

**NOF CORPORATION**

**Consolidated Financial Statements**

For the years ended March 31, 2016 and 2015

## Independent Auditor's Report

The Board of Directors  
NOF CORPORATION

We have audited the accompanying consolidated financial statements of NOF CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NOF CORPORATION and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

*Ernst & Young ShinNihon LLC*

June 22, 2016

# NOF CORPORATION and Subsidiaries

## Consolidated Balance Sheet

As of March 31,

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
<b>ASSETS</b>			
Current assets:			
Cash and time deposits (Notes 5 and 7)	¥ 19,082	¥ 14,539	\$ 169,346
Notes and accounts receivable (Note 7)	37,188	34,215	330,033
Allowance for doubtful accounts	(177)	(206)	(1,572)
	37,011	34,009	328,461
Inventories (Note 25)	33,087	35,126	293,640
Deferred tax assets (Note 12)	2,333	2,338	20,707
Other current assets (Note 6)	2,481	2,869	22,011
Total current assets	93,994	88,881	834,165
Property, plant and equipment (Notes 8 and 18):			
Land	20,648	20,642	183,242
Buildings and structures	65,951	65,101	585,298
Machinery, equipment and vehicles	97,682	97,284	866,898
Construction in progress	441	643	3,917
Leased assets	606	676	5,379
Others	14,613	14,484	129,686
Accumulated depreciation	(143,027)	(140,856)	(1,269,324)
Total property, plant and equipment	56,914	57,974	505,096
Investments and other assets:			
Investments in securities (Notes 6, 7 and 8)	41,214	43,237	365,762
Deferred tax assets (Note 12)	364	376	3,233
Intangible assets (Note 19)	716	780	6,354
Assets for retirement benefits (Note 13)	1,647	4,074	14,618
Other assets	1,444	1,544	12,814
Total investments and other assets	45,385	50,011	402,781
Total assets	¥ 196,293	¥ 196,866	\$ 1,742,042

The accompanying notes are an integral part of the statements.

## NOF CORPORATION and Subsidiaries

### Consolidated Balance Sheet (continued)

<u>As of March 31,</u>	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term bank loans (Notes 7 and 8)	¥ 1,700	¥ 2,242	\$ 15,091
Current portion of long-term debt (Notes 7 and 8)	0	5,000	2
Notes and accounts payable (Note 7)	18,320	20,362	162,585
Electronically recorded obligations-operating	1,178	1,498	10,455
Accrued expenses	4,926	4,634	43,720
Income taxes payable	4,080	4,128	36,206
Deposits received	3,947	4,076	35,027
Lease obligations	96	165	848
Other current liabilities (Notes 12 and 21)	4,763	5,015	42,267
Total current liabilities	39,010	47,120	346,201
<b>Long-term liabilities:</b>			
Long-term debt (Notes 7 and 8)	8,129	3,072	72,142
Deferred tax liabilities (Note 12)	8,455	10,173	75,039
Retirement benefit provisions for directors	1	23	5
Retirement benefit provisions for officers	65	78	575
Lease obligations	83	135	737
Liabilities for retirement benefits (Note 13)	4,450	4,430	39,490
Other long-term liabilities (Note 21)	464	522	4,122
Total long-term liabilities	21,647	18,433	192,110
<b>Commitments and contingencies (Note 16)</b>			
<b>Net assets:</b>			
<b>Shareholders' equity</b>			
<b>Common stock:</b>			
Authorized: 783,828,000 shares at March 31, 2016 and 2015			
Issued: 180,682,752 shares at March 31, 2016 and 183,682,752 shares at March 31, 2015	17,742	17,742	157,455
Capital surplus	15,113	15,113	134,126
Retained earnings	89,736	81,305	796,377
Treasury stock, at cost	(2,719)	(2,024)	(24,133)
Total shareholders' equity	119,872	112,136	1,063,825
<b>Accumulated other comprehensive income</b>			
Unrealized gain on other securities	17,270	18,379	153,268
Foreign currency translation adjustments	572	1,561	5,077
Adjustments for retirement benefits	(2,873)	(1,554)	(25,496)
Total accumulated other comprehensive income	14,969	18,386	132,849
Non-controlling interests	795	791	7,057
Total net assets	135,636	131,313	1,203,731
Total liabilities and net assets	¥196,293	¥196,866	\$1,742,042

The accompanying notes are an integral part of the statements.

## NOF CORPORATION and Subsidiaries

### Consolidated Statement of Income

For the Year Ended March 31,

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Net sales	¥170,461	¥167,698	\$1,512,786
Cost of sales (Note 10)	119,972	120,435	1,064,714
Gross profit	50,489	47,263	448,072
Selling, general and administrative expenses (Notes 9 and 10)	31,123	30,175	276,208
Operating income	19,366	17,088	171,864
Other income (expenses):			
Interest and dividend income	1,056	936	9,367
Interest expenses	(84)	(94)	(748)
Gain (Loss) on sale of fixed assets (Notes 26 and 27)	1	(283)	11
Loss on retirement of fixed assets (Note 28)	(69)	(66)	(616)
Gain on sale of investments in securities	26	15	231
Impairment loss on investments in securities	(18)	(8)	(161)
Foreign exchange gain (loss), net	(461)	437	(4,093)
Impairment loss on fixed assets (Note 24)	(428)	(1,015)	(3,798)
Others, net	199	671	1,785
	222	593	1,978
Profit before income taxes	19,588	17,681	173,842
Income taxes (Note 12)			
Current	6,265	5,591	55,604
Deferred	(288)	345	(2,558)
	5,977	5,936	53,046
Profit	13,611	11,745	120,796
Profit attributable to:			
Non-controlling interests	22	41	195
Owners of parent (Note 17)	¥ 13,589	¥ 11,704	\$ 120,601

The accompanying notes are an integral part of the statements.

## NOF CORPORATION and Subsidiaries

### Consolidated Statement of Comprehensive Income

For the Year Ended March 31,

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
<b>Profit</b>	¥13,611	¥11,745	\$120,795
Other comprehensive income (Note 22)			
Unrealized gain (loss) on other securities	(1,111)	7,960	(9,859)
Foreign currency translation adjustments	(990)	1,069	(8,784)
Adjustments for retirement benefits	(1,317)	1,078	(11,689)
Total other comprehensive income	(3,418)	10,107	(30,332)
Comprehensive income	10,193	21,852	90,463
<b>Total comprehensive income attributable to:</b>			
Owners of parent	10,172	21,792	90,277
Non-controlling interests	21	60	186

The accompanying notes are an integral part of the statements.

## NOF CORPORATION and Subsidiaries

### Consolidated Statement of Changes in Net Assets

For the Year Ended March 31, 2016 and 2015

Millions of yen

	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on other securities	Foreign currency translation adjustments	Adjustments for retirement benefits	Total accumulated other comprehensive income	Non- controlling interests	Total net assets
Balance at March 31, 2014	186,683	¥17,742	¥15,114	¥72,132	¥(1,398)	¥103,590	¥10,421	¥ 510	¥(2,634)	¥ 8,297	¥735	¥112,622
Cumulative effects of changes in accounting policies				1,590		1,590						1,590
Restated balance at April 1, 2014	186,683	¥17,742	¥15,114	¥73,722	¥(1,398)	¥105,180	¥10,421	¥ 510	¥(2,634)	¥ 8,297	¥735	¥114,212
Profit attributable to owners of parent for the period	-	-	-	11,704	-	11,704	-	-	-	-	-	11,704
Cash dividends	-	-	-	(2,364)	-	(2,364)	-	-	-	-	-	(2,364)
Purchase of treasury stock	-	-	-	-	(2,355)	(2,355)	-	-	-	-	-	(2,355)
Disposal of treasury stock	-	-	0	-	2	2	-	-	-	-	-	2
Retirement of treasury stock	(3,000)	-	(1,727)	-	1,727	-	-	-	-	-	-	-
Transfer of loss on disposal of treasury stock	-	-	1,726	(1,726)	-	-	-	-	-	-	-	-
Other	-	-	-	(31)	-	(31)	-	-	-	-	-	(31)
Net changes in items other than shareholders' equity	-	-	-	-	-	-	7,958	1,051	1,080	10,089	56	10,145
Balance at March 31, 2015	183,683	¥17,742	¥15,113	¥81,305	¥(2,024)	¥112,136	¥18,379	¥1,561	¥(1,554)	¥18,386	¥791	¥131,313
Profit attributable to owners of parent for the period	-	-	-	13,589	-	13,589	-	-	-	-	-	13,589
Cash dividends	-	-	-	(2,862)	-	(2,862)	-	-	-	-	-	(2,862)
Purchase of treasury stock	-	-	-	-	(2,992)	(2,992)	-	-	-	-	-	(2,992)
Disposal of treasury stock	-	-	0	-	0	0	-	-	-	-	-	0
Retirement of treasury stock	(3,000)	-	(2,297)	-	2,297	-	-	-	-	-	-	-
Transfer of loss on disposal of treasury stock	-	-	2,297	(2,297)	-	-	-	-	-	-	-	-
Other	-	-	-	1	-	1	-	-	-	-	-	1
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(1,109)	(989)	(1,319)	(3,417)	4	(3,413)
Balance at March 31, 2016	180,683	¥17,742	¥15,113	¥89,736	¥(2,719)	¥119,872	¥17,270	¥ 572	¥(2,873)	¥14,969	¥795	¥135,636

For the Year Ended March 31, 2016

Thousands of U.S. dollars (Note 4)

	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on other securities	Foreign currency translation adjustments	Adjustments for retirement benefits	Total accumulated other comprehensive income	Non- controlling interests	Total net assets
Balance at March 31, 2015	183,683	\$157,455	\$134,126	\$721,558	\$(17,964)	\$ 995,175	\$163,105	\$13,862	\$(13,794)	\$163,173	\$7,016	\$1,165,364
Profit attributable to owners of parent for the period	-	-	-	120,601	-	120,601	-	-	-	-	-	120,601
Cash dividends	-	-	-	(25,395)	-	(25,395)	-	-	-	-	-	(25,395)
Purchase of treasury stock	-	-	-	-	(26,562)	(26,562)	-	-	-	-	-	(26,562)
Disposal of treasury stock	-	-	0	-	3	3	-	-	-	-	-	3
Retirement of treasury stock	(3,000)	-	(20,390)	-	20,390	-	-	-	-	-	-	-
Transfer of loss on disposal of treasury stock	-	-	20,390	(20,390)	-	-	-	-	-	-	-	-
Other	-	-	-	3	-	3	-	-	-	-	-	3
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(9,837)	(8,785)	(11,702)	(30,324)	41	(30,283)
Balance at March 31, 2016	180,683	\$157,455	\$134,126	\$796,377	\$(24,133)	\$1,063,825	\$153,268	\$ 5,077	\$(25,496)	\$132,849	\$7,057	\$1,203,731

The accompanying notes are an integral part of the statements.

# NOF CORPORATION and Subsidiaries

## Consolidated Statement of Cash Flows

For the Year Ended March 31,

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥19,588	¥17,681	\$173,842
Adjustments for:			
Depreciation	4,999	4,680	44,364
Impairment loss on fixed assets	428	1,015	3,798
Net changes in retirement benefit liability	(16)	742	(143)
Interest and dividend income	(1,056)	(936)	(9,367)
Interest expenses	84	94	748
Loss (gain) on sale of fixed assets	(1)	283	(11)
Impairment loss on investments in securities	18	8	161
Gain on sale of investments in securities	(26)	(15)	(231)
Decrease (increase) in notes and accounts receivable	(3,113)	570	(27,627)
Decrease (increase) in inventories	1,922	(2,889)	17,056
Decrease in notes and accounts payable	(2,131)	(1,254)	(18,915)
Others, net	1,745	1,325	15,482
Sub total	22,441	21,304	199,157
Interest and dividends received	1,059	938	9,397
Interest paid	(89)	(101)	(789)
Loss on litigation	-	(2,558)	-
Income taxes paid	(6,504)	(5,352)	(57,724)
Net cash provided by operating activities	16,907	14,231	150,041
<b>Cash flows from investing activities:</b>			
Payments for purchase of investments in securities	(28)	(536)	(245)
Proceeds from sale of investments in securities	80	92	712
Proceeds from sale of stocks of subsidiaries	-	536	-
Payments for purchase of property, plant and equipment	(5,323)	(8,034)	(47,243)
Proceeds from sale of property, plant and equipment	3	243	30
Net changes in short-term loans receivable	41	42	365
Payments for long-term loans receivable	(1)	(7)	(4)
Proceeds from long-term loans receivable	9	6	83
Others, net	(189)	(237)	(1,695)
Net cash used in investing activities	(5,408)	(7,895)	(47,997)



## NOF CORPORATION and Subsidiaries

### Consolidated Statement of Cash Flows (continued)

For the Year Ended March 31,

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Cash flows from financing activities:			
Net changes in short-term bank loans	(520)	207	(4,611)
Increase in long-term debt	5,058	–	44,884
Repayments of long-term debt	(5,000)	(156)	(44,375)
Repayments of lease obligations	(166)	(180)	(1,469)
Payments for purchase of treasury stock	(2,993)	(2,356)	(26,562)
Proceeds from sale of treasury stock	0	3	4
Cash dividends paid	(2,853)	(2,359)	(25,318)
Cash dividends paid to non-controlling shareholders	(4)	(5)	(44)
Net cash used in financing activities	(6,478)	(4,846)	(57,491)
Effect of exchange rate changes on cash and cash equivalents	(732)	545	(6,483)
Net increase in cash and cash equivalents	4,289	2,035	38,070
Cash and cash equivalents at beginning of year	14,641	11,788	129,932
Increase in cash and cash equivalents from newly consolidated subsidiaries	–	818	–
Cash and cash equivalents at end of year (Note 5)	¥18,930	¥14,641	\$168,002

The accompanying notes are an integral part of these statements.

# NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

## 1. Basis of presentation

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

## 2. Summary of significant accounting policies

### (1) Scope of consolidation

The Company had 34 subsidiaries (majority-owned companies) as of March 31, 2016 (35 for 2015). The accompanying consolidated financial statements include the accounts of the Company and 25 of its subsidiaries (collectively, the “Group”) for the year ended March 31, 2016 (26 for 2015).

The remaining 9 (9 for 2015) subsidiaries, whose combined assets, net sales, net income and retained earnings in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from consolidation.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

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

Name of subsidiaries	Percentage of voting rights owned by the Company
	%
(Domestic subsidiaries)	
Nippon Koki Co., Ltd.	95.0
NiGK Corporation	100.0
HOKKAIDO NOF CORPORATION	100.0
NOF METAL COATINGS ASIA PACIFIC Co., Ltd.	100.0
Showa Kinzoku Kogyo Co., Ltd.	97.3
JAPEX Corp.	70.0
Nichiyu Trading Co., Ltd.	100.0
Nichiyu Logistics Co., Ltd.	100.0
Nippo Kogyo Co., Ltd.	93.5
Yuka Sangyo Co., Ltd.	100.0
Nichiyu Kogyo Co., Ltd.	100.0
NIKKA COATING Co., Ltd.	100.0
CACTUS Co., Ltd.	100.0
(Foreign subsidiaries)	
Changshu NOF Chemical Co., Ltd.	100.0
P.T. NOF MAS Chemical Industries	89.6
NOF METAL COATINGS NORTH AMERICA Inc.	100.0
NOF AMERICA CORPORATION	100.0
NOF (Shanghai) Co., Ltd.	100.0
NOF EUROPE GmbH	100.0
NOF METAL COATINGS EUROPE S.A.	100.0
NOF METAL COATINGS EUROPE N.V.	100.0
NOF METAL COATINGS KOREA Co., Ltd.	100.0
SIE s.r.l.	100.0
NOF METAL COATINGS SOUTH AMERICA Ind. E Com. Ltda.	90.0
GEORGIA METAL COATINGS COMPANY	100.0

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

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### (2) Consolidation and elimination

For the purposes of preparing the accompanying consolidated financial statements, any gains/losses in relation to inter-company transactions have been eliminated, and the portion thereof attributable to non-controlling interests is charged to non-controlling interests.

Applicable inter-company accounts have been eliminated. The cost of investments in the common stock of consolidated subsidiaries is offset by the underlying equity in the net assets of such subsidiaries. Assets and liabilities in the consolidated subsidiaries are revalued at fair market value when the majority interest in the subsidiaries is purchased.

The differences between the cost of an investment and the amount of underlying equity in the net assets of such subsidiaries are amortized on a straight-line basis over their estimated useful lives or over a period of 5 years.

### (3) Translation of financial statements of foreign subsidiaries

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen using the current exchange rate at the balance sheet date, except for shareholders' equity, which is translated using the historical rate. The income statements of the consolidated foreign subsidiaries are translated into Japanese yen using the average rate for the fiscal year. Related translation adjustments are recorded as "Foreign currency translation adjustments" in a separate component of net assets.

### (4) Cash and cash equivalents

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

### (5) Accounting for investments in unconsolidated subsidiaries and affiliates

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

### (6) Financial instruments

#### (a) Other securities

Available-for-sale securities for which market quotations are available are stated at an amount based on the average market price over a period of one month prior to the balance sheet date. Net unrealized gains or losses on those securities are reported as a separate component of net assets at a net-of-tax amount.

Available-for-sale securities for which market quotations are unavailable are stated at cost, principally determined by the moving-average method.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### (b) Hedge accounting

The Company has entered into forward foreign exchange contracts to reduce its exposure to the risk of fluctuation in foreign exchange rates related to its trade accounts receivables and payables, and the Company also has entered into interest rate swap contracts to reduce its exposure to the risk of fluctuation in interest rates related to long-term bank loans. It is the Company's policy not to enter into any speculative derivatives transactions.

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

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

In addition, if interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the liabilities for which the swap contracts were executed.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

### (7) Allowance for doubtful accounts

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

### (8) Inventories

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

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

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

## **NOF CORPORATION and Subsidiaries**

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

(10) Intangible assets (except for leased assets)

Intangible assets are amortized using the straight-line method.

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

(11) Leased assets

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

(12) Retirement benefit

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

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

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

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

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

(13) Retirement benefit provisions for directors

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

(14) Retirement benefit provisions for officers

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

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### (15) Income taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

Deferred income taxes were determined using the assets and liabilities approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

### (16) Consumption tax

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. The consumption tax paid is generally offset against the balance of consumption tax withheld, and the balance is included in the accompanying consolidated balance sheets in "Other current liabilities."

### (17) Reclassification of accounts

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

### (18) Standards issued but not yet effective

#### Implementation Guidance on Recoverability of Deferred Tax Assets

On March 28, 2016, the ASBJ issued "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26).

#### (a) Overview

Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of Japanese Institution of Certified Public Accountants Audit Committee Report No. 66 "Audit Treatment on Determining the Recoverability of Deferred Tax Assets," whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

- Treatment of companies that do not satisfy any of category requirement for (Category 1) through (Category 5)
- Category requirements for (Category 2) and (Category 3)
- Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
- Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

(b) Scheduled date of adoption

The Company expects to adopt the revised Implementation guidance from the beginning of the fiscal year ending March 31, 2017.

(c) Impact of adopting revised accounting standards and guidance

The Company is currently evaluating the effect of adopting this implementation guidance on its consolidated financial statements.

### 3. Change in accounting policy

#### Application of accounting standards for Business Combinations

The Company and its domestic consolidated subsidiaries adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7), “Revised Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2), “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10), and “Revised Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4) effective from April 1, 2015.

As a result, under these revised accounting standards, the accounting treatment for any changes in a parent’s ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of profit (loss) attributable to owners of parent was amended, the reference to “minority interests” was changed to “non-controlling interests,” and accounting treatment for adjustments to provisional amounts during measurement period was also changed.

The cumulative impact of the retroactive application of the new accounting policies over all past periods at April 1, 2015 was reflected in capital surplus and retained earnings.

The adoption of these revised accounting standards did not have an impact on the Company’s consolidated financial statements for the year ended March 31, 2016.

### 4. United States dollar amounts

The Company maintains its accounting records in yen by rounding to the nearest million. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of  $¥112.68 = \text{U.S.}\$1$ , the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2016, and were then rounded to the nearest thousand. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at  $¥112.68 = \text{U.S.}\$1$  or at any other rate.



## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### 5. Supplementary cash flow information

Cash and cash equivalents as of March 31, 2016 and 2015 are reconciled to cash and deposits in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Cash and time deposits	¥19,082	¥14,539	\$169,346
Time deposits with maturity of more than three months	(931)	(875)	(8,262)
Money Market Fund	779	977	6,918
Cash and cash equivalents	¥18,930	¥14,641	\$168,002

### 6. Investments in securities

(1) The acquisition cost, book value and unrealized gains or losses on available-for-sale securities with fair value as of March 31, 2016 and 2015 are as follows:

Description	Millions of yen		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks	¥13,215	¥38,491	¥25,276
Bonds	10	10	0
Others	20	22	2
Sub total	¥13,245	¥38,523	¥25,278
Book value not in excess of acquisition cost			
Stocks	¥ 1,983	¥ 1,533	¥ (450)
Bonds	-	-	-
Others	797	796	(1)
Sub total	¥ 2,780	¥ 2,329	¥ (451)
Total	¥16,025	¥40,852	¥24,827

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

Description	Millions of yen		
	2015		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks	¥13,881	¥40,746	¥26,865
Bonds	-	-	-
Others	37	44	7
Sub total	¥13,918	¥40,790	¥26,872
Book value not in excess of acquisition cost			
Stocks	¥ 1,300	¥ 1,240	¥ (60)
Bonds	10	10	(0)
Others	977	976	(1)
Sub total	¥ 2,287	¥ 2,226	¥ (61)
Total	¥16,205	¥43,016	¥26,811

Description	Thousands of U.S. dollars (Note 4)		
	2016		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks	\$117,279	\$341,592	\$224,313
Bonds	89	89	0
Others	176	199	23
Sub total	\$117,544	\$341,880	\$224,336
Book value not in excess of acquisition cost			
Stocks	\$ 17,600	\$ 13,602	\$ (3,998)
Bonds	-	-	-
Others	7,069	7,069	(0)
Sub total	\$ 24,669	\$ 20,671	\$ (3,998)
Total	\$142,213	\$362,551	\$220,338

The Company recorded impairment losses on investments in securities in the amounts of ¥18 million (US\$161 thousand) and ¥8 million for the years ended March 31, 2016 and 2015, respectively.

Impairment losses are recorded for securities whose fair values have declined by 50% or more or for those that have declined in a range of 30% to 50% if the decline is deemed to be irrecoverable.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

- (2) Available-for-sale securities sold during the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Proceeds from sale of available-for-sale securities	¥80	¥92	\$714
Realized gain	26	15	231
Realized loss	—	—	—

- (3) The book value of major securities without fair value as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Unlisted stocks	¥743	¥746	\$6,590
Fund certificates	5	5	48

### 7. Financial instruments

- (1) Policy for financial instruments

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

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

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

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

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

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

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

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

Short-term borrowings are raised mainly in connection with business activities, and long-term debt is taken out principally for the purpose of making capital investments. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Group utilizes interest rate swap transactions as hedging instruments.

The group policy for derivative and hedge accounting is indicated in Note 15 “Derivative financial instruments.”

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

The Group calculates the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors and are subject to fluctuation due to changes in underlying assumptions. The contract amounts of the derivatives indicated in Note 15 “Derivative financial instruments” are not an indicator of the market risk associated with derivatives transactions.

### (4) Fair value of financial instruments

The carrying value, the estimated fair value and the difference of the financial instruments on the balance sheet as of March 31, 2016 and 2015 are as follows. Fair values that are not readily determinable are not included in the following table.

	Millions of yen		
	2016		
	Carrying value	Estimated fair value	Difference
<b>Assets</b>			
Cash and time deposits	¥19,082	¥19,082	¥ –
Trade notes and accounts receivable (less allowance for doubtful accounts)	¥37,011	¥37,011	¥ –
Available-for-sale securities	¥40,852	¥40,852	¥ –
<b>Liabilities</b>			
Notes and accounts payable	¥18,320	¥18,320	¥ –
Short-term bank borrowings	¥ 1,700	¥ 1,700	¥ –
Long-term borrowings from banks and other financial institutions	¥ 8,129	¥ 8,121	¥(8)
Derivative transactions	¥ –	¥ –	¥ –

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

	Millions of yen		
	2015		
	Carrying value	Estimated fair value	Difference
<b>Assets</b>			
Cash and time deposits	¥14,539	¥14,539	¥ -
Trade notes and accounts receivable (less allowance for doubtful accounts)	¥34,009	¥34,009	¥ -
Available-for-sale securities	¥43,016	¥43,016	¥ -
<b>Liabilities</b>			
Notes and accounts payable	¥20,362	¥20,362	¥ -
Short-term bank borrowings	¥ 2,242	¥ 2,242	¥ -
Long-term borrowings from banks and other financial institutions	¥ 8,072	¥ 8,060	¥(12)
Derivative transactions	¥ -	¥ -	¥ -

	Thousands of U.S. dollars (Note 4)		
	2016		
	Carrying value	Estimated fair value	Difference
<b>Assets</b>			
Cash and time deposits	\$169,346	\$169,346	\$ -
Trade notes and accounts receivable (less allowance for doubtful accounts)	\$328,461	\$328,461	\$ -
Available-for-sale securities	\$362,551	\$362,551	\$ -
<b>Liabilities</b>			
Notes and accounts payable	\$162,585	\$162,585	\$ -
Short-term bank borrowings	\$ 15,091	\$ 15,091	\$ -
Long-term borrowings from banks and other financial institutions	\$ 72,142	\$ 72,069	\$(73)
Derivative transactions	\$ -	\$ -	\$ -

Fair value measurement of financial instruments and information relating to short-term investment securities and derivative transactions:

### Assets

#### (1) Cash and time deposits

Since these items are subject to be settled in a short term, their carrying amounts approximate fair value.

#### (2) Trade notes and accounts receivable

The carrying value, less allowance for doubtful accounts, is used as the amount approximates fair value due to the short maturity of these instruments.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### (3) Available-for-sale securities

The fair value of equity securities equals quoted market price, if available. The fair value of debt securities equals quoted market price or the price provided by financial institutions. The fair value of MMF equals the carrying amount as it approximates fair value due to the short maturity of these instruments.

Moreover, investment securities classified by holding purpose are described in Note 6 “Investments in securities.”

### Liabilities

#### (1) Notes and accounts payable and (2) Short-term bank borrowings

The carrying amount is used as the amount approximates fair value due to the short maturity of these instruments.

#### (3) Long-term borrowings from banks and other financial institutions

The fair value of long-term borrowings from banks is calculated based on each payment period by applying a discount rate to the total of future net cash flows. The discount rate is based on the interest rate considering the payment periods or credit risk.

Long-term borrowings with variable interest rates from banks are hedged by interest rate swap contracts and accounted for as debt with a fixed interest rate. The fair value of long-term borrowings from banks with variable interest is calculated based on the present value of the total of principal, interest and net cash flows of the interest rate swap contracts discounted by the same interest rate.

#### (4) Derivative transactions

The contract amount, fair value, unrealized gain or loss, and others are described in Note 15 “Derivative financial instruments.”

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Unlisted stock	¥1,136	¥1,191	\$10,082
Fund certificate	¥ 5	¥ 5	\$ 48

These items are not included in short-term investments in securities and investments in securities because the fair values are not readily determinable as market prices do not exist.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

The carrying value of monetary assets as of March 31, 2016 and 2015 is as follows:

	Millions of yen			
	2016			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥19,079	¥ –	¥ –	¥ –
Notes and accounts Receivable	¥37,188	¥ –	¥ –	¥ –
Available-for-sale securities				
Government and municipal bonds	¥ –	¥10	¥ –	¥ –
	Millions of yen			
	2015			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥14,535	¥ –	¥ –	¥ –
Notes and accounts receivable	¥34,215	¥ –	¥ –	¥ –
Available-for-sale securities				
Government and municipal bonds	¥ –	¥10	¥ –	¥ –
	Thousands of U.S. dollars (Note 4)			
	2016			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	\$169,318	\$ –	\$ –	\$ –
Notes and accounts receivable	\$330,033	\$ –	\$ –	\$ –
Available-for-sale securities				
Government and municipal bonds	\$ –	\$89	\$ –	\$ –

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### 8. Short-term bank loans and long-term debt

Short-term bank loans outstanding are generally represented by notes payable issued by the Company to banks with weighted average interest rates of 0.87% at March 31, 2016, and 0.90% at March 31, 2015.

Long-term debt as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Loans, principally from banks and insurance companies, due April 2016 to September 2022 with average interest rates of 0.44% at March 31, 2016, and 0.52% at March 31, 2015	¥8,129	¥8,072	\$72,144
Less: Current maturities of:			
Long-term loans	0	5,000	2
	¥8,129	¥3,072	\$72,142

Aggregate annual maturities of long-term debt subsequent to March 31, 2016 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 4)
2017	¥2,949	\$26,175
2018	5,179	45,961
2019	0	1
2020	0	2
2021 and thereafter	1	3
	¥8,129	\$72,142

The Company's assets pledged as collateral for long-term loans and to obtain credit from banks, other financial institutions (including the current portion), and suppliers of ¥35 million (US\$313 thousand) at March 31, 2016, and ¥13 million at March 31, 2015 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Investments in securities	¥ 10	¥ 12	\$ 86
Property, plant and equipment at book value	131	134	1,163
	¥141	¥146	\$1,249



## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### 9. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Delivery and storage charges	¥5,349	¥4,968	\$47,472
Salaries and bonuses	8,013	7,572	71,111
Retirement benefit expenses	594	645	5,272
Retirement benefit costs for officers	29	28	258
Research and development costs	5,643	5,576	50,076
Amortization of goodwill	7	47	66
Accrued bonuses	1,031	1,051	9,148
Allowance for doubtful accounts	(26)	1	(227)

### 10. Research and development costs

Research and development costs for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Research and development costs	¥6,831	¥6,795	\$60,625

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### 11. Net assets

Information regarding changes in net assets for the years ended March 31, 2016 and 2015 are as follows:

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

	Thousands of shares			
	2016			
	Number of shares at March 31, 2015	Increase	Decrease	Number of shares at March 31, 2016
Common stock	183,683	–	3,000	180,683
Treasury stock	3,516	3,035	3,000	3,551

The increase in treasury stock during the year ended March 31, 2016 was due to the purchase of odd-lot shares (35 thousand shares) and the market purchases (3,000 thousand shares).

The decrease in treasury stock during the year ended March 31, 2016 was due to the disposal of odd-lot shares (0 thousand shares) and retirement of treasury stock (3,000 thousand shares).

	Thousands of shares			
	2015			
	Number of shares at March 31, 2014	Increase	Decrease	Number of shares at March 31, 2015
Common stock	186,683	–	3,000	183,683
Treasury stock	3,423	3,096	3,003	3,516

The increase in treasury stock during the year ended March 31, 2015 was due to the purchase of odd-lot shares (96 thousand shares) and the market purchases (3,000 thousand shares).

The decrease in treasury stock during the year ended March 31, 2015 was due to the disposal of odd-lot shares (3 thousand shares) and retirement of treasury stock (3,000 thousand shares).

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### (2) Cash dividends

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

Dividends paid for the year ended March 31, 2016:

		Millions of yen	Thousands of U.S. dollars (Note 4)	Yen	U.S. dollars (Note 4)
	Type of shares	Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 26, 2015	Common stock	¥1,621	\$14,390	¥9	\$0.08
Meeting of the Board of Directors on November 5, 2015	Common stock	¥1,240	\$11,005	¥7	\$0.06

Dividends paid for the year ended March 31, 2015:

		Millions of yen	Yen
	Type of shares	Total dividends	Dividends per share
The General Meeting of Stockholders on June 27, 2014	Common stock	¥1,283	¥7
Meeting of the Board of Directors on November 5, 2014	Common stock	¥1,081	¥6

Dividends with the cut-off date in the year ended March 31, 2016 and the effective date in the year ending March 31, 2017:

		Millions of yen	Thousands of U.S. dollars (Note 4)	Yen	U.S. dollars (Note 4)
	Type of shares	Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 29, 2016	Common stock	¥1,948	\$17,292	¥11	\$0.10

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### 12. Income taxes

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Deferred tax assets:			
Accrued bonus	¥ 994	¥ 1,023	\$ 8,825
Liabilities for retirement benefits	1,544	1,592	13,705
Elimination of intercompany profits	540	615	4,793
Accrued enterprise tax	303	300	2,690
Retirement benefit provisions for directors and officers	20	28	178
Impairment loss on fixed assets	570	569	5,062
Impairment loss on investment securities	337	341	2,987
Valuation loss on inventories	378	242	3,358
Others	2,393	1,847	21,229
	7,079	6,557	62,827
Valuation allowance	(991)	(1,113)	(8,797)
Total deferred tax assets	6,088	5,444	54,030
Deferred tax liabilities:			
Unrealized gain on investments in securities	(7,565)	(8,431)	(67,134)
Reserve for advanced depreciation of property, plant and equipment	(1,686)	(1,776)	(14,961)
Valuation differences	(1,514)	(1,595)	(13,435)
Gain on revaluation of assets trusted for retirement benefit	(634)	(654)	(5,625)
Others	(447)	(447)	(3,974)
Total deferred tax liabilities	(11,846)	(12,903)	(105,129)
Net deferred tax liabilities	¥ (5,758)	¥ (7,459)	\$ (51,099)

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

Note: Deferred tax assets and liabilities as of March 31, 2016 and 2015 are reflected in the following accounts in the consolidated balance sheet:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Current assets—deferred tax assets	¥ 2,333	¥ 2,338	\$ 20,707
Investments and other assets—deferred tax assets	364	376	3,233
Current liabilities—deferred tax liabilities	—	—	—
Long-term liabilities—deferred tax liabilities	(8,455)	(10,173)	(75,039)

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

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory rates of approximately 33.0% and 36.0% for the years ended March 31, 2016 and 2015, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

A reconciliation of the effective statutory tax rate to the Company's effective tax rates for years ended March 31, 2016 and 2015 is summarized as follows:

	2016	2015
Effective statutory tax rate	33.0%	36.0%
Non-deductible expenses	0.3	0.4
Tax credits	(2.0)	(2.5)
Valuation allowance	(0.6)	(0.9)
Inhabitants' per capita taxes	0.2	0.2
Deduction of dividends received	(0.3)	(0.8)
Effects of Japanese tax law changes	(0.3)	(0.7)
Different tax rates applied to foreign subsidiaries	(1.7)	(1.0)
Other	1.9	2.8
Effective tax rates	30.5%	33.5%

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### Change in an effective statutory tax rate

The “Act to partially revise the Income Tax Act and Others” (Act No. 15 of 2016) and the “Act to partially revise the Local Tax Act and Others” (Act No. 13 of 2016) were enacted on March 31, 2016. As a result, the effective statutory tax rate used to measure the Company’s deferred tax assets and liabilities was changed from 32.0% to 31.0% for the temporary differences expected to be realized or settled in the year beginning April 1, 2016. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets, after offsetting deferred tax liabilities, by ¥105 million (\$934 thousand) and adjustments for retirement benefits by ¥81 million (\$719 thousand) and increase deferred income tax expense by ¥53 million (\$467 thousand) and unrealized gain on other securities by ¥239 million (\$2,120 thousand) as of and for the year ended March 31, 2016.

### 13. Retirement benefit plans

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

#### Defined benefit plan

(1) The changes in retirement benefit obligation during the years ended March 31, 2016 and 2015 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Beginning balance of retirement benefit obligation	¥19,302	¥20,962	\$171,296
Cumulative effects of changes in accounting policies	–	(2,486)	–
Restated balance at the beginning of the year	19,302	18,476	171,296
Service cost	1,325	1,322	11,758
Interest cost	199	190	1,769
Actuarial loss	1810	24	16,066
Retirement benefits paid	(916)	(719)	(8,132)
Other	(29)	9	(256)
Ending balance of retirement benefit obligation	¥21,691	¥19,302	\$192,501

## NOF CORPORATION and Subsidiaries

### Notes to Consolidated Financial Statements For the years ended March 31, 2016 and 2015

- (2) The changes in plan assets during the years ended March 31, 2016 and 2015 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Beginning balance of plan assets	¥20,137	¥18,239	\$178,713
Expected return on plan assets	362	326	3,215
Actuarial loss	(655)	1,195	(5,816)
Contributions by the Company	970	989	8,608
Retirement benefits paid	(689)	(616)	(6,116)
Other	(11)	4	(100)
Ending balance of plan assets	¥20,114	¥20,137	\$178,504

- (3) The changes in liabilities for retirement benefits calculated by using the simplified method during the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Beginning balance of net defined benefit liability	¥1,191	¥1,190	\$10,573
Retirement benefit expenses	199	232	1,763
Retirement benefits paid	(76)	(144)	(671)
Contributions by the Company	(89)	(87)	(790)
Ending balance of net defined benefit liability	¥1,225	¥1,191	\$10,875

- (4) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2016 and 2015 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Funded retirement benefit obligation	¥ 19,787	¥ 17,289	\$ 175,600
Plan assets	(21,141)	(21,067)	(187,618)
	(1,354)	(3,778)	(12,018)
Unfunded retirement benefit obligation	4,157	4,134	36,890
Net liabilities in consolidated balance sheet	2,803	356	24,873
Assets for retirement benefits	1,647	4,074	14,618
Liabilities for retirement benefits	4,450	4,430	39,490
Net liabilities in consolidated balance sheet	¥ (2,803)	¥ (356)	\$ (24,873)

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

- (5) The components of retirement benefit expense for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Service cost	¥1,325	¥1,322	\$11,758
Interest cost	199	190	1,769
Expected return on plan assets	(362)	(326)	(3,215)
Amortization of actuarial loss	596	662	5,287
Amortization of prior service cost	1	(9)	8
Retirement benefit expenses for simplified method	198	232	1,762
Retirement benefit expenses for defined benefit plans	¥1,957	¥2,071	\$17,369

- (6) The components of adjustments for retirement benefits included in other comprehensive income (before tax effect) for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Prior service cost	¥ 0	¥ 10	\$ 0
Actuarial loss	1,870	(1,826)	(16,597)
Total	¥1,870	¥(1,816)	\$(16,597)

- (7) The components of adjustments for retirement benefits included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Unrecognized prior service cost	¥ -	¥ 1	\$ -
Unrecognized actuarial loss	4,171	2,300	37,018
Total	¥4,171	¥2,301	\$37,018



## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

- (8) ① The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2015 is as follows:

	2016	2015
Debt securities	27%	30%
Equity securities	31%	29%
General accounts	33%	31%
Other	9%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**NOTE:**

The plan assets include 9% and 10% of the retirement pension trusts for corporate pension plans as of March 31, 2016 and 2015, respectively.

- ② The long-term expected rate of return on plan assets has been estimated based on the current and projected pension asset allocations and the current and projected return rate on various assets comprising plan assets.
- (9) The assumptions used in accounting for the above plans are as follows:

	2016	2015
Discount rate	mainly 0.00%	mainly 1.06%
Long-term expected rate of return on plan assets	mainly 2.00%	mainly 2.00%
Expected rate of salary increase	1.00 ~ 5.86%	1.00 ~ 5.86%

**Defined contribution plans**

The required contributions to the defined contribution plan for certain consolidated subsidiaries for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
	Defined contribution plans	¥100	¥99

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### 14. Leases

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

Obligations under non-cancelable operating leases as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Due within one year	¥146	¥127	\$1,293
Due after one year	374	285	3,320
<b>Total</b>	<b>¥520</b>	<b>¥412</b>	<b>\$4,613</b>

### 15. Derivative financial instruments

The Group uses derivative financial instruments, which comprise principally forward exchange contracts and interest rate swap agreements, to reduce its exposure to market risks from fluctuations in foreign currency exchange and interest rates. The Group has established a control environment, which includes policies and procedures for the approval and monitoring of transactions involving derivative financial instruments. The Group does not hold or issue financial instruments for trading purposes.

The Group is exposed to certain market risks arising from its forward exchange contracts and interest rate swap agreements. The Group is also exposed to the risk of credit loss in the event of non-performance by the counterparties. However, the Group does not anticipate non-performance by any of these counterparties all of whom are domestic financial institutions with high credit ratings.

The Company does not enter into derivative contracts which do not meet hedge accounting criteria.

Summarized below are the derivative transactions which meet hedge accounting criteria.

	Millions of yen		
	2016		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts:			
To receive variable/to pay fixed	¥5,400	¥5,400	¥-

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

	Millions of yen		
	2015		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts:			
To receive variable/to pay fixed	¥5,400	¥400	¥ –
	Thousands of U.S. dollars (Note 4)		
	2016		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts:			
To receive variable/to pay fixed	\$47,923	\$47,923	\$ –

Differences between the fair market value and book value of the interest rate swaps are included in the fair market value of the underlying long-term loans payable.

### 16. Commitments and contingencies

- (1) As of March 31, 2016 and 2015, the Group was contingently liable for guarantees of loans as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
As a guarantor of indebtedness of:			
Amagasaki Utility Services	¥15	¥25	\$133
NOF METAL COATINGS			
SHANGHAI Co., Ltd.	55	55	488
	¥70	¥80	\$621

- (2) As of March 31, 2016 and 2015, the Company was contingently liable for the conditional assignment of ¥1,564 million (US\$13,879 thousand) and ¥1,806 million, respectively, of trade notes and accounts receivable with recourse obligations.
- (3) As of March 31, 2016 and 2015, the Company had contingent liabilities for notes receivable endorsed in the aggregate amount of ¥11 million (US\$95 thousand) and ¥9 million, respectively.
- (4) As of March 31, 2016 and 2015, the Company had unused commitment agreements amounting to ¥5,000 million (US\$44,373 thousand) and ¥5,000 million, respectively, with banks and other financial institutions.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### 17. Per share information

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

	Yen		U.S. dollars (Note 4)
	2016	2015	2016
Profit attributable to owners of parent per share:			
Basic	¥ 76.4	¥ 64.7	\$0.68
Diluted	—	—	—
Cash dividends applicable to the year	18.0	15.0	0.16
Net assets	761.25	724.46	6.76

Profit attributable to owners of parent— diluted for the years ended March 31, 2016 and 2015 is not disclosed because there are no diluted shares.

Basis for calculating profit attributable to owners of parent per share:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Profit attributable to owners of parent	¥13,589	¥11,704	\$120,601
Amount not available to shareholders	—	—	—
Profit attributable to owners of parent applicable to common stock	¥13,589	¥11,704	\$120,601
Average number of shares outstanding (1,000 shares)	177,852	180,776	

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

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

Government grants which were deducted from acquisition costs of property, plant and equipment for the purpose of a reduction in taxable profit as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Buildings and structures	¥509	¥522	\$4,518
Machinery, equipment and vehicles	389	394	3,453
Other	23	23	204
<b>Total</b>	<b>¥921</b>	<b>¥939</b>	<b>\$8,175</b>

19. Goodwill

As of March 31, 2016 and 2015, goodwill included in “Intangible assets” amounted to ¥22 million (US\$197 thousand) and ¥30 million, respectively.

20. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Investments in securities	¥393	¥444	\$3,492
Capital contribution	61	61	538
<b>Total</b>	<b>¥454</b>	<b>¥505</b>	<b>\$4,030</b>

21. Asset retirement obligations

Information on the asset retirement obligations recorded on the consolidated balance sheet at March 31, 2016 and 2015 is as follows:

A. Outline of the asset retirement obligations

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

B. Calculation method of asset retirement obligations

An estimated period of use of 2-38 years and a discount rate of 0.07%-2.27% are used to calculate the amount of the asset retirement obligations.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

- C. Changes in the total amount of the asset retirement obligations for the fiscal years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Balance at beginning of year	¥224	¥247	\$1,986
Increase due to acquisition of property, plant and equipment	4	2	34
Accretion expenses	0	0	4
Decrease due to fulfillment of asset retirement obligations	(21)	(24)	(185)
Others	-	(1)	-
Balance at end of year	¥207	¥224	\$1,839

### 22. Other comprehensive income

Reclassification adjustments and tax effects of each component of other comprehensive income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Unrealized gain on other securities:			
Amount arising during the year	¥ (62)	¥10,806	\$ (551)
Reclassification adjustments for gains and losses included in net income	-	-	-
Amount before tax effect	(62)	10,806	(551)
Tax effect	(1,049)	(2,846)	(9,307)
Unrealized gain on other securities	(1,111)	7,960	(9,858)
Foreign currency translation adjustments:			
Amount arising during the year	¥ (990)	¥ 1,069	\$ (8,784)
Adjustments for retirement benefits:			
Amount arising during the year	¥(2,466)	¥ 1,163	\$(21,883)
Reclassification adjustments for gains and losses included in net income	597	653	5,286
Amount before tax effect	(1,870)	1,816	(16,597)
Tax effect	553	(738)	4,907
Adjustments for retirement benefits	(1,317)	1,078	(11,690)
Total other comprehensive income	¥(3,418)	¥10,107	\$(30,332)

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### 23. Segment information

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

The Company's reportable segments are as follows:

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

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

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

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

# NOF CORPORATION and Subsidiaries

## Notes to Consolidated Financial Statements For the years ended March 31, 2016 and 2015

Millions of yen								
2016								
Reportable segments								
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
<b>Sales</b>								
Sales to customers	¥106,319	¥26,776	¥35,971	¥169,066	¥1,395	¥170,461	¥ –	¥170,461
Inter-segment	1,015	2,946	19	3,980	7,735	11,715	(11,715)	–
Total	107,334	29,722	35,990	173,046	9,130	182,176	(11,715)	170,461
Segment income	¥ 11,989	¥ 5,687	¥ 2,944	¥ 20,620	¥ (9)	¥ 20,611	¥ (1,245)	¥ 19,366
<b>Assets</b>								
Assets	¥ 76,321	¥21,173	¥56,306	¥153,800	¥3,020	¥156,820	¥ 39,473	¥196,293
Depreciation	2,487	613	1,675	4,775	62	4,837	162	4,999
Capital expenditures	2,324	303	2,151	4,778	22	4,800	166	4,966

Millions of yen								
2015								
Reportable segments								
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
<b>Sales</b>								
Sales to customers	¥105,232	¥25,403	¥35,747	¥166,382	¥1,316	¥167,698	¥ –	¥167,698
Inter-segment	998	2,536	14	3,548	7,627	11,175	(11,175)	–
Total	106,230	27,939	35,761	169,930	8,943	178,873	(11,175)	167,698
Segment income	¥ 10,191	¥ 4,824	¥ 2,715	¥ 17,730	¥ 170	¥ 17,900	¥ (812)	¥ 17,088
<b>Assets</b>								
Assets	¥ 78,380	¥22,093	¥54,136	¥154,609	¥3,203	¥157,812	¥ 39,054	¥196,866
Depreciation	2,378	528	1,573	4,479	54	4,533	147	4,680
Capital expenditures	3,177	402	1,982	5,561	67	5,628	1,251	6,879

Thousands of U.S. dollars (Note 4)								
2016								
Reportable segments								
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
<b>Sales</b>								
Sales to customers	\$943,552	\$237,625	\$319,234	\$1,500,411	\$12,375	\$1,512,786	\$ –	\$1,512,786
Inter-segment	9,010	26,145	164	35,319	68,645	103,964	(103,964)	–
Total	952,562	263,770	319,398	1,535,730	81,020	1,616,750	(103,964)	1,512,786
Segment income	\$106,401	\$ 50,473	\$ 26,123	\$ 182,997	\$ (79)	\$ 182,918	\$ (11,054)	\$ 171,864
<b>Assets</b>								
Assets	\$677,320	\$187,906	\$499,697	\$1,364,923	\$26,808	\$1,391,731	\$ 350,311	\$1,742,042
Depreciation	22,082	5,437	14,861	42,380	548	42,928	1,436	44,364
Capital expenditures	20,629	2,686	19,090	42,405	197	42,602	1,466	44,068



## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

(2) Information related to reportable segments

- 1) The Group's sales by geographical area for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Japan	¥124,229	¥122,761	\$1,102,496
Asia	25,931	24,924	230,128
Others	20,301	20,013	180,162
Total	¥170,461	¥167,698	\$1,512,786

- 2) The Group's property, plant and equipment by geographical area as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Japan	¥51,201	¥51,440	\$454,391
Others	5,713	6,534	50,705
Total	¥56,914	¥57,974	\$505,096

- (3) Impairment losses on fixed assets by reportable segments for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Functional chemicals	¥428	¥ 916	\$3,798
Life science	-	-	-
Explosive & propulsion	-	99	-
Others	-	-	-
Total	¥428	¥1,015	\$3,798

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

- (4) Amortization and balance of goodwill by reportable segment as of and for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2016		2015		2016	
	Amortization	Ending balance	Amortization	Ending balance	Amortization	Ending balance
Functional chemicals	¥7	¥22	¥47	¥30	\$66	\$197
Life science	-	-	-	-	-	-
Explosive & propulsion	0	0	0	0	0	0
Others	-	-	-	-	-	-
<b>Total</b>	<b>¥7</b>	<b>¥22</b>	<b>¥47</b>	<b>¥30</b>	<b>\$66</b>	<b>\$197</b>

#### 24. Impairment loss on fixed assets

The Company and its consolidated subsidiaries have recognized impairment losses on the following classes of assets for the years ended March 31, 2016 and 2015.

2016				
Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 4)
Takeotoyo City, Aichi	Facilities	Buildings, machinery and others	¥ 50	\$ 445
State of Georgia, USA	Facilities	Buildings, machinery and others	¥ 6	\$ 57
Jiangsu Province, China	Facilities	Buildings, machinery and others	¥371	\$3,295

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

When there is a decrease in profitability of a business operation and no expectation of recovery in operating earnings, the book value of the assets is written down to the recoverable amount. The assets listed in the above table were written down to their respective recoverable amounts and ¥428 million (US\$3,798 thousand) of impairment loss on fixed assets was recognized in the consolidated statement of income for the year ended March 31, 2016.

The recoverable amounts of these groups of assets are measured at value in use or the net selling value (fair value less costs to sell). The discounted cash flow was not calculated since the estimated future cash flows are negative. The fair value is measured based on the expected selling price. The impairment loss on fixed assets consisted of ¥63 million (US\$560 thousand) for buildings and structures, ¥346 million (US\$3,070 thousand) for machinery, equipment and vehicles and ¥19 million (US\$167 thousand) for others.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

2015			Millions of yen
Location	Major use	Asset	
Taketoyo City, Aichi	Facilities	Building, machinery and others	¥1,015

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

When there is a decrease in profitability of a business operation and no expectation of recovery in operating earnings, the book value of the assets is written down to the recoverable amount. The assets listed in the above table were written down to their respective recoverable amounts and ¥1,015 million of impairment loss on fixed assets was recognized in the consolidated statement of income for the year ended March 31, 2015.

The recoverable amounts of these groups of assets are measured at value in use. The discounted cash flow was not calculated since the estimated future cash flows are negative. The impairment loss on fixed assets consisted of ¥576 million for buildings and structures, ¥410 million for machinery, equipment and vehicles and ¥29 million for others.

### 25. Inventories

Inventories at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
	Merchandise and finished goods	¥19,206	¥20,789
Work in process	4,115	3,998	36,520
Raw materials and supplies	9,766	10,339	86,673
Total	¥33,087	¥35,126	\$293,640

Write-downs of inventories for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
	Cost of sales	¥462	¥182

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### 26. Gain on sales of fixed assets

Gain on sales of fixed assets for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Machinery, equipment and vehicles	¥2	¥3	\$13
Other	0	4	3
<b>Total</b>	<b>¥2</b>	<b>¥7</b>	<b>\$16</b>

### 27. Loss on sales of fixed assets

Loss on sales of fixed assets for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Buildings and structures	¥0	¥137	\$2
Machinery, equipment and vehicles	0	0	2
Lands	-	153	-
<b>Total</b>	<b>¥0</b>	<b>¥290</b>	<b>\$4</b>

### 28. Loss on retirement of fixed assets

Loss on retirement of fixed assets for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016	2015	2016
Buildings and structures	¥35	¥37	\$308
Machinery, equipment and vehicles	24	25	215
Other	10	4	93
<b>Total</b>	<b>¥69</b>	<b>¥66</b>	<b>\$616</b>

## **NOF CORPORATION and Subsidiaries**

Notes to Consolidated Financial Statements  
For the years ended March 31, 2016 and 2015

### 29. Subsequent events

At meeting of the Board of Directors of the Company held on May 10, 2016, the Company approved a purchase of up to 4,000,000 shares of treasury stock during the period from May 11, 2016 to September 30, 2016 for an aggregate acquisition cost not exceeding ¥4,000 million (\$35,499 thousand) for the purpose of maintaining the Company's strategic financial position.

As a result, the Company purchased 4,000,000 shares of treasury stock during the period from May 11, 2016 to June 22, 2016 for an aggregate acquisition cost ¥3,653 million (\$32,419 thousand).