

NOF CORPORATION

Consolidated Financial Statements

For the years ended March 31, 2023 and 2022



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, 2023, 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, 2023, 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 36 (Segment Information, etc.), the Company has recorded sales to customers amounting to ¥40,907 million in the Life Science business for the year ended March 31, 2023.</p> <p>The Life Science business manufactures and sells MPC-related products, raw materials for DDS drug</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>

<p>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>	<ul style="list-style-type: none"> • We understood the sales process, and evaluated the design of the related internal controls and tested their operating effectiveness. • In order to understand the outline of sales transactions and their terms and conditions, we discussed with managers of business divisions and the management. • 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. • We performed an external confirmation procedure for the year end balances of accounts receivable, which were selected on the basis of risk and significance of the balances.
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Other Information

Other information comprises the information included in disclosure documents that contain audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that other information does not exist. Accordingly, we have not performed any work related to 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, 2023 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 6 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

September 29, 2023

/s/Shigeyuki Kano
Designated Engagement Partner
Certified Public Accountant

/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 6)

	Millions of yen		2023
	2023	2022	2023
ASSETS			
Current assets:			
Cash and deposits (Notes 25 and 27).....	¥ 92,520	¥ 85,430	\$ 692,880
Notes and accounts receivable - trade, and contract assets(Notes 7 ,11 ,27 and 35).....	45,971	42,424	344,280
Electronically recorded monetary claims-operating (Note 27).....	3,014	2,813	22,578
Merchandise and finished goods	30,079	25,655	225,265
Work in process.....	3,412	1,693	25,554
Raw materials and supplies.....	16,245	12,552	121,661
Other.....	2,706	2,937	20,266
Allowance for doubtful accounts.....	(199)	(185)	(1,497)
Total current assets	193,750	173,322	1,450,990
Non-current assets:			
Property, plant and equipment (Notes 8 and 9):			
Buildings and structures.....	76,870	75,771	575,678
Accumulated depreciation	(53,689)	(51,758)	(402,076)
Buildings and structures, net	23,181	24,013	173,601
Machinery, equipment and vehicles	109,677	106,729	821,367
Accumulated depreciation	(96,252)	(93,181)	(720,831)
Machinery, equipment and vehicles, net	13,424	13,547	100,536
Land.....	20,790	20,706	155,702
Leased assets.....	490	438	3,670
Accumulated depreciation	(344)	(242)	(2,580)
Leased asset, net	145	196	1,090
Construction in progress	3,927	1,423	29,411
Other.....	17,258	16,191	129,246
Accumulated depreciation	(14,863)	(14,132)	(111,315)
Other, net.....	2,394	2,058	17,931
Total property, plant and equipment	63,863	61,944	478,273
Intangible assets:			
Other.....	1,148	947	8,604
Total Intangible assets	1,148	947	8,604
Investments and other assets:			
Investments securities (Notes 8 ,10 ,27 and 29)	44,719	47,812	334,902
Long-term loans receivable.....	5	2	44
Deferred tax assets (Note 32).....	950	985	7,116
Retirement benefit asset (Note 30)	3,071	3,148	23,004
Other.....	1,988	1,521	14,892
Allowance for doubtful accounts.....	(60)	(53)	(455)
Total investments and other assets	50,675	53,416	379,504
Total non-current assets	115,688	116,308	866,382
Total assets	¥ 309,438	¥ 289,630	\$ 2,317,373

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 6)

	Millions of yen		2023
	2023	2022	2023
Liabilities			
Current liabilities:			
Notes and accounts payable - trade.....	¥ 18,496	¥ 21,262	\$ 138,522
Electronically recorded obligations-operating.....	1,230	584	9,213
Short-term borrowings (Notes 27 and 28).....	2,080	1,997	15,577
Current portion of long-term borrowings (Notes 27 and 28).....	150	2,800	1,123
Lease liabilities.....	103	130	778
Accrued expenses.....	1,585	1,514	11,876
Income taxes payable.....	8,626	5,879	64,606
Deposits received.....	4,137	3,803	30,982
Provision for bonuses.....	3,521	3,473	26,374
Asset retirement obligations (Note 34).....	168	169	1,263
Other.....	11,496	8,853	86,099
Total current liabilities.....	51,598	50,468	386,419
Non-current liabilities:			
Long-term borrowings (Notes 27 and 28).....	2,332	610	17,469
Lease liabilities.....	178	92	1,335
Deferred tax liabilities (Note 32).....	9,820	11,117	73,544
Provision for officers' retirement benefits.....	56	48	423
Retirement benefit liability (Note 30).....	4,842	4,992	36,263
Asset retirement obligations (Note 34).....	388	388	2,907
Other.....	219	206	1,641
Total non-current liabilities.....	17,837	17,455	133,585
Total liabilities.....	69,436	67,924	520,004
Commitments and contingencies (Note 11)			
Net assets:			
Shareholders' equity			
Share capital.....	17,742	17,742	132,869
Authorized: 347,000,000 shares at March 31, 2023 and 2022			
Issued: 82,841,376 shares at March 31, 2023 and 2022			
Capital surplus.....	15,052	15,115	112,729
Retained earnings.....	192,092	166,602	1,438,572
Treasury shares.....	(10,299)	(3,292)	(77,131)
Total shareholders' equity.....	214,588	195,627	1,607,039
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities.....	21,725	24,226	162,697
Foreign currency translation adjustment.....	2,683	809	20,094
Remeasurements of defined benefit plans.....	180	264	1,351
Total accumulated other comprehensive income.....	24,588	25,300	184,144
Non-controlling interests.....	825	777	6,184
Total net assets.....	240,002	221,706	1,797,368
Total liabilities and net assets.....	¥309,438	¥289,630	\$2,317,373

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 6)

	Millions of yen		2023
	2023	2022	
Net sales (Note 13)	¥217,709	¥192,642	\$1,630,419
Cost of sales (Notes 14 and 16).....	141,766	123,713	1,061,682
Gross profit	75,943	68,928	568,736
Selling, general and administrative expenses (Notes 15 and 16)	35,318	33,333	264,500
Operating profit.....	40,624	35,595	304,236
Non-operating income:			
Interest income	174	137	1,309
Dividend income	1,197	993	8,965
Rental income from real estate	273	272	2,048
Foreign exchange gains	793	681	5,944
Other.....	534	457	4,003
Total non-operating income	2,973	2,543	22,271
Non-operating expenses:			
Interest expenses	80	60	602
Expenses for conditional assignment.....	29	29	217
Rental expenses on real estate	82	85	614
Expenses for disposal of fixed assets.....	112	156	844
Other.....	110	182	830
Total non-operating expenses	415	514	3,109
Ordinary profit	43,183	37,624	323,398
Extraordinary income:			
Gain on sale of non-current assets (Note 17)	7	1,154	52
Gain on sale of investment securities (Note 29).....	4,840	63	36,253
Gain on extinguishment of tie-in shares (Note 18).....	34	—	262
Total extraordinary income	4,882	1,128	36,567
Extraordinary losses:			
Loss on sale of non-current assets (Note 19).....	0	0	4
Impairment losses (Note 20)	1	51	10
Loss on retirement of non-current assets (Note 21).....	23	51	174
Loss on tax purpose reduction entry of non-current assets (Note 22).....	—	697	—
Loss on sale of investment securities (Note 29)	0	44	0
Other.....	—	18	—
Total extraordinary losses	25	864	190

NOF CORPORATION and Subsidiaries

Consolidated Statement of Income (continued)

For the Year Ended March 31,

Thousands of
U.S. dollars
(Note 6)

	Millions of yen		2023
	2023	2022	
Profit before income taxes	48,040	37,977	359,775
Income taxes - current	14,114	11,026	105,703
Income taxes - deferred.....	(89)	228	(670)
Total income taxes (Note 32)	14,025	11,255	105,033
Profit	34,015	26,722	254,742
Profit attributable to non-controlling interests.....	42	31	316
Profit attributable to owners of parent (Note 38).....	33,973	26,690	254,425

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,

Thousands of
U.S. dollars
(Note 6)

	Millions of yen		2023
	2023	2022	2023
Profit	¥34,015	¥26,722	\$254,742
Other comprehensive income (Note 23)			
Valuation difference on available-for-sale securities.....	(2,500)	185	(18,724)
Foreign currency translation adjustment.....	1,957	1,796	14,659
Remeasurements of defined benefit plans, net of tax.....	(83)	217	(625)
Total other comprehensive income	(626)	2,200	(4,690)
Comprehensive income	33,389	28,922	250,051
Total comprehensive income attributable to:			
Owners of parent	33,261	28,869	249,096
Non-controlling interests.....	127	52	954

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, 2023 and 2022

	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, 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 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
Dividends of surplus	-	-	-	(7,943)	-	(7,943)	-	-	-	-	-	(7,943)
Profit attributable to owners of parent	-	-	-	33,973	-	33,973	-	-	-	-	-	33,973
Purchase of treasury shares.....	-	-	-	-	(7,007)	(7,007)	-	-	-	-	-	(7,007)
Disposal of treasury shares.....	-	-	0	-	0	0	-	-	-	-	-	0
Cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Change in ownership interest of parent due to transactions with non-controlling interests	-	-	(62)	-	-	(62)	-	-	-	-	-	(62)
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(2,501)	1,874	(84)	(711)	47	(663)
Total changes during period	-	-	(62)	26,030	(7,007)	18,960	(2,501)	1,874	(84)	(711)	47	18,296
Balance at March 31, 2023.....	82,841	¥17,742	¥15,052	¥192,092	¥(10,299)	¥214,588	¥21,725	¥2,683	¥180	¥24,588	¥825	¥240,002

For the Year Ended March 31, 2023

	Thousands of U.S. dollars (Note 6)											
	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, 2022.....	82,841	\$132,869	\$113,200	\$1,243,633	\$(24,655)	\$1,465,048	\$181,430	\$ 6,060	\$1,982	\$189,472	\$5,825	\$1,660,346
Dividends of surplus	-	-	-	(59,486)	-	(59,486)	-	-	-	-	-	(59,486)
Profit attributable to owners of parent	-	-	-	254,425	-	254,425	-	-	-	-	-	254,425
Purchase of treasury shares.....	-	-	-	-	(52,477)	(52,477)	-	-	-	-	-	(52,477)
Disposal of treasury shares.....	-	-	0	-	0	0	-	-	-	-	-	0
Cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Change in ownership interest of parent due to transactions with non-controlling interests	-	-	(471)	-	-	(471)	-	-	-	-	-	(471)
Net changes in items other than shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
Total changes during period	-	-	(471)	194,939	(52,477)	141,991	(18,732)	14,034	(630)	(5,328)	359	(4,969)
Balance at March 31, 2023.....	82,841	\$132,869	\$112,729	\$1,438,572	\$(77,131)	\$1,607,039	\$162,697	\$20,094	\$1,351	\$184,144	\$6,184	\$1,797,368

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 6)

	Millions of yen		2023
	2023	2022	2023
Cash flows from operating activities:			
Profit before income taxes	¥48,040	¥37,977	\$359,775
Depreciation.....	6,359	5,909	47,623
Impairment losses	1	51	10
Increase (decrease) in retirement benefit liability.....	(279)	(21)	(2,091)
Interest and dividend income.....	(1,371)	(1,131)	(10,274)
Interest expenses.....	80	60	602
Loss (gain) on extinguishment of tie-in shares.....	(34)	—	(262)
Loss (gain) on sale of non-current assets.....	(6)	(1,154)	(47)
Loss on tax purpose reduction entry of non-current assets....	—	697	—
Loss (gain) on sale of investment securities	(4,840)	(18)	(36,252)
Decrease (increase) in trade receivables.....	(2,967)	(2,494)	(22,221)
Decrease (increase) in inventories	(9,410)	(7,301)	(70,477)
Increase (decrease) in trade payables.....	(3,129)	3,088	(23,435)
Other, net	1,107	2,250	8,293
Sub total	33,548	37,915	251,242
Interest and dividends received.....	1,370	1,113	10,261
Interest paid.....	(78)	(61)	(590)
Income taxes paid	(11,506)	(11,574)	(86,169)
Net cash provided by (used in) operating activities.....	23,333	27,393	174,744
Cash flows from investing activities:			
Purchase of investment securities	(1,305)	(29)	(9,779)
Proceeds from sale of investment securities	5,612	246	42,029
Purchase of property, plant and equipment and intangible assets.....	(6,219)	(7,416)	(46,579)
Proceeds from sale of property, plant and equipment and intangible assets	22	136	165
Net decrease (increase) in short-term loans receivable.....	224	(120)	1,680
Long-term loan advances.....	(6)	—	(45)
Proceeds from collection of long-term loans receivable.....	2	4	22
Other, net	960	(1,577)	7,194
Net cash provided by (used in) investing activities.....	(709)	(8,755)	(5,312)

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 6)
	2023	2022	2023
Cash flows from financing activities:			
Net increase in short-term borrowings.....	(488)	308	(3,660)
Proceeds from long-term borrowings.....	2,200	329	16,475
Repayments of long-term borrowings.....	(2,800)	(5,000)	(20,969)
Proceeds from sale of treasury shares.....	0	2	0
Purchase of treasury shares.....	(7,007)	(3,871)	(52,477)
Purchase of treasury shares of subsidiaries.....	(0)	—	(4)
Repayments of finance lease liabilities.....	(130)	(159)	(979)
Dividends paid.....	(7,916)	(6,919)	(59,285)
Dividends paid to non-controlling interests.....	(26)	(2)	(199)
Net cash provided by (used in) financing activities.....	(16,170)	(15,312)	(121,100)
Effect of exchange rate change on cash and cash equivalents.....	1,139	1,510	8,536
Net increase (decrease) in cash and cash equivalents.....	7,593	4,835	56,868
Cash and cash equivalents at beginning of period.....	81,431	76,596	609,840
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries.....	55	—	417
Cash and cash equivalents at end of period (Note 25).....	¥89,081	¥81,431	\$667,125

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, 2023 and 2022

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 31 subsidiaries (majority-owned companies) as of March 31, 2023 (32 for 2022). 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, 2023 (25 for 2022).

The remaining 6 (7 for 2022) 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, 2023 and 2022

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

Name of subsidiaries	Percentage of voting rights owned by the Company
	%
(Domestic subsidiaries)	
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
(Foreign subsidiaries)	
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
NOF METAL COATINGS EUROPE S.r.l.	100.0
NOF METAL COATINGS SOUTH AMERICA IND.E COM.LTDA. ..	100.0
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.

SIE s.r.l. changed its name to “NOF METAL COATINGS EUROPE S.r.l.” on January 1, 2023.

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(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

Held-to-maturity securities are stated at amortized cost (straight-line method).

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

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(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) 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.

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(12) 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.

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(13) 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.

(14) 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.

(15) 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, 2023 and 2022

3. Significant accounting estimates

(1) Recoverability of deferred tax assets

A. Amount recorded on the consolidated financial statements as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Deferred tax assets, net	¥961	¥999	\$7,204

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.

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
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(2) Impairment of fixed assets

A. Amount recorded on the consolidated financial statements as of March 31, 2023 and 2022 are as follows

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Impairment losses.....	¥ 1	¥ 51	\$ 11
Property, plant and equipment and intangible assets.....	¥65,012	¥62,891	\$486,878

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. As a result of impairment assessment, if the recoverable amount is determined to be lower than the book value, the book value is reduced to the recoverable amount (either higher the net realizable value or value in use) and the reduction is recognized as impairment loss.

In the current fiscal year, the Group determined that an indication of impairment existed in a certain asset group of the Life Science segment (¥4,318 million (\$32,339 thousand) of fixed assets, etc.) due to low profitability by soaring raw material and fuel prices. However, the Group concluded that the recognition of impairment loss was not necessary since the total amount of the undiscounted future cash flows generated from the asset group exceeded the book value.

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.

In the current fiscal year, the Group treated some assumptions, such as the future estimated sales, sales prices and variable costs in consideration of the future raw material and fuel prices as main assumptions in a certain asset group of the Life Science segment with an indication of impairment.

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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.

4. Accounting standards issued but not yet effective

Revised Accounting Standard for Current Income Taxes

The Accounting Standards Board of Japan issued the following revised accounting standards and revised implementation guidance:

- “ Accounting Standard for Current Income Taxes” (ASBJ Statement No. 27, October 28, 2022)
- “ Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, October 28, 2022)
- “ Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

The revised standards and revised implementation guidance provide for the classification of income taxes when taxes are imposed on other comprehensive income and for the treatment of tax effects related to the sale of shares of subsidiaries when the corporate group tax system is applied.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standards and related implementation guidance from the beginning of the fiscal year ending March 31, 2025.

(3) Impact of adoption of revised accounting standard and related implementation guidance

The Company is currently evaluating the effect of the adoption of the accounting standards and related implementation guidance on its consolidated financial statements.

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Notes to Consolidated Financial Statements
For the years ended March 31, 2023 and 2022

5. 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, 2023 and ¥164 million of book value at March 31, 2022.

The number of such shares was 48,200 at March 31, 2023 and 48,200 at March 31, 2022.

6. 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 $¥133.53 = \text{U.S.}\$1$, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2023, 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 $¥133.53 = \text{U.S.}\$1$ 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

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For the years ended March 31, 2023 and 2022

7. Receivables from contracts with customers and contract assets

Receivables from contracts with customers and contract assets as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Notes	¥ 752	¥ 885	\$ 5,637
Accounts Receivable	¥44,791	¥41,050	\$335,438
Contract assets	¥ 427	¥ 488	\$ 3,203

8. 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 ¥153 million (US\$1,150 thousand) at March 31, 2023, and ¥199 million at March 31, 2022 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Investments in securities	¥ —	¥ 24	\$ —
Buildings and structures	—	58	—
Land	160	163	1,198
Total	¥160	¥245	\$1,198

9. 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, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Buildings and structures	¥512	¥512	\$3,836
Machinery, equipment and vehicles.....	448	448	3,356
Other	21	21	160
Total.....	¥981	¥982	\$7,352

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10. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Investments in securities.....	¥342	¥349	\$2,563
Capital contribution.....	12	12	97
Total.....	¥355	¥362	\$2,660

11. Commitments and contingencies

(1) As of March 31, 2023 and 2022 the Company was contingently liable for the conditional assignment of ¥1,686 million (US\$12,632 thousand) and ¥1,514 million, respectively, of trade notes and accounts receivable with recourse obligations.

(2) As of March 31, 2023 and 2022 the Company had unused commitment agreements amounting to ¥5,000 million (US\$37,444 thousand) and ¥5,000 million, respectively, with banks and other financial institutions.

12. Contract liabilities

Contract liabilities included in “Other” on Current liabilities as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Contract liabilities	¥5,241	¥3,452	\$39,252

13. 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 "35. Revenue Recognition (1) Information about breakdown of revenue from contracts with customers".

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14. Inventories

Write-downs of inventories for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
			(Note 6)
	2023	2022	2023
Cost of sales	¥189	¥(393)	\$1,420

15. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2023 and 2022 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
			(Note 6)
	2023	2022	2023
Delivery and storage charges	¥5,939	¥5,879	\$44,484
Salaries and bonuses	9,372	8,902	70,186
Retirement benefit expenses	441	550	3,303
Accrued bonuses	1,202	1,212	9,005
Retirement benefit costs for officers	8	6	65
Research and development costs	5,697	5,182	42,671
Allowance for doubtful accounts	0	(19)	0

16. Research and development costs

Research and development costs for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
			(Note 6)
	2023	2022	2023
Research and development costs	¥6,573	¥6,108	\$49,431

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17. Gain on sale of non-current assets

Gain on sale of non-current assets for the years ended March 31, 2023 and 2022 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Machinery, equipment and vehicles.....	¥5	¥ 1	\$41
Land.....	—	1,148	—
Others.....	1	2	11
Total.....	¥7	¥1,154	\$52

18. Gain on extinguishment of tie-in shares

Gain on extinguishment of tie-in shares for the year ended March 31, 2023 is due to the result that NIPPO SANGYO CO., LTD, an unconsolidated subsidiary, was merged to HOKKAIDO NOF CORPORATION.

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

19. Loss on sale of non-current assets

Loss on sale of non-current assets for the years ended March 31, 2023 and 2022 is as follows

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Machinery, equipment and vehicles.....	¥0	¥0	\$4
Others.....	—	0	—
Total.....	¥0	¥0	\$4

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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, 2023 and 2022.

2023				
Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 6)
Kawagoe city, Saitama	Facilities	Buildings	¥ 1	\$ 10

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.

Kawagoe city, Saitama asset listed in the above table was written down to its respective recoverable amounts and ¥1 million (US\$10 thousand) of impairment losses was recognized in the consolidated statement of income for the year ended March 31, 2023

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 ¥1 million (US\$10 thousand) for buildings and structures.

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Notes to Consolidated Financial Statements For the years ended March 31, 2023 and 2022

2022

Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 6)
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.

21. Loss on retirement of non-current assets

Loss on retirement of non-current assets for the years ended March 31, 2023 and 2022 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Buildings and structures	¥ 5	¥33	\$ 41
Machinery, equipment and vehicles.....	12	7	90
Other	5	10	42
Total.....	¥23	¥51	\$174

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

There were no applicable items for the year ended March 31, 2023.

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.

23. Other comprehensive income

Reclassification adjustments and tax effects of each component of other comprehensive income for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Valuation difference on available-for-sale securities:			
Amount arising during the year.....	¥1,225	¥ 282	\$ 9,177
Reclassification adjustments for gains and losses included in net income	(4,840)	(20)	(36,251)
Amount before tax effect	(3,615)	261	(27,074)
Tax effect	1,114	(75)	8,349
Valuation difference on available-for-sale securities.....	(2,500)	185	(18,724)
Foreign currency translation adjustment:			
Amount arising during the year.....	¥1,957	¥1,796	\$14,659
Remeasurements of defined benefit plans, net of tax:			
Amount arising during the year.....	¥ (160)	¥ 209	\$(1,202)
Reclassification adjustments for gains and losses included in net income	44	90	331
Amount before tax effect	(116)	300	(870)
Tax effect	32	(82)	245
Remeasurements of defined benefit plans, net of tax.....	(83)	217	(625)
Total other comprehensive income.....	¥ (626)	¥2,200	\$(4,690)

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24. Net assets

Information regarding changes in net assets for the years ended March 31, 2023 and 2022 are as follows:

(1) Shares issued and outstanding / Treasury share

	Thousands of shares			
	2023			
	Number of shares at March 31, 2022	Increase	Decrease	Number of shares at March 31, 2023
Common stock.....	82,841	–	–	82,841
Treasury share	731	1,321	0	2,053

The increase in treasury share during the year ended March 31, 2023 was due to the purchase of odd-lot shares (1 thousand shares) and the market purchases (1,320 thousand shares).

The decrease in treasury share during the year ended March 31, 2023 was due to the disposal of odd-lot shares (0 thousand shares).

Number of shares of treasury share at the end of the fiscal year ended March 31, 2023 includes 48 thousand shares held by the Board Benefit Trust (BBT).

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

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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).

(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, 2023:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 6)	Yen	U.S. dollars (Note 6)
		Total dividends	Total dividends	Dividends per share	Dividends per share
Annual general meeting of the stockholders on June 28, 2022	Common stock	¥3,861	\$28,917	¥47	\$0.35
Meeting of the Board of Directors on November 2, 2022	Common stock	¥4,081	\$30,568	¥50	\$0.37

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).

Total dividends ¥4,081 million by Meeting of the Board of Directors on November 2, 2022 includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

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Dividends paid for the year ended March 31, 2022:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 6)	Yen	U.S. dollars (Note 6)
		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).

Dividends with the cut-off date in the year ended March 31, 2023 and the effective date in the year ending March 31, 2024:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 6)	Yen	U.S. dollars (Note 6)
		Total dividends	Total dividends	Dividends per share	Dividends per share
Annual general meeting of the stockholders on June 27, 2023	Common stock	¥4,688	\$35,111	¥58	\$0.43

Total dividends ¥4,688 million by Annual general meeting of the stockholders on June 27, 2023 includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

25. Supplementary cash flow information

Cash and cash equivalents as of March 31, 2023 and 2022 are reconciled to cash and deposits in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Cash and time deposits	¥92,520	¥85,430	\$692,880
Time deposits with maturity of more than three months.....	(3,430)	(3,992)	(25,692)
Separate deposit (Board Benefit Trust).....	(8)	(6)	(62)
Cash and cash equivalents	<u>¥89,081</u>	<u>¥81,431</u>	<u>\$667,125</u>

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26. Leases

The Group leases certain machinery, equipment and vehicles, software and other assets. Obligations under non-cancelable operating leases as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Due within one year	¥32	¥ 89	\$241
Due after one year	25	38	192
Total.....	¥58	¥127	\$434

27. 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.

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

The Group regularly monitor market prices and the financial status of issuers (business partners), and review our shares in consideration of the relationship with business partners.

The Group assesses credit risk of held-to-maturity securities is negligible because only highly safe bonds are held in accordance with internal guidelines.

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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” (13) “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.

(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, 2023 and 2022 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		
	2023		
	Carrying value	Estimated fair value	Difference
Assets			
Investment securities			
Held-to-maturity securities	¥ 1,300	¥ 1,295	¥(4)
Available-for-sale securities	42,218	42,218	-
Total assets.....	¥43,518	¥43,514	¥(4)
Liabilities			
Long-term borrowings from banks and other financial institutions			
	¥ 2,482	¥ 2,473	¥(8)
Total liabilities	¥ 2,482	¥ 2,473	¥(8)

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	Millions of yen		
	2022		
	Carrying value	Estimated fair value	Difference
Assets			
Investment securities			
Held-to-maturity securities	¥ –	¥ –	¥ –
Available-for-sale securities	46,600	46,600	–
Total assets.....	¥46,600	¥46,600	¥ –
Liabilities			
Long-term borrowings from banks and other financial institutions	¥ 3,410	¥ 3,406	¥(3)
Total liabilities	¥ 3,410	¥ 3,406	¥(3)

	Thousands of U.S. dollars (Note 6)		
	2023		
	Carrying value	Estimated fair value	Difference
Assets			
Investment securities			
Held-to-maturity securities	\$ 9,735	\$ 9,701	\$(33)
Available-for-sale securities	316,172	316,172	–
Total assets.....	\$325,908	\$325,874	\$(33)
Liabilities			
Long-term borrowings from banks and other financial institutions	\$ 18,592	\$ 18,526	\$(66)
Total liabilities	\$ 3,410	\$ 3,406	\$(66)

Financial instruments that do not have market prices are not included in “Available-for-sale securities”. The consolidated balance sheet amount of these financial instruments is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
	Unlisted stock.....	¥1,200	¥1,211
Fund certificate	¥ 0	¥ 0	\$ 1

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Redemption schedule for receivables and securities with maturities as of March 31, 2023 and 2022 are as follows:

	Millions of yen			
	2023			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥92,512	¥ –	¥ –	¥ –
Notes.....	¥ 752	¥ –	¥ –	¥ –
Accounts Receivable	¥44,791	¥ –	¥ –	¥ –
Electronically recorded monetary claims-operating	¥ 3,014	¥ –	¥ –	¥ –
Investment securities				
Held-to-maturity securities				
Corporate bonds	¥ –	¥300	¥500	¥500

	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	¥ –	¥ –	¥ –
Investment securities				
Held-to-maturity securities				
Corporate bonds	¥ –	¥ –	¥ –	¥ –

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	Thousands of U.S. dollars (Note 6)			
	2023			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	\$692,818	\$ –	\$ –	\$ –
Notes.....	\$ 5,637	\$ –	\$ –	\$ –
Accounts Receivable	\$335,438	\$ –	\$ –	\$ –
Electronically recorded monetary claims-operating	\$ 22,578	\$ –	\$ –	\$ –
Investment securities				
Held-to-maturity securities				
Corporate bonds	\$ –	\$2,246	\$3,744	\$3,744

(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 as of March 31, 2023 and 2022 are as follows.

	Millions of yen			
	2023			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stock	¥ 42,218	¥–	¥–	¥ 42,218
Total assets.....	¥ 42,218	¥–	¥–	¥ 42,218

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	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 6)			
	2023			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stock	\$ 316,172	\$-	\$-	\$ 316,172
Total assets.....	\$ 316,172	\$-	\$-	\$ 316,172

2) Financial instruments other than those measured at fair value on the consolidated balance sheet as of March 31, 2023 and 2022 are as follows.

	Millions of yen			
	2023			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity securities				
Corporate bonds	¥ -	¥ 1,295	¥ -	¥ 1,295
Total assets.....	¥ -	¥ 1,295	¥ -	¥ 1,295
Long-term borrowings.....	¥ -	¥ 2,473	¥ -	¥ 2,473
Total liabilities	¥ -	¥ 2,473	¥ -	¥ 2,473

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity securities				
Corporate bonds	¥ -	¥ -	¥ -	¥ -
Total assets.....	¥ -	¥ -	¥ -	¥ -
Long-term borrowings.....	¥ -	¥ 3,406	¥ -	¥ 3,406
Total liabilities	¥ -	¥ 3,406	¥ -	¥ 3,406

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	Thousands of U.S. dollars (Note 6)			
	2023			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity securities				
Corporate bonds	\$ -	\$ 9,701	\$ -	\$ 9,701
Total assets.....	\$ -	\$ 9,701	\$ -	\$ 9,701
Long-term borrowings	\$ -	\$ 18,526	\$ -	\$ 18,526
Total liabilities	\$ -	\$ 18,526	\$ -	\$ 18,526

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. However, the fair value of corporate bonds are classified in Level 2 due to quoted price in inactive market with low trade frequency.

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.

28. 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 1.49% at March 31, 2023, and 0.76% at March 31, 2022.

Long-term borrowings as of March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
	Loans, principally from banks and insurance companies, due April 2022 to September 2027 with average interest rates of 0.98% at March 31, 2023, and 0.89% at March 31, 2022	¥2,482	¥3,410
Less: Current maturities of:			
Long-term borrowings.....	(150)	(2,800)	(1,123)
Total	¥2,332	¥610	\$17,469

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Aggregate annual maturities of Long-term borrowings subsequent to March 31, 2023 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 6)
2025.....	¥ 132	\$ 993
2026.....	500	3,744
2027.....	700	5,242
2028.....	1,000	7,488
2029 and thereafter	—	—
Total.....	¥2,332	\$17,469

29. Investments in securities

- (1) The acquisition cost, book value and unrealized gains or losses on held-to-maturity securities with fair value as of March 31, 2023 is as follows:

Description	Millions of yen		
	2023		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Government bonds, local government bonds, etc.....	—	—	—
Corporate bonds.....	¥ 503	¥ 500	¥ 3
Others	—	—	—
Sub total.....	¥ 503	¥ 500	¥ 3
Book value not in excess of acquisition cost			
Government bonds, local government bonds, etc.....	—	—	—
Corporate bonds.....	¥ 792	¥ 800	¥(7)
Others	—	—	—
Sub total.....	¥ 792	¥ 800	¥(7)
Total	¥1,295	¥1,300	¥(4)

There were no applicable items as of March 31, 2022.

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Description	Thousands of U.S. dollars (Note 6)		
	2023		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Government bonds, local government bonds, etc.....	—	—	—
Corporate bonds.....	\$3,769	\$3,744	\$ 24
Others	—	—	—
Sub total.....	\$3,769	\$3,744	\$ 24
Book value not in excess of acquisition cost			
Government bonds, local government bonds, etc.....	—	—	—
Corporate bonds.....	\$5,932	\$5,991	\$(58)
Others	—	—	—
Sub total.....	\$5,932	\$5,991	\$(58)
Total	\$9,701	\$9,375	\$(33)

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- (2) The acquisition cost, book value and unrealized gains or losses on available-for-sale securities with fair value as of March 31, 2023 and 2022 are as follows:

Description	Millions of yen		
	2023		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks	¥10,436	¥41,823	¥31,386
Bonds	-	-	-
Others	-	-	-
Sub total.....	¥10,436	¥41,823	¥31,386
Book value not in excess of acquisition cost			
Stocks	¥ 439	¥ 395	¥ (44)
Bonds	-	-	-
Others	-	-	-
Sub total.....	¥ 439	¥ 395	¥ (44)
Total	¥10,876	¥42,218	¥31,342

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

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Description	Thousands of U.S. dollars (Note 6)		
	2023		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks	\$78,158	\$313,213	\$235,054
Bonds	-	-	-
Others	-	-	-
Sub total.....	\$78,158	\$313,213	\$235,054
Book value not in excess of acquisition cost			
Stocks	\$ 3,293	\$ 2,959	\$ (333)
Bonds	-	-	-
Others	-	-	-
Sub total.....	\$ 3,293	\$ 2,959	\$ (333)
Total	\$81,452	\$316,172	\$234,720

- (3) Available-for-sale securities sold during the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
	Proceeds from sale of available-for-sale securities.....	¥5,612	¥246
Realized gain	¥4,840	¥ 63	\$36,253
Realized loss.....	¥ 0	¥ 44	\$ 0

- (4) The book value of major securities without fair value as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
	Unlisted stocks	¥858	¥862
Fund certificates	¥ 0	¥ 0	\$ 1

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30. 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, 2023 and 2022 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Beginning balance of retirement benefit obligation	¥23,537	¥23,822	\$176,273
Service cost	1,319	1,335	9,880
Interest cost	30	31	231
Actuarial loss	(16)	(84)	(124)
Retirement benefits paid	(1,670)	(1,589)	(12,506)
Other	17	22	133
Ending balance of retirement benefit obligation	¥23,219	¥23,537	\$173,886

- (2) The changes in plan assets during the years ended March 31, 2023 and 2022 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Beginning balance of plan assets	¥23,316	¥23,299	\$174,612
Expected return on plan assets	427	427	3,197
Actuarial loss	(183)	139	(1,376)
Contributions by the Company	907	832	6,799
Retirement benefits paid	(1,408)	(1,388)	(10,550)
Other	(11)	4	(87)
Ending balance of plan assets	¥23,046	¥23,316	\$172,595

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- (3) The changes in liabilities for retirement benefits calculated by using the simplified method during the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Beginning balance of net defined benefit liability	¥1,622	¥1,544	\$12,149
Retirement benefit expenses	289	305	2,167
Retirement benefits paid	(200)	(116)	(1,503)
Contributions by the Company	(112)	(111)	(845)
Ending balance of net defined benefit liability	¥1,598	¥1,622	\$11,968

- (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, 2023 and 2022 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Funded retirement benefit obligation ...	¥ 22,025	¥ 22,197	\$ 164,950
Plan assets	(24,630)	(24,839)	(184,458)
	(2,604)	(2,642)	(19,508)
Unfunded retirement benefit obligation	4,375	4,486	32,767
Net liabilities in consolidated balance sheet	1,770	1,844	13,259
Retirement benefit asset	(3,071)	(3,148)	(23,004)
Retirement benefit liability	4,842	4,992	36,263
Net liabilities in consolidated balance sheet	¥ 1,770	¥ 1,844	\$ 13,259

- (5) The components of retirement benefit expense for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Service cost	¥1,319	¥1,335	\$9,880
Interest cost	30	31	231
Expected return on plan assets	(427)	(427)	(3,197)
Amortization of actuarial loss	44	90	329
Retirement benefit expenses for simplified method	289	305	2,167
Retirement benefit expenses for defined benefit plans	¥1,256	¥1,335	\$9,410

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- (6) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
	Actuarial loss	¥116	¥(300)
Total	¥116	¥(300)	\$870

- (7) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
	Unrecognized actuarial loss	¥(260)	¥(376)
Total	¥(260)	¥(376)	\$(1,950)

- (8) 1) The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2023 and 2022 is as follows:

	2023	2022
Equity securities	22%	23%
Debt securities	35%	33%
General accounts	30%	30%
Other	13%	14%
Total	100%	100%

Note:

The plan assets include 10% and 8% of the retirement pension trusts for corporate pension plans as of March 31, 2023 and 2022, 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:

	2023	2022
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 ~ 5.53%	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, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Defined contribution plans.....	¥100	¥93	\$749

31. Stock option

There were no applicable items.

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32. Income taxes

(1) Significant components of deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Deferred tax assets:			
Provision for bonuses.....	¥ 1,106	¥ 1,095	\$ 8,288
Retirement benefit liability.....	2,474	2,519	18,530
Elimination of intercompany profits.	591	555	4,430
Valuation loss on inventories	258	227	1,938
Accrued enterprise tax.....	489	352	3,669
Impairment losses	405	447	3,036
Provision for officers' retirement benefits and retirement benefits for directors (and other officers)	17	15	131
Loss on valuation of investment securities	196	204	1,471
Deemed dividend by distribution in kind	2,125	2,125	15,914
Others	888	881	6,656
Subtotal.....	8,555	8,422	64,068
Valuation allowance.....	(2,502)	(2,529)	(18,739)
Total deferred tax assets.....	6,052	5,892	45,329
Deferred tax liabilities:			
Valuation difference on available- for-sale securities	(9,613)	(10,733)	(71,997)
Reserve for advanced depreciation of property, plant and equipment	(1,473)	(1,496)	(11,035)
Valuation differences	(1,513)	(1,513)	(11,337)
Gain on revaluation of assets trusted for retirement benefit.....	(633)	(633)	(4,746)
Others	(1,687)	(1,645)	(12,639)
Total deferred tax liabilities.....	(14,922)	(16,023)	(111,756)
Net deferred tax liabilities	¥ (8,870)	¥ (10,131)	\$ (66,427)

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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% for the years ended March 31, 2023 and 2022. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statement of income and the effective statutory tax rate for the years ended March 31, 2023 and 2022 was as follows:

	2023	2022
Effective statutory tax rate.....	31.0%	—
Non-deductible expenses.....	0.0	—
Tax credits	(1.1)	—
Valuation allowance	(0.1)	—
Inhabitants' per capita taxes	0.1	—
Deduction of dividends received	0.0	—
Different tax rates applied to foreign subsidiaries .	(1.1)	—
Other.....	0.3	—
Effective tax rates	29.2%	—

Note: The note of 2022 is omitted, because the difference between effective statutory tax rate and the effective tax rates reflected in the consolidated statement of income is less than 5% of effective statutory tax rate.

33. Business combination

There were no applicable items.

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34. Asset retirement obligations

Information on the asset retirement obligations recorded on the consolidated balance sheet at March 31, 2023 and 2022 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, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Balance at beginning of year.....	¥557	¥555	\$4,174
Increase due to acquisition of property, plant and equipment.....	2	3	21
Accretion expenses	0	0	1
Decrease due to fulfillment of asset retirement obligations	(3)	(1)	(25)
Balance at the end of year	¥556	¥557	\$4,171

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35. 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 for the years ended March 31, 2023 and 2022 are as follows:

Millions of yen						
2023						
Reportable segments						
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total
Net sales						
Japan	¥ 91,120	¥ 23,033	¥ 29,677	¥ 143,922	¥ 457	¥ 144,380
Asia	36,683	1,249	144	38,078	51	38,130
Others	18,527	16,623	48	35,199	—	35,199
Sales to customers....	¥ 146,422	¥ 40,907	¥ 29,871	¥ 217,200	¥ 509	¥ 217,709

Millions of yen						
2022						
Reportable segments						
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total
Net 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 6)						
2023						
Reportable segments						
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total
Net sales						
Japan	\$ 683,074	\$172,499	\$222,256	\$1,077,830	\$3,425	\$1,081,255
Asia	274,723	9,359	1,082	285,166	387	285,554
Others	138,750	124,493	365	263,608	—	263,608
Sales to customers....	\$1,096,548	\$306,352	\$223,704	\$1,626,605	\$3,813	\$1,630,419

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” (12) “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. as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Receivables from contracts with customers:			
Balance at beginning of year.....	¥41,936	¥39,220	\$314,056
Balance at end of year	¥48,558	¥41,936	\$363,655
Contract assets:			
Balance at beginning of year.....	¥ 488	¥ 308	\$ 3,661
Balance at end of year	¥ 427	¥ 488	\$ 3,203
Contract liabilities:			
Balance at beginning of year.....	¥ 3,452	¥ 1,753	\$ 25,857
Balance at end of year	¥ 5,241	¥ 3,452	\$ 39,252

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, the amount included in the beginning balance of contract liabilities is ¥3,080 million (US\$23,068 thousand) at March 31, 2023, and ¥1,052 million (US\$8,601 thousand) at March 31, 2022.
4. In the fiscal year ended March 31, 2023, 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, 2023, the transaction price allocated to the remaining performance obligations is ¥25,476 million (US\$190,788 thousand). If contractual assumptions are met, this amount is expected to be recognized as revenue within approximately 5 years from the end of the fiscal year ended March 31, 2023.

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:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Within one year.....	¥ 7,510	¥ 5,917	\$ 56,249
After one year	17,965	6,110	134,539
Total	¥25,476	¥12,027	\$190,788

36. Segment information

- (1) The Company's reportable segments are the business units for which the Company is able to obtain respective financial information separately in order for the highest decision-making body to conduct periodic investigations to determine the distribution of management resources and evaluate their business results. The Company formulates comprehensive domestic and overseas strategies for the products it handles and engages in business activities.

The Company's reportable segments are as follows:

1. Functional Chemicals --- fatty acids, fatty acid derivatives, surfactants, ethylene oxide/propylene oxide derivatives, organic peroxides, petrochemicals, functional polymers, electronic materials, and special anti-corrosion agents.
2. Life Science --- edible oils, functional foods, biocompatible materials, and raw materials for DDS (drug delivery system) drug formulations.
3. Explosive & Propulsion --- industrial explosives, space-related products, defense-related products, and functional 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”

Profit by reportable segment is the figure for operating profit.

Inter-segment transaction prices and transfer prices are based primarily on market prices and manufacturing costs.

		Millions of yen						
		2023						
		Reportable segments						
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Net sales								
Sales to external customers	¥146,422	¥ 40,907	¥29,871	¥217,200	¥ 509	¥217,709	¥ –	¥217,709
Intersegment sales or transfers	1,331	7,920	16	9,269	8,139	17,408	(17,408)	–
Total	147,753	48,828	29,888	226,469	8,648	235,118	(17,408)	217,709
Segment profit	¥ 22,901	¥ 18,003	¥ 1,751	¥ 42,656	¥ 209	¥ 42,865	¥ (2,241)	¥ 40,624
Segment assets	¥121,756	¥ 35,234	¥58,582	¥215,573	¥4,083	¥219,656	¥89,782	¥309,438
Other items								
Depreciation	3,366	993	1,630	5,989	102	6,092	266	6,359
Increase in property, plant and equipment and intangible assets	3,358	2,897	1,088	7,344	77	7,421	422	7,844

		Thousands of U.S. dollars (Note 6)						
		2023						
		Reportable segments						
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Net sales								
Sales to external customers	\$1,096,548	\$306,352	\$223,704	\$1,626,605	\$ 3,813	\$1,630,419	\$ –	\$1,630,419
Intersegment sales or transfers	9,970	59,319	125	69,415	60,954	130,370	(130,370)	–
Total	1,106,518	365,672	223,830	1,696,021	64,768	1,760,789	(130,370)	1,630,419
Segment profit	\$ 171,505	\$134,825	\$ 13,119	\$ 319,450	\$ 1,569	\$ 321,019	\$ (16,783)	\$ 304,236
Segment assets	\$ 911,827	\$263,869	\$438,721	\$1,614,419	\$30,578	\$1,644,997	\$672,375	\$2,317,373
Other items								
Depreciation	25,208	7,438	12,208	44,855	769	45,625	1,998	47,623
Increase in property, plant and equipment and intangible assets	25,148	21,696	8,155	55,000	578	55,578	3,165	58,744

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Notes:

1. The “Others” category consists of business that is not included in reportable segments. It includes transportation, real estate sales, and management services, etc.
2. An adjustment is as follows
 - 1) An adjustment of ¥ (2,241) million (\$16,783 thousand) in segment profit includes ¥ 85 million (\$638 thousand) eliminated for intersegment transactions, and ¥ (2,326) million (\$17,422 thousand) for company-wide expenses that is not allocated for each reportable segment. Company-wide expenses mainly include general and administrative expenses that are not attributable to reportable segments.
 - 2) The adjustment of ¥ 89,782 million (\$672,375 thousand) for segment assets includes intersegment elimination of ¥ (31,655) million (\$ (237,065) thousand) and ¥ 121,437 million (\$909,441 thousand) for company-wide assets that are not allocated for each reportable segment. Company-wide assets mainly include assets related to administrative divisions that are not attributable to reportable segments.
 - 3) The adjustment of ¥266 million (\$1,998 thousand) for depreciation represents depreciation related to company-wide assets.
 - 4) The adjustment of ¥422 million (\$3,165 thousand) for increase in property, plant and equipment and intangible assets represents an increase in company-wide assets.
3. Segment profit is adjusted with operating income in the quarterly consolidated statements of income.

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Millions of yen								
2022								
Reportable segments								
	Functional Chemicals	Life Science	Explosive & Propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Net sales								
Sales to external customers								
	¥128,416	¥ 33,745	¥30,012	¥192,173	¥ 468	¥192,642	¥ -	¥192,642
Intersegment sales or transfers								
	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 profit								
	¥ 21,460	¥ 14,109	¥ 1,764	¥ 37,335	¥ 291	¥ 37,626	¥ (2,030)	¥ 35,595
Segment assets								
	¥110,438	¥ 28,584	¥57,199	¥196,222	¥3,977	¥200,200	¥ 89,429	¥289,630
Other items								
Depreciation								
	3,198	795	1,539	5,533	94	5,628	280	5,909
Increase in property, plant and equipment and intangible assets								
	3,123	1,108	1,066	5,298	108	5,407	328	5,735

Notes:

1. The “Others” category consists of business that is not included in reportable segments. It includes transportation, real estate sales, and management services, etc.
2. An adjustment is as follows
 - 1) An adjustment of ¥ (2,030) million (\$ (16,592) thousand) in segment profit includes ¥ 45 million (\$367 thousand) eliminated for intersegment transactions, and ¥ (2,075) million (\$ (16,960) thousand) for company-wide expenses that is not allocated for each reportable segment. Company-wide expenses mainly include general and administrative expenses that are not attributable to reportable segments.
 - 2) The adjustment of ¥ 89,429 million (\$730,695 thousand) for segment assets includes intersegment elimination of ¥ (29,211) million (\$ (238,671) thousand) and ¥ 118,640 million (\$969,367 thousand) for company-wide assets that are not allocated for each reportable segment. Company-wide assets mainly include assets related to administrative divisions that are not attributable to reportable segments.
 - 3) The adjustment of ¥280 million (\$2,292 thousand) for depreciation represents depreciation related to company-wide assets.
 - 4) The adjustment of ¥328 million (\$2,680 thousand) for increase in property, plant and equipment and intangible assets represents an increase in company-wide assets.
3. Segment profit is adjusted with operating income in the quarterly consolidated statements of income.

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(2) Information related to reportable segments

- 1) The Group's sales by geographical area for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Japan	¥144,380	¥129,521	\$1,081,255
Asia	38,130	33,404	285,554
Others	35,199	29,717	263,609
Total	¥217,709	¥192,642	\$1,630,419

Note: Sales to Asia include more than 10% of consolidated net sales to China, which are ¥ 22,729 million (\$170,217 thousand) for the years ended March 31, 2023 and ¥ 19,844 million (\$162,140 thousand) for the years ended March 31, 2022.

- 2) The Group's property, plant and equipment by geographical area as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Japan	¥57,325	¥55,961	\$429,306
Others	6,538	5,983	48,967
Total	¥63,863	¥61,944	\$478,273

- (3) Impairment losses by reportable segments for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Functional Chemicals	¥ –	¥ 8	\$ –
Life Science	–	–	–
Explosive & Propulsion	1	43	10
Others	–	–	–
Total	¥ 1	¥51	\$10

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37. Related party transactions

The information for the fiscal years ended March 31, 2023 and 2022 was not disclosed because there were no significant transactions with related parties.

38. 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 6)
	2023	2022	2023
Profit attributable to owners of parent:			
Basic earnings per share	¥ 417.02	¥ 323.77	\$3.12
Diluted earnings per share	—	—	—
Cash dividends applicable to the year	108.00	90.00	0.81
Net assets per share	2,960.56	2,690.65	22.17

Profit attributable to owners of parent – diluted for the years ended March 31, 2023 and 2022 is not disclosed because there are no diluted shares.

Cash dividends per share applicable to the period for the fiscal year ended March 31, 2023, comprise interim dividends of ¥50.00 and year-end dividends of ¥58.00.

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, 2023, and 48,200 at March 31, 2022.

Average number of shares that were excluded for the purpose of calculating per share information 48,200 during the year ended March 31, 2023 and 49,185 during the year ended March 31, 2022.

Basis for calculating profit attributable to owners of parent:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2023	2022	2023
Profit attributable to owners of parent.....	¥33,973	¥26,690	\$254,425
Amount not available to common shareholders	—	—	—
Profit attributable to owners of parent related to common shares	¥33,973	¥26,690	\$254,425
Average number of shares outstanding (1,000 shares)	81,467	82,437	

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39. Subsequent events

There were no applicable items.