Allowance for doubtful accounts.....	(53)	(54)	(439)
<b>Total investments and other assets</b> .....	<b>53,416</b>	<b>53,158</b>	<b>436,443</b>
<b>Total non-current assets</b> .....	<b>116,308</b>	<b>116,360</b>	<b>950,307</b>
<b>Total assets</b> .....	<b>¥ 289,630</b>	<b>¥ 271,536</b>	<b>\$ 2,366,454</b>

The accompanying notes are an integral part of the statements.

**NOF CORPORATION and Subsidiaries**  
Consolidated Balance Sheet (continued)

**As of March 31,**

Thousands of  
U.S. dollars  
(Note 7)

	Millions of yen		2022
	2022	2021	
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Notes and accounts payable .....	¥ 21,262	¥ 17,129	\$173,730
Electronically recorded obligations-operating .....	584	798	4,773
Short-term borrowings (Notes 28 and 29) .....	1,997	1,570	16,316
Current portion of long-term borrowings (Notes 28 and 29) .....	2,800	5,000	22,878
Lease liabilities .....	130	157	1,063
Accrued expenses .....	1,514	1,487	12,376
Income taxes payable .....	5,879	6,311	48,038
Deposits received .....	3,803	3,801	31,074
Provision for bonuses .....	3,473	3,391	28,382
Asset retirement obligations (Note 35) .....	169	156	1,383
Other .....	8,853	8,553	72,341
<b>Total current liabilities</b> .....	<b>50,468</b>	<b>48,360</b>	<b>412,359</b>
<b>Non-current liabilities:</b>			
Long-term borrowings (Notes 28 and 29) .....	610	3,053	4,984
Lease liabilities .....	92	164	754
Deferred tax liabilities (Note 33) .....	11,117	10,625	90,833
Provision for officers' retirement benefits .....	48	83	399
Provision for retirement benefits for directors (and other officers) .....	—	0	—
Retirement benefit liability (Note 31) .....	4,992	4,923	40,795
Asset retirement obligations (Note 35) .....	388	399	3,170
Other .....	206	411	1,684
<b>Total non-current liabilities</b> .....	<b>17,455</b>	<b>19,659</b>	<b>142,622</b>
<b>Total liabilities</b> .....	<b>67,924</b>	<b>68,020</b>	<b>554,982</b>
<b>Commitments and contingencies (Note 12)</b>			
<b>Net assets:</b>			
Shareholders' equity			
Share capital .....	17,742	17,742	144,962
Authorized: 347,000,000 shares at March 31, 2022 and 2021			
Issued: 82,841,376 shares at March 31, 2022 84,841,376 shares at March 31, 2021			
Capital surplus .....	15,115	15,115	123,504
Retained earnings .....	166,602	154,793	1,356,829
Treasury stock, at cost .....	(3,292)	(7,984)	(26,899)
Total shareholders' equity .....	195,627	179,666	1,598,397
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities .....	24,226	24,039	197,944
Foreign currency translation adjustment .....	809	(967)	6,611
Remeasurements of defined benefit plans .....	264	49	2,162
Total accumulated other comprehensive income .....	25,300	23,121	206,718
Non-controlling interests .....	777	727	6,355
<b>Total net assets</b> .....	<b>221,706</b>	<b>203,516</b>	<b>1,811,471</b>
<b>Total liabilities and net assets</b> .....	<b>¥289,630</b>	<b>¥271,536</b>	<b>\$2,366,454</b>

The accompanying notes are an integral part of the statements.

# NOF CORPORATION and Subsidiaries

## Consolidated Statement of Income

**For the Year Ended March 31,**

Thousands of  
U.S. dollars  
(Note 7)

	Millions of yen		2022
	2022	2021	
<b>Net sales (Note 14)</b> .....	¥192,642	¥172,645	\$1,574,006
<b>Cost of sales</b> (Notes 15 and 17) .....	123,713	115,259	1,010,815
Gross profit.....	68,928	57,385	563,190
<b>Selling, general and administrative expenses</b> (Notes 16 and 17) .....	33,333	30,783	272,350
Operating profit.....	35,595	26,602	290,839
<b>Non-operating income:</b>			
Interest income .....	137	83	1,123
Dividend income.....	993	1,108	8,120
Rental income from real estate .....	272	267	2,225
Foreign exchange gains .....	681	237	5,569
Other .....	457	1,044	3,741
<b>Total non-operating income</b> .....	2,543	2,741	20,782
<b>Non-operating expenses:</b>			
Interest expenses.....	60	61	494
Expenses for conditional assignment.....	29	28	237
Rental expenses on real estate .....	85	80	702
Disposal expenses on fixed assets .....	156	183	1,282
Other .....	182	118	1,489
<b>Total non-operating expenses</b> .....	514	472	4,205
<b>Ordinary profit</b> .....	37,624	28,870	307,416
<b>Extraordinary income:</b>			
Gain on sale of non-current assets (Notes 18) .....	1,154	11	9,434
Gain on sale of investment securities (Note 30) .....	63	5,408	518
<b>Total extraordinary income</b> .....	1,128	5,420	9,953
<b>Extraordinary losses:</b>			
Loss on sale of non-current assets (Note 19) .....	0	4	4
Impairment losses (Note 20).....	51	45	422
Loss on retirement of non-current assets (Note 21).....	51	37	420
Loss on tax purpose reduction entry of non-current assets (Note 22).....	697	—	5,702
Loss on sale of investment securities (Note 30) .....	44	32	365
Loss on valuation of investment securities .....	—	12	—
Settlement payments (Note 23).....	—	48	—
Other .....	18	—	149
<b>Total extraordinary losses</b> .....	864	181	7,066

## NOF CORPORATION and Subsidiaries

### Consolidated Statement of Income (continued)

**For the Year Ended March 31,**

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
<b>Profit before income taxes</b> .....	37,977	34,109	310,302
Income taxes - current .....	11,026	10,598	90,095
Income taxes - deferred .....	228	195	1,870
<b>Total income taxes (Note 33)</b> .....	11,255	10,794	91,965
<b>Profit</b> .....	26,722	23,315	218,336
Profit attributable to non-controlling interests .....	31	13	257
Profit attributable to owners of parent (Note 39).....	26,690	23,302	218,079

The accompanying notes are an integral part of the statements.

**NOF CORPORATION and Subsidiaries**  
Consolidated Statement of Comprehensive Income

**For the Year Ended March 31,**

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
<b>Profit</b> .....	¥26,722	¥23,315	\$218,336
Other comprehensive income (Note 24)			
Valuation difference on available-for-sale securities.....	185	7,112	1,515
Foreign currency translation adjustment.....	1,796	(150)	14,679
Remeasurements of defined benefit plans, net of tax .....	217	1,329	1,781
Total other comprehensive income .....	2,200	8,291	17,976
Comprehensive income .....	28,922	31,606	236,313
<b>Total comprehensive income attributable to:</b>			
Owners of parent.....	28,869	31,655	235,884
Non-controlling interests .....	52	(48)	429

The accompanying notes are an integral part of the statements.

**NOF CORPORATION and Subsidiaries**  
Consolidated Statement of Changes in Net Assets

**For the Year Ended March 31, 2022 and 2021**

	Millions of yen											
	Number of shares of common stock (thousands)	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurement s of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2020	84,841	¥17,742	¥15,115	¥136,643	¥(6,333)	¥163,167	¥16,933	¥ (883)	¥(1,280)	¥14,768	¥780	¥178,716
Dividends of surplus .....	-	-	-	(6,486)	-	(6,486)	-	-	-	-	-	(6,484)
Profit attributable to owners of parent .....	-	-	-	23,302	-	23,302	-	-	-	-	-	23,302
Purchase of treasury shares .....	-	-	-	-	(1,655)	(1,655)	-	-	-	-	-	(1,655)
Disposal of treasury shares .....	-	-	-	-	4	4	-	-	-	-	-	4
Cancellation of treasury shares .....	-	-	-	-	-	-	-	-	-	-	-	-
Change in scope of consolidation .....	-	-	-	1,334	-	1,334	-	-	-	-	-	1,334
Change in ownership interest of parent due to transactions with non-controlling interests .....	-	-	0	-	-	0	-	-	-	-	-	0
Net changes in items other than shareholders' equity.....	-	-	-	-	-	-	7,106	(83)	1,330	8,352	(52)	8,300
Total changes during period.....	-	-	0	18,150	(1,650)	16,499	7,106	(83)	1,330	8,352	(52)	24,799
Balance at March 31, 2021	84,841	¥17,742	¥15,115	¥154,793	¥(7,984)	¥179,666	¥24,039	¥ (967)	¥49	¥23,121	¥727	¥203,516
Cumulative effects of changes in accounting policies.....	-	-	-	73	-	73	-	-	-	-	-	73
Restated balance.....	84,841	¥17,742	¥15,115	¥154,867	¥(7,984)	¥179,740	¥24,039	¥ (967)	¥49	¥23,121	¥727	¥203,589
Dividends of surplus .....	-	-	-	(6,943)	-	(6,943)	-	-	-	-	-	(6,943)
Profit attributable to owners of parent .....	-	-	-	26,690	-	26,690	-	-	-	-	-	26,690
Purchase of treasury shares .....	-	-	-	-	(3,871)	(3,871)	-	-	-	-	-	(3,871)
Disposal of treasury shares .....	-	-	-	-	10	10	-	-	-	-	-	10
Cancellation of treasury shares .....	(2,000)	-	-	(8,552)	8,552	-	-	-	-	-	-	-
Change in scope of consolidation .....	-	-	-	-	-	-	-	-	-	-	-	-
Change in ownership interest of parent due to transactions with non-controlling interests .....	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity.....	-	-	-	-	-	-	186	1,777	215	2,179	49	2,229
Total changes during period.....	(2,000)	-	-	11,194	4,692	15,887	186	1,777	215	2,179	49	18,116
Balance at March 31, 2022.....	82,841	¥17,742	¥15,115	¥166,062	¥(3,292)	¥195,627	¥24,226	¥809	¥264	¥25,300	¥777	¥221,706

**For the Year Ended March 31, 2022**

	Thousands of U.S. dollars (Note 7)											
	Number of shares of common stock (thousands)	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurement s of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2021.....	84,841	\$144,962	\$123,504	\$1,264,758	\$(65,238)	\$1,467,987	\$196,416	\$ (7,908)	\$405	\$188,913	\$5,947	\$1,662,848
Cumulative effects of changes in accounting policies.....	-	-	-	603	-	603	-	-	-	-	-	603
Restated balance.....	84,841	\$144,962	\$123,504	\$1,265,361	\$(65,238)	\$1,468,590	\$196,416	\$ (7,908)	\$405	\$188,913	\$5,947	\$1,663,451
Dividends of surplus .....	-	-	-	(56,732)	-	(56,732)	-	-	-	-	-	(56,732)
Profit attributable to owners of parent .....	-	-	-	218,079	-	218,079	-	-	-	-	-	218,079
Purchase of treasury shares .....	-	-	-	-	(31,628)	(31,628)	-	-	-	-	-	(31,628)
Disposal of treasury shares .....	-	-	-	-	89	89	-	-	-	-	-	89
Cancellation of treasury shares .....	(2,000)	-	-	(69,879)	69,879	-	-	-	-	-	-	-
Change in scope of consolidation .....	-	-	-	-	-	-	-	-	-	-	-	-
Change in ownership interest of parent due to transactions with non-controlling interests .....	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity.....	-	-	-	-	-	-	-	-	-	-	-	-
Total changes during period.....	(2,000)	-	-	91,468	38,340	129,808	1,527	14,520	1,757	17,805	408	18,213
Balance at March 31, 2022.....	82,841	\$144,962	\$123,504	\$1,356,829	\$(26,899)	\$1,598,397	\$197,944	\$6,611	\$2,162	\$206,718	\$6,355	\$1,811,471

The accompanying notes are an integral part of the statements.

## NOF CORPORATION and Subsidiaries

### Consolidated Statement of Cash Flows

**For the Year Ended March 31,**

Thousands of  
U.S. dollars  
(Note 7)

	Millions of yen		2022
	2022	2021	2022
<b>Cash flows from operating activities:</b>			
Profit before income taxes .....	¥37,977	¥34,109	\$310,302
Depreciation .....	5,909	5,553	48,281
Impairment losses .....	51	45	422
Decrease in retirement benefit liability.....	(21)	(0)	(172)
Interest and dividend income.....	(1,131)	(1,191)	(9,244)
Interest expenses.....	60	61	494
Gain on sale of non-current assets .....	(1,154)	(6)	(9,429)
Loss on tax purpose reduction entry of non-current assets....	697	—	5,702
Loss on valuation of investment securities .....	—	12	—
Gain on sale of investment securities .....	(18)	(5,376)	(152)
Increase in trade receivables.....	(2,494)	(561)	(20,378)
Decrease (increase) in inventories .....	(7,301)	2,742	(59,660)
Increase in trade payables .....	3,088	1,656	25,233
Other, net .....	2,250	832	18,391
Sub total .....	37,915	37,876	309,730
Interest and dividends received.....	1,113	1,192	9,099
Interest paid .....	(61)	(61)	(499)
Income taxes paid .....	(11,574)	(8,335)	(94,567)
Proceeds from insurance income .....	—	54	—
Net cash provided by operating activities .....	27,393	30,726	223,822
<b>Cash flows from investing activities:</b>			
Purchase of investment securities .....	(29)	(27)	(237)
Proceeds from sale of investment securities .....	246	8,837	2,013
Purchase of property, plant and equipment and intangible assets .....	(7,416)	(5,982)	(60,595)
Proceeds from sale of property, plant and equipment and intangible assets .....	136	11	1,114
Net decrease (increase) in short-term loans receivable.....	(120)	149	(982)
Long-term loan advances.....	—	(8)	—
Proceeds from collection of long-term loans receivable.....	4	3	36
Other, net .....	(1,577)	(1,090)	(12,885)
Net cash provided by (used in) investing activities .....	(8,755)	1,894	(71,535)

## NOF CORPORATION and Subsidiaries

### Consolidated Statement of Cash Flows (continued)

**For the Year Ended March 31,**

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
<b>Cash flows from financing activities:</b>			
Net increase in short-term borrowings.....	308	247	2,517
Proceeds from long-term borrowings .....	329	—	2,693
Repayments of long-term borrowings.....	(5,000)	(0)	(40,854)
Proceeds from sale of treasury shares .....	2	—	22
Purchase of treasury shares .....	(3,871)	(1,655)	(31,628)
Purchase of treasury shares of subsidiaries.....	—	(1)	—
Repayments of finance lease liabilities .....	(159)	(166)	(1,305)
Dividends paid .....	(6,919)	(6,465)	(56,538)
Dividends paid to non-controlling interests .....	(2)	(2)	(20)
Net cash used in financing activities .....	(15,312)	(8,042)	(125,115)
<b>Effect of exchange rate change on cash and cash equivalents .....</b>	1,510	(40)	12,340
<b>Net increase in cash and cash equivalents .....</b>	4,835	24,537	39,512
<b>Cash and cash equivalents at beginning of period .....</b>	76,596	50,684	625,835
<b>Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation .....</b>	—	1,374	—
<b>Cash and cash equivalents at end of period (Note 26) .....</b>	¥81,431	¥76,596	\$665,348

The accompanying notes are an integral part of these statements.

# NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

## 1. Basis of presentation

NOF CORPORATION (the “Company”) and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their accounting records in conformity with those of their countries of domicile. Effective April 1, 2008, the Company adopted the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (PITF No. 18). In accordance with PITF No. 18, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

As permitted by the Financial instruments and Exchanges Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

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

## 2. Summary of significant accounting policies

### (1) Scope of consolidation

The Company had 32 subsidiaries (majority-owned companies) as of March 31, 2022 (32 for 2021). The accompanying consolidated financial statements include the accounts of the Company and 25 of its subsidiaries (collectively, the “Group”) for the year ended March 31, 2022 (25 for 2021).

The remaining 7 (7 for 2021) subsidiaries, whose combined assets, net sales, net income and retained earnings in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from consolidation.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

The above mentioned 25 majority-owned subsidiaries are listed below:

Name of subsidiaries	Percentage of voting rights owned by the Company
	%
<b>(Domestic subsidiaries)</b>	
Nippon Koki Co., Ltd. ....	95.0
NiGK Corporation .....	100.0
HOKKAIDO NOF CORPORATION .....	100.0
NOF METAL COATINGS ASIA PACIFIC Co., Ltd. ....	100.0
Showa Kinzoku Kogyo Co., Ltd. ....	98.3
JAPEX Corp. ....	70.0
Nichiyu Trading Co., Ltd. ....	100.0
Nichiyu Logistics Co., Ltd. ....	100.0
Nippo Kogyo Co., Ltd. ....	98.2
Yuka Sangyo Co., Ltd. ....	100.0
Nichiyu Kogyo Co., Ltd. ....	100.0
NIKKA COATING Co., Ltd. ....	100.0
CACTUS Co., Ltd. ....	100.0
<b>(Foreign subsidiaries)</b>	
Changshu NOF Chemical Co., Ltd. ....	100.0
P.T. NOF MAS Chemical Industries .....	89.6
NOF METAL COATINGS NORTH AMERICA Inc. ....	100.0
NOF AMERICA CORPORATION .....	100.0
NOF (Shanghai) Co., Ltd. ....	100.0
NOF EUROPE GmbH .....	100.0
NOF METAL COATINGS EUROPE S.A. ....	100.0
NOF METAL COATINGS EUROPE N.V. ....	100.0
NOF METAL COATINGS KOREA Co., Ltd. ....	100.0
SIE s.r.l. ....	100.0
NOF METAL COATINGS SOUTH AMERICA Ind. E Com. Ltda. ....	90.0
NOF METAL COATINGS SHANGHAI Co., Ltd. ....	100.0

The Company and all of its consolidated subsidiaries use a fiscal year ended March 31, except for NOF METAL COATINGS ASIA PACIFIC Co., Ltd., NIKKA COATING Co., Ltd. and foreign subsidiaries. Those subsidiaries use a fiscal year ended December 31. The accounts of those subsidiaries have been consolidated by using the results of operations and account balances for the fiscal year, and necessary adjustments have been made for any material transactions that occurred between the different fiscal year-ends.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### (2) Application of equity method

There are no affiliates accounted for using equity method.

The unconsolidated subsidiaries and affiliates, whose combined net income and retained earnings in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from equity method.

There are no major unconsolidated subsidiaries.

The major affiliate is Amagasaki Utility Services CO., Ltd.

### (3) Investments securities

Available-for-sale securities for which market quotations are available are stated at the fair value method based on their fiscal year-end market prices of the balance sheet date. Net unrealized gains or losses on those securities are reported as a separate component of net assets 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.

### (4) Inventories

Inventories are principally stated at the lower of cost, determined by the total-average method, or net selling value.

### (5) Property, plant and equipment (except for leased assets)

Depreciation of property is principally computed using the straight-line method, based on the estimated useful lives of the assets. The principal range of useful lives is principally from 7 to 50 years for buildings and structures and from 5 to 10 years for machinery, equipment and vehicles.

### (6) Intangible assets (except for leased assets)

Intangible assets are amortized using the straight-line method.

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

### (7) Leased assets

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the term of contract as the useful life.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### (8) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at amounts sufficient to cover probable losses on collection. It consists of the estimated uncollectible amounts with respect to identified doubtful accounts and an amount calculated by a formula based on actual collection losses incurred in the past with respect to the remaining receivables.

### (9) Provision for bonuses

Certain consolidated subsidiaries recognized the estimated amount of employees' bonuses to be paid in the subsequent period that is attributable to the current fiscal year.

### (10) Provision for officers' retirement benefits

The Company calculates the amount that would be required, based on the pertinent rules of the Company, if all officers retired at the balance sheet date, and accounts for it as provision for officers' retirement benefits, which was presented as provision for officers' retirement benefits.

### (11) Provision for retirement benefits for directors (and other officers)

Certain subsidiaries calculate the amount that would be required, based on the pertinent rules of these companies, if all directors retired at the balance sheet dates, and accounts for it as accrued retirement benefits for directors, which was presented as retirement benefit provisions for directors (and other officers).

These companies have no amount of retirement benefit provisions for directors (and other officers) due to the abolition of the pertinent rules as of March 31, 2022.

### (12) Retirement benefit

Accrued retirement benefits and prepaid pension cost for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (mainly 10 years), which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (mainly 10 years), which are shorter than the average remaining years of service of the employees.

Certain consolidated subsidiaries adopt a simplified method in calculating the retirement benefit obligation and retirement benefit expenses. The retirement benefit liability calculated using the simplified method is determined to be equal to the required amount if all the employees retired voluntarily at the balance sheet date.

## **NOF CORPORATION and Subsidiaries**

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### (13) Reporting of significant revenue and expenses

The Company recognizes revenue when promised products and services are transferred to customers and customers gain control over the products and services based on the following five-step approach.

Step 1: Identify the contract with customers

Step 2: Identify the performance obligations in the contract

Step 3: Calculate the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity fulfills the performance obligations

The main business of the Company is manufacturing and sales of products in the Functional Chemicals Segment, the Life Science Segment and the Explosive & Propulsion Segment. With regard to the sale of these products, The Company recognizes revenue at the time of delivery, which is generally deemed that the customer has gained the control over the products and the performance obligations has been fulfilled. However, for domestic sales, the Company recognizes revenue at the time of shipment under the Paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition because the period from the time of shipment to the time when the control over the products is transferred to the customers is the normal period.

Revenue is calculated by deducting returns, discounts, and rebates, etc. from the consideration promised in the contract with the customer, within the range where there is a high possibility that a significant reversal will not occur. The promised consideration is collected mainly within one year from the time of the fulfillment of the performance obligation, and does not include significant financial factors.

For transactions involving the Company as an agent, the net amount of revenue is recognized.

Regarding a portion of the performance obligations in the Explosive & Propulsion Segment, since the control over products or services is transferred over a certain period of time, the degree of progress is measured using a method that faithfully depicts the fulfillment of the obligations, and revenue is recognized over a certain period of time.

## **NOF CORPORATION and Subsidiaries**

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### **(14) Hedge accounting**

The Company has entered into forward foreign exchange contracts to reduce its exposure to the risk of fluctuation in foreign exchange rates related to its trade accounts receivables and payables. It is the Company's policy not to enter into any speculative derivatives transactions.

Gains or losses arising from changes in fair value of hedging instruments are deferred as assets or liabilities until the related gains or losses on the hedged items are recognized.

If forward foreign exchange contracts meet certain hedging criteria, however, the existing foreign currency receivables or payables are translated at their forward rates.

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.

### **(15) Goodwill**

Goodwill, which could estimate the useful life, is amortized using the estimated useful life and the others are using straight-line method over the useful life, which is 5 years.

### **(16) 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.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### 3. Significant accounting estimates

#### (1) Recoverability of deferred tax assets

A. Amount recorded on the consolidated financial statements as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Deferred tax assets, net .....	¥999	¥1,013	\$8,169

The amounts of deferred tax assets concerning consolidated subsidiaries, which fall under “Category 3” pursuant to Paragraph 29 of the “Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26)”

B. Details of significant accounting estimates related to the identified items

#### 1). Method of calculation

The recoverability of deferred tax assets is determined through an estimate of taxable income based on future earning capacity, in contrast with future deductible differences.

#### 2). Main assumptions

The estimate of taxable income based on future earning capacity uses the budget for the next fiscal year and the Mid-Term Management Plan as the foundation, and its main assumption is the future estimated sales volume. The said business plan has been formulated in consideration of the impact associated with the conditions of the COVID-19 pandemic; however, this impact is deemed to be limited.

#### 3). Impact on consolidated financial statements for the next fiscal year

Regarding the main assumption stated in 2), if actual results deviate from the assumption due to factors such as economic trends in the future, and there is a decrease in taxable income in the next fiscal year or later, there may be a review of the recoverability of deferred tax assets.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

(2) Impairment of fixed assets

A. Amount recorded on the consolidated financial statements as of March 31, 2022 and 2021 are as follows

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Impairment losses .....	¥51	¥45	\$423
Property, plant and equipment and intangible assets .....	¥62,891	¥63,201	\$513,865

B. Details of significant accounting estimates related to the identified items

1). Method of calculation

The Group determines its asset groupings primarily according to the operating division, and assesses impairment. For assets and groups of assets with indications of impairment, the Group estimates undiscounted future cash flows based on the business plan of each business, and assesses the necessity of impairment.

2). Main assumptions

The estimate of undiscounted future cash flows uses the business plan of each business as the foundation, and its main assumption is the future estimated sales volume. The said business plans have been formulated in consideration of the impact associated with the conditions of the COVID-19 pandemic; however, this impact is deemed to be limited.

3). Impact on consolidated financial statements for the next fiscal year

Regarding the main assumption stated in 2), if actual results deviate from the assumption due to factors such as economic trends in the future, and a group of assets shows new indications of impairment, or if undiscounted future cash flows fall below the book value of fixed assets in groups of assets, there may be impairment loss on fixed assets in the next fiscal year.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### 4. Changes in accounting policies

#### (1) Application of accounting standards for revenue recognition

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and the related guidelines (Hereinafter the “Revenue Recognition Standard”) have been adopted from the beginning of the fiscal year ended March 31, 2022. In line with this adoption, revenue is recognized upon the transfer of control of the promised goods or services to customers in an amount that reflects the consideration to which they expect to be entitled in exchange for those goods or services.

In adopting the Revenue Recognition Standard, the company recognizes revenue based on the net amount for transactions in which the company's role in providing goods or services to customers is an agent.

In accordance with the transitional provision provided in the provisory clause of Article 84 of the Standards, the cumulative effect at the end of the last fiscal year from retrospective application of the Standard is treated as adjustment to retained earnings at the beginning of the current fiscal year, and the new accounting policy is applied from the adjusted beginning balance of retained earnings.

As a result, net sales for the fiscal year ended March 31, 2022 decreased by ¥5,994 million (US\$48,980 thousand), operating profit increased by ¥309 million (US\$2,531 thousand). There are no effects in ordinary profit and profit before income taxes. The balance of retained earnings at the beginning of the fiscal year increased by ¥73 million (US\$603 thousand).

As a result of the adoption of the Revenue Recognition Standard, the amounts presented as “Notes and accounts receivable - trade” on the consolidated balance sheet in the prior fiscal year, is presented as “Notes and accounts receivable - trade, and contract assets” in the current fiscal year. In accordance with the transitional treatment set forth in Paragraph 89-2 of the Revenue Recognition Standard, financial statements for prior year have not been reclassified using the new presentation method.

## **NOF CORPORATION and Subsidiaries**

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### (2) Application of Accounting Standard for Fair Value Measurement

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, issued July 4, 2019) and the related guidelines (Hereinafter, the "Accounting Standard for Fair Value Measurement"), etc. from the beginning of the first quarter consolidated accounting period, and in accordance with the transitional treatment stipulated in Article 19 of the Accounting Standard for Fair Value Measurement and Article 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, issued July 4, 2019), the Company shall apply the new accounting policies stipulated in the Accounting Standard for Fair Value Measurement, etc. prospectively. Due to this application, starting from the first quarter consolidated accounting period, the measurement of the fair value of stocks with market prices in available-for-sale securities is changed from the fair value method based on their average prices during the final month of the fiscal year to the fair value method based on their fiscal year-end market prices.

In addition, notes regarding the breakdown of fair value of financial instruments by level have been included in Note 28, "Financial Instruments". However, notes for the prior fiscal year have been omitted in accordance with the transitional treatment prescribed in Paragraph 7-4 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019).

### 5. Accounting standards issued but not yet effective

There were no applicable items.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### 6. Additional Information

#### Board Benefit Trust (BBT)

Based on the resolution at the 96th Annual General Meeting of Shareholders held on June 27, 2019, the Company introduced in the fiscal year ended March 31, 2020 a performance-linked stock compensation plan (the Board Benefit Trust (BBT)) for Directors (excluding Outside Directors) and Executive Operating Officers (hereinafter collectively referred to as the “Directors, etc.”) (hereinafter referred to as the “Plan”).

The purpose of the Plan is to further clarify the linkage between compensation of Directors, etc., financial results of the Company and the value of the Company’s shares, and have Directors, etc. share the risk of stock value fluctuation with the shareholders, thereby strengthening the awareness of Directors, etc. of their contribution to the medium to long-term improvement in financial results and enhancement of corporate value.

#### (1) Overview of the transactions under the Plan

Under the Plan, the Company’s shares are acquired through a trust using funds contributed by the Company (hereinafter, such trust established pursuant to the Plan is referred to as the “Trust”), and the Company’s shares and cash equivalents of such shares at their market value (hereinafter collectively referred to as the “Company’s Shares, etc.”) are distributed through the Trust to the Directors, etc., pursuant to the Officer Stock Distribution Rules established by the Company. The Directors, etc. shall receive the Company’s Shares, etc. upon their retirement, in principle. Accounting treatment of the trust agreement hereunder is subjected to the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (PITF No.30, March 26, 2015).

#### (2) The Company’s shares remaining in the Trust

The Company records the Company’s shares remaining in the Trust at their book value (excluding incidental costs) at the Trust, as treasury share under net assets.

Such treasury share stood at ¥164 million of book value at March 31, 2022 and ¥175 million of book value at March 31, 2021.

The number of such shares was 48,200 at March 31, 2022 and 51,400 at March 31, 2021.

### 7. United States dollar amounts

The Company maintains its accounting records in yen by round down to the million. The dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen to U.S. dollars on the basis of  $¥122.39 = \text{U.S.}\$1$ , the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2022, and were round down to the thousand. The inclusion of such dollar amounts is solely for convenience of the reader and is not intended to imply that yen amounts have been or could be converted, realized or settled in U.S. dollars at  $¥122.39 = \text{U.S.}\$1$  or at any other rate. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### 8. Receivables from contracts with customers and contract assets

Receivables from contracts with customers and contract assets as of March 31, 2022 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 7)
Notes .....	¥ 885	\$ 7,235
Accounts Receivable .....	41,050	335,407
Contract assets.....	488	3,994

### 9. Collateral

The Company's assets pledged as collateral for long-term borrowings and to obtain credit from banks, other financial institutions (including the current portion), and suppliers of ¥199 million (US\$1,626 thousand) at March 31, 2022, and ¥270 million at March 31, 2021 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Investments in securities.....	¥ 24	¥ 15	\$ 198
Buildings and structures .....	58	61	476
Land.....	163	163	1,332
Total.....	¥245	¥240	\$2,007

### 10. Government grants which were deducted from acquisition costs of property, plant and equipment

The accumulative effects related to the Government grants which were deducted from acquisition costs of property, plant and equipment for the purpose of a reduction in taxable income as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Buildings and structures.....	¥512	¥512	\$4,187
Machinery, equipment and vehicles .....	448	449	3,667
Other .....	21	21	174
Total.....	¥982	¥983	\$8,029

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### 11. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Investments in securities .....	¥349	¥349	\$2,854
Capital contribution .....	12	33	105
Total .....	¥362	¥383	\$2,960

### 12. Commitments and contingencies

(1) As of March 31, 2022 and 2021 the Company was contingently liable for the conditional assignment of ¥1,514 million (US\$12,376 thousand) and ¥1,535 million, respectively, of trade notes and accounts receivable with recourse obligations.

(2) As of March 31, 2022, the Company had unused commitment agreements amounting to ¥5,000 million (US\$40,853 thousand) with banks and other financial institutions.

### 13. Contract liabilities

Contract liabilities included in "Other" on Current liabilities as of March 31, 2022 is ¥3,452 million (US\$28,211 thousand).

### 14. Revenue from contracts with customers

With regard to the sales, revenue from contracts with customers and other revenue are not separately presented. For details of the amount of revenue from contracts with customers, please refer to "36. Revenue Recognition (1) Information about breakdown of revenue from contracts with customers".

### 15. Inventories

Write-downs of inventories for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Cost of sales .....	¥(393)	¥9	\$(3,211)

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### 16. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Delivery and storage charges.....	¥5,879	¥5,362	\$48,036
Salaries and bonuses .....	8,902	8,245	72,741
Retirement benefit expenses .....	550	541	4,493
Accrued bonuses .....	1,212	1,153	9,906
Retirement benefit costs for officers.....	6	17	55
Research and development costs .....	5,182	4,873	42,347
Allowance for doubtful accounts.....	(19)	13	(162)

### 17. Research and development costs

Research and development costs for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Research and development costs .....	¥6,108	¥5,760	\$49,907

### 18. Gain on sale of non-current assets

Gain on sale of non-current assets for the years ended March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Machinery, equipment and vehicles .....	¥ 1	¥ 6	\$ 9
Land .....	1,148	—	9,380
Others.....	2	4	20
Total .....	¥1,154	¥11	\$9,434

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### 19. Loss on sale of non-current assets

Loss on sale of non-current assets for the years ended March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Machinery, equipment and vehicles .....	¥0	¥4	\$4
Others.....	0	0	0
Total .....	¥0	¥4	\$4

### 20. Impairment losses

The Company and its consolidated subsidiaries have recognized impairment losses on the following classes of assets for the years ended March 31, 2022 and 2021.

2022				
Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 7)
Taketoyo-cho, Chita-gun, Aichi	Warehouse	Buildings	¥8	\$66
Kawagoe city, Saitama	Facilities	Buildings	¥43	\$356

The Company and its consolidated subsidiaries have grouped business-use assets according to the operating division and have grouped idle assets on an individual basis.

When there is a decrease in profitability of a business operation and no expectation of recovery in operating earnings, the book value of the assets is written down to the recoverable amount.

The Taketoyo-cho, Chita-gun, Aichi asset listed in the above table was written down to its respective recoverable amounts and ¥8 million (US\$66 thousand) of impairment losses was recognized in the consolidated statement of income for the year ended March 31, 2022. Kawagoe city, Saitama asset listed in the above table was written down to its respective recoverable amounts and ¥43 million (US\$356 thousand) of impairment losses was recognized in the consolidated statement of income for the year ended March 31, 2022.

The recoverable amounts of these groups of assets are measured at value in use. The discounted cash flow was not calculated since the estimated future cash flows are negative. The impairment losses consisted of ¥49 million (US\$402 thousand) for buildings and structures, ¥0 million (US\$3 thousand) for machinery and vehicles, ¥1 million (US\$16 thousand) for tools, furniture and fixtures and ¥0 million (US\$0 thousand) for intangible assets.

## NOF CORPORATION and Subsidiaries

### Notes to Consolidated Financial Statements For the years ended March 31, 2022 and 2021

2021				
Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 7)
Taketoyo-cho, Chita-gun, Aichi	Warehouse	Buildings	¥ 8	\$ 79
Kawagoe city, Saitama	Office building	Construction in progress	¥ 36	\$ 329

The Company and its consolidated subsidiaries have grouped business-use assets according to the operating division and have grouped idle assets on an individual basis.

When there is a decrease in profitability of a business operation and no expectation of recovery in operating earnings, the book value of the assets is written down to the recoverable amount.

The Taketoyo-cho, Chita-gun, Aichi asset listed in the above table was written down to its respective recoverable amounts and ¥8 million (US\$79 thousand) of impairment losses was recognized in the consolidated statement of income for the year ended March 31, 2021. Kawagoe city, Saitama asset listed in the above table was written down mainly due to the review of the initial plan to construct the new office building, and ¥36 million (US\$329 thousand) of the book values related to the initial plan was recognized as impairment losses in the consolidated statement of income for the year ended March 31, 2021.

The recoverable amounts of these groups of assets are measured at value in use. The discounted cash flow was not calculated since the estimated future cash flow for The Taketoyo-cho, Chita-gun, Aichi asset is negative and zero for Kawagoe city, Saitama asset. The impairment losses consisted of ¥8 million (US\$79 thousand) for buildings and structures, ¥0 million (US\$6 thousand) for machinery and vehicles, ¥1 million (US\$13 thousand) for tools, furniture and fixtures and ¥34 million (US\$311 thousand) for construction in progress.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2022 and 2021

### 21. Loss on retirement of non-current assets

Loss on retirement of non-current assets for the years ended March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Buildings and structures.....	¥33	¥18	\$271
Machinery, equipment and vehicles .....	7	10	59
Other .....	10	8	89
Total .....	¥51	¥37	\$420

### 22. Loss on tax purpose reduction entry of non-current assets

Loss on tax purpose reduction entry of non-current assets for the year ended March 31, 2022 is the amount deducted directly from property, plant and equipment due to land expropriation.

There were no applicable items for the year ended March 31, 2021.

### 23. Settlement payments

There were no applicable items for the year ended March 31, 2022.

Settlement payments for the year ended March 31, 2021 is a loss incurred in the business contract of a group company.

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### 24. Other comprehensive income

Reclassification adjustments and tax effects of each component of other comprehensive income for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Valuation difference on available-for-sale securities:			
Amount arising during the year .....	¥282	¥15,686	\$ 2,304
Reclassification adjustments for gains and losses included in net income.....	(20)	(5,363)	(169)
Amount before tax effect .....	261	10,322	2,135
Tax effect .....	(75)	(3,210)	(620)
Valuation difference on available-for-sale securities.....	185	7,112	1,515
Foreign currency translation adjustment:			
Amount arising during the year .....	¥1,796	¥ (150)	\$ 14,679
Remeasurements of defined benefit plans, net of tax:			
Amount arising during the year .....	¥ 209	¥ 1,621	\$ 1,708
Reclassification adjustments for gains and losses included in net income.....	90	311	742
Amount before tax effect .....	300	1,933	2,451
Tax effect .....	(82)	(604)	(670)
Remeasurements of defined benefit plans, net of tax.....	217	1,329	1,781
Total other comprehensive income .....	¥ 2,200	¥ 8,291	\$17,976

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### 25. Net assets

Information regarding changes in net assets for the years ended March 31, 2022 and 2021 are as follows:

#### (1) Shares issued and outstanding / Treasury share

	Thousands of shares			Number of shares at March 31, 2022
	2022			
	Number of shares at March 31, 2021	Increase	Decrease	
Common stock .....	84,841	–	2,000	82,841
Treasury share .....	2,023	711	2,003	731

The decrease in treasury share during the year ended March 31, 2022 was due to the disposal of treasury shares (2,000 thousand shares).

The increase in treasury share during the year ended March 31, 2022 was due to the purchase of odd-lot shares (3 thousand shares) and the market purchases (708 thousand shares).

The decrease in treasury share during the year ended March 31, 2022 was due to the disposal of treasury shares (2,000 thousand shares) and benefit payment of the Board Benefit Trust (BBT) (3 thousand shares).

Number of shares of treasury share at the end of the fiscal year ended March 31, 2022 includes 48 thousand shares held by the Board Benefit Trust (BBT).

	Thousands of shares			Number of shares at March 31, 2021
	2021			
	Number of shares at March 31, 2020	Increase	Decrease	
Common stock .....	84,841	–	–	84,841
Treasury share .....	1,732	292	1	2,023

The increase in treasury share during the year ended March 31, 2021 was due to the purchase of odd-lot shares (3 thousand shares) and the market purchases (289 thousand shares).

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The decrease in treasury share during the year ended March 31, 2021 was due to the benefit payment of the Board Benefit Trust (BBT) (1 thousand shares).

Number of shares of treasury share at the end of the fiscal year ended March 31, 2021 includes 51 thousand shares held by the Board Benefit Trust (BBT).

### (2) Cash dividends

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) shall be transferred to the capital reserve or the legal reserve until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

Appropriations are not accrued in the consolidated financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained.

Dividends paid for the year ended March 31, 2022:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 7)	Yen	U.S. dollars (Note 7)
		Total dividends	Total dividends	Dividends per share	Dividends per share
Annual general meeting of the stockholders on June 29, 2021	Common stock	¥3,397	\$27,760	¥41	\$0.33
Meeting of the Board of Directors on November 4, 2021	Common stock	¥3,545	\$28,971	¥43	\$0.35

Total dividends ¥3,397 million by Annual general meeting of the stockholders on June 29, 2021 includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

Total dividends ¥3,545 million by Meeting of the Board of Directors on November 4, 2021 includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

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For the years ended March 31, 2022 and 2021

Dividends paid for the year ended March 31, 2021:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 7)	Yen	U.S. dollars (Note 7)
		Total dividends	Total dividends	Dividends per share	Dividends per share
Annual general meeting of the stockholders on June 26, 2020	Common stock	¥3,243	\$29,295	¥39	\$0.35
Meeting of the Board of Directors on November 5, 2020	Common stock	¥3,243	\$29,295	¥39	\$0.35

Total dividends ¥3,243 million by Annual general meeting of the stockholders on June 26, 2020 includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

Total dividends ¥3,243 million by Meeting of the Board of Directors on November 5, 2020 includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

Dividends with the cut-off date in the year ended March 31, 2022 and the effective date in the year ending March 31, 2023:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 7)	Yen	U.S. dollars (Note 7)
		Total dividends	Total dividends	Dividends per share	Dividends per share
Annual general meeting of the stockholders on June 28, 2022	Common stock	¥3,861	\$31,550	¥47	\$0.38

Total dividends ¥3,861 million by Annual general meeting of the stockholders on June 28, 2022 includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

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### 26. Supplementary cash flow information

Cash and cash equivalents as of March 31, 2022 and 2021 are reconciled to cash and deposits in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Cash and time deposits .....	¥85,430	¥78,669	\$698,015
Time deposits with maturity of more than three months.....	(3,992)	(2,067)	(32,618)
Separate deposit (Board Benefit Trust) .....	(6)	(6)	(49)
Cash and cash equivalents .....	¥81,431	¥76,596	\$665,348

### 27. Leases

The Group leases certain machinery, equipment and vehicles, software and other assets.

Obligations under non-cancelable operating leases as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Due within one year.....	¥89	¥67	\$732
Due after one year.....	38	137	310
Total.....	¥127	¥205	\$1,043

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### 28. Financial instruments

#### (1) Policy for financial instruments

In consideration of plans for capital investment, the Company and its consolidated subsidiaries raise funds through bank borrowings. The Group manages temporary cash surpluses through low-risk financial assets. Further, the Group raises short-term capital through bank borrowings. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

#### (2) Types of financial instruments and related risk and risk management system

Trade receivables—Notes and accounts receivable—are exposed to credit risk in relation to customers.

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

Marketable securities and investment securities are exposed to market risk. Those securities are composed of mainly held-to-maturity debt securities and the shares of common stock of other companies with which the Group has business relationships, or affiliated companies.

Regarding the shares of common stock of other listed companies, the Group evaluates market value quarterly to reduce fluctuation risk.

The Group has also loans receivable from other companies with which it has business relationships.

Short-term borrowings are raised mainly in connection with business activities, and Long-term borrowings is taken out principally for the purpose of making capital investments. Long-term borrowings with variable interest rates is exposed to interest rate fluctuation risk.

However, to reduce such risk for Long-term borrowings bearing interest at variable rates, the Group mainly utilizes fixed interest.

The group policy for hedge accounting is indicated in Note 2 “Summary of significant accounting policies” (14) “Hedge accounting”.

#### (3) Supplemental information on the fair value of financial instruments

The Group calculates the fair value of financial instruments. This estimate include variable factors and are subject to fluctuation due to changes in underlying assumptions.

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### (4) Fair value of financial instruments

The carrying value, the estimated fair value and the difference of the financial instruments on the balance sheet as of March 31, 2022 and 2021 are as follows.

"Cash" is omitted and "Deposits," "Notes and accounts receivable - trade," "Electronically recorded monetary claims-operating," "Notes and accounts payable," "Electronically recorded obligations-operating," and "Short-term borrowings" are also omitted since these accounts are settled in a short period of time and the fair value approximates the book value.

Millions of yen			
2022			
	Carrying value	Estimated fair value	Difference
Assets			
Available-for-sale securities.....	¥46,600	¥46,600	¥ -
Liabilities			
Long-term borrowings from banks and other financial institutions.....	¥ 3,410	¥ 3,406	¥(3)
Millions of yen			
2021			
	Carrying value	Estimated fair value	Difference
Assets			
Available-for-sale securities.....	¥46,532	¥46,532	¥ -
Liabilities			
Long-term borrowings from banks and other financial institutions.....	¥ 8,053	¥ 8,039	¥(13)
Thousands of U.S. dollars (Note 7)			
2022			
	Carrying value	Estimated fair value	Difference
Assets			
Available-for-sale securities.....	\$380,754	\$380,754	\$ -
Liabilities			
Long-term borrowings from banks and other financial institutions.....	\$ 27,863	\$ 27,831	\$(31)

## NOF CORPORATION and Subsidiaries

### Notes to Consolidated Financial Statements For the years ended March 31, 2022 and 2021

The following items are not included in “Available-for-sale securities” since the market prices do not exist for the fair value as of March 31, 2022 and since the fair value is not readily determinable as market prices do not exist for the fair value as of March 31, 2021.

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
	Unlisted stock .....	¥1,211	¥1,211
Fund certificate .....	¥ 0	¥ 0	\$ 1

The carrying value of monetary assets as of March 31, 2022 and 2021 is as follows:

	Millions of yen			
	2022			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits .....	¥85,423	¥ –	¥ –	¥ –
Notes .....	¥885	¥ –	¥ –	¥ –
Accounts Receivable .....	¥41,050	¥ –	¥ –	¥ –
Electronically recorded monetary claims-operating .....	¥ 2,813	¥ –	¥ –	¥ –

	Millions of yen			
	2021			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits .....	¥78,661	¥ –	¥ –	¥ –
Notes and accounts Receivable	¥39,529	¥ –	¥ –	¥ –
Electronically recorded monetary claims-operating .....	¥ 2,441	¥ –	¥ –	¥ –

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	Thousands of U.S. dollars (Note 7)			
	2022			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits .....	\$697,957	\$ –	\$ –	\$ –
Notes .....	\$7,235	\$ –	\$ –	\$ –
Accounts Receivable .....	\$335,407	\$ –	\$ –	\$ –
Electronically recorded monetary claims-operating .....	\$ 22,984	\$ –	\$ –	\$ –

### (5) Fair Value of Financial Instruments by levels

The fair value of financial instruments is classified into the following three levels based on the observability and materiality of the inputs used to calculate fair value.

Level 1: Fair value derived from quoted prices in active markets for identical assets or liabilities.

Level 2: Fair value derived from observable inputs that are not included in Level 1 inputs.

Level 3: Fair value derived from unobservable inputs.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is classified at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

### (1) Financial instruments measured at fair value on the consolidated balance sheet

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stock .....	¥ 46,600	–	–	¥ 46,600
Total assets .....	¥ 46,600	–	–	¥ 46,600

	Thousands of U.S. dollars (Note 7)			
	2022			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stock .....	\$ 380,754	–	–	\$ 380,754
Total assets .....	\$ 380,754	–	–	\$ 380,754

## NOF CORPORATION and Subsidiaries

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(2) Financial instruments other than those measured at fair value on the consolidated balance sheet

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Long-term borrowings .....	–	¥ 3,406	–	¥ 3,406
Total liabilities .....	–	¥ 3,406	–	¥ 3,406

  

	Thousands of U.S. dollars (Note 7)			
	2022			
	Level 3	Level 2	Level 3	Total
Long-term borrowings .....	–	\$ 27,831	–	\$ 27,831
Total liabilities .....	–	\$ 27,831	–	\$ 27,831

(Note) Valuation techniques and inputs are as follows:

Investment securities:

Fair value of listed stocks is based on the price on the stock exchange. They are classified in Level 1, because they are traded in an active market.

Long-term borrowings:

Fair value is calculated based on the present value estimated by discounting the total principal and interest, using discount rates reflecting the remaining term and credit risk and is classified as Level 2 fair value.

### 29. Short-term borrowings and Long-term borrowings

Short-term borrowings outstanding are generally represented by notes payable issued by the Company to banks with weighted average interest rates of 0.76% at March 31, 2022, and 0.77% at March 31, 2021.

Long-term borrowings as of March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Loans, principally from banks and insurance companies, due April 2022 to September 2027 with average interest rates of 0.89% at March 31, 2022, and 0.66% at March 31, 2021 .....	¥3,410	¥8,053	\$27,863
Less: Current maturities of:			
Long-term borrowings .....	(2,800)	(5,000)	(22,878)
Total .....	¥610	¥3,053	\$4,984

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Aggregate annual maturities of Long-term borrowings subsequent to March 31, 2022 are as follows:

Years ending March 31	<u>Millions of yen</u>	<u>Thousands of U.S. dollars (Note 7)</u>
2024 .....	¥610	\$4,984
2025 .....	—	—
2026 .....	—	—
2027 .....	—	—
2028 and thereafter .....	—	—
Total .....	<u>¥610</u>	<u>\$4,984</u>

### 30. Investments in securities

(1) The acquisition cost, book value and unrealized gains or losses on available-for-sale securities with fair value as of March 31, 2022 and 2021 are as follows:

<u>Description</u>	<u>Millions of yen</u>		
	<u>2022</u>		
	<u>Acquisition cost</u>	<u>Book value (fair value)</u>	<u>Unrealized gain or loss</u>
Book value in excess of acquisition cost			
Stocks .....	¥11,165	¥46,249	¥35,084
Bonds .....	—	—	—
Others .....	—	—	—
Sub total .....	<u>¥11,165</u>	<u>¥46,249</u>	<u>¥35,084</u>
Book value not in excess of acquisition cost			
Stocks .....	¥ 472	¥351	¥ (121)
Bonds .....	—	—	—
Others .....	—	—	—
Sub total .....	<u>¥ 472</u>	<u>¥351</u>	<u>¥ (121)</u>
Total .....	<u>¥11,638</u>	<u>¥46,600</u>	<u>¥34,962</u>

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Description	Millions of yen		
	2021		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks .....	¥11,236	¥46,024	¥34,787
Bonds .....	-	-	-
Others .....	-	-	-
Sub total .....	¥11,236	¥46,024	¥34,787
Book value not in excess of acquisition cost			
Stocks .....	¥ 599	¥508	¥ (91)
Bonds .....	-	-	-
Others .....	-	-	-
Sub total .....	¥ 599	¥508	¥ (91)
Total .....	¥11,836	¥46,532	¥34,696

Description	Thousands of U.S. dollars (Note 7)		
	2022		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks .....	\$91,228	\$377,885	\$286,657
Bonds .....	-	-	-
Others .....	-	-	-
Sub total .....	\$91,228	\$377,885	\$286,657
Book value not in excess of acquisition cost			
Stocks .....	\$ 3,861	\$ 2,868	\$ (993)
Bonds .....	-	-	-
Others .....	-	-	-
Sub total .....	\$ 3,861	\$ 2,868	\$ (993)
Total .....	\$95,089	\$380,754	\$285,664

## NOF CORPORATION and Subsidiaries

### Notes to Consolidated Financial Statements For the years ended March 31, 2022 and 2021

The Group recorded Loss on valuation of investment securities in the amounts of ¥12 million (US\$115 thousand) for the year ended March 31, 2021.

Loss on valuation is recorded for all securities whose fair values have declined by 50% or more, and loss on valuation is recorded for those that have declined in a range of 30% to 50% if the decline is deemed to be irrecoverable.

- (2) Available-for-sale securities sold during the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Proceeds from sale of available-for-sale securities .....	¥246	¥8,837	\$2,012
Realized gain.....	63	5,408	518
Realized loss .....	44	32	367

- (3) The book value of major securities without fair value as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Unlisted stocks.....	¥862	¥862	\$7,044
Fund certificates.....	0	0	1

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### 31. Retirement benefit plans

The Company and its consolidated subsidiaries have either funded and unfunded defined benefit plans and/or defined contribution plans for benefit payments to their employees. For defined benefit plans (all funded plans), a lump-sum payment or annual pension calculated based on salary paid and length of service provided will be paid. For certain lump-sum retirement plans, the lump-sum payments are also determined based on salary paid and length of service provided. For defined benefit corporate pension plans and retirement lump-sum plans offered by certain consolidated subsidiaries, net defined benefit liability and retirement benefit expenses are calculated by a simplified method. In addition, certain consolidated subsidiaries adopt a smaller enterprise retirement allowance mutual plan and defined contribution pension plans.

#### Defined benefit plan

- (1) The changes in retirement benefit obligation during the years ended March 31, 2022 and 2021 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Beginning balance of retirement benefit obligation.....	¥23,822	¥23,608	\$194,643
Service cost.....	1,335	1,390	10,908
Interest cost.....	31	33	260
Actuarial loss.....	(84)	22	(692)
Retirement benefits paid.....	(1,589)	(1,227)	(12,986)
Other.....	22	(4)	184
Ending balance of retirement benefit obligation.....	<u>¥23,537</u>	<u>¥23,822</u>	<u>\$192,317</u>

- (2) The changes in plan assets during the years ended March 31, 2022 and 2021 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Beginning balance of plan assets.....	¥23,299	¥21,420	\$190,375
Expected return on plan assets .....	427	395	3,492
Actuarial loss.....	139	1,644	1,137
Contributions by the Company.....	832	878	6,803
Retirement benefits paid.....	(1,388)	(1,037)	(11,341)
Other.....	4	(0)	38
Ending balance of plan assets.....	<u>¥23,316</u>	<u>¥23,299</u>	<u>\$190,505</u>

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- (3) The changes in liabilities for retirement benefits calculated by using the simplified method during the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2021
Beginning balance of net defined benefit liability .....	¥1,544	¥1,500	\$12,616
Retirement benefit expenses.....	305	284	2,496
Retirement benefits paid.....	(116)	(135)	(947)
Contributions by the Company.....	(111)	(105)	(909)
Ending balance of net defined benefit liability.....	¥1,622	¥1,544	\$13,255

- (4) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2022 and 2021 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Funded retirement benefit obligation ...	¥ 22,197	¥ 22,372	\$ 181,365
Plan assets.....	(24,839)	(24,773)	(202,956)
	(2,642)	(2,401)	(21,591)
Unfunded retirement benefit obligation	4,486	4,468	36,658
Net liabilities in consolidated balance sheet.....	1,844	2,066	15,067
Retirement benefit asset .....	(3,148)	(2,856)	(25,728)
Retirement benefit liability.....	4,992	4,923	40,795
Net liabilities in consolidated balance sheet.....	¥ 1,844	¥ 2,066	\$ 15,067

- (5) The components of retirement benefit expense for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Service cost.....	¥1,335	¥1,390	\$10,908
Interest cost.....	31	33	260
Expected return on plan assets .....	(427)	(395)	(3,492)
Amortization of actuarial loss .....	90	311	739
Retirement benefit expenses for simplified method.....	305	284	2,496
Retirement benefit expenses for defined benefit plans .....	¥1,335	¥1,623	\$10,911

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### Notes to Consolidated Financial Statements For the years ended March 31, 2022 and 2021

- (6) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
	Actuarial loss .....	¥(300)	¥(1,933)
Total .....	¥(300)	¥(1,933)	\$(2,451)

- (7) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
	Unrecognized actuarial loss .....	¥(376)	¥(76)
Total .....	¥(376)	¥(76)	\$(3,078)

- (8) 1) The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2022 and 2021 is as follows:

	2022	2021
Equity securities .....	23%	26%
Debt securities .....	33%	32%
General accounts .....	30%	31%
Other .....	14%	11%
Total .....	100%	100%

**NOTE:**

The plan assets include 8% and 8% of the retirement pension trusts for corporate pension plans as of March 31, 2022 and 2021, respectively.

- 2) The long-term expected rate of return on plan assets has been estimated based on the current and projected pension asset allocations and the current and projected return rate on various assets comprising plan assets.

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(9) The assumptions used in accounting for the above plans are as follows:

	2022	2021
Discount rate .....	mainly 0.00%	mainly 0.00%
Long-term expected rate of return on plan assets	mainly 2.00%	mainly 2.00%
Expected rate of salary increase.....	1.00 ~ 5.86%	1.00 ~ 5.86%

### Defined contribution plans

The required contributions to the defined contribution plan for certain consolidated subsidiaries for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Defined contribution plans.....	¥93	¥93	\$763

### 32. Stock option

There were no applicable items.

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### 33. Income taxes

#### (1) Significant components of deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Deferred tax assets:			
Provision for bonuses .....	¥ 1,095	¥ 1,046	\$ 8,947
Retirement benefit liability .....	2,519	2,497	20,582
Elimination of intercompany profits .	555	444	4,535
Valuation loss on inventories .....	227	334	1,854
Accrued enterprise tax.....	352	395	2,883
Impairment losses.....	447	475	3,653
Provision for officers' retirement benefits and retirement benefits for directors (and other officers).....	15	25	123
Loss on valuation of investment securities.....	204	204	1,670
Foreign tax credit .....	—	—	—
Deemed dividend by distribution in kind	2,125	2,125	17,363
Others .....	881	729	7,199
Subtotal .....	8,422	8,277	68,813
Valuation allowance.....	(2,529)	(2,437)	(20,669)
Total deferred tax assets.....	5,892	5,840	48,145
Deferred tax liabilities:			
Valuation difference on available- for-sale securities .....	(10,733)	(10,652)	(87,701)
Reserve for advanced depreciation of property, plant and equipment.....	(1,496)	(1,519)	(12,229)
Valuation differences .....	(1,513)	(1,513)	(12,369)
Gain on revaluation of assets trusted for retirement benefit.....	(633)	(633)	(5,178)
Others .....	(1,645)	(1,230)	(13,447)
Total deferred tax liabilities .....	(16,023)	(15,550)	(130,925)
Net deferred tax liabilities .....	¥ (10,131)	¥ (9,706)	\$ (82,780)

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### (2) Reconciliation of the effective statutory tax rate to the Company's effective tax rate

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory rates of approximately 31.0% and 31.0% for the years ended March 31, 2022 and 2021, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The note for the reconciliation of the effective statutory tax rate to the Company's effective tax rates is omitted, because the difference between effective statutory tax rate and effective tax rates after adoption of tax-effect accounting is less than 5% of effective statutory tax rate.

### 34. Business combination

There were no applicable items.

### 35. Asset retirement obligations

Information on the asset retirement obligations recorded on the consolidated balance sheet at March 31, 2022 and 2021 is as follows:

#### A. Outline of the asset retirement obligations

Expenses allocated for obligations to remove harmful materials such as fluorocarbon and PCB (polychlorinated biphenyl) from fixed assets and for removal of company dormitory.

#### B. Calculation method of asset retirement obligations

An estimated period of use of 2-38 years and a discount rate of 0.00%-2.27% are used to calculate the amount of the asset retirement obligations.

#### C. Changes in the total amount of the asset retirement obligations for the fiscal years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	(Note 7) 2022
Balance at beginning of year .....	¥555	¥190	\$4,539
Increase due to acquisition of property, plant and equipment .....	3	368	24
Accretion expenses .....	0	0	2
Decrease due to fulfillment of asset retirement obligations .....	(1)	(3)	(12)
Balance at the end of year .....	¥557	¥555	\$4,554

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### 36. Revenue Recognition

(1) Information about breakdown of revenue from contracts with customers

The sales of the Company are mainly revenue recognized from contracts with customers, and the breakdown of the reportable segments of the Company by region is as follows.

The breakdown by region

Millions of yen						
2022						
Reportable segments						
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total
Sales						
Japan .....	¥79,861	¥19,479	¥29,793	¥129,133	¥387	¥129,521
Asia .....	31,674	1,497	151	33,323	81	33,404
Others .....	16,881	12,768	67	29,717	—	29,717
Sales to customers ...	¥ 128,416	¥ 33,745	¥ 30,012	¥ 192,173	¥ 468	¥ 192,642

Thousands of U.S. dollars (Note 7)						
2022						
Reportable segments						
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total
Sales						
Japan .....	\$652,514	\$159,155	\$243,427	\$1,055,098	\$3,166	\$1,058,265
Asia .....	258,796	12,234	1,239	272,269	662	272,932
Others .....	137,929	104,328	550	242,808	—	242,808
Sales to customers ...	\$1,049,240	\$275,718	\$245,217	\$1,570,176	\$3,829	\$1,574,006

Notes:

1. The “Others” category represents segments other than the reportable segments, which includes transportation, real estate sales and administrative operations.
2. Sales are mostly revenue recognized from contracts with customers, and revenue recognized from other sources is not presented separately as it is not material.

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- (2) Basic information to understand revenue from contracts with customers  
For details, please refer to Note 2 “Summary of significant accounting policies” (13) “Reporting of significant revenue and expenses”.
- (3) Information about the relationship between the fulfillment of performance obligations based on contracts with customers and cash flows arising from the contracts, and the amount and timing of revenues from contracts with customers existing at the end of the fiscal year that are expected to be recognized in the following fiscal years.

1) Balance of contract assets and contract liabilities, etc.

	Millions of yen	Thousands of U.S. dollars (Note 7)
	2022	
Receivables from contracts with customers:		
Balance at beginning of year .....	¥39,220	\$320,453
Balance at end of year .....	¥41,936	\$342,642
Contract assets:		
Balance at beginning of year .....	¥308	\$2,522
Balance at end of year .....	¥488	\$3,994
Contract liabilities:		
Balance at beginning of year .....	¥1,753	\$14,326
Balance at end of year .....	¥3,452	\$28,211

Notes:

1. Contract assets are related to consideration recognized based on the fulfillment of performance obligations of the Explosive & Propulsion Segment, and are included in “Notes and accounts receivable - trade, and contract assets” on the consolidated balance sheet.
2. Contract liabilities are related to advances received from customers and are included in “Other current liabilities” under current liabilities on the consolidated balance sheet.
3. Out of the revenue recognized in the fiscal year ended March 31, 2022, the amount included in the beginning balance of contract liabilities is ¥1,052 million (US\$8,601 thousand). Also, in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Standard, the cumulative impact of retrospectively applying the new accounting policies to prior periods ¥671 million (US\$5,485 thousand) is added to retained earnings.
4. In the fiscal year ended March 31, 2022, the amount of revenue recognized from performance obligations that have been fulfilled (or partially fulfilled) in previous fiscal years is immaterial.

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### 2) Transaction price allocated to the remaining performance obligations

In the fiscal year ended March 31, 2022, the transaction price allocated to the remaining performance obligations is ¥12,027 million(US\$98,273 thousand). If contractual assumptions are met, this amount is expected to be recognized as revenue within approximately 4 years from the end of the fiscal year ended March 31, 2022.

The Group has applied the practical expedient to the notes on transaction prices allocated to the remaining performance obligations. Contracts with an original expected duration of one year or less, and sales-based or usage-based royalties promised in exchange for a license of intellectual property, are not included in the amount above.

The total transaction price allocated to the remaining performance obligations and the time frame in which the Group expects to recognize revenue are as follows:

	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
	<u>2022</u>	<u>(Note 7)</u>
Within one year .....	¥5,917	\$48,346
After one year.....	6,110	49,927
Total .....	<u>¥12,027</u>	<u>\$98,273</u>

### 37. Segment information

- (1) The Company's reportable segments are components for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors in order to determine the allocation of resources and assess segment performance.

The Company's reportable segments are as follows:

1. Functional Chemicals --- fatty acids, fatty acid derivatives, surfactants, ethylene oxide and propylene oxide derivatives, organic peroxides, functional polymers, electronic materials, materials for anti-corrosion
2. Life Science --- MPC-related products, raw materials for DDS drug formulation, edible oils, functional foods
3. Explosive & Propulsion --- industrial explosives, defense-related explosives, rocket propellant, automotive safety devices, metal manufactured products

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The accounting policies of the reportable segments are mostly the same as those in Note 2 “Summary of significant accounting policies”

The amount of segment income corresponds to that of operating profit.

Intersegment sales and transfer prices are calculated mainly based on market value or manufacturing cost.

Millions of yen								
2022								
Reportable segments								
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total	Adjustments	Consolidated
<b>Sales</b>								
Sales to customers	¥128,416	¥33,745	¥30,012	¥192,173	¥468	¥192,642	¥ –	¥192,642
Inter-segment.....	1,317	7,293	13	8,624	8,308	16,933	(16,933)	–
Total.....	129,733	41,038	30,026	200,798	8,777	209,575	(16,933)	192,642
Segment income.....	¥ 21,460	¥ 14,109	¥ 1,764	¥ 37,335	¥ 291	¥ 37,626	¥ (2,030)	¥ 35,595
Assets .....	¥ 110,438	¥28,584	¥57,199	¥196,222	¥3,977	¥200,200	¥ 89,429	¥289,630
Depreciation.....	3,198	795	1,539	5,533	94	5,628	280	5,909
Capital expenditures	3,123	1,108	1,066	5,298	108	5,407	328	5,735

Thousands of U.S. dollars (Note 7)								
2022								
Reportable segments								
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total	Adjustments	Consolidated
<b>Sales</b>								
Sales to customers	\$1,049,240	\$275,718	\$245,217	\$1,570,176	\$3,829	\$1,574,006	\$ –	\$1,574,006
Inter-segment.....	10,762	59,590	113	70,466	67,888	138,354	(138,354)	–
Total.....	1,060,003	335,308	245,330	1,640,642	71,717	1,712,360	(138,354)	1,574,006
Segment income.....	\$175,348	\$ 115,282	\$ 14,419	\$ 305,050	\$ 2,382	\$ 307,432	\$ (16,592)	\$ 290,839
Assets .....	\$902,348	\$233,555	\$467,354	\$1,603,258	\$32,499	\$1,635,758	\$ 730,695	\$2,366,454
Depreciation.....	26,134	6,497	12,582	45,214	774	45,989	2,292	48,281
Capital expenditures	25,523	9,057	8,712	43,294	884	44,178	2,680	46,858

#### Notes:

1. The “Others” category represents segments other than the reportable segments, which includes transportation, real estate sales and administrative operations.

#### 2. Adjustments

1) Adjustments and eliminations for segment income ¥ (2,030) million (\$ (16,592) thousand) include ¥ 45 million (\$ 367 thousand) of elimination of inter-segment income and loss and ¥ (2,075) million (\$ (16,960) thousand) of corporate general administrative expense, which are not allocable to the reportable segments.

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2) Adjustments and eliminations for segment assets ¥ 89,429 million (\$730,695 thousand) include ¥ (29,211) million (\$ (238,671) thousand) of elimination of inter-segment and ¥ 118,640 million (\$969,367 thousand) of corporate general administrative assets, which are not allocable to the reportable segments.

3) Adjustments for depreciation include ¥280 million (\$2,292 thousand) of depreciation and amortization for corporate assets.

4) Adjustments for capital expenditures ¥328 million (\$2,680 thousand) refer to the increase in corporate assets.

3. Segment income is reconciled with operating income in the consolidated financial statements.

	Millions of yen							
	2021							
	Reportable segments				Others	Total	Adjustments	Consolidated
Functional Chemicals	Life Science	Explosive & Populsion	Subtotal					
Sales								
Sales to customers	¥109,822	¥31,232	¥30,078	¥171,133	¥1,511	¥172,645	¥ –	¥172,645
Inter-segment.....	831	4,446	9	5,286	7,892	13,179	(13,179)	–
Total.....	110,654	35,679	30,087	176,420	9,403	185,824	(13,179)	172,645
Segment income.....	¥ 15,655	¥ 10,310	¥ 2,036	¥ 28,003	¥ 228	¥ 28,231	¥ (1,629)	¥ 26,602
Assets.....	¥ 95,572	¥24,353	¥58,313	¥178,239	¥3,812	¥182,051	¥ 89,484	¥271,536
Depreciation.....	2,950	675	1,573	5,199	86	5,286	266	5,553
Capital expenditures	4,653	2,106	1,376	8,136	61	8,198	234	8,432

Notes:

1. The “Others” category represents segments other than the reportable segments, which includes transportation, real estate sales and administrative operations.

2. Adjustments

1) Adjustments and eliminations for segment income ¥ (1,629) million (\$14,715 thousand) include ¥ 70 million (\$ 639 thousand) of elimination of inter-segment income and loss and ¥ (1,699) million (\$15,355 thousand) of corporate general administrative expense, which are not allocable to the reportable segments.

2) Adjustments and eliminations for segment assets ¥ 89,484 million (\$808,279 thousand) include ¥ (27,391) million (\$ (247,414) thousand) of elimination of inter-segment and ¥ 116,875 million (\$1,055,694 thousand) of corporate general administrative assets, which are not allocable to the reportable segments.

3) Adjustments for depreciation include ¥266 million (\$2,410 thousand) of depreciation and amortization for corporate assets.

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4) Adjustments for capital expenditures ¥234 million (\$2,116 thousand) refer to the increase in corporate assets.

(2) Changes to reportable segments and others

As stated in the Note 4 “Change in accounting policy”, the Company applied the Revenue Recognition Accounting Standard from the beginning of the fiscal year ended March 31, 2022.

Accordingly, the method of calculating net sales and income or loss by reportable segment was also changed in the same manner.

As a result of this change, for Functional Chemicals, net sales decreased by ¥4,227 million (\$34,538 thousand) and segment income increased by ¥43 million (\$356 thousand), for Life Science, net sales decreased by ¥662 million (\$5,412 thousand) and segment income increased by ¥257 million (\$2,103 thousand), for Explosive & Propulsion, net sales decreased by ¥192 million (\$1,571 thousand) and segment income increased by ¥8 million (\$71 thousand), for Others, net sales decreased by ¥912 million (\$7,458 thousand) for the fiscal year ended March 31, 2022, compared with the previous method.

(3) Information related to reportable segments

1) The Group’s sales by geographical area for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Japan .....	¥129,521	¥122,467	\$1,058,265
Asia .....	33,404	29,428	272,932
Others.....	29,717	20,749	242,808
Total.....	¥192,642	¥172,645	\$1,754,006

Note: 2022 Sales to Asia include more than 10% of consolidated net sales to China, which is ¥ 19,844 million (\$162,140 thousand).

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- 2) The Group's property, plant and equipment by geographical area as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
	Japan .....	¥55,961	¥56,786
Others.....	5,983	5,426	48,888
Total.....	¥61,944	¥62,212	\$506,126

- (4) Impairment losses by reportable segments for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
	Functional Chemicals .....	¥8	¥8
Life Science .....	—	—	—
Explosive & Propulsion.....	43	36	356
Others .....	—	—	—
Total.....	¥51	¥45	\$422

### 38. Related party transactions

The information for the fiscal years ended March 31, 2022 and 2021 was not disclosed because there were no significant transactions with related parties.

### 39. Per share information

Profit attributable to owners of parent per share of common stock is based upon the weighted average number of shares outstanding during each fiscal year.

	Yen		U.S. dollars (Note 7)
	2022	2021	2022
	Profit attributable to owners of parent:		
Basic .....	¥ 323.77	¥ 280.49	\$2.65
Diluted .....	—	—	—
Cash dividends applicable to the year .....	90.00	80.00	0.74
Net assets .....	2,690.65	2,448.60	21.98

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Profit attributable to owners of parent – diluted for the years ended March 31, 2022 and 2021 is not disclosed because there are no diluted shares.

Cash dividends per share applicable to the period for the fiscal year ended March 31, 2022, comprise interim dividends of ¥43.00 and year-end dividends of ¥47.00.

The Company's shares held by the Board Benefit Trust (BBT) are included in treasury share subject to exclusion.

Number of shares issued that were excluded for the purpose of calculating per share information 48,200 at March 31, 2022, and 51,400 at March 31, 2021.

Average number of shares that were excluded for the purpose of calculating per share information 49,185 during the year ended March 31, 2022 and 51,800 during the year ended March 31, 2021.

Basis for calculating profit attributable to owners of parent:

	Millions of yen		Thousands of U.S. dollars (Note 7)
	2022	2021	2022
Profit attributable to owners of parent .....	¥26,690	¥23,302	\$218,079
Amount not available to shareholders .....	–	–	–
Profit attributable to owners of parent applicable to common stock .....	¥26,690	¥23,302	\$218,079
Average number of shares outstanding (1,000 shares).....	82,437	83,077	

#### 40. Subsequent events

There were no applicable items.