

Integrated Report 2020



From the Biosphere to Outer Space

 **NOF CORPORATION**

From the Biosphere to Outer Space

Sustainable Chemistry for You

The NOF Group is a chemical manufacturer that provides products in a wide variety of fields, ranging from the biosphere to outer space.

We believe that, for a chemical manufacturer to engage in sustained business activities, its activities and products should be not only useful to society but also in harmony with social environment and natural environment so that they can be recognized, appreciated and accepted by society.

We intend to convey products that truly fit the needs of society and people's lives.

The NOF Group supports customers around the world through various businesses at anytime and anywhere.

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Message from the President



We will create new value that will contribute to mankind and society in a wide variety of fields from the biosphere to outer space.

Thank you very much for your interest in the Integrated Report 2020 of the NOF Group.

The NOF Group is engaged in multifaceted business developments with innovative products under the Corporate Philosophy of “Contributing to Mankind and Society through the Creation of New Value in Wide-ranging Fields from the Biosphere to Outer Space” in our three prioritized business fields of “life/healthcare,” “electronics/IT” and “environment/energy.”

To take its next leap forward, the NOF Group has formulated NOF VISION 2025 as the vision it aims to achieve by fiscal 2025. With the first three years, or the period under the 2022 Mid-term Management Plan, defined as Stage I: Strengthening Foundation, and the last three-year period as Stage II: Expanding Profit, the scheme aims to enhance profitability through active investments in growth areas. In the 2022 Mid-term Management Plan, which started in the current fiscal year, we embraced “Challenge and Co-create” as our basic policy, under which we will respond flexibly to changing market needs in our three prioritized business fields and commit ourselves to accelerating new product and technology development and improving productivity, while also promoting CSR activities.

Today, society is facing many challenges, including climate change, shortages of water and food resources, and human rights issues, and the expectations and demands on companies regarding the achievement of the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015 are growing year by year. This year, with social life and corporate activities greatly restricted due to the impact of the global COVID-19 pandemic, social systems and people’s awareness have started to change at an unprecedented speed and scale, with digitization at the center of that change.

While this business environment of rapid change and uncertain outlook is expected to continue, the NOF Group will endeavor to create new value with the power of people and chemistry and continue to meet the expectations of all of our stakeholders, with the aim of achieving a secure and affluent society.

We shall be grateful if you would give your further support to the NOF Group and express your candid opinions.

President and Chief
Executive Officer

Takeo Miyaji

Note: The previous “life science” field has been changed to the “life/healthcare” field with aim of creating value in a broader range of areas.

Message from the President

The new Mid-term Management Plan toward 2025 has been launched.

President and Chief
Executive Officer
Takeo Miyaji



Reflecting on the 2019 Mid-term Management Plan

Succeeded in reaching our operating income targets in the three years of the Mid-term Management Plan

Under our basic policy of the “creation and expansion of innovative value,” the NOF Group pursued the challenges of its three-year 2019 Mid-term Management Plan, ending in fiscal 2019, namely “creating products and markets,” “improving productivity,” “enhancing Group management,” and “promoting CSR activities.” We have also endeavored to open up new markets and expand sales through high-function and high value-added products as well as to reduce production costs. In fiscal 2017 and 2018, we achieved increases in both sales and income, and in fiscal 2018, we posted record high operating income for the seventh consecutive year.

In fiscal 2019 as well, thanks to ongoing management efforts toward sustainable growth based on the 2019 Mid-term Management Plan, we were able to achieve the Plan's targets for operating income and operating income margin. However, due to the impact of

the COVID-19 pandemic and other sudden changes in the environment, consolidated net sales, consolidated operating income, consolidated ordinary income, and income attributable to owners of parent all fell short of the previous year's results.

By segment, although there was steady growth in the Functional Chemicals Segment, particularly in fatty acid derivatives, surfactants, and special corrosion prevention agents in fiscal 2017 and 2018, net sales in fiscal 2019 were down from the previous year for all major products. The Life Science Segment performed well, particularly in biocompatible materials and raw materials for DDS drug formulations, achieving increases in net sales for three consecutive years to fiscal 2019.

In the Explosives & Propulsion Segment, demand has been depressed for the whole three years and is taking time to recover.

Message from the President

New Mid-term Management Plan, NOF VISION 2025

Established its vision for fiscal 2025, for its next leap forward

As a functional materials manufacturer capable of supplying innovative products to Japan and overseas markets, the NOF Group will use the core technologies it has cultivated in its diverse business achievements to pursue the development of new high-function and high value-added products. To aim for our next leap forward, as we enter an age where diversity is valued and the social environment and systems are changing at an exceptional speed, we must not be hindered by conventional thinking, frameworks or stereotypes. Cooperating with a variety of partners will be a key to our success.

Based on this thinking, in the NOF VISION 2025 that we have formulated for our next leap forward, we have established our vision for fiscal 2025 to be ‘a corporate group that co-creates new value with the power of chemistry in the three business fields of “life/healthcare,” “electronics/IT,” and “environment/energy,” in order to realize a prosperous and sustainable society.’

We have set numerical targets for fiscal 2025 of ¥220.0 billion in net sales, ¥38.0 billion in operating income, and operating income to net sales of 15% or more, and we will aim to achieve further growth in the six years until fiscal 2025.

Note: The previous “life science field” has been changed to the “life/healthcare field” with aim of creating value in a broader range of areas.

Launched Stage I of the NOF VISION 2025 (2022 Mid-term Management Plan)

To realize our vision for fiscal 2025, we have defined the first half of the six years until 2025, the three-year period under the 2022 Mid-Term Management Plan, as Stage I: Strengthening Foundation, and the last three-year period as Stage II: Expanding Profit. We will aim to enhance profitability through active investments in growth areas.

Embracing our basic policy of “Challenge and Co-create” in the 2022 Mid-term Management Plan, we will “valiantly take up new challenges and keep up with changes” without being hindered by conventional thinking, frameworks or stereotypes. We will pursue collaboration and cooperation with a variety of partners, including our customers and the Group’s affiliates around the world, other companies in our own and other industries, universities and other academic institutions, and industrial associations, to “create new value through cooperation.”

We have set numerical targets for the final year under the 2022 Mid-term Management Plan of ¥188.0 billion in net sales, ¥29.0 billion in operating income, operating income to net sales of 15% or more, ROA of 10% or more, and ROE of 10% or more.

Promote strategic investments in our three prioritized business fields

We will proactively conduct strategic investments to achieve our aim of the expansion of our business in our three prioritized fields.

In the life/healthcare field, to respond to future forecast demand, we brought forward a portion of our capital investment during the previous Mid-term Management Plan. We will invest management resources in consideration of demand trends and the launch of new products onto the market. Further, as technology progresses, health and medical needs are becoming more diverse. We will aim to leverage our unique technologies and materials for the market launch of new products.

In the environment/energy field, we have assembled a range of promising environmental-solution products. We will continue to aim for the expansion of sales, particularly in China and Asia, where booming demand is expected. We will actively launch new products on the market that are based on our core technologies.

The electronics/IT field is one of ongoing technological innovations, such as 5G and digital transformation (DX). We will strive to accelerate the development and launch of high-function materials in this field.

Accelerate the development of new products and technologies

We continue to pursue R&D activities in collaboration with external parties, including sending our R&D personnel overseas to study and actively dispatching them to work in industrial-governmental-academic collaborations. Under the 2022 Mid-term Management Plan, in addition to these activities, we will also participate actively in open innovation.

While maintaining our current level of R&D investment, we will increase the percentage of our investment in the life/healthcare field and concentrate our efforts in R&D that anticipates market growth and next-generation technologies and items. In April this year, we established I&S (Innovation & Solution providing) department in the Corporate R&D Division to play a central role in those efforts. This department will specialize in the nurturing of new businesses. We have set up a research base (open lab) in the Innovation Center of NanoMedicine in Kawasaki City as a base for open innovation, and we are working to strengthen our development in the life/healthcare field.

Use and strengthen our collaborations with internal and external partners

The COVID-19 pandemic is prompting major changes in social systems. The momentum is building for the creation of “new value” through collaborations of various forms to match changing patterns of behavior. Under the 2022 Mid-term Management Plan, we

Message from the President

will aim to create new value by collaborating and cooperating with “partners” that go beyond conventional thinking, frameworks, and stereotypes.

In the R&D sector, while further accelerating the development of new products and technologies through joint research with universities, we will pursue the potential for creating “new value” with a view to collaborating with other companies in our own and other industries.

Within the NOF Group, we will collaborate with affiliates, cooperating companies, and employees to promote smartification and workstyle reform. We will also consider the construction of mechanisms that will contribute to new value creation.

Promote smartification to improve productivity

Productivity improvement initiatives are the mission of any manufacturer. We will continue to pursue such initiatives. To respond to demand, centering on high-function and high value-added products, we will strive to strengthen our production capacity and enhance production efficiency.

We will also consider smartification through DX, where technology has made revolutionary progress in recent years, across all our operations. This will include the promotion of R&D through materials informatics, which is a method of material development that makes use of AI and other technologies, and the enhancement of operational efficiency through digitization.

Identified our ESG materialities

In the formulation of NOF VISION 2025, we reexamined our CSR activities from ESG (environment, society, corporate governance) perspectives, including the SDGs and, based on the opinions and evaluation of external stakeholders, ultimately identified 11 materialities. Dividing these materialities into the three broad categories, “Provide new values to realize a prosperous and sustainable society,” “Strengthen the business foundation,” and “Promote responsible care (RC) activities,” we nominated the lead divisions for these categories, and set KPIs and numerical targets for 11 materialities.

In the “Provide new values to realize a prosperous and sustainable society,” to contribute to various needs, such as advanced medical treatment and pharmaceuticals, human health and anti-aging, preservation of the global environment, resource recycling, and smart society, we will aim to provide the NOF Group’s three Prioritized business fields with products that take advantage of our unique technologies and materials.

In the “Strengthen the business foundation,” we will strive to promote workstyle reform aimed at the achievement of work-life balance, create a corporate culture that accepts diversity of values, and enhance our business continuity plans to improve our resilience.



In “Promote responsible care (RC) activities,” we will further deepen our initiatives in areas such as climate change response and the control of chemical substances.

The NOF Group will strive to achieve its goals in each of these areas to contribute to the realization of a sustainable society.

Toward 2025

Looking ahead, even after the COVID-19 pandemic is under control, work styles and social systems that have changed noticeably during the pandemic are not likely to return to the way they were. Indeed, they are predicted to change even further. In NOF VISION 2025, we will strive to develop systems for the NOF Group that will respond to change as we move toward our next leap forward.

In a continuously changing society, corporate social responsibility (CSR) remains a key challenge. It is our duty as corporate citizens to play our part in the achievement of the SDGs and to contribute to the realization of a sustainable society. As such, these are challenges that we must continue to address. Instead of merely aiming for profits as a single company, it is important that we have ideas that will greatly increase the wealth of society as a whole. The NOF Group will steadily implement its strategies for CSR activities and continue to contribute to the realization of a sustainable society.

Mid-term Management Plan

Toward Our Vision for 2025

Vision

A corporate group that co-creates new value with the power of chemistry in the three business fields of “Life/Healthcare,” “Electronics/IT,” and “Environment/Energy,” in order to realize a prosperous and sustainable society

NOF VISION 2025

2022 Mid-Term Plan - Stage I

Strengthening Foundation

- Actively invest in growth fields
- Improvement in profitability of less profitable businesses

FY2022	
Operating income	Ratio of operating income to net sales
¥29.0 billion	over 15%

2025 Mid-Term Plan - Stage II

Expanding Profit

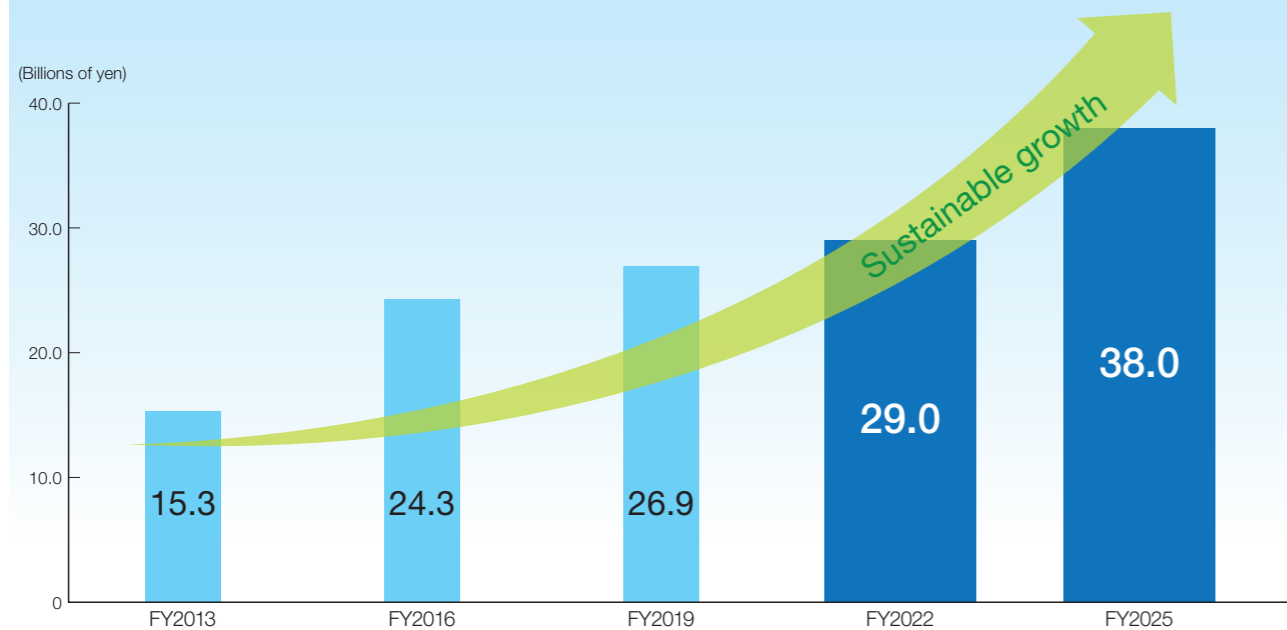
- Establish high-profit structure

FY2025	
Operating income	Ratio of operating income to net sales
¥38.0 billion	over 15%

Basic policy for 2022 Mid-Term Plan

challenge and co-create

basic strategies 1	basic strategies 2	basic strategies 3	basic strategies 4	basic strategies 5
Expanding business into the growth market	Accelerating development of new products and techniques	Strengthening collaboration internally and externally	Improving productivity	Promoting CSR activities



2022 Mid-Term Plan Targets

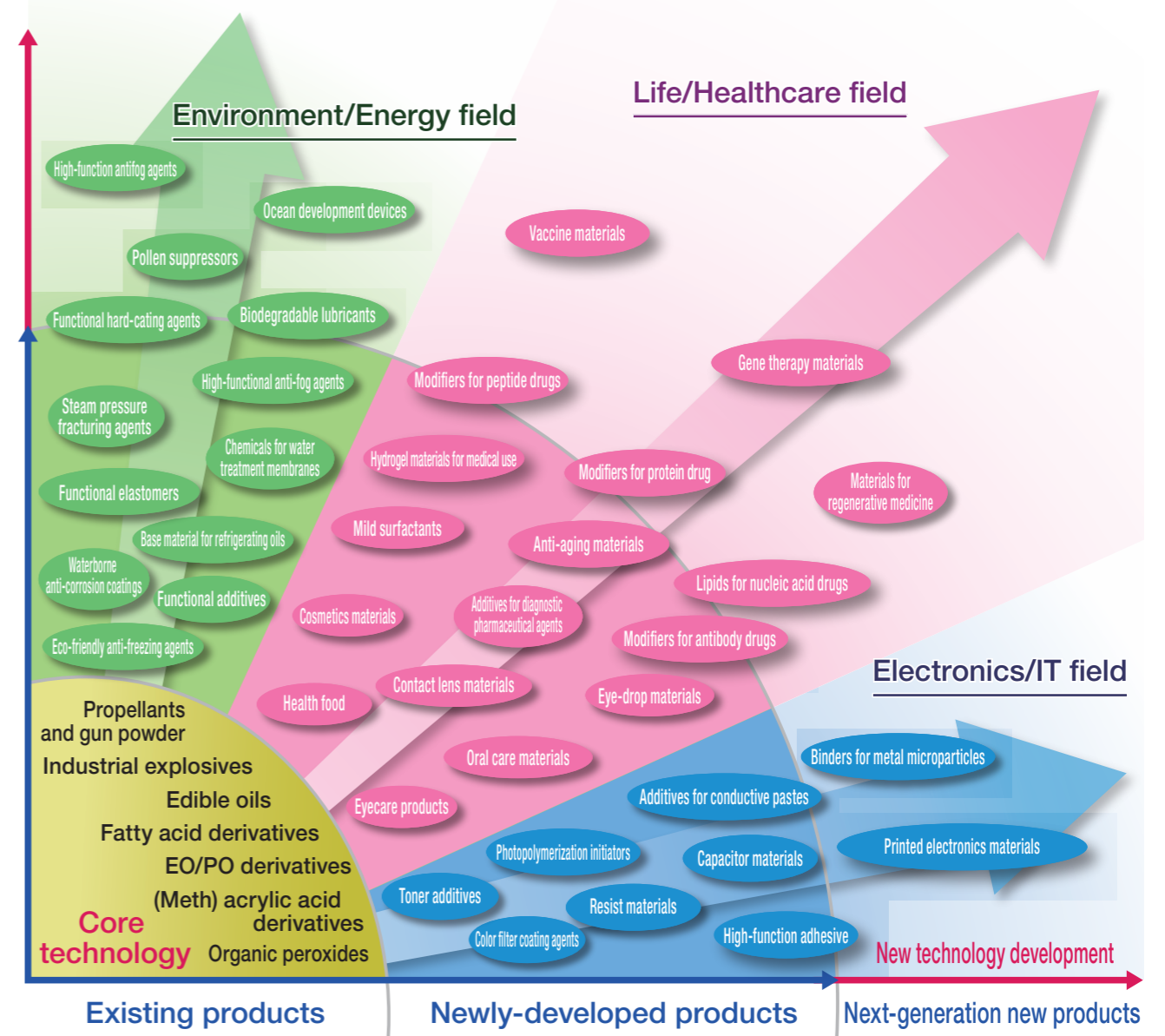
(Billions of yen, %)

	FY2019 Results	FY2020 Forecast	FY2022 Plan	FY2025 Plan
Net sales	180.9	167.0	188.0	220.0
Operating income	26.9	21.5	29.0	38.0
Ratio of operating income to net sales	14.9	12.9	over 15	over 15
ROA ^{*1}	12.0	9.6	over 10	—
ROE ^{*2}	11.9	10.0	over 10	—

*1: ROA: Return on assets, ratio of ordinary income to total assets

*2: ROE: Return on equity, ratio of net income to shareholders equity

Prioritized business fields of the NOF Group



(Note) Ethylene oxide/propylene oxide derivatives PAGE 8

Corporate History



Rocket propellant production equipment completed in 1978 (Taketoyo Plant)

Establishment of the 2nd Nippon Oil & Fats

In 1945 the company acquired the chemical of Nippon Mining Co., Ltd. and changed its name to Nissan Chemical Industries, Ltd. In 1949, in accordance with the Corporation Reconstruction and Reorganization Law, the company inherited the oil and fats, explosives, coating, and welding divisions of Nissan Chemical Industries, and once again took the name Nippon Oil and Fats. During this time, the company entered the petrochemical field, establishing the Chidori Plant in 1961 and the Oita Plant in 1969.

In 1983, NOF became one of the first companies to set up a research facility in Tsukuba City. The facility's expertise has been used to good advantage in the pharmaceutical field.

1949~



Tsukuba Research Laboratory (current Advanced Technology Research Laboratory)

Rebuilding of Business Portfolio

As new business ventures, the company embarked into the life sciences field in 1999 and DDS fields in 2001. Today the company consists of a single group formed around a oleo & speciality chemicals, functional chemicals & polymers, explosives & propulsion systems, functional foods, and anti-corrosive core business. In addition, in 2000, to meet the need to focus and consolidate business territory and management resources, the company transferred its welding business to TASETO Co., Ltd. and its coatings business to BASF NOF Coatings Co., Ltd. (now BASF Japan Ltd.). Further, the Company established the Daishi Plant, a new factory for the manufacture of edible oils (relocated from the Oji Plant) in 2004 and the DDS Plant in 2005.

In 2007, to mark the 70th anniversary of its founding and properly reflect our company's business activities, we changed its Japanese trading name to Nichiyu Kabushikigaisha, but its English name will be NOF CORPORATION and intend to expand into a broader range of businesses in the future as the NOF Group.

1999~



DDS Plant

1937~

Establishment of the 1st Nippon Oil & Fats

The NOF Group was founded in 1937, but the company's core business has a long history with roots reaching back to the Meiji Era.

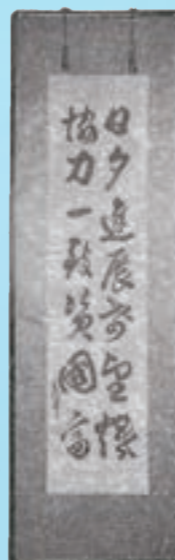
Nippon Oil & Fats Co., Ltd. was established in June 1937 when its forerunner, Associated Oil and Fats, merged with three companies in the Nippon Sangyo Group – Nippon Food Industries, Kokusan Industry Fuji Paint Works, and Velvet Soap. After its founding, the company continued to diversify through mergers with leading companies in other sectors, including Teikoku Explosives Industries, to ultimately grow into a widely diversified chemical industry manufacturer.



Gathering held on July 20, 1937 to commemorate the establishment of Nippon Oil & Fats Co., Ltd.

The corporate creed, consisting of two lines of seven syllables, handwritten by then Minister of Finance, Takahashi Korekiyo, at the Company's request

Moving forward every day, this is a company filled with hope
All work together to contribute to our nation's wealth



1984~

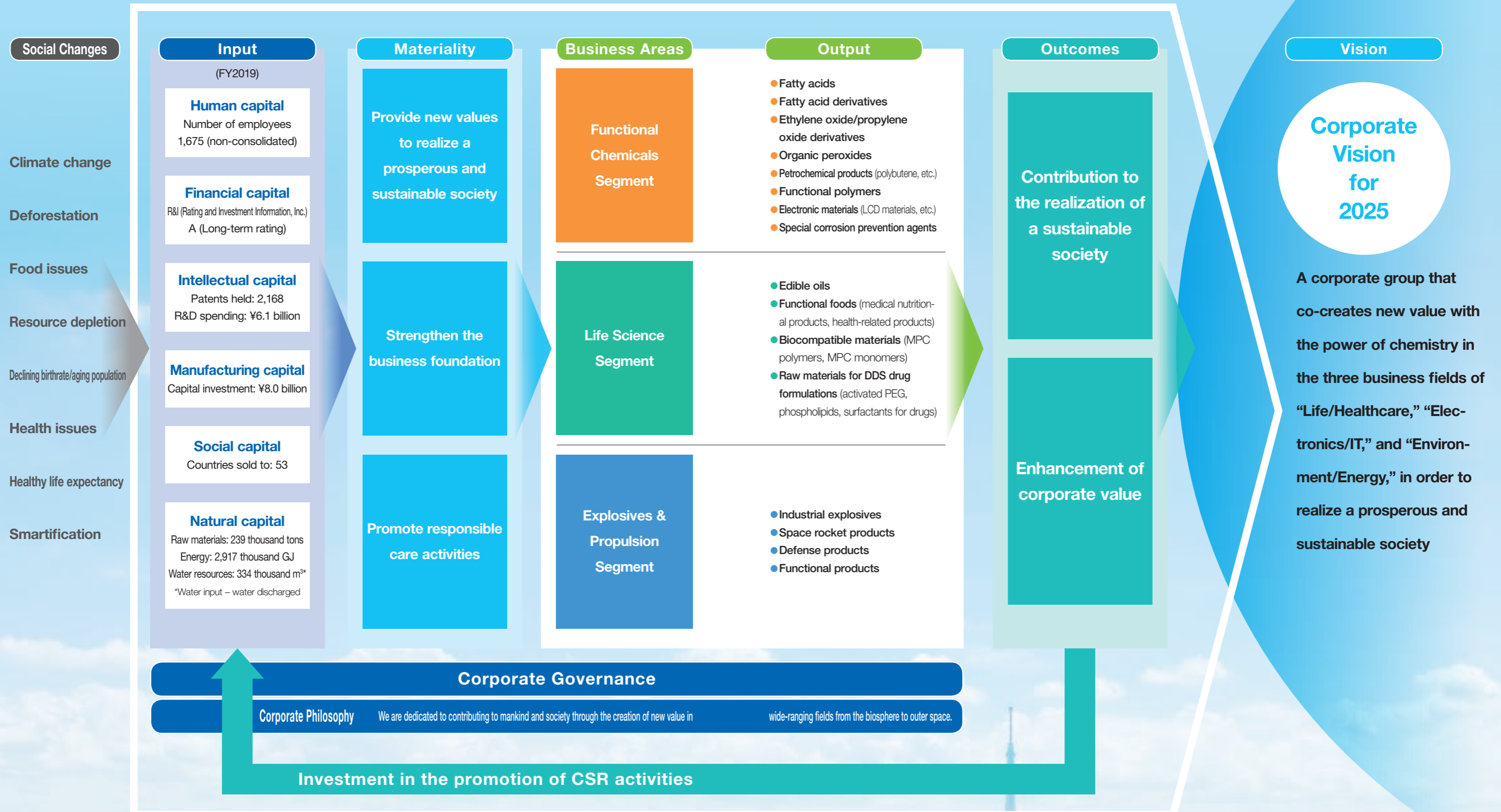
Progression of Globalization

In 1984, NOF moved into the US market for the first time with an investment in METAL COATINGS INTERNATIONAL INC. (now NOF METAL COATINGS NORTH AMERICA INC.), followed by the establishment of NOF AMERICA CORPORATION in 1988. In 1991, the Company moved into Europe and established a German subsidiary, Nippon Oil & Fats Europe GmbH. In addition, to take advantage of China's extraordinary development, the company established a company in 2004 to manufacture and market fatty acid derivatives and organic peroxides.

Value Creation Process

The NOF Group will roll out new products, created by combining the core technologies we have cultivated through our diverse business developments, in our three prioritized business fields.

By promoting initiatives to address the materialities identified on the basis of various challenges and changes to society, we will achieve growth while maintaining harmony with society.



Materiality

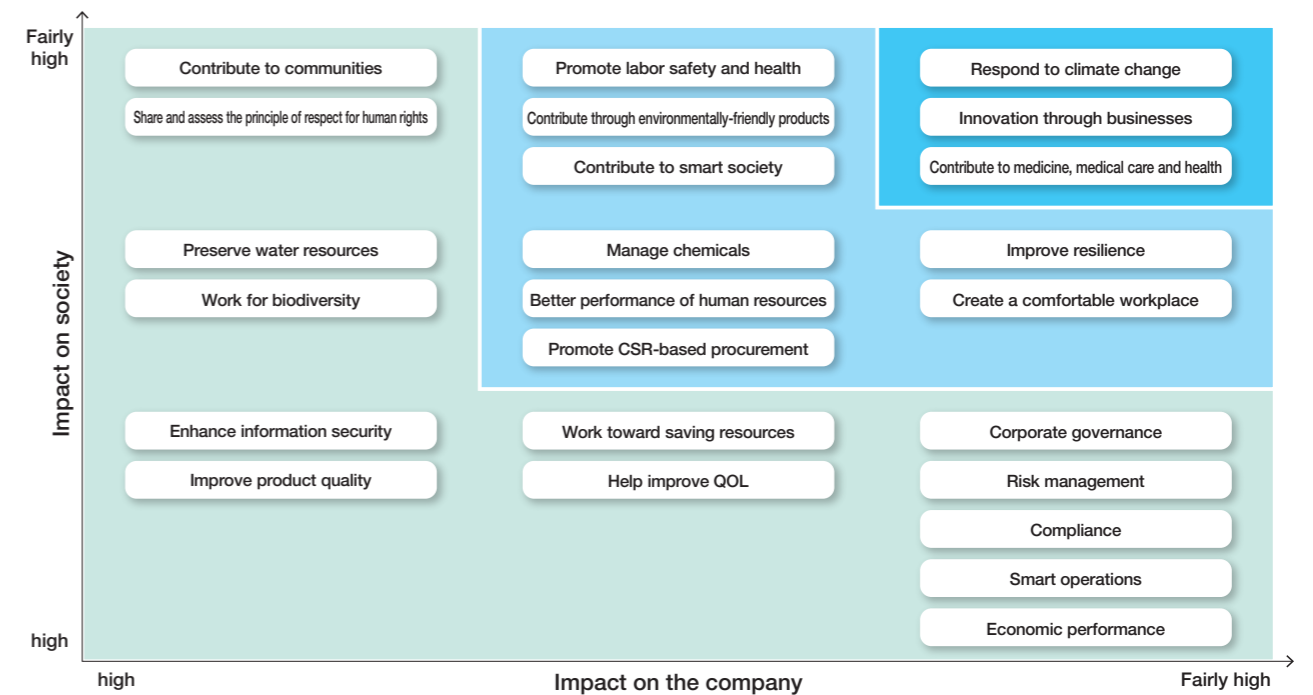
The NOF Group has identified the materialities it needs to address to realize the vision contained in NOF VISION 2025.

Process of identifying materialities



Materiality matrix

The 24 materiality factors were mapped according to the two axes of "degree of impact on society" and "degree of impact on the company" to create a materiality matrix. The 11 items shown in the top right domain were identified as materialities.



The 11 materialities are broadly divided into three categories, and KPIs and numerical targets set (next page) and put into action.

Materiality	Details of major initiatives
Provide new values to realize a prosperous and sustainable society	Targeting the three prioritized business fields, we will aim to offer new value by combining the core technologies we have cultivated through our diverse business development.
Strengthen the business foundation	As well as building a corporate culture that accepts diversity of values, we will appropriately identify changes in the environment and technological progress and enhance our resilience.
Promote responsible care activities	By securing the environment, safety, and health in all processes, from product development and manufacture to disposal, we will aim to be a corporate group that is trusted by the whole of society.

Materiality

Materiality	Details of major initiatives	Goals (KPI)	Numerical targets	Target year	FY2019 Results	
Provide new values to realize a prosperous and sustainable society	Innovation through business	● Promote joint research ● Enhance R&D capabilities	R&D investment	3-year cumulative: ¥21.6 billion	2022	R&D investment: ¥6.1 billion
			Number of patent applications	3-year cumulative: 450	2022	Number of patent applications: 164
	Contribution to medicine, medical care, and health	● Supply high-function and high value-added products to the life/healthcare field	Net sales of high-function and high value-added products to the life/healthcare field	Average 5% increase per year	2022	—
	Contribution of environmental-friendly products (reduction of environmental burden)	● Supply high-function and high value-added products to the environment/energy field	Net sales of high-function and high value-added products to the environment/energy field	Average 5% increase per year	2022	—
	Contribution to smart society	● Supply high-function and high value-added products to the electronics/IT field	Net sales of high-function and high value-added products to the electronics/IT field	Average 5% increase per year	2022	—
Strengthen the business foundation	Creation of comfortable workplace	● Promote work-life balance and health-conscious management, and support childcare and nursing care	Annual paid leave usage rate	70% or more	2022	Annual paid leave usage rate: 69.4% (Sept. 2018 - Sept. 2019)
			Percentage of employees who took stress tests	100%	Every year	99.9%
	Better performance of human resources	● Promote the active participation of women ● Promote employment of people with disabilities	Percentage of women among career-track hires	30% or more	Every year	Percentage of women among career-track hires: 36.7% (joined in April 2019)
			Percentage of employees with disabilities	2.30% or more	By March 2021	Percentage of employees with disabilities: 2.37% (as of Mar. 31, 2020)
	Promotion of CSR procurement	● Conduct CSR questionnaire for suppliers	Coverage rate of CSR questionnaire (based on value of purchases)	70% or more	2022	Cumulative coverage rate of CSR questionnaire: 66% (based on actual value of purchases in FY2018)
Resilience enhancement	● Develop a BCP and conduct BCP audits	BCP training hours	Total of 3,000 hours or more	Every year	Total of 3,200 hours or more	
Promote responsible care activities	Responses to climate change	● Promote energy saving through improvements to equipment and processes ● Adopt renewable energies	CO ₂ emissions/net sales	Compared with FY2013 30% reduction	2030	Greenhouse gases emissions: 10% reduction compared with 2013 Power generated from renewable energies: 17 MWh/year
	Management of chemicals	● Reduce (control) emissions of PRTR Act-controlled substances ● Reduce industrial waste	Emissions of substances subject to PRTR Act after revision	Identification of emission of chemicals Setting of reduction targets	2020	Reductions of 40% (consolidated) and 45% (non-consolidated) compared with FY2010
	Labor safety	● Promote safety education ● Promote intrinsic safety through equipment improvements	Frequency rate of labor accidents	0	Every year	0.83
Number of labor accidents			0	Every year	5	

Provide New Values to Realize a Prosperous and Sustainable Society (R&D)

As long-term challenges become increasingly serious on a global scale, such as global warming, food shortages due to rising populations, and the depletion of resources and energy, there are more and more expectations for innovations in the field of chemical materials to solve these challenges and move toward a sustainable society.

To respond to these challenges, the Company is engaged in the development of new technologies and products in its three prioritized business fields of "life/health-care," "electronics/IT," and "environment/energy." This development is being pursued by research laboratories in its core business units of Oleo & Specialty Chemicals, Functional Chemicals & Polymers, Explosives & Propulsion, Functional Foods, and in two research laboratories in its priority business areas of Life science and DDS.

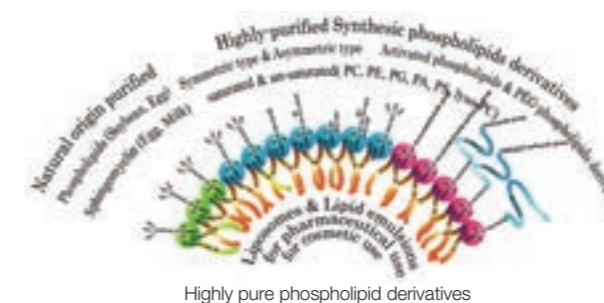
The Corporate R&D Division, meanwhile, plans and proposes company-wide research strategies and

implements various measures aimed at the creation of new business. The Corporate R&D Division's Advanced Technology Research Laboratory develops creative and pioneering materials and technologies that have the potential to drive future markets, and engages in basic research for their application. It has also established a research base in the Innovation Center of NanoMedicine (iCONM), where, in collaboration with government and academia, it is promoting open innovation related to advanced medical technique and regenerative medicine in the life/healthcare field for new business creation.

For the further promotion of R&D, we are aiming to build company-wide R&D frameworks for the introduction and utilization of material informatics (MI), which is a method that uses artificial intelligence (AI) to make materials development more efficient, as a way of improving R&D efficiency.

Life/Healthcare field

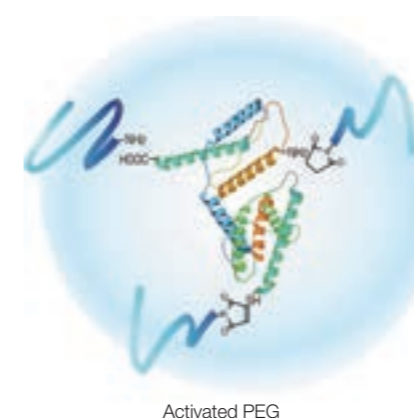
In the pharmaceuticals field, using precision synthesis, advanced refining technology, and high-level quality control systems, we are developing business in phospholipids (COATSOME® Series) and activated PEG (polyethylene glycol; SUNBRIGHT® Series) as DDS (drug delivery system) materials for biotech drugs, with a focus on protein pharmaceuticals. We are also developing mono-dispersed PEG and cationic lipids for nucleic acid delivery for use in antibody drugs and nucleic acid drugs.



In the medical field, we are developing business in MPC polymers (LIPIDURE® Series) as biocompatible materials in areas such as eye-care, diagnostics, and medical equipment-related fields. We are also pursuing the development of new high-function materials for the regenerative medicine sector.



In the cosmetics field, we have a wealth of expertise in areas such as various types of biocompatible materials, natural bioavailable substances, interface control technology, and mix design technology. We will use this expertise to respond rapidly to functional advances and changing consumer needs.



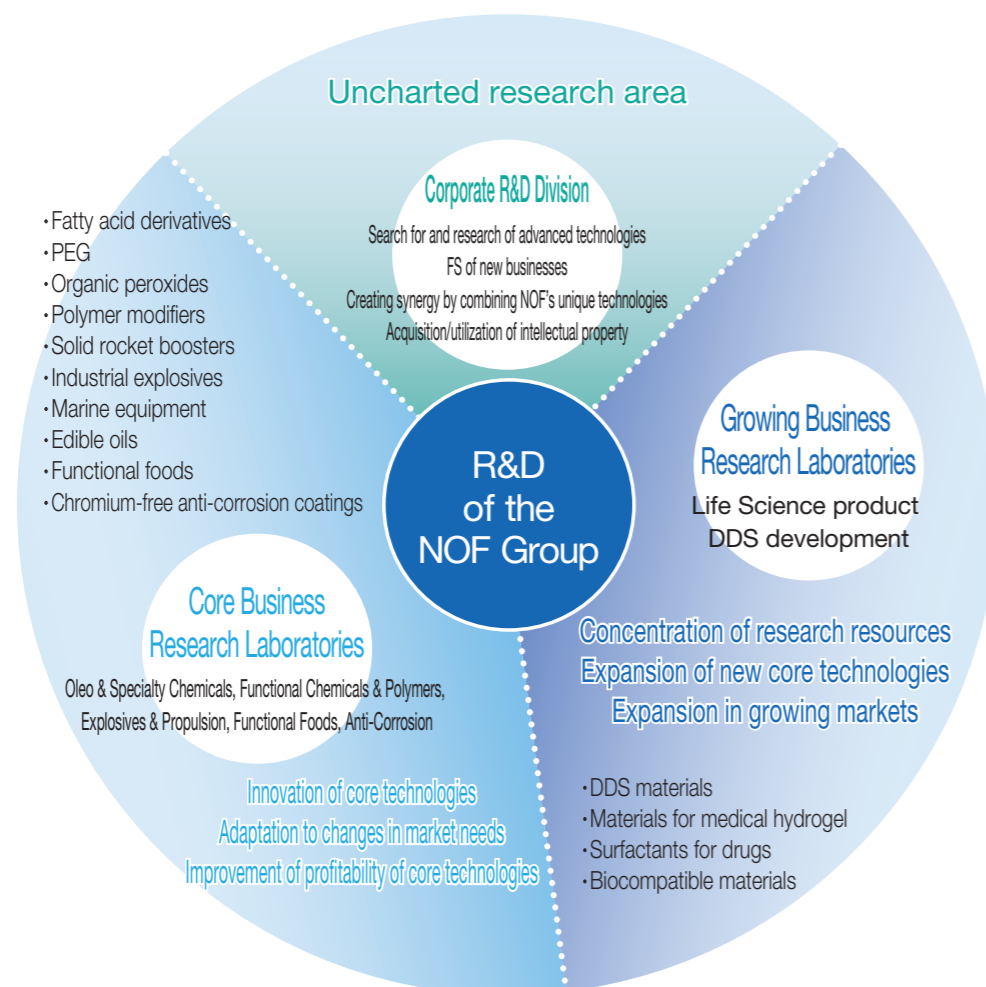
Electronics/IT field

In the telecommunications and electric vehicle fields, we are conducting business in products such as LCD protective agents, wetting and dispersing additives for metals, ceramics, etc., and copper inks. Going forward, we will also strengthen our response to the CASE trends that the automotive manufacturers are pursuing.

Environment/Energy field

In the environment/energy field, we are contributing to the environment and safety with the development of eco-friendly products including biodegradable lubricants made with materials derived from natural oils and fats, refrigerator oil substrates designed for next-generation refrigerants with a low global warming coefficient, as well as high-function products including dispersing agents for inorganic particles for next-generation high-capacity fuel cells.

R&D at NOF



Strengthen the Business Foundation

Better performance of human resources

NOF, which began as a chemicals producer using natural oils and fats, has ceaselessly taken on the challenge of entering new fields to earnestly address the ever-changing and diversifying needs of the market. Today, we are expanding our businesses into a wide range of fields from the biosphere to outer space.

In order to support and further expand its wide range of businesses, NOF engages in recruiting activities that respect the individualism and values of diverse human resources.

“People” are what make up an entity, and it is important that diverse human resources of different specialties and expertise collaborate, inspire each other and lift each other up. For this reason, NOF will proactively promote the recruitment of mid-career workers and returnees from abroad, regardless of whether they are new-graduates or mid-career recruits, as well as foreign nationals including exchange students.

For the recruitment and selection of candidates graduating with bachelor’s or master’s degrees for fiscal 2021, NOF is engaged in proper recruitment activities that “enable students to engage in job-hunting activities with peace of mind while ensuring sufficient time for their studies,” based on the government’s “Approach to Job-hunting and Recruitment Activity Schedules.”

Approach to diversity

In order to fulfill our Corporate Philosophy to “Encourage employees to take on new challenges, working to create a rewarding place to work and fulfilling lifestyles,” NOF accepts and respects diversity in the attributes of our people, such as nationality, gender, race, and whether or not they have a disability. That acceptance and respect also extends to diversity of work styles, including shortened working hours, and of working conditions, such as employment status and working location. NOF aims to establish and is currently building an organization in which willing and capable employees are properly evaluated in every aspect including recruitment, treatment after recruitment and promotions, and are allowed to demonstrate their capabilities.

Employee-related data (NOF non-consolidated)

		FY2015	FY2016	FY2017	FY2018	FY2019
Number of employees	Male	1,508	1,494	1,490	1,462	1,480
	Female	149	164	178	186	195
Number of new employees	Male	35	30	27	33	33
	Female	6	18	18	14	15
Re-employment of retirees		11	12	6	20	27

Promotion of international human resources

Recognizing the importance of securing superior human resources regardless of nationality, the NOF Group intends to secure appropriate human resources, including experienced workers, particularly for the expansion of its overseas businesses. Our overseas Group companies (overseas local subsidiaries) are continuing to step up their efforts to recruit local employees and promote them to management positions.

Promote the active participation of women

In addition to the active recruitment of women, NOF strives to enhance its workplace environment in which women are able to participate actively. Specifically, in fiscal 2016, we set a target of 30% or more for the percentage of female new graduates recruited for career-track positions, and we conduct ongoing training of new-graduate employees and newly appointed managers every year to promote the active participation of female employees.

Talent development

NOF promotes a multifaceted talent development system including support for “correspondence courses,” in which each employee is allowed to choose his/her own training menu, “training at the organizational level,” which is designed for employees with different issues in different hierarchy, as well as “training regarding specific issues,” which is suited to enhance the employees’ expertise and is made in accordance with specific issues that arise in execution of duties.

This system effectively promotes talent development suited to each individual and his/her work, while at the same time making work more rewarding, invigorating the organization, establishing a sustainable business foundation and enabling stable employment.

Creation of comfortable workplace

NOF is developing a work environment in which the staff can work well motivated while attaching due importance to the work-life balance between work and non-work activities including child care, nursing care, hobbies, studies, rest and community activities.

Promotion of work-life balance

For each and every employee to enthusiastically take on the challenge of business innovation and their own innovation, it is important to create a rewarding workplace environment and to strive to realize a fulfilling life through the enhancement of both work and life outside work. To promote work-life balance, in addition to creating an environment that supports diverse workstyles, NOF is working on initiatives such as the reduction of working hours through the improvement of productivity and operational efficiency and encouraging employees to take their yearly paid holidays (target: 70% or more). We are also striving to improve the workplace environment, while also raising awareness of the need for self-care by increasing the percentage of employees taking stress tests.

Employee-related data (NOF non-consolidated)

		FY2017	FY2018	FY2019
Number of employees utilizing childcare leave	Male	17	26	26
	Female	4	7	5
Utilization rate of yearly paid holidays		65.2%	66.4%	69.4%
Monthly average overtime work hours		13.6 hours	14.7 hours	14.1 hours

*Based on the data as of March 31 each year.

*The utilization rate of yearly paid holidays is calculated for the period from September 21 of the previous year to September 20 of the current year (12-month period to take yearly paid holidays at NOF).

*Monthly average overtime work hours for previous years are recalculated based on objective data.

Promotion of health-conscious management

In the belief that ensuring the health and safety of our employees and creating comfortable workplace environments are the foundation for a company to achieve sustainable growth, NOF is pursuing the creation of safe and comfortable workplace environments to enable employees to live spiritually rich lives. With the aim of creating workplaces in which employees can work with vitality, we are promoting initiatives for the maintenance and promotion of employees’ health.



Priority areas

1. Creation of a pleasant working environment

- Promote operational efficiency and curb long working hours
- Further expand programs to assist the balance of work and family life
- Prevent passive smoking

<Examples of initiatives>

Encouraged to take at least 8 days of yearly paid holidays

● Target utilization rate of yearly paid holidays

- FY2018: 66% (results)
- FY2019: 69% (results)
- FY2022: 70% or more

2. Mental healthcare

- Encourage employees to take stress tests
- Raise awareness of self-care through mental health training
- Enhance mental health consultation framework

<Examples of initiatives>

Aimed to raise self-care awareness and encouraged to take stress tests

● Target percentage of tests taken

- FY2018: 99% (results)
- FY2019: 99% (results)
- FY2020: Maintain 99% or more

3. Maintenance and promotion of health

- Ensure to implement health examinations and appropriate health guidance
- Encourage follow-up examinations and understanding of results
- Promote exercise in daily life

<Examples of initiatives>

For the maintenance and promotion of health, encouraged to participate in the “Health Promotion Walking” program run by the NOF Health Insurance Association

● Target participation rate

- FY2019: 48% (results)
- FY2020: 48% (results)
- FY2021: 50% or more

Support for child-rearing and nursing care

To support employees in balancing work with child-rearing/nursing care, NOF is expanding its programs, including raising the age limit for children subject to short hour work system and extending the duration of childcare leave and nursing care leave. We are also expanding our support measures, including the introduction of a childcare support program to assist employees while on childcare leave, and preparing a handbook to assist the balance of work and nursing care.



Promote Responsible Care Activities

The NOF Group has been promoting CSR activities based on the four concepts of “governance,” “respect for individuals,” “Responsible Care activities,” and “living in harmony with society.”

In particular, Responsible Care (RC) activities are ones that the chemical industry is promoting on a world-wide basis. It is an optimal method for managing safety of chemicals, with the aim of ensuring environmental sustainability, health, and safety, through the entire life cycle of chemicals. The NOF Group is a chemical manufacturer, and nearly all of the chemicals we manufacture are used as raw materials for products of client companies. Therefore, we consider RC activities as our core CSR activities and have been engaged in RC activities since 1995. Furthermore, NOF became a signatory of the Responsible Care Global Charter, proposed by the International Council of Chemical Associations in 2014, and declared its support of the Charter and its commitment to practice RC activities both in Japan and overseas.

*Responsible care refers to activities voluntarily carried out by chemical companies to ensure environmental sustainability, health, and safety in all processes from development to manufacture, logistics, use, final consumption, and disposal of chemicals, and to disclose their achievements and communicate with society regarding such activities.

Please see page 23 of the ESG Data Book

Responses to climate change

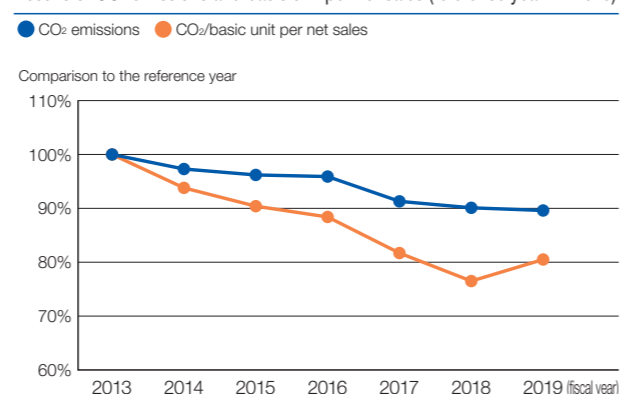
The NOF Group has set reducing greenhouse gas emissions as our internal target, and worked on measures including promoting energy saving activities and remodeling facilities since fiscal 1998. In particular, since fiscal 2016, we have taken measures to achieve the target of a 6.5% reduction of CO₂ emissions in the industrial sector by fiscal 2030 compared to the fiscal 2013 level, which is set out in Japan’s draft commitment to the Paris Agreement.

In fiscal 2019, we reduced energy-derived CO₂ emissions by about 4,000 tons by reviewing steam traps, utilizing waste heat recovery systems at each factory, and replacing mercury and fluorescent lamps with LED equipment. As a result, the Group as a whole reduced greenhouse gas emissions by about 20,000 tons (about 11% reduction compared to the fiscal 2013 level), achieving our goal.

In fiscal 2020, we have set a new Group goal of “reducing CO₂ emissions/basic unit per net sales by 30% by fiscal 2030 compared to the fiscal 2013 level” based on the Mid-term Management Plan of each business unit. As the Group as a whole aims to expand its business in the future, we intend to further clarify the relationship between productivity and greenhouse gas emissions to promote reduction measures.

Please see pages 25-29 of the ESG Data Book

Results of CO₂ emissions and basic unit per net sales (reference year: FY2013)



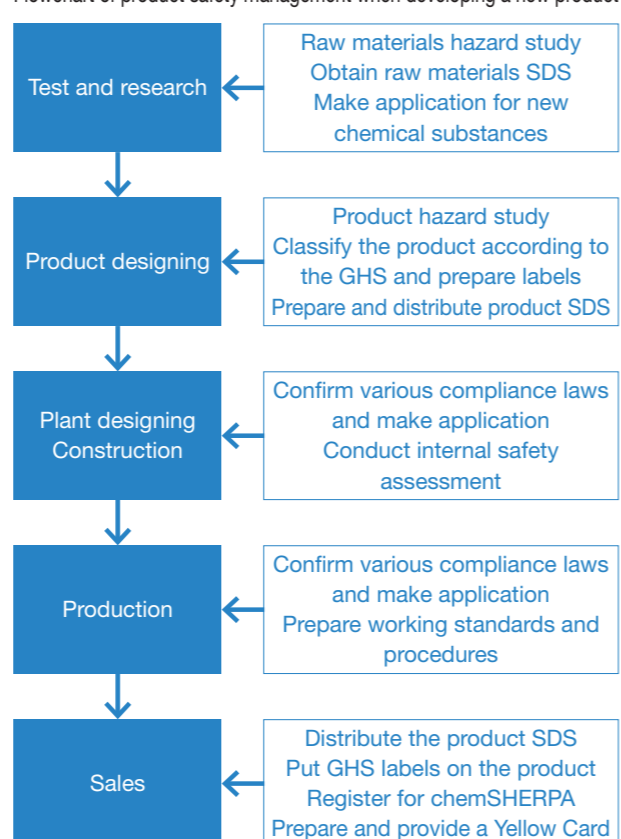
Management of chemicals

Product safety management

The NOF Group conducts hazard assessment and related evaluation in the product development stage, uses this data as the basis to classify planned products according to the GHS (Globally Harmonized System), and prepares SDS (Safety Data Sheets). We put GHS labels on our products and provide them to users and sales agents with SDS. In addition, we strictly require that yellow cards should be provided to transport operators involved, who are also required to carry the cards with the corresponding products while in transportation. In this way, the product is securely delivered to the user and used safely.

Please see pages 26, 31-32 of the ESG Data Book

Flowchart of product safety management when developing a new product



The NOF Group is a member of the Joint Article Management Promotion-consortium (JAMP) and utilizes the chemSHERPA tool to share information on chemical substances contained in our products with downstream users.

In addition, we join the Long-Range Research Initiative (LRI), a long-term initiative implemented through JCIA (Japan Chemical Industry Association) that supports high quality scientific research to better understand the potential impacts of chemicals on human health and the environment. We support researches that lead to safety and security from a viewpoint that a company “meets the needs of society,” and work together to solve social issues.

Management of emission of chemical substances

The NOF Group strictly manages chemical substances emissions in order to comply with environmental standards. Furthermore, we manage each location by using self-management values to prevent disasters and improve the environment.

We work to assess and reduce emissions of PRTR Law-designated substances including autonomously controlled substances designated by JCIA. The emissions of PRTR Law-designated substances were 158 tons in fiscal 2019, about 41% reduction from the level of our reference year of 2010.

For fiscal 2020, we plan to assess actual emissions of new PRTR Law-designated substances, which will be announced in fiscal 2020 and come into effect in fiscal 2022, to set new reduction targets. We will work on further reduction of such substances on a group-wide basis.

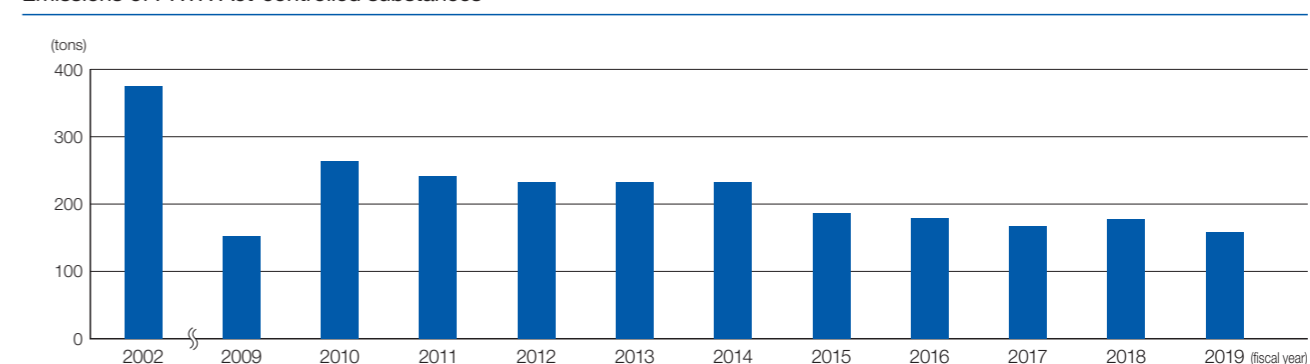
Please see pages 31-32 of the ESG Data Book

Management of new chemical substances

The NOF Group is dedicated to protecting the safety and health of customers, the public, and employees, as well as the environment, ecosystems, and resources. For this purpose, we retain an awareness concerning safety issues, adhere to all laws and regulations, and observe internal rules to manufacture, sell, export, and import new chemical substances.

In order to make proper notifications, when launching a new chemical substance on the market, the Responsible Care & Production Engineering Department confirms compliance with laws, and such substance

Emissions of PRTR Act-controlled substances



undergoes internal audits are conducted to ensure that there are no excesses beyond the volume that has been authorized for manufacture or import.

NOF also provides its responsible personnel in each division with an education program every year in order to keep them up-to-date with the latest information.

Please see pages 36-38 of the ESG Data Book

Labor safety initiatives

The whole NOF Group, including the staff of cooperating companies assigned to NOF’s works, is making all-out efforts to eradicate occupational accidents. In order to clearly express the Group’s determination to make its workplaces secure and safe for all the workers involved in its activities and to realize this ideal, NOF set forth its labor safety and health policy in April 2006. Under this policy, a company-wide labor safety target is set every year and RC audits are conducted on a regular basis. Through these efforts, we keep the cycle of PDCA (plan-do-check-act) running, whereby pursuing better management and further improvement.

In fiscal 2020, we have set labor safety targets of “completely zero occupational accidents” for occupational accident and “zero injury and self-caused-injury accidents” for traffic accident, and are working on key issues of “elimination of unsafe actions and unsafe conditions” and “elimination of traffic accidents” throughout the Group.

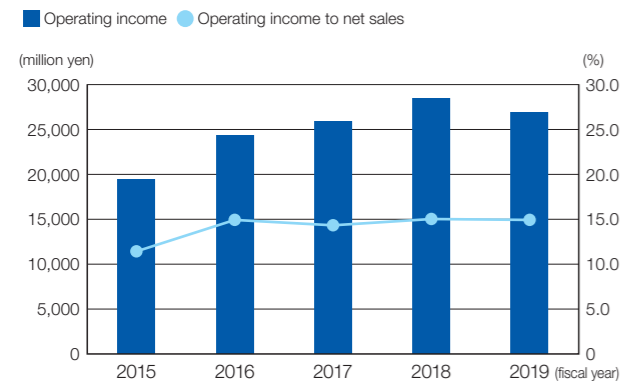
Please see pages 33 and 34 of the ESG Data Book

Relationship between RC activities and the SDGs

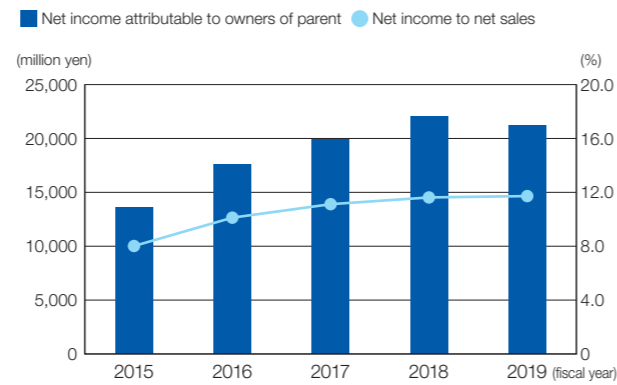
The NOF Group classifies its RC activities into Five Core Components including “environmental safety,” “labor safety,” “plant safety,” “product safety,” and “transportation safety.” Adding “dialogue with society” to the Five Core Components, we are engaged in specific activities. These activities are connected with the SDGs. In particular, “(1) reduce greenhouse gas emissions and (2) reduce chemical emission volumes” in “environmental safety” activities are assigned high priority, and we are focusing on these themes. We will play a part in achieving the SDGs by continuing the promotion of Responsible Care activities.

Financial & Non-financial Highlights

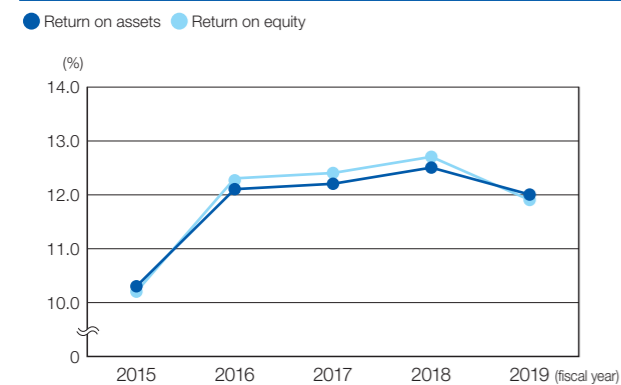
Operating income/Operating income to net sales



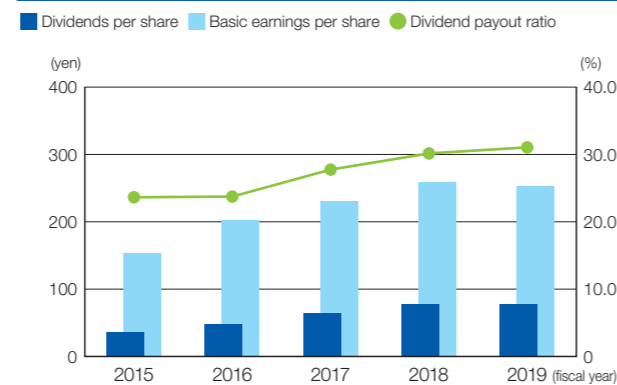
Net income attributable to owners of parent/Net income to net sales



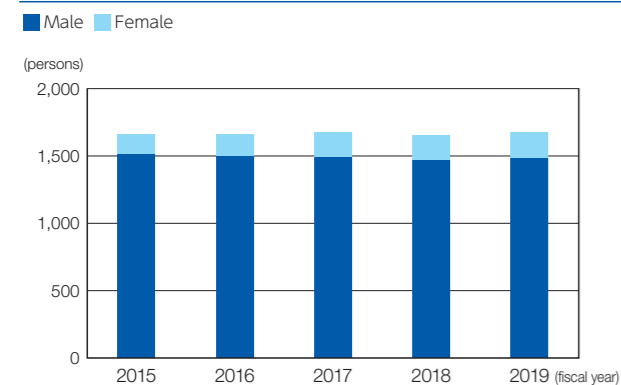
Return on assets (ROA)/Return on equity (ROE)



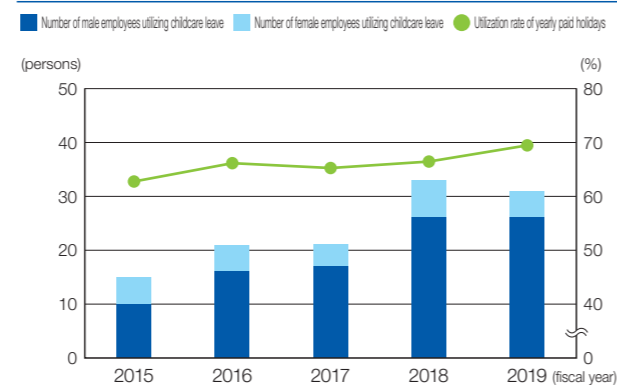
Basic earnings per share/Dividend/Dividend payout ratio



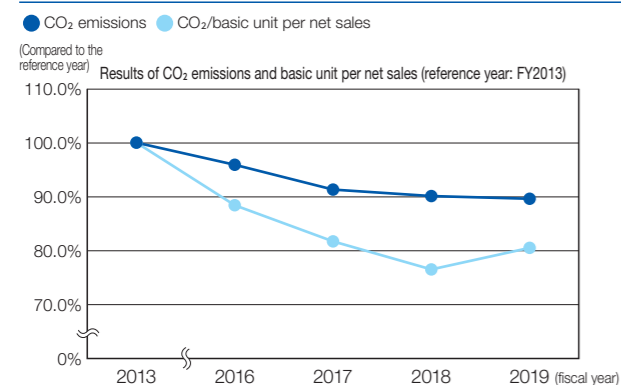
Number of employees (non-consolidated)



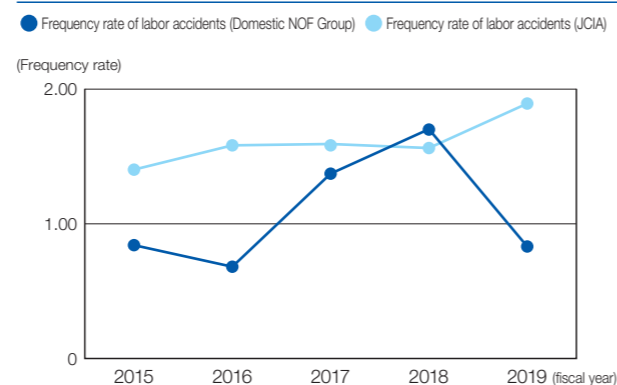
Number of employees utilizing childcare leave (non-consolidated)/Utilization rate of yearly paid holidays (non-consolidated)



CO₂ emissions and basic unit per net sales (index with reference year 2013=100)



Frequency rate of labor accidents



Functional Chemicals Segment

Business overview

In the Functional Chemicals Segment, NOF manufactures a variety of derivatives from two main types of raw materials: oil-derived raw materials made in-house by refining domestically and internationally procured natural oils and fats, and petroleum-derived raw materials purchased from petroleum industrial complexes and other facilities. Combination of technologies for refinement to high purity, for precise synthesis of derivatives, and for formulation based on accumulated data enables us to develop various new products and offer them to growth fields where remarkable technological innovation takes place. The Functional Chemicals Segment constitutes the principal business of the NOF Group, accounting for more than 60% of the total income. In fiscal 2019, 36% of the net sales was for overseas.

Main products

Fatty acids

NAA[®]

Fatty acid derivatives

UNISTER[®], ALFLOW[®]
MILLUBE[®], ASPHASOL[®]
ELECTOL[®]

Surfactants

UNILUBE[®], DIAPON[®]
STAFOAM[®], LUMINOVEL[®]

Ethylene oxide Propylene oxide derivatives

WILBRIDE[®], MALIALIM[®]
BLEMMER[®]

Organic peroxides

PERBUTYL[®], PERHEXYL[®]
PERCUMYL[®], PEROYL[®]

Petrochemical Products

NA Solvent[™], EMAWET[®]

Functional polymers

LIPIDURE[®], CERACUTE[®]
MODIPER[®], NOFALLOY[®]

Electronic Materials

NOFCURE[®]

Special corrosion prevention agents

GEOMET[®], GEOMET PLUS[®]

Strength of the business

The Functional Chemicals Segment has successfully shifted its focus to high-function and high-value added products. The segment has the following strengths:

- We offer approximately 3,000 types of products.
- We have business connections with domestic and overseas companies from diverse industries.
- We offer a number of products with competitive advantage despite we operate business in a niche market.

Value creation in the 2022 Mid-term Management Plan

NOF will expand the sales of high-function and high-value added products in the growth market of the three prioritized business fields of life/healthcare, environment/energy, and electronics/IT.

Followings are examples of specific products for which we focus on the sales expansion.

For the life/healthcare field



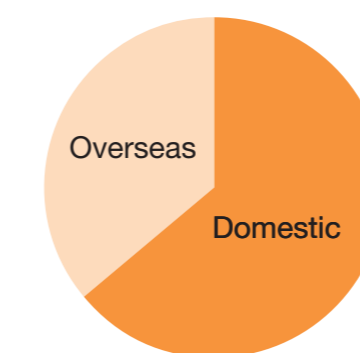
- | | | |
|---|---|--|
| ● Surfactants | ● Ethylene oxide Propylene oxide derivatives | ● Functional polymers |
| Hypoallergenic surfactant
LUMINOVEL [®] | Cosmetic additives
WILBRIDE [®] | Cosmetic ingredients
LIPIDURE [®]
CERACUTE [®]
PARLEAM [®] |

For the environment/energy field

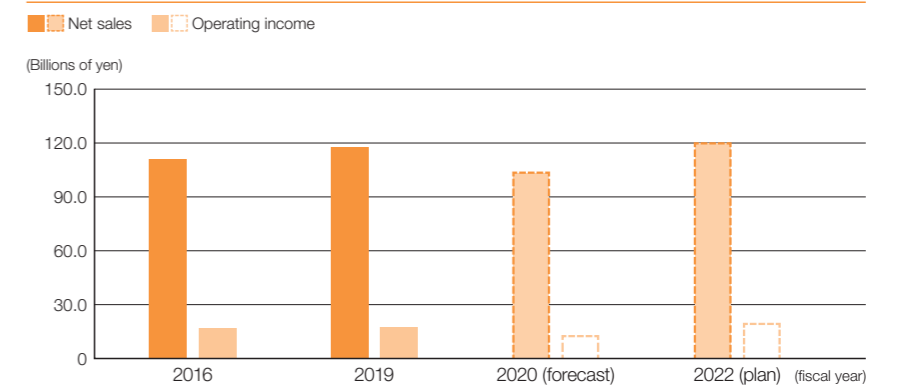


- | | |
|---|--|
| ● High-performance ester | ● Special corrosion prevention agents |
| Biodegradable lubricant
MILLUBE [®] | Water-based chrome-free
Rust inhibitor
GEOMET [®]
GEOMET PLUS [®] |

Net sales by area



Changes in the business results of the Functional Chemicals Segment and the 2022 Mid-term Management Plan



Life Science Segment

Business overview

The Life Science Segment consists of three main lines of products: edible oils, biocompatible materials, and raw materials for drug formulations. Edible oil products, manufactured based on refining and processing technologies in pursuit of tasty and healthy food for an abundant diet, are sold mainly to domestic companies. As for biocompatible materials, 2-Methacryloyloxyethyl phosphorylcholine (MPC) polymer-related products are sold to domestic and overseas companies in the fields of pharmaceuticals, medical devices, and diagnostics. Raw materials for DDS (drug delivery system) drug formulations are sold mainly to companies in Europe and the United States. Highly creative raw materials for drug formulations, such as PEG (polyethylene glycol) and phospholipids, are developed based on our proprietary synthesis and refining technologies and manufactured under a sophisticated quality management system in conformity with GMP standards.

Main products

- Edible oils**
 - CRUMB SOFT® SK
 - BREADY® SA
- Functional foods**
 - Komecosanol®
- Biocompatible materials**
 - MPC polymer/monomer
 - LIPIDURE®
- Plant-derived ingredients**
 - Plant-derived Proteoglycan
- Raw materials for DDS drug formulations**
 - Activated PEG
 - SUNBRIGHT®, PUREBRIGHT®
 - Phospholipid and Liposome
 - COATSOME®
 - Surfactant for drugs
 - Polysorbate80(HX2)

Strength of the business

- For edible oils (functional oils), we have accumulated formulation technologies that improve the texture of bread and sweets by adding enzymes, emulsifiers, and others to oils.
- With regard to biocompatible materials, we are capable of stable supply of a large amount of super-hydrophilic MPC monomers and MPC polymers.
- We offer unrivalled, high-purity raw materials for DDS drug formulations. Customizing molecular design is also possible.

Value creation in the 2022 Mid-term Management Plan

NOF will expand the sales of high-function and high-value added products in the growth market in the life/healthcare field among the three prioritized business fields. Followings are examples of specific products for which we focus on the sales expansion.



● **Edible oils**
Functional fats and oils
CRUMB SOFT® SK

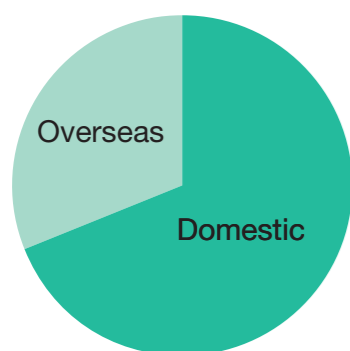


● **Biocompatible materials**
Eye care / pharmaceutical materials
LIPIDURE® series

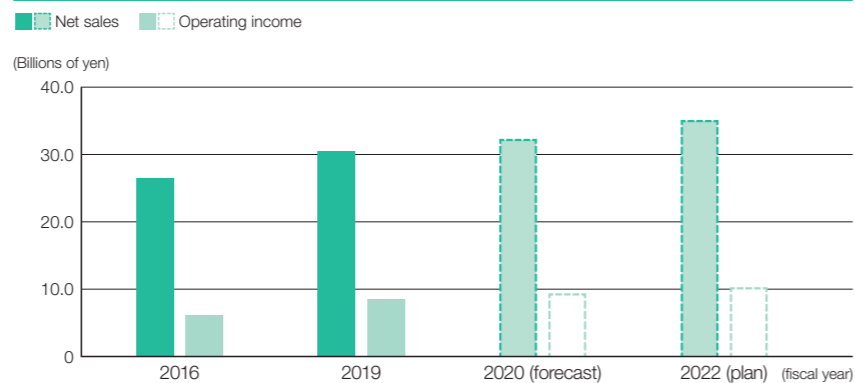


● **Raw materials for DDS drug formulations**
Lipids for DDS formulations
COAT SOME® series

Net sales by area



Changes in the business results of the Life Science Segment and the 2022 Mid-term Management Plan



Explosives & Propulsion Segment

Business overview

The Explosives & Propulsion Segment consists of four main lines of products: industrial explosives, space rocket products, defense products, and functional products. Industrial explosives are used in the development of social infrastructure, such as tunnel excavation; at quarries; and on other occasions. They are sold to domestic major construction contractors and quarry owners. Space rocket products and defense products are developed and delivered in accordance with the procurement plans of government agencies. Diverse functional products are developed based on energy control technologies and sold mainly to domestic companies. Some products are sold to overseas companies.

Main products

- Industrial Explosives**
 - HIGHJEX®
 - GANSIZER®
 - Electric Detonator
 - ANFO Explosives
- Space Rocket Products**
 - Solid Propellant(SRB-A)
 - Pyrotechnic Devices for the Space Rocket
 - Igniter for Rocket Motor
 - Pyrotechnics for Separation
- Defense Products**
 - Gun Propellant / Rocket Propellant
 - Guided Missile
 - Pyrotechnic Devices for the Missile
- Functional Products(Consumer products business)**
 - (Hokkaido Nichiyu Co., Ltd.)
 - Antifreezing Agent : KAMAGU®
 - (Nichiyu Giken Kogyo Co., Ltd.)
 - Temperature Indicator : Temperature Label®
 - Sterilization Indicator : BD PACK®
 - (Nippon Koki Co., Ltd.)
 - Security Goods : NET LAUNCHER®

Strength of the business

- Demand for industrial explosives, space rocket products, and defense products is steady, although a significant increase cannot be expected.
- Energy control technologies (pyrotechnology) we have accumulated can potentially be used for a range of consumer products.

Value creation in the 2022 Mid-term Management Plan

NOF will strive for steady product development and stable product supply, in accordance with the trends in the development of maglev bullet trains and other infrastructure, as well as in defense and space development, and meet the demand based on procurement plans of utility companies and government agencies.

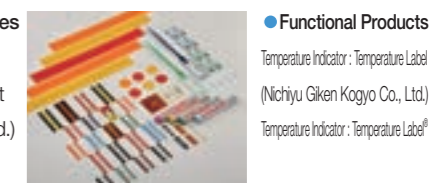
In addition, we will aim for the rollout and sales expansion of functional products in the field of environment/energy, with "safety" as a keyword.



● **Space Rocket Products**
Solid rocket booster for H3 rocket (SRB-3)
Photo courtesy of JAXA

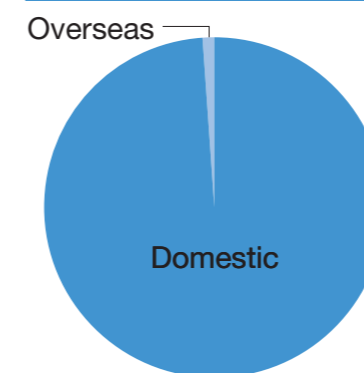


● **Industrial Explosives**
Low vibration
Vapor crushing agent
(Nippon Koki Co., Ltd.)
GANSIZER®

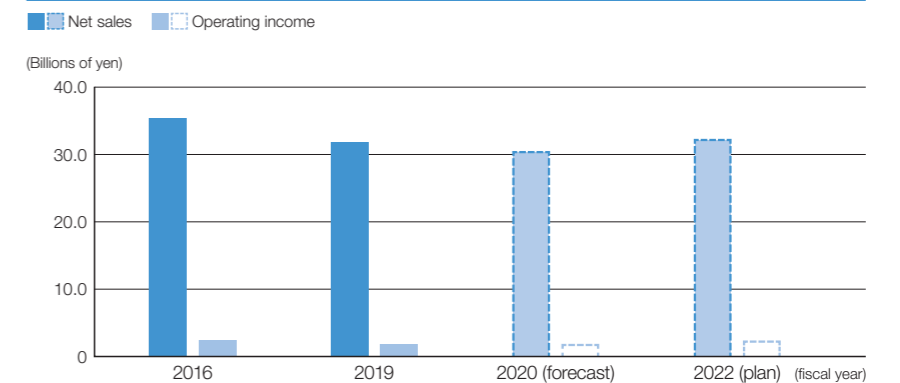


● **Functional Products**
Temperature Indicator : Temperature Label
(Nichiyu Giken Kogyo Co., Ltd.)
Temperature Indicator : Temperature Label®

Net sales by area



Changes in the business results of the Explosives & Propulsion Segment and the 2022 Mid-term Management Plan



Corporate Governance

Corporate Governance

Officers

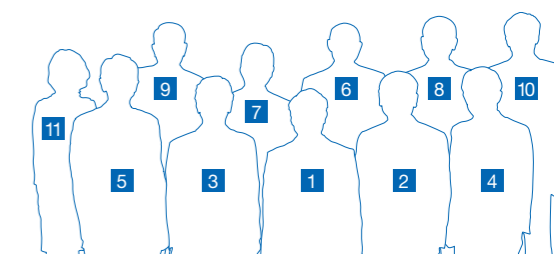


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Directors and Audit & Supervisory Board Members

- | | | |
|-----------|--|-------------------|
| 1 | President and Chief Executive Officer | Takeo Miyaji |
| 2 | Representative Director | Kazuhito Maeda |
| 3 | Director | Kengo Inoue |
| 4 | Director | Hideaki Sakahashi |
| 5 | Director | Masanobu Miyo |
| 6 | Outside Director | Yasuyuki Arima |
| 7 | Outside Director | Kunimitsu Ito |
| 8 | Audit & Supervisory Board Member | Kazushige Kato |
| 9 | Outside Audit & Supervisory Board Member | Shinichiro Tanaka |
| 10 | Outside Audit & Supervisory Board Member | Ryouichi Tahara |
| 11 | Outside Audit & Supervisory Board Member | Izumi Hayashi |



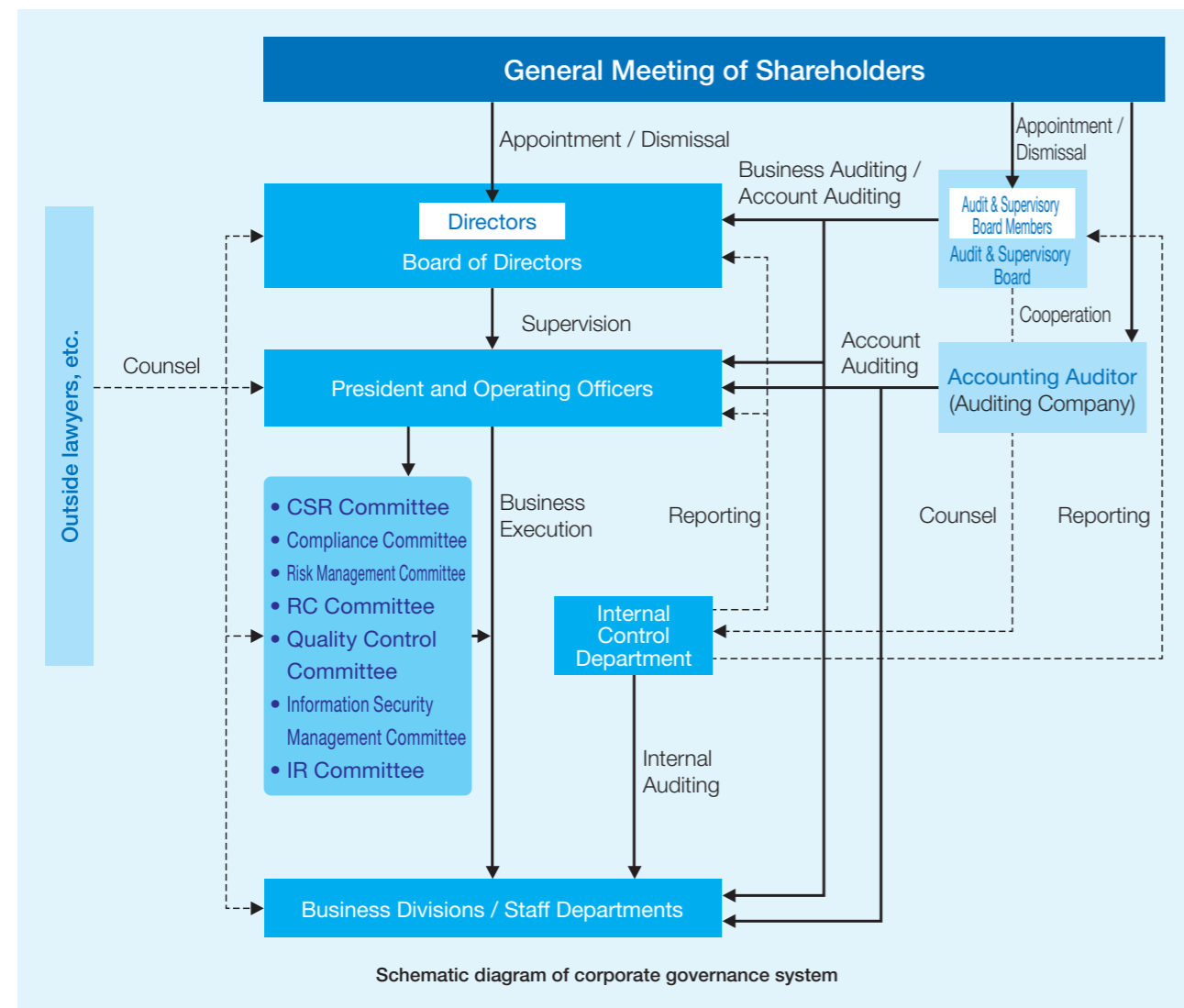
*Officers who have the same job title are listed in the order of the Japanese syllabary.

Corporate Governance Initiatives

Basic concept of corporate governance

Under the corporate philosophy of “contributing to mankind and society through the creation of new value in wide-ranging fields from the biosphere to outer space,” the Company aims to realize stable and sustainable growth and development, as well as to continue to be a company valued by all kinds of stakeholders through fulfilling its corporate social responsibility as a member of our society, such as by protecting the natural environment and securing health and safety, in addition to compliance.

In order to respond precisely to changes in the business environment and the intensifying competition between companies, the Company strives to speed up management decisions and, from the perspective of securing transparency and improving accountability, recognizes that the strengthening of corporate governance is an important issue, and endeavors to secure the effectiveness thereof.



Board of Directors

One regular meeting of the Board of Directors is held every month and extraordinary sessions are also convened as required, to decide on important matters set forth by laws and regulations, the Articles of Incorporation and the Rules of the Board of Directors, and the status of business execution is also supervised.

In addition, the Executive Committee, which is a deliberative body for the Company’s overall business execution policies and important business execution, meets as required, and the Strategic Meeting is held once a week as a general rule to facilitate prompt business judgements. Any important matter to be referred to the Board of Directors goes through preliminary deliberation at the meeting Executive Committee or at the Strategic Meeting, intended to ensure appropriate decision making.

Nomination Committee and Compensation Committee

In order to deliberate on the nomination and compensation of Directors and to improve the oversight function of the Board of Directors and strengthen the corporate governance system, the Nomination Committee and Compensation Committee, which are voluntary advisory committees to the Board of Directors, have been established. Both Committees consist of two independent Outside Directors and one President and Chief Executive Officer, and an independent Outside Director serves as the Chairperson.

Audit & Supervisory Board

Independent Outside Audit & Supervisory Board Members represent more than half of the Audit & Supervisory Board Members. Based on the fiscal year’s audit policy and audit plan among others, members of the Audit & Supervisory Board attend various meetings, including Board of Directors meetings and Executive Committee meetings, and audit the Directors’ execution of business.

Accounting Auditor

Ernst & Young ShinNihon LLC has been selected as the Accounting Auditor.

Specialist committees

The Risk Management Committee, the Compliance Committee, the RC Committee, the Quality Control Committee, and the Information Security Management Committee analyze management risks, consider countermeasures, and report to the CSR Committee chaired by the President. The Risk Management Committee confirms and evaluates the comprehensiveness of risk, formulates measures concerning risk management, and reports to the CSR Committee. The CSR Committee implements aggregation and evaluation of various business risks, including compliance, information management, and environment and safety. These are deliberated on by the Board of Directors as necessary.

Reasons for appointing outside officers

	Name	Reasons for Election
Outside Director	Yasuyuki Arima	The Company nominates Yasuyuki Arima as Outside Director because for the past four years, as an Outside Director of the Company, he has been providing appropriate opinions with regard to the Company’s overall management from a fair and objective standpoint, reflecting his extensive experience and a wide range of knowledge as a Director in the Company’s management, therefore the Company expects him to be able to continue to fulfill his role as a Director from an expert perspective.
	Kunimitsu Ito	Kunimitsu Ito is well versed in accounting and tax practices. Therefore, the Company expects him to be able to fulfill his role as a Director from an expert perspective and nominates him as a candidate for Outside Director.
Outside Corporate Auditor	Shinichiro Tanaka	Shinichiro Tanaka possesses extensive experience and a wide range of insight as a director and an auditor. Therefore, the Company expects him to be able to fulfill his role as a Corporate Auditor from an expert perspective and nominates him as a candidate for Outside Corporate Auditor.
	Ryouichi Tahara	Ryouichi Tahara possesses extensive experience as a director and an auditor and a wide range of insight. Therefore, the Company expects him to be able to fulfill his role as a Corporate Auditor from an expert perspective and nominates him as a candidate for Outside Corporate Auditor.
	Izumi Hayashi	Izumi Hayashi is well versed in corporate law. Therefore, the Company expects her to be able to fulfill her role as a Corporate Auditor from an expert perspective and nominates her as a candidate for Outside Corporate Auditor.

Corporate Governance Initiatives

Policy on determining compensation

Based on the Corporate Philosophy, the policy on determining Directors' compensation has been set to promote sustainable growth and medium- to long-term enhancement of corporate value and to reward business results and other achievements through an appropriate level of compensation. Compensation for Directors consists of fixed compensation, bonuses, and stock compensation (compensation for Outside Directors is limited to fixed compensation). The proportion of incentive compensation, which facilitates sustainable growth and enhancement of corporate value, was 36.6% for fiscal 2019 (excluding Outside Directors).

● Calculation methods, etc. of fixed compensation

Calculation methods, etc. of fixed compensation for Directors are deliberated by the Compensation Committee and resolved by the Board of Directors. The amounts of compensation for individual Directors are determined by the President, on the premise that deliberation and reports submitted by the Compensation Committee is respected.

● Calculation methods, etc. of bonuses

Calculation methods, etc. of bonuses for Directors (excluding Outside Directors) are deliberated by the Compensation Committee and resolved by the Board of Directors. The calculation methods and the amounts of bonuses are reviewed each fiscal year by the Compensation Committee.

● Calculation methods, etc. of stock compensation

Based on the resolution of the 96th Annual General Meeting of Shareholders held on June 27, 2019, a new performance-linked stock compensation plan (Board Benefit Trust) for Directors who concurrently serve as Operating Officers (excluding Outside Directors) and for Operating Officers with a title (hereinafter collectively "Directors, etc.") has been introduced to further clarify the linkage between their compensation, financial results of the Company, and the value of the Company's shares and, to strengthen the awareness of their contribution to the medium- to long-term improvement of financial results and enhancement of corporate value.

For each fiscal year, the Directors, etc. are awarded points, the number of which is to be decided taking into account their respective positions, achievement level of their performance, etc. based on the Officer Stock Distribution Rules. Each point awarded to the Directors, etc. is converted into one share of the Company's common stock at the time of the distribution of the Company's shares, etc. The number of points held by a Director, etc., which will be used as the basis for the distribution of the Company's shares, etc., is, in principle, the number of points awarded to the said Director, etc. by the time of his/her retirement (hereinafter, the points calculated in such manner are referred to as the "Defined Number of Points").

(i) Calculation methods of points awarded

The number of points awarded is calculated by multiplying the number of position-based points, decided for each position, by the performance evaluation coefficient, which is determined by the achievement level, etc. of consolidated operating income in the Mid-term Management Plan, an important index for the evaluation of the Group's business performance.

(Formula)

Number of position-based points × Performance evaluation coefficient

*Taking into account the achievement level of performance, the value of the performance evaluation coefficient varies between 0 and 1.5.

(ii) Distribution methods

Distribution takes place after the retirement of Directors, etc., and the Company's shares and cash, equivalent to the Defined Number of Points, is distributed (when distributed as survivor benefits, cash is distributed).

(iii) Achievement level of the target for consolidated operating income in the Mid-term Management Plan

The target for consolidated operating income in the Mid-term Management Plan for the current fiscal year (target in the 2019 Mid-term Management Plan) is ¥25.5 billion. The actual result of consolidated operating income for the current fiscal year is ¥26.874 billion, which makes the achievement level 105.4%.

The Compensation Committee receives requests for consultation from the Board of Directors and deliberates on matters concerning the compensation of Directors, including compensation systems and policies for Directors, matters concerning calculation methods in determining the actual amounts of compensation, and the amounts of compensation for individual Directors (the Committee met four times during fiscal 2019).

Activities of the Nomination Committee and Compensation Committee

The Nomination Committee receives requests for consultation from the Board of Directors and deliberates on matters concerning the election and dismissal of Directors, as well as matters concerning candidates for President and Chief Executive Officer and plans to foster the candidates (the Committee met twice during fiscal 2019).

Total amount of compensation, etc. by officer category, total amount of compensation, etc. by type, and number of eligible officers

(in million yen, persons)

Category	Total amount of compensation, etc.	Total amount of compensation, etc. by type			Number of eligible officers
		Fixed compensation	Bonuses	Stock compensation	
Director (excluding Outside Director)	265	168	78	19	6
Audit & Supervisory Board Member (excluding Outside Audit & Supervisory Board Member)	42	42	—	—	3
Outside Officer	31	31	—	—	4

(Notes)1. The maximum amount of compensation for Directors (¥360 million per year excluding remuneration received as employees) was resolved at the 83rd Annual General Meeting of Shareholders held on June 29, 2006. Based on the resolution of the 96th Annual General Meeting of Shareholders held on June 27, 2019, the Company will contribute up to a maximum of ¥152 million to the performance-linked stock compensation plan (Board Benefit Trust) for Directors who concurrently serve as Operating Officers, for the four fiscal years from the fiscal year ending on March 31, 2020 to the fiscal year ending on March 31, 2023. The Company will make an additional contribution to the Trust up to a maximum of ¥114 million for each period consisting of three fiscal years starting after March 31, 2023.

2. The maximum amount of compensation for Audit & Supervisory Board Members (¥6 million per month) was resolved at the 65th Annual General Meeting of Shareholders held on June 29, 1988.

Analysis and Evaluation of Effectiveness of the Board as a Whole

The Company analyzes and evaluates the effectiveness of the Board of Directors once a year, in principle. Since fiscal 2016, the Company has implemented an effectiveness evaluation every year. In fiscal 2019, the Company employed a questionnaire form crafted by an external institution, and implemented the fiscal 2019 Board of Directors effectiveness evaluation questionnaire by surveying all 12 Directors and Audit & Supervisory Board Members.

By combining a five-level rating scale and open-ended questions, the questionnaire aimed to understand current conditions and identify challenges from both aspects of quantitative and qualitative evaluation.

As the questionnaire was answered by sending responses directly to the external institution, anonymity was ensured. The tallying and analysis of the questionnaire forms was also delegated to an external institution, for the purpose of securing objectivity and further increasing the effectiveness of the Board of Directors going forward.

The questionnaire consisted of questions regarding the following matters (total of 29 questions).

- (1) Roles and functions of the Board of Directors (5 questions)
- (2) Scale and composition of the Board of Directors (4 questions)
- (3) Operation of the Board of Directors (5 questions)
- (4) Cooperation with auditing institutions, etc. (4 questions)
- (5) Relationship with Outside Directors (3 questions)
- (6) Relationship with shareholders and investors (3 questions)
- (7) Degree of Improvement (1 question)
- (8) Open-ended section (4 questions)

Based on the tallying and analysis of the results of the external institution, the Board of Directors conducted a deliberation and evaluation in April and May of the same year. The results of the fiscal 2019 effectiveness evaluation and points of improvement for the future are as follows.

Summary of Results for Fiscal 2019 Effectiveness Evaluation

It was confirmed that the Company's Board of Directors was operated appropriately in general as a whole, as the frequency of meetings held, the number of issues discussed, and the amount of time used for deliberation were deemed to be appropriate and opinions were exchanged freely.

Among the challenges recognized in the fiscal 2018 effectiveness evaluation, regarding the mid- to long-term corporate strategy, etc., it was confirmed that improvement had been made such as by introducing a discussion agenda. However, regarding diversity in the composition of the Board of Directors, there were many opinions expressing the need to maintain the level of diversity.

Points of Improvement for the Future

From the perspective of further increasing the effectiveness of the Board of Directors, with respect to the diversity of the members of the Board of Directors, which had been traditionally viewed as a challenge in the past, improvement has been made by the election of new candidates at the 97th Annual General Meeting of Shareholders held on June 26, 2020. Regarding the items newly identified as challenges in the fiscal 2019 effectiveness evaluation (top management succession plan), it has been confirmed that the Company will implement initiatives for improvement.

Compliance

NOF and its subsidiaries have developed an internal control system for ensuring adherence to laws and regulations, the Articles of Incorporation and various internal rules of the Company and appropriateness of business operations. Regarding observance of social norms and laws and regulations, the Company's code of conduct is formally spelled out as the NOF Code of Ethical Conduct, based on the NOF Basic CSR Policy, and the Compliance Committee is established to ensure thorough adherence to the code.

Basic CSR Policy

We will fulfill our corporate social responsibility and conduct sustainable business activities.

1. We will, each and all, act in accordance with the highest standards of corporate ethics.
2. We will respect human rights, and enable a diversity of personnel to demonstrate their abilities.
3. We will promote responsible care activities, based on the five kinds of safety.
4. We will consider the interests of all our stakeholders.
5. We will contribute to society in cooperation with local communities.

Organizational setup

Regular meetings of the Compliance Committee are held twice every year. The Committee also meets as required when a compliance issues arises, grasps points at issue, and analyzes countermeasures. The results are reported to the CSR Committee chaired by the President. The CSR Committee implements aggregation and evaluation of various business risks, including compliance, information management, and environment and safety. These are deliberated on by the Board of Directors as necessary.

Compliance Manual

In order to instill a sense of compliance in its executives and employees, the NOF Group has prepared a Compliance Manual, which explains the Code of Ethical Conduct in detail and in easily understood terms. The universal Global Compliance Manual has been published in eleven different languages.



Country-specific compliance manuals

The NOF Group is preparing country-specific compliance manuals based on the legal systems of each country. Following the publication of versions for the U.S.A., China, Indonesia, France, Germany, and Belgium where the Group has a large number of employees, in fiscal 2019, we published versions for Italy and South Korea and began utilizing them in Group companies.

Compliance-related training

The NOF Group regularly holds compliance-related training sessions for employees. Training sessions that took place in fiscal 2019 included those related to compliance in general and those related to the revision of the civil law, intended for all the NOF Group employees.

Raising awareness by internal magazine

NOF uses its quarterly internal magazine to help raise employees' awareness of compliance. NOF continues activities to raise awareness through relatable articles using cartoon characters.



Whistle-blowing system

Consultation desks in Japanese / English / Chinese (Simplified Chinese) / Korean / Indonesian / Portuguese have been set up at external third-party institutions as contact points for whistle-blowing / consultation, in the event that an employee becomes aware of acts in

violation of compliance or acts suspected of being in violation of compliance.

The number of whistle-blowing in fiscal 2019 was two cases, including one harassment issue and one issue related to workplace operation. We conducted internal investigation in a swift and careful manner, and have taken corrective and preventive measures.

Code of Ethical Conduct

In order that we can maintain NOF CORPORATION's position as a good corporate citizen, earn and keep the trust of the community and continue to develop as a company, each and every one of us-employees and executives alike shall abide by this code faithfully.

1. Compliance

We shall act in an ethical manner becoming of members of a company and society, and we shall obey the law and other regulations, and respect others' human rights.

2. Community

We shall give priority in all processes of our business activities to human safety and health, as well as protection of the natural environment, and we shall work proactively to maintain a harmonious existence in all our local communities worldwide.

3. Respect for Individuals

We shall not engage in any act that goes beyond the Company's justifiable interests or that damages the Company's credit or honor, and we shall respect the personality and individuality of all people.

4. Business Partners, Government Officers

We shall always treat our trading partners and business partners fairly and equally and in good faith, and we shall not provide any civil servant with any benefits or favors.

5. Shareholders, Investors

We are an open company, and we shall disclose the details of our management and business status and other corporate information in a timely fashion as required by relevant laws.

6. Company Assets and Information

We shall not use the Company's assets for any purpose other than the Company's official business objectives. We shall record and report accurately our business performance, protect intellectual property rights and hold confidential information and other companies' business secrets in strict confidence.

7. Fair Trade

We shall comply with antimonopoly laws and international trade laws, and we shall observe the Financial Instruments and Exchange Law and not engage in insider trading.

8. Prohibition of Antisocial Behavior

We shall eliminate the influence of antisocial groups, and shall not provide undue benefits to specific shareholders.

Risk Management

Basic Concept towards Risk Management

1. The NOF Group comprehensively identifies various management risks surrounding its business, and conducts risk assessment based on the impact and frequency of each factor in order to identify risks that need to be addressed as a priority.
2. We work to minimize the impact on management by taking appropriate measures to reduce the impact of risks that have materialized, as well as measures to reduce the probability of occurrence.
3. We work to objectively verify the effectiveness of risk countermeasures by periodically conducting risk assessments, while working to recognize and evaluate new risks.
4. Under the leadership of the Risk Management Task Force established under the CSR Committee, we promote the risk management of the NOF Group by implementing the above risk management cycle.

Risk management system

The Risk Management Committee, the Compliance Committee, the RC Committee, the Quality Control Committee, and the Information Security Management Committee analyze management risks, consider countermeasures, and report to the CSR Committee chaired by the President. The Risk Management Committee

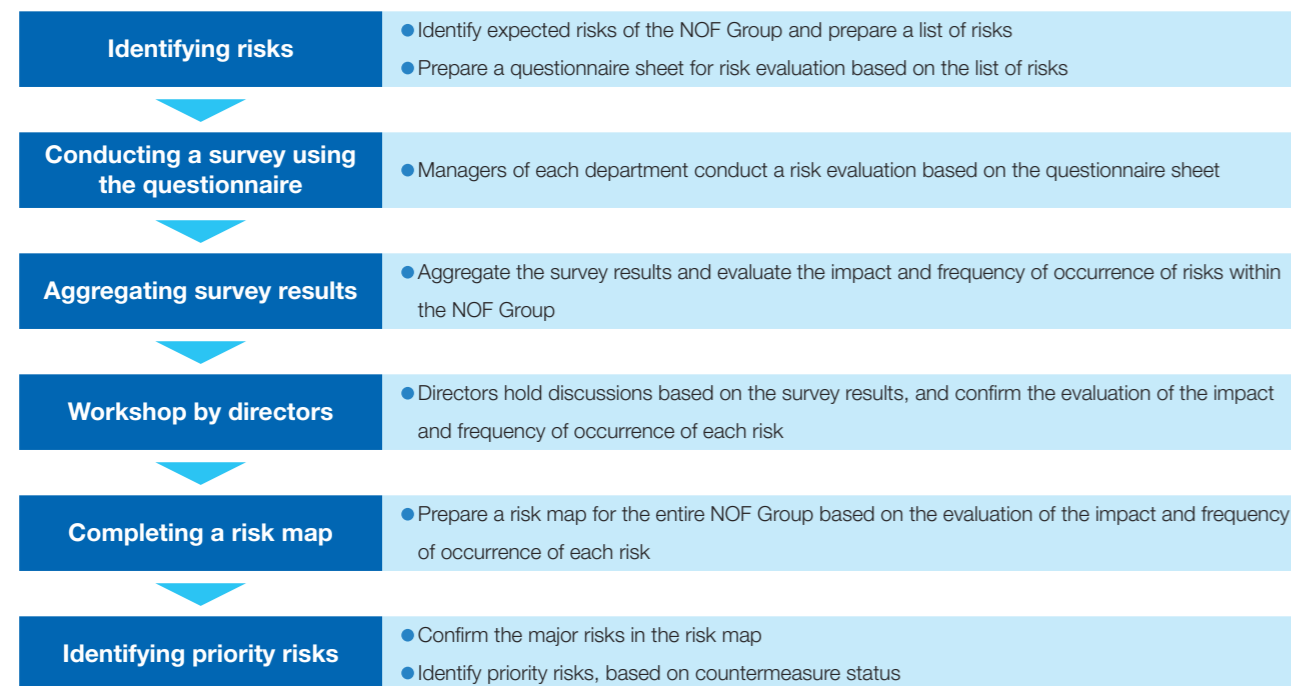
confirms and evaluates the comprehensiveness of risk, formulates measures concerning risk management, and reports to the CSR Committee. The CSR Committee implements aggregation and evaluation of various business risks, including compliance, information management, and environment and safety. These are deliberated on by the Board of Directors as necessary.

We manage and monitor Group companies in accordance with the rules on the management of group companies, and offer advice, as necessary; while any important matters that are deemed to materially impact the subsidiary's assets or profit and loss are approved by the NOF Board of Directors or the Executive Committee.

Confirming "major risks" and identifying "priority risks"

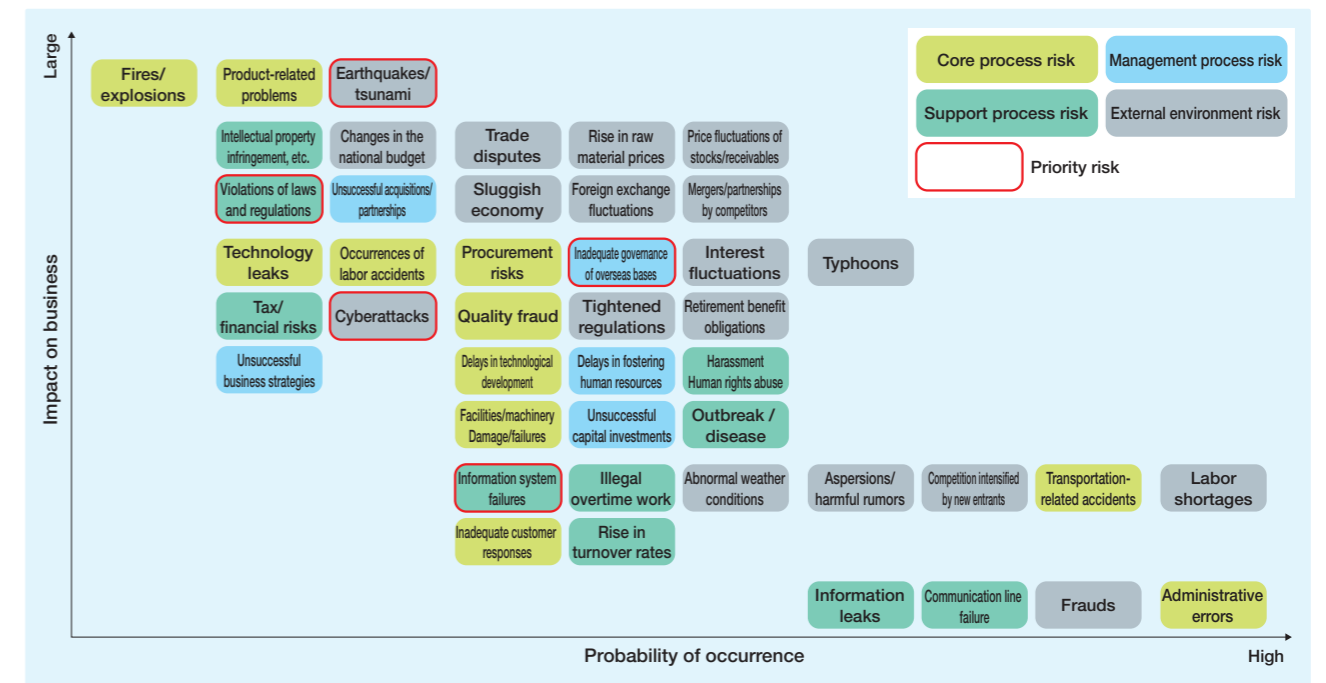
The NOF Group works to comprehensively identify management risks surrounding the Group, considering the characteristics of each business as well as external environments, including political, economic and social changes. In addition, we evaluate the impact and the frequency of occurrence of each identified risk on Group management, confirming major risks and taking appropriate measures against risks identified as "priority risks," which necessitate enhanced resilience.

Flow of Risk Assessment



Risk Map (excerpt)

The risk map is prepared based on the results of the risk evaluation at the directors' workshop. The risk map is revised and priority risks are identified on a yearly basis in order to implement activities aimed at enhancing the NOF Group's resilience.



Overview of major Risks and Status of Countermeasures (excerpt)

major risk	Risk description	Ongoing Countermeasures (excerpt)
Earthquakes/tsunami	Possible interruption of production activities or business activities, including sales and distribution, due to earthquakes, tsunami, or other natural disasters	<ul style="list-style-type: none"> Formulate a business continuity plan (BCP) Implement internal audits and training regarding the BCP
Violation of laws and regulations	Possible suspension of business activities and possible payments of surcharge, etc. following administrative dispositions taken in response to violations of laws and regulations	<ul style="list-style-type: none"> Prepare a Global Compliance Manual and country-specific compliance manuals based on the legal systems of each country Establish compliance training and contact points for whistle-blowing/consultation
Inadequate governance of overseas bases	Possible decline in trust in the Company due to fraud, such as violations of laws and regulations, as a result of inadequate governance at overseas bases	<ul style="list-style-type: none"> Develop a system for ensuring the appropriateness of business operations Request a regular report on the state of business execution and financial condition, etc.; conduct business audits
Cyberattacks Information system failures	Possible information leaks and interruption of business activities, due to illicit accesses from outside such as cyberattacks and information system failures	<ul style="list-style-type: none"> Establish the information security management rules and appointed a person responsible for information security management, etc. Implement safety measures at appropriate and rational levels, including development of a defense system against illicit accesses and data backup
Fires/explosions	Possible casualties among employees and neighborhood residents, possible suspension of business activities, and possible compensation for damages as a result of large-scale fires and explosion accidents at plants	<ul style="list-style-type: none"> Reinforce the maintenance of facilities that manufacture hazardous materials, and promote measures for aging facilities Formulate emergency response manuals and implement trainings Implement joint disaster prevention drills and dialogue activities with local municipalities
Intellectual property infringement, etc.	Possible compensation for damages and possible orders to suspend manufacturing and shipment, due to infringements of intellectual property rights	<ul style="list-style-type: none"> Develop a check system for intellectual property management and patent infringement Educate employees on intellectual property including patents and trademarks
Technology leaks	Possible decline in the Group's competitiveness, due to leakages of technology and technical information, and similar products/technologies provided by competitors	<ul style="list-style-type: none"> Establish rules for trade secrets Develop a management system for trade secrets
Quality fraud	Possible decline in trust in the Company due to quality fraud, falsification of quality inspection results, and other situations	<ul style="list-style-type: none"> Ensure strict management of data related to quality control Enlighten and train employees
Harassment Human rights abuse	Possible decline in trust in the Company due to human rights abuse, such as abuse of authority and sexual harassment at workplace	<ul style="list-style-type: none"> Establish the Code of Ethical Conduct and the Compliance Manual Set up consultation desks each staffed with a male consultant and a female consultant
Delays in fostering human resources	Possible stall in development of human resources who will be responsible for the growth of the NOF Group, due to a delay in efforts to foster human resources or an unsuccessful human resource development plan	<ul style="list-style-type: none"> Promote rank-specific trainings for next-generation human resources for specific issues Promote/foster international human resources and human resource rotation

Financial Data

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Financial Data

Consolidated business performance indicators

	Fiscal year Fiscal year ended	93rd fiscal year March 2016	94th fiscal year March 2017	95th fiscal year March 2018	96th fiscal year March 2019	97th fiscal year March 2020
Net sales	(Millions of yen)	170,460	174,057	179,935	189,152	180,917
Ordinary profit	(Millions of yen)	20,161	25,001	27,430	30,099	28,830
Profit attributable to owners of parent	(Millions of yen)	13,589	17,586	19,913	22,034	21,140
Comprehensive income	(Millions of yen)	10,193	24,126	25,364	19,226	11,810
Net assets	(Millions of yen)	135,636	152,564	169,572	178,285	178,716
Total assets	(Millions of yen)	196,293	217,127	235,874	244,533	235,248
Net assets per share	(Yen)	761.25	1,753.44	1,980.14	2,108.77	2,140.98
Basic earnings per share	(Yen)	76.41	202.27	230.96	259.29	251.72
Diluted earnings per share	(Yen)	—	—	—	—	—
Equity-to-asset ratio	(%)	68.69	69.90	71.56	72.59	75.64
Rate of return on equity	(%)	10.24	12.27	12.42	12.73	11.90
Price-earnings ratio	(Times)	10.44	11.69	13.62	14.54	13.63
Net cash provided by operating activities	(Millions of yen)	16,906	24,024	20,211	19,864	27,837
Net cash used in investing activities	(Millions of yen)	△5,408	△5,831	△4,881	△5,540	△4,838
Net cash used in financing activities	(Millions of yen)	△6,478	△7,512	△8,490	△10,814	△11,287
Cash and cash equivalents	(Millions of yen)	18,930	29,215	36,465	39,357	50,684
Number of employees	(Number of persons)	3,779	3,712	3,721	3,725	3,718

(Note 1) Consumption taxes and other are not included in net sales.

2) Diluted net income per share for the period has also been omitted because there was no potentially dilutive common shares.

3) The Company conducted a consolidation of common stock at the ratio of 2 shares to 1 share effective October 1, 2017. Profit per share and net assets per share are calculated based on the assumption that the consolidation was implemented at the beginning of the 94th term.

4) The Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the 96th term. Figures regarding the business performance indicators for the 95th term have been adjusted based on the retrospective adoption of the above standards.

5) The Company has introduced the Board Benefit Trust (BBT) on the 97th fiscal year. In the calculation of the Profit per share and net assets per share, The Company's shares held by the Board Benefit Trust (BBT) are included in treasury shares subject to exclusion.

Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	40,767	51,849
Notes and accounts receivable - trade	45,600	38,625
Electronically recorded monetary claims - operating	2,401	2,467
Merchandise and finished goods	21,591	21,261
Work in process	3,528	3,299
Raw materials and supplies	11,079	10,353
Other	2,422	2,446
Allowance for doubtful accounts	△223	△188
Total current assets	127,168	130,115
Non-current assets		
Property, plant and equipment		
Buildings and structures	69,749	72,238
Accumulated depreciation	△47,194	△48,349
Buildings and structures, net	22,555	23,888
Machinery, equipment and vehicles	100,636	101,477
Accumulated depreciation	△89,486	△89,727
Machinery, equipment and vehicles, net	11,149	11,750
Land	20,340	20,332
Leased assets	196	425
Accumulated depreciation	△116	△146
Leased assets, net	79	279
Construction in progress	1,692	1,117
Other	15,241	15,316
Accumulated depreciation	△13,363	△13,426
Other, net	1,878	1,889
Total property, plant and equipment	57,695	59,258
Intangible assets		
Other	1,154	1,050
Total intangible assets	1,154	1,050
Investments and other assets		
Investment securities	53,576	40,868
Long-term loans receivable	3	2
Deferred tax assets	891	1,012
Retirement benefit asset	2,066	1,153
Other	2,039	1,846
Allowance for doubtful accounts	△63	△59
Total investments and other assets	58,514	44,823
Total non-current assets	117,364	105,132
Total assets	244,533	235,248

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	19,727	14,998
Electronically recorded obligations - operating	1,104	852
Short-term borrowings	1,128	1,353
Current portion of long-term borrowings	0	0
Lease obligations	95	161
Accrued expenses	1,961	1,696
Income taxes payable	4,792	4,067
Deposits received	4,624	4,045
Provision for bonuses	3,311	3,227
Asset retirement obligations	161	156
Other	5,201	5,555
Total current liabilities	42,108	36,114
Non-current liabilities		
Long-term borrowings	8,061	8,059
Lease obligations	238	289
Deferred tax liabilities	10,347	6,629
Provision for officers' retirement benefits	93	106
Provision for retirement benefits for directors (and other officers)	0	0
Retirement benefit liability	4,695	4,841
Asset retirement obligations	34	34
Other	668	454
Total non-current liabilities	24,139	20,417
Total liabilities	66,248	56,532
Net assets		
Shareholders' equity		
Share capital	17,742	17,742
Capital surplus	15,115	15,115
Retained earnings	122,657	136,643
Treasury shares	△2,145	△6,333
Total shareholders' equity	153,369	163,167
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25,224	16,933
Foreign currency translation adjustment	△423	△883
Remeasurements of defined benefit plans	△675	△1,280
Total accumulated other comprehensive income	24,125	14,768
Non-controlling interests	790	780
Total net assets	178,285	178,716
Total liabilities and net assets	244,533	235,248

Consolidated Statement of Income

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net sales	189,152	180,917
Cost of sales	128,260	122,313
Gross profit	60,892	58,604
Selling, general and administrative expenses	32,449	31,730
Operating profit	28,442	26,874
Non-operating income		
Interest income	113	96
Dividend income	1,267	1,561
Rental income from real estate	255	253
Other	500	800
Total non-operating income	2,136	2,712
Non-operating expenses		
Interest expenses	80	69
Expenses for conditional assignment	30	31
Rental expenses on real estate	100	78
Expenses for disposal of fixed assets	110	133
Foreign exchange losses	72	221
Other	84	220
Total non-operating expenses	479	755
Ordinary profit	30,099	28,830
Extraordinary income		
Gain on sales of non-current assets	89	58
Gain on sales of investment securities	1,035	1,994
Insurance claim income	70	371
Other	2	—
Total extraordinary income	1,197	2,423
Extraordinary losses		
Loss on sales of non-current assets	27	5
Impairment loss	120	449
Loss on disaster	245	216
Loss on retirement of non-current assets	33	123
Loss on withdrawal from business	155	87
Office relocation expenses	—	108
Other	2	25
Total extraordinary losses	584	1,015
Profit before income taxes	30,712	30,238
Income taxes - current	9,026	8,949
Income taxes - deferred	△395	116
Total income taxes	8,631	9,065
Profit	22,080	21,172
Profit attributable to non-controlling interests	46	32
Profit attributable to owners of parent	22,034	21,140

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit	22,080	21,172
Other comprehensive income		
Valuation difference on available-for-sale securities	△2,191	△8,294
Foreign currency translation adjustment	△916	△463
Remeasurements of defined benefit plans, net of tax	253	△604
Total other comprehensive income	△2,854	△9,362
Comprehensive income	19,226	11,810
Comprehensive income attributable to		
Owners of parent	19,184	11,783
Non-controlling interests	41	27

Consolidated Statement of Changes in Net Assets (For the Year Ended March 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	17,742	15,113	113,490	△4,522	141,824
Changes during period					
Dividends of surplus			△6,478		△6,478
Profit attributable to owners of parent			22,034		22,034
Purchase of treasury shares				△4,012	△4,012
Disposal of treasury shares		0		0	0
Cancellation of treasury shares		△6,389		6,389	—
Transfer of loss on disposal of treasury shares		6,389	△6,389		—
Change in ownership interest of parent due to transactions with non-controlling interests		1			1
Net changes in items other than shareholders' equity					
Total changes during period	—	1	9,166	2,377	11,545
Balance at end of period	17,742	15,115	122,657	△2,145	153,369

(Millions of yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	27,411	490	△927	26,975	773	169,572
Changes during period						
Dividends of surplus						△6,478
Profit attributable to owners of parent						22,034
Purchase of treasury shares						△4,012
Disposal of treasury shares						0
Cancellation of treasury shares						—
Transfer of loss on disposal of treasury shares						—
Change in ownership interest of parent due to transactions with non-controlling interests						1
Net changes in items other than shareholders' equity	△2,187	△913	251	△2,849	17	△2,832
Total changes during period	△2,187	△913	251	△2,849	17	8,712
Balance at end of period	25,224	△423	△675	24,125	790	178,285

Consolidated Statement of Changes in Net Assets (For the Year Ended March 31, 2020)

(Millions of yen)

	Shareholders' equity				Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	
Balance at beginning of period	17,742	15,115	122,657	△2,145	153,369
Changes during period					
Dividends of surplus			△7,154		△7,154
Profit attributable to owners of parent			21,140		21,140
Purchase of treasury shares				△4,188	△4,188
Disposal of treasury shares					—
Cancellation of treasury shares					—
Transfer of loss on disposal of treasury shares					—
Change in ownership interest of parent due to transactions with non-controlling interests		0			0
Net changes in items other than shareholders' equity					
Total changes during period	—	0	13,985	△4,188	9,797
Balance at end of period	17,742	15,115	136,643	△6,333	163,167

(Millions of yen)

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	25,224	△423	△675	24,125	790	178,285
Changes during period						
Dividends of surplus						△7,154
Profit attributable to owners of parent						21,140
Purchase of treasury shares						△4,188
Disposal of treasury shares						—
Cancellation of treasury shares						—
Transfer of loss on disposal of treasury shares						—
Change in ownership interest of parent due to transactions with non-controlling interests						0
Net changes in items other than shareholders' equity	△8,291	△460	△604	△9,357	△10	△9,367
Total changes during period	△8,291	△460	△604	△9,357	△10	430
Balance at end of period	16,933	△883	△1,280	14,768	780	178,716

Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities		
Profit before income taxes	30,712	30,238
Depreciation	5,038	5,304
Impairment loss	120	449
Increase in retirement benefit liability	20	93
Interest and dividend income	△1,380	△1,657
Interest expenses	80	69
Gain on sales of non-current assets	△62	△52
Gain on sales of investment securities	△1,035	△1,972
Insurance claim income	△70	△371
Loss on disaster	245	216
Loss on withdrawal from business	155	87
Relocation expenses	—	108
Decrease (increase) in trade receivables	△5,251	6,767
Decrease (increase) in inventories	△3,414	1,114
Increase (decrease) in trade payables	474	△4,818
Other, net	2,348	132
Subtotal	27,981	35,709
Interest and dividends received	1,379	1,658
Interest paid	△79	△69
Income taxes paid	△9,326	△9,584
Payments of relocation expenses	—	△65
Proceeds from insurance income	70	371
Payments associated with disaster loss	△161	△182
Net cash provided by operating activities	19,864	27,837
Cash flows from investing activities		
Purchase of investment securities	△530	△32
Proceeds from sales of investment securities	1,118	2,678
Purchase of property, plant and equipment and intangible assets	△5,950	△7,711
Proceeds from sales of property, plant and equipment and intangible assets	113	98
Net decrease (increase) in short-term loans receivable	10	△59
Long-term loan advances	—	△2
Collection of long-term loans receivable	1	2
Other, net	△304	188
Net cash used in investing activities	△5,540	△4,838
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	△235	231
Proceeds from long-term borrowings	5,150	—
Repayments of long-term borrowings	△5,150	△0
Proceeds from sales of treasury shares	0	—
Purchase of treasury shares	△4,012	△4,188
Purchase of treasury shares of subsidiaries	△15	△31
Repayments of finance lease obligations	△96	△165
Dividends paid	△6,453	△7,130
Dividends paid to non-controlling interests	△0	△2
Net cash used in financing activities	△10,814	△11,287
Effect of exchange rate change on cash and cash equivalents	△618	△383
Net increase in cash and cash equivalents	2,891	11,327
Cash and cash equivalents at beginning of period	36,465	39,357
Cash and cash equivalents at end of period	39,357	50,684

Corporate Information

Corporate Profile (As of March 31, 2020)

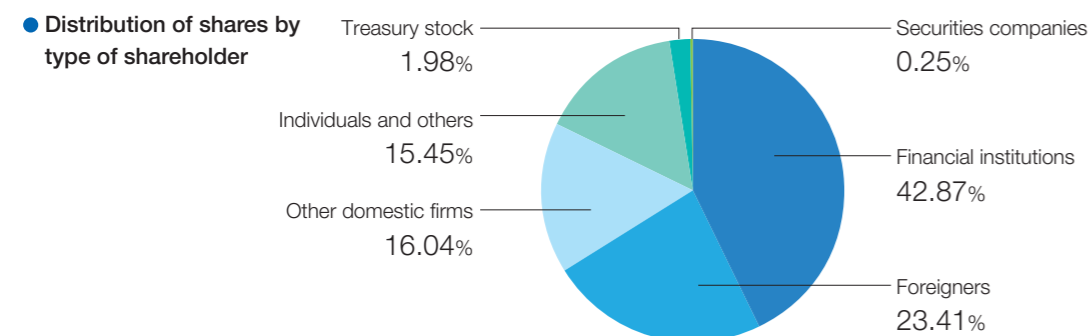
- **Name** NOF CORPORATION
- **Head Office** 20-3 Ebisu 4-chome, Shibuya-ku, Tokyo, Japan
- **Established** June 1, 1937
- **Incorporated** July 1, 1949
- **Capital** ¥17,742 million
- **Employees** 1,675 (consolidated: 3,718)
- **Subsidiaries** 24 subsidiaries
- **Accounting Auditor** Ernst & Young ShinNihon LLC

Stock Information (As of March 31, 2020)

- **Listed Stock Exchange** Tokyo Stock Exchange, First Section
- **Securities Code** 4403
- **Total Number of Shares Authorized** 347,000,000
- **Total Number of Shares Issued** 83,161,953
- **Number of Shareholders** 12,805
- **Status of Major Shareholders**

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	8,033	9.66
Japan Trustee Services Bank, Ltd. (Trust account)	4,396	5.28
Mizuho Bank, Ltd.	3,230	3.88
Japan Trustee Services Bank, Ltd. (Trust account 9)	3,182	3.82
Meiji Yasuda Life Insurance Company	3,128	3.76
NOF Shineikai	1,948	2.34
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,500	1.80
The Nomura Trust and Banking Co., Ltd. (Trust account)	1,455	1.75
RBC IST 15 PCT LENDING ACCOUNT-CLIENT ACCOUNT	1,438	1.73
NOF Kyoekai	1,387	1.66

Notes: 1. The number of shares is rounded down to the nearest thousand shares.
 2. Percentage of ownership excludes 1,679,423 shares of treasury stock.
 3. Percentage of ownership is rounded down to the second decimal place.



Editorial Policy

The NOF Group is pleased to publish its first Integrated Report this fiscal year.

To demonstrate the sustainable growth of the NOF Group to our broad range of stakeholders, this report mainly focuses on management strategies, business overview, financial information, and non-financial information (E: Environmental, S: Social, G: Governance) among other matters. Information that has been in the annual CSR Report since fiscal 2015 but is not included in this report will be published on our website as the ESG DATA BOOK, which complements the information in this report.

We regard this report as a tool for dialogue with our stakeholders and will strive to enrich the content.

Reporting Period

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

*Activities or information before or after the reporting period have also been included if considered necessary for deepening readers' understanding.

Published

December 2020

The next report is scheduled to be published in August 2021 (the previous report was published in October 2019)

Scope of the Report

The Report covers the entire NOF Group.

If it is necessary to specify the scope of coverage, the following terms are used.

The term "NOF Group" is used to refer to the whole Group.

The term "NOF" is used to refer to NOF CORPORATION alone.

Guidelines Referenced

ISO26000: 2010 Guidance on Social Responsibility, Japanese Standards Association

GRI Sustainability Reporting Guidelines Standard

Disclaimer

This Report contains forward-looking statements based on management plans and expectations at the time of publication, as well as past and present facts regarding the NOF Group. These forward-looking statements comprise assumptions and judgments based on currently available information, and thus the actual events and outcome of future business activities may differ from those predicted due to changes in various conditions.

For more information



NOF website
www.nof.co.jp/



Investor Information
www.nof.co.jp/ir/index.html



CSR Information
www.nof.co.jp/csr/policy.html

Corporate Governance Report
www.nof.co.jp/ir/governancereport.html

Annual Securities Report
www.nof.co.jp/ir/library.html

ESG DATA BOOK
www.nof.co.jp/csr/download.html

Please see the ESG DATA BOOK for the GRI Standards Content Index.



Naruhodo NOF!
www.nof.co.jp/about/index.html



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