

NOF CORPORATION

Consolidated Financial Statements

For the years ended March 31, 2017 and 2016

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, 2017, 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, 2017, 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 29, 2017

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheet

<u>As of March 31,</u>	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
ASSETS			
Current assets:			
Cash and time deposits (Notes 19 and 21)	¥ 30,077	¥ 19,081	\$ 268,092
Notes and accounts receivable (Note 21)	38,494	37,188	343,117
Merchandise and finished goods	18,646	19,205	166,203
Work in process	2,591	4,115	23,102
Raw materials and supplies	10,281	9,766	91,643
Deferred tax assets (Note 26)	2,190	2,333	19,525
Other current assets	1,994	2,480	17,780
Allowance for doubtful accounts	(180)	(177)	(1,611)
Total current assets	104,096	93,993	927,855
Fixed assets:			
Property, plant and equipment (Notes 5 and 6):			
Buildings and structures	66,442	65,951	592,228
Accumulated depreciation	(44,552)	(43,391)	(397,118)
Buildings and structures, net	21,889	22,560	195,109
Machinery, equipment and vehicles	97,841	97,682	872,101
Accumulated depreciation	(86,505)	(86,193)	(771,065)
Machinery, equipment and vehicles, net	11,335	11,488	101,035
Land	20,539	20,647	183,077
Leased assets	348	606	3,104
Accumulated depreciation	(258)	(306)	(2,305)
Leased asset, net	89	299	799
Construction in progress	2,214	441	19,737
Others	14,575	14,613	129,920
Accumulated depreciation	(13,047)	(13,136)	(116,295)
Others, net	1,528	1,476	13,624
Total property, plant and equipment	57,596	56,914	513,385
Intangible assets (Note 7):			
Others, net	596	715	5,317
Total Intangible assets	596	715	5,317
Investments and other assets:			
Investment securities (Notes 5, 8, 21 and 23)	50,580	41,214	450,844
Long term loans	5	7	52
Deferred tax assets (Note 26)	380	364	3,395
Assets for retirement benefits (Note 25)	1,971	1,647	17,572
Other assets	1,962	1,496	17,495
Allowance for doubtful accounts	(63)	(59)	(565)
Total investments and other assets	54,837	44,669	488,795
Total fix assets	113,031	102,299	1,007,498
Total assets	¥ 217,127	¥ 196,293	\$ 1,935,353

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheet (continued)

As of March 31,

Thousands of
U.S. dollars
(Note 4)

	Millions of yen		2017
	2017	2016	2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Note 21)	¥ 18,162	¥ 18,320	\$ 161,892
Electronically recorded obligations-operating	914	1,178	8,147
Short-term bank loans (Notes 21 and 22)	1,420	1,700	12,657
Current portion of long-term debt (Notes 21 and 22)	2,800	0	24,959
Lease obligations	53	95	478
Accrued expenses	1,898	1,813	16,922
Income taxes payable	4,621	4,079	41,189
Deposits received	3,993	3,946	35,591
Accrued bonuses for employees	3,170	3,113	28,263
Asset retirement obligations (Note 27)	164	177	1,466
Other current liabilities	5,662	4,584	50,469
Total current liabilities	42,860	39,009	382,037
Long-term liabilities:			
Long-term debt (Notes 21 and 22)	5,294	8,128	47,192
Lease obligations	63	83	566
Deferred tax liabilities (Note 26)	11,334	8,455	101,030
Accrued retirement benefits for officers	61	64	544
Accrued retirement benefits for directors	0	0	6
Liabilities for retirement benefits (Note 25)	4,509	4,449	40,193
Asset retirement obligations (Note 27)	31	29	279
Other long-term liabilities	406	434	3,622
Total long-term liabilities	21,701	21,647	193,436
Total liabilities	64,562	60,656	575,474
Commitments and contingencies (Note 9)			
Net assets:			
Shareholders' equity			
Common stock			
Authorized: 783,828,000 shares at March 31, 2017 and 2016	17,742	17,742	158,142
Issued: 173,682,752 shares at March 31, 2017 and 180,682,752 shares at March 31, 2016			
Capital surplus	15,113	15,113	134,712
Retained earnings	97,904	89,735	872,668
Treasury stock, at cost	(489)	(2,719)	(4,364)
Total shareholders' equity	130,270	119,871	1,161,158
Accumulated other comprehensive income			
Unrealized holding gain on securities	23,402	17,270	208,598
Translation adjustments	(86)	572	(772)
Retirement benefits liability adjustments	(1,822)	(2,872)	(16,246)
Total accumulated other comprehensive income	21,493	14,969	191,579
Non-controlling interests	801	795	7,141
Total net assets	152,564	135,636	1,359,879
Total liabilities and net assets	¥217,127	¥196,293	\$1,935,353

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)
	2017	2016	2017
Net sales	¥174,057	¥170,460	\$1,551,451
Cost of sales (Notes 10 and 12)	118,262	119,972	1,054,128
Gross profit	55,794	50,488	497,322
Selling, general and administrative expenses (Notes 11 and 12)	31,458	31,123	280,401
Operating income	24,336	19,365	216,921
Other income (expenses):			
Interest income	131	169	1,172
Dividend income	928	886	8,273
Rent income on real estate	248	255	2,217
Foreign exchange loss, net	(586)	(461)	(5,225)
Interest expenses	(70)	(84)	(629)
Liquidation cost of accounts receivables	(30)	(43)	(272)
Rent expenses on real estate	(83)	(93)	(743)
Removal cost on fixed assets	(233)	(276)	(2,077)
Gain (Loss) on sale of fixed assets (Notes 13 and 14)	(4)	1	(39)
Loss on retirement of fixed assets (Note 16)	(92)	(69)	(826)
Gain on sale of investment securities (Note 23)	0	26	2
Impairment loss on investment securities (Note 23)	-	(18)	-
Impairment loss on fixed assets (Note 15)	(174)	(427)	(1,554)
Disposal loss of fix assets	-	(81)	-
Others, net	355	439	3,167
Other income (expenses) total	388	222	3,464
Profit before income taxes	24,725	19,588	220,386
Income taxes (Note 26)			
Current	7,361	6,265	65,620
Deferred	(238)	(288)	(2,125)
	7,123	5,977	63,494
Profit	17,601	13,611	156,891
Profit attributable to:			
Non-controlling interests	14	21	131
Owners of parent (Note 30)	¥ 17,586	¥ 13,589	\$ 156,759

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)
	2017	2016	2017
Profit	¥17,601	¥13,611	\$156,891
Other comprehensive income (Note 17)			
Unrealized gain (loss) on other securities	6,135	(1,110)	54,691
Translation adjustments	(662)	(989)	(5,907)
Retirement benefits liability adjustments	1,051	(1,317)	9,372
Total other comprehensive income	6,524	(3,417)	58,156
Comprehensive income	24,126	10,193	215,048
Total comprehensive income attributable to:			
Owners of parent	24,110	10,172	214,910
Non-controlling interests	15	20	138

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, 2017 and 2016

Millions of yen

	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non- controlling interests	Total net assets
Balance at March 31, 2015	183,682	¥17,742	¥15,113	¥81,305	¥(2,024)	¥112,136	¥18,378	¥1,561	¥(1,554)	¥18,386	¥790	¥131,313
Cash dividends	-	-	-	(2,861)	-	(2,861)	-	-	-	-	-	(2,861)
Profit attributable to owners of parent for the period	-	-	-	13,589	-	13,589	-	-	-	-	-	13,589
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	-	-	-	0	-	0	-	-	-	-	-	0
Net changes in items other than shareholders' equity	-	-	-	-	-	-	(1,108)	(989)	(1,318)	(3,416)	4	(3,412)
Balance at March 31, 2016	180,682	¥17,742	¥15,113	¥89,735	¥(2,719)	¥119,871	¥17,270	¥ 572	¥(2,872)	¥14,969	¥795	¥135,636
Cash dividends	-	-	-	(3,506)	-	(3,506)	-	-	-	-	-	(3,506)
Profit attributable to owners of parent for the period	-	-	-	17,586	-	17,586	-	-	-	-	-	17,586
Purchase of treasury stock	-	-	-	-	(3,681)	(3,681)	-	-	-	-	-	(3,681)
Disposal of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-
Retirement of treasury stock	(7,000)	-	(5,911)	-	5,911	-	-	-	-	-	-	-
Transfer of loss on disposal of treasury stock	-	-	5,911	(5,911)	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity	-	-	-	-	-	-	6,132	(658)	1,050	6,523	6	6,529
Balance at March 31, 2017	173,682	¥17,742	¥15,113	¥97,904	¥ (489)	¥130,270	¥23,402	¥ (86)	¥(1,822)	¥21,493	¥801	¥152,564

For the Year Ended March 31, 2017

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 holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Non- controlling interests	Total net assets
Balance at March 31, 2016	180,682	\$158,142	\$134,712	\$799,855	\$(24,238)	\$1,068,471	\$153,936	\$ 5,099	\$(25,607)	\$133,428	\$7,087	\$1,208,988
Cash dividends	-	-	-	(31,255)	-	(31,255)	-	-	-	-	-	(31,255)
Profit attributable to owners of parent for the period	-	-	-	156,759	-	156,759	-	-	-	-	-	156,759
Purchase of treasury stock	-	-	-	-	(32,817)	(32,817)	-	-	-	-	-	(32,817)
Disposal of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-
Retirement of treasury stock	(7,000)	-	(52,691)	-	52,691	-	-	-	-	-	-	-
Transfer of loss on disposal of treasury stock	-	-	52,691	(52,691)	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity	-	-	-	-	-	-	54,661	(5,871)	9,361	58,150	53	58,204
Balance at March 31, 2017	173,682	\$158,142	\$134,712	\$872,668	\$ (4,364)	\$1,161,158	\$208,598	\$ (772)	\$(16,246)	\$191,579	\$7,141	\$1,359,879

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)
	2017	2016	2017
Cash flows from operating activities:			
Profit before income taxes	¥24,725	¥19,588	\$220,386
Adjustments for:			
Depreciation	4,767	4,998	42,495
Impairment loss on fixed assets	174	427	1,554
Net changes in retirement benefit liability	23	(16)	212
Interest and dividend income	(1,059)	(1,055)	(9,445)
Interest expenses	70	84	629
Loss (gain) on sale of fixed assets	4	(1)	39
Impairment loss on investment securities	-	18	-
Gain on sale of investment securities	(0)	(26)	(2)
Decrease (increase) in notes and accounts receivable	(1,582)	(3,112)	(14,106)
Decrease (increase) in inventories	1,402	1,921	12,503
Increase (decrease) in notes and accounts payable	(169)	(2,131)	(1,511)
Others, net	1,658	1,744	14,780
Sub total	30,014	22,441	267,534
Interest and dividends received	1,058	1,058	9,437
Interest paid	(70)	(88)	(625)
Income taxes paid	(6,978)	(6,504)	(62,204)
Net cash provided by operating activities	24,024	16,906	214,142
Cash flows from investing activities:			
Payments for purchase of investment securities	(528)	(27)	(4,713)
Proceeds from sale of investment securities	37	80	330
Payments for purchase of fixed assets	(5,315)	(5,323)	(47,382)
Proceeds from sale of fixed assets	10	3	96
Net changes in short-term loans receivable	0	41	0
Payments for long-term loans receivable	(1)	(0)	(17)
Proceeds from long-term loans receivable	4	9	36
Others, net	(37)	(190)	(331)
Net cash used in investing activities	(5,831)	(5,408)	(51,981)
Cash flows from financing activities:			
Decrease in short-term bank loans	(211)	(519)	(1,881)
Increase in long-term debt	-	5,057	-
Repayments of long-term debt	(26)	(5,000)	(236)
Proceeds from sale of treasury stock	-	0	-
Purchase of treasury stock	(3,681)	(2,992)	(32,817)
Repayments of lease obligations	(96)	(165)	(858)
Cash dividends paid	(3,494)	(2,852)	(31,146)
Cash dividends paid to non-controlling shareholders	(2)	(4)	(25)
Net cash used in financing activities	(7,512)	(6,478)	(66,966)
Effect of exchange rate changes on cash and cash equivalents	(394)	(730)	(3,516)
Net increase in cash and cash equivalents	10,285	4,289	91,678
Cash and cash equivalents at beginning of year	18,930	14,640	168,735
Cash and cash equivalents at end of year (Note 19)	¥29,215	¥18,930	\$260,414

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, 2017 and 2016

1. Basis of presentation

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

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

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

2. Summary of significant accounting policies

(1) Scope of consolidation

The Company had 34 subsidiaries (majority-owned companies) as of March 31, 2017 (34 for 2016). 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, 2017 (25 for 2016).

The remaining 9 (9 for 2016) 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, 2017 and 2016

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, 2017 and 2016

(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 "Translation adjustments" in a separate component of net assets.

(4) Application of equity method

There are no affiliates accounted for using equity method.

The unconsolidated subsidiaries and affiliates, whose combined net income and retained earnings in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from equity method. The major unconsolidated subsidiary and affiliate are NOF METAL COATINGS SHANGHAI CO., Ltd. and Amagasaki Utility Services CO., Ltd.

(5) 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, 2017 and 2016

(6) Inventories

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

(7) 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.

(8) 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.

(9) 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.

(10) 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.

(11) Accrued bonus for employees

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

(12) Accrued retirement benefits 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 accrued retirement benefits for directors, which was presented as accrued retirement benefits for directors.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
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(13) Accrued retirement benefits 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 accrued retirement benefits for officers, which was presented as accrued retirement benefits for officers.

(14) 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.

(15) 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.

NOF CORPORATION and Subsidiaries

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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.

(16) Goodwill

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

(17) 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.

(18) 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.

(19) 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."

3. Additional information

The Company and its domestic consolidated subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the current fiscal year ended March 31, 2017.

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4. United States dollar amounts

The Company maintains its accounting records in yen by round down to the million. The dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen to U.S. dollars on the basis of ¥112.19 = U.S.\$1, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2017, and were round down to the thousand. The inclusion of such dollar amounts is solely for convenience of the reader and is not intended to imply that yen amounts have been or could be converted, realized or settled in U.S. dollars at ¥112.19 = U.S.\$1 or at any other rate. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

5. Collateral

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 ¥20 million (US\$181 thousand) at March 31, 2017, and ¥35 million at March 31, 2016 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Investment securities	¥ 11	¥ 9	\$ 103
Property, plant and equipment at book value	127	131	1,134
Total	¥138	¥140	\$1,238

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

The accumulative effects related to the Government grants which were deducted from acquisition costs of property, plant and equipment for the purpose of a reduction in taxable profit as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Buildings and structures	¥509	¥509	\$4,538
Machinery, equipment and vehicles	388	389	3,461
Other	22	22	204
Total	¥920	¥921	\$8,203

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7. Goodwill

As of March 31, 2017 and 2016, goodwill included in “Intangible assets” amounted to ¥14 million (US\$127 thousand) and ¥22 million, respectively.

8. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Investment securities	¥371	¥393	\$3,312
Capital contribution	94	60	841
Total	¥465	¥454	\$4,153

9. Commitments and contingencies

(1) As of March 31, 2017 and 2016, the Group was contingently liable for guarantees of loans as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
As a guarantor of indebtedness of:			
Amagasaki Utility Services	¥ 5	¥15	\$ 44
NOF METAL COATINGS SHANGHAI Co., Ltd.	55	55	490
	¥60	¥70	\$534

(2) As of March 31, 2017 and 2016, the Company was contingently liable for the conditional assignment of ¥1,647 million (US\$14,682 thousand) and ¥1,563 million, respectively, of trade notes and accounts receivable with recourse obligations.

(3) As of March 31, 2016, the Company had contingent liabilities for notes receivable endorsed in the aggregate amount of ¥10 million.

(4) As of March 31, 2016, the Company had unused commitment agreements amounting to ¥5,000 million, with banks and other financial institutions.

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10. Inventories

Write-downs of inventories for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Cost of sales	¥(260)	¥462	\$(2,317)

11. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Delivery and storage charges	¥5,221	¥5,349	\$46,542
Salaries and bonuses	7,807	8,012	69,587
Retirement benefit expenses	813	594	7,254
Accrued bonuses	1,108	1,030	9,876
Retirement benefit costs for officers	23	29	209
Research and development costs	5,539	5,642	49,378
Amortization of goodwill	6	7	59
Allowance for doubtful accounts	27	(25)	246

12. Research and development costs

Research and development costs for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Research and development costs	¥6,635	¥6,831	\$59,141

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13. Gain on sales of fixed assets

Gain on sales of fixed assets for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Machinery, equipment and vehicles	¥2	¥1	\$18
Other	–	0	–
Total	¥2	¥1	\$18

14. Loss on sales of fixed assets

Loss on sales of fixed assets for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Buildings and structures	¥–	¥0	\$ –
Machinery, equipment and vehicles	6	0	56
Lands	0	–	1
Total	¥6	¥0	\$58

15. 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, 2017 and 2016.

2017				
Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 4)
Kawasaki City, Kanagawa	Idle assets	Buildings	¥ 52	\$ 471
Toda City, Saitama	Idle assets	Buildings and Land	¥119	\$1,068
State of Georgia, USA	Idle assets	Machinery	¥ 1	\$ 14

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.

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When there are no prospects for future use of idle assets, 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 ¥174 million (US\$1,554 thousand) of impairment loss on fixed assets was recognized in the consolidated statement of income for the year ended March 31, 2017.

The recoverable amounts of these groups of assets are measured at the net selling value (fair value less costs to sell). The fair value is measured based on the expected selling price. The impairment loss on fixed assets consisted of ¥103 million (US\$925 thousand) for buildings and structures, ¥1 million (US\$14 thousand) for machinery, equipment and vehicles and ¥68 million (US\$614 thousand) for others.

2016				
Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 4)
Taketoyo 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 ¥427 million (US\$3,797 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, ¥345 million (US\$3,070 thousand) for machinery, equipment and vehicles and ¥18 million (US\$167 thousand) for others.

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16. Loss on retirement of fixed assets

Loss on retirement of fixed assets for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Buildings and structures	¥69	¥34	\$617
Machinery, equipment and vehicles	20	24	180
Other	3	10	28
Total	¥92	¥69	\$826

17. Other comprehensive income

Reclassification adjustments and tax effects of each component of other comprehensive income for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Unrealized holding gain on securities:			
Amount arising during the year	¥ 8,896	¥ (62)	\$ 79,299
Reclassification adjustments for gains and losses included in net income	(0)	(0)	(2)
Amount before tax effect	8,896	(62)	79,296
Tax effect	(2,760)	(1,048)	(24,604)
Unrealized holding gain on securities	6,135	(1,110)	54,691
Translation adjustments:			
Amount arising during the year	(662)	(989)	(5,907)
Retirement benefits liability adjustments:			
Amount arising during the year	287	(2,465)	2,565
Reclassification adjustments for gains and losses included in net income	1,235	595	11,009
Amount before tax effect	1,522	(1,870)	13,574
Tax effect	(471)	552	(4,202)
Retirement benefits liability adjustments	1,051	(1,317)	9,372
Total other comprehensive income	¥ 6,524	¥(3,417)	\$ 58,156

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18. Net assets

Information regarding changes in net assets for the years ended March 31, 2017 and 2016 are as follows:

(1) Shares issued and outstanding / Treasury stock

	Thousands of shares			Number of shares at March 31, 2017
	2017			
	Number of shares at March 31, 2016	Increase	Decrease	
Common stock	180,682	–	7,000	173,682
Treasury stock	3,550	4,027	7,000	578

The increase in treasury stock during the year ended March 31, 2017 was due to the purchase of odd-lot shares (27 thousand shares) and the market purchases (4,000 thousand shares).

The decrease in treasury stock during the year ended March 31, 2017 was due to the retirement of treasury stock (7,000 thousand shares).

	Thousands of shares			Number of shares at March 31, 2016
	2016			
	Number of shares at March 31, 2015	Increase	Decrease	
Common stock	183,682	–	3,000	180,682
Treasury stock	3,516	3,034	3,000	3,550

The increase in treasury stock during the year ended March 31, 2016 was due to the purchase of odd-lot shares (34 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).

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(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, 2017:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 4)	Yen	U.S. dollars (Note 4)
		Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 29, 2016	Common stock	¥1,948	\$17,367	¥11	\$0.10
Meeting of the Board of Directors on November 2, 2016	Common stock	¥1,558	\$13,888	¥ 9	\$0.08

Dividends paid for the year ended March 31, 2016:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 4)	Yen	U.S. dollars (Note 4)
		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 with the cut-off date in the year ended March 31, 2017 and the effective date in the year ending March 31, 2018:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 4)	Yen	U.S. dollars (Note 4)
		Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 29, 2017	Common stock	¥2,596	\$23,144	¥15	\$0.13

Dividends per share ¥15 consists of ordinary dividend of ¥13 and commemorative dividend of ¥2 for the Company's 80th anniversary.

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19. Supplementary cash flow information

Cash and cash equivalents as of March 31, 2017 and 2016 are reconciled to cash and deposits in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Cash and time deposits	¥30,077	¥19,081	\$268,092
Time deposits with maturity of more than three months	(861)	(931)	(7,678)
Money Market Fund	–	779	–
Cash and cash equivalents	¥29,215	¥18,930	\$260,414

20. Leases

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

Obligations under non-cancelable operating leases as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Due within one year	¥114	¥145	\$1,021
Due after one year	172	374	1,533
Total	¥286	¥519	\$2,555

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21. 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.

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 24 “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 24 “Derivative financial instruments” are not an indicator of the market risk associated with derivatives transactions.

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(4) Fair value of financial instruments

The carrying value, the estimated fair value and the difference of the financial instruments on the balance sheet as of March 31, 2017 and 2016 are as follows. Fair values that are not readily determinable are not included in the following table.

	Millions of yen		
	2017		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits	¥30,077	¥30,077	¥ –
Trade notes and accounts receivable (less allowance for doubtful accounts)	¥38,313	¥38,313	¥ –
Available-for-sale securities	¥49,458	¥49,458	¥ –
Liabilities			
Notes and accounts payable	¥18,162	¥18,162	¥ –
Short-term bank borrowings	¥ 1,420	¥ 1,420	¥ –
Long-term borrowings from banks and other financial institutions	¥ 8,094	¥ 8,070	¥(24)
Derivative transactions	¥ –	¥ –	¥ –
Millions of yen			
2016			
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits	¥19,081	¥19,081	¥ –
Trade notes and accounts receivable (less allowance for doubtful accounts)	¥37,011	¥37,011	¥ –
Available-for-sale securities	¥40,852	¥40,852	¥ –
Liabilities			
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	¥ 8,120	¥(8)
Derivative transactions	¥ –	¥ –	¥ –

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	Thousands of U.S. dollars (Note 4)		
	2017		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits	\$268,092	\$268,092	\$ –
Trade notes and accounts receivable (less allowance for doubtful accounts)	\$341,506	\$341,506	\$ –
Available-for-sale securities	\$440,847	\$440,847	\$ –
Liabilities			
Notes and accounts payable	\$161,892	\$161,892	\$ –
Short-term bank borrowings	\$ 12,657	\$ 12,657	\$ –
Long-term borrowings from banks and other financial institutions	\$ 72,152	\$ 71,932	\$(219)
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.

(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.

Moreover, investment securities classified by holding purpose are described in Note 23 “Investment 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.

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(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.

Derivative transactions

The contract amount, fair value, unrealized gain or loss, and others are described in Note 24 “Derivative financial instruments.”

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Unlisted stock	¥1,116	¥1,136	\$9,949
Fund certificate	¥ 5	¥ 5	\$ 47

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

The carrying value of monetary assets as of March 31, 2017 and 2016 is as follows:

	Millions of yen			
	2017			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥30,072	¥ –	¥ –	¥ –
Notes and accounts receivable	¥38,494	¥ –	¥ –	¥ –
Available-for-sale securities				
Government and municipal bonds	¥ –	¥10	¥ –	¥ –

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	Millions of yen			
	2016			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥19,078	¥ –	¥ –	¥ –
Notes and accounts receivable	¥37,188	¥ –	¥ –	¥ –
Available-for-sale securities				
Government and municipal bonds	¥ –	¥10	¥ –	¥ –
	Thousands of U.S. dollars (Note 4)			
	2017			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	\$268,052	\$ –	\$ –	\$ –
Notes and accounts receivable	\$343,117	\$ –	\$ –	\$ –
Available-for-sale securities				
Government and municipal bonds	\$ –	\$89	\$ –	\$ –

22. 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 0.80% at March 31, 2017, and 0.87% at March 31, 2016.

Long-term debt as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
	Loans, principally from banks and insurance companies, due April 2017 to September 2023 with average interest rates of 0.27% at March 31, 2017, and 0.44% at March 31, 2016	¥ 8,094	¥8,129
Less: Current maturities of:			
Long-term loans	(2,800)	(0)	(24,959)
Total	¥ 5,294	¥8,129	\$ 47,192

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Aggregate annual maturities of long-term debt subsequent to March 31, 2017 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 4)
2019	¥5,293	\$47,186
2020	0	1
2021	0	1
2022	0	1
2023 and thereafter	0	0
Total	¥5,294	\$47,192

23. Investment securities

(1) The acquisition cost, book value and unrealized gains or losses on available-for-sale securities with fair value as of March 31, 2017 and 2016 are as follows:

Description	Millions of yen		
	2017		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks	¥13,357	¥47,263	¥33,905
Bonds	9	10	0
Others	-	-	-
Sub total	¥13,367	¥47,273	¥33,906
Book value not in excess of acquisition cost			
Stocks	¥ 2,361	¥ 2,185	¥ (175)
Bonds	-	-	-
Others	-	-	-
Sub total	¥ 2,361	¥ 2,185	¥ (175)
Total	¥15,728	¥49,458	¥33,730

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Description	Millions of yen		
	2016		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks	¥13,214	¥38,490	¥25,275
Bonds	9	10	0
Others	19	22	2
Sub total	¥13,244	¥38,523	¥25,278
Book value not in excess of acquisition cost			
Stocks	¥ 1,983	¥ 1,532	¥ (450)
Bonds	-	-	-
Others	796	796	(0)
Sub total	¥ 2,779	¥ 2,329	¥ (450)
Total	¥16,024	¥40,852	¥24,827
	Thousands of U.S. dollars (Note 4)		
Description	2017		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks	\$119,057	\$421,277	\$302,219
Bonds	89	89	0
Others	-	-	-
Sub total	\$119,147	\$421,366	\$302,219
Book value not in excess of acquisition cost			
Stocks	\$ 21,048	\$ 19,481	\$ (1,566)
Bonds	-	-	-
Others	-	-	-
Sub total	\$ 21,048	\$ 19,481	\$ (1,566)
Total	\$140,195	\$440,847	\$300,652

The Company recorded impairment losses on investment securities in the amounts of ¥18 million for the year ended March 31, 2016.

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.

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- (2) Available-for-sale securities sold during the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
	Proceeds from sale of available-for-sale securities	¥37	¥80
Realized gain	2	26	18
Realized loss	1	-	15

- (3) The book value of major securities without fair value as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
	Unlisted stocks	¥744	¥742
Fund certificates	5	5	47

24. 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.

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

	Millions of yen		
	2017		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts:			
To receive variable/to pay fixed	¥5,400	¥5,000	¥ –

	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	¥ –

	Thousands of U.S. dollars (Note 4)		
	2017		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts:			
To receive variable/to pay fixed	\$48,132	\$44,567	\$ –

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.

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25. 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, 2017 and 2016 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
	Beginning balance of retirement benefit obligation	¥21,691	¥19,301
Service cost	1,481	1,324	13,202
Interest cost	31	199	282
Actuarial loss	(10)	1810	(91)
Retirement benefits paid	(954)	(916)	(8,504)
Other	(10)	(28)	(91)
Ending balance of retirement benefit obligation	¥22,229	¥21,691	\$198,139

- (2) The changes in plan assets during the years ended March 31, 2017 and 2016 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
	Beginning balance of plan assets	¥20,113	¥20,137
Expected return on plan assets	367	362	3,273
Actuarial loss	273	(655)	2,436
Contributions by the Company	962	969	8,576
Retirement benefits paid	(721)	(689)	(6,429)
Other	(7)	(11)	(66)
Ending balance of plan assets	¥20,987	¥20,113	\$187,074

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- (3) The changes in liabilities for retirement benefits calculated by using the simplified method during the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Beginning balance of net defined benefit liability	¥1,225	¥1,191	\$10,922
Retirement benefit expenses	247	198	2,203
Retirement benefits paid	(79)	(75)	(707)
Contributions by the Company	(96)	(89)	(861)
Ending balance of net defined benefit liability	¥1,296	¥1,225	\$11,556

- (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, 2017 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Funded retirement benefit obligation	¥ 20,445	¥ 19,786	\$ 182,237
Plan assets	(22,102)	(21,140)	(197,006)
	(1,656)	(1,354)	(14,769)
Unfunded retirement benefit obligation	4,194	4,156	37,390
Net liabilities in consolidated balance sheet	2,537	2,802	22,621
Assets for retirement benefits	1,971	1,647	17,572
Liabilities for retirement benefits	4,509	4,449	40,193
Net liabilities in consolidated balance sheet	¥ 2,537	¥ 2,802	\$ 22,621

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- (5) The components of retirement benefit expense for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Service cost	¥1,481	¥1,324	\$13,202
Interest cost	31	199	282
Expected return on plan assets	(367)	(362)	(3,273)
Amortization of actuarial loss	1,234	595	11,004
Amortization of prior service cost	–	0	–
Retirement benefit expenses for simplified method	247	198	2,203
Retirement benefit expenses for defined benefit plans	¥2,627	¥1,957	\$23,418

- (6) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Prior service cost	¥ –	¥ 0	\$ –
Actuarial loss	(1,522)	1,870	(13,574)
Total	¥(1,522)	¥1,870	\$(13,574)

- (7) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Unrecognized actuarial loss	¥2,648	¥4,171	\$23,604
Total	¥2,648	¥4,171	\$23,604

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- (8) 1) The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 is as follows:

	2017	2016
Debt securities	26%	27%
Equity securities	32%	31%
General accounts	32%	33%
Other	10%	9%
Total	100%	100%

NOTE:

The plan assets include 10% and 9% of the retirement pension trusts for corporate pension plans as of March 31, 2017 and 2016, 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:

	2017	2016
Discount rate	mainly 0.00%	mainly 0.00%
Long-term expected rate of return on plan assets	mainly 2.00%	mainly 2.00%
Expected rate of salary increase	1.00 ~ 5.87%	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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
	Defined contribution plans	¥100	¥99

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26. Income taxes

(1) Significant components of deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Deferred tax assets:			
Accrued bonus	¥ 1,012	¥ 994	\$ 9,027
Liabilities for retirement benefits	1,568	1,544	13,978
Elimination of intercompany profits	458	540	4,086
Valuation loss on inventories	293	378	2,616
Accrued enterprise tax	275	303	2,453
Impairment loss on fixed assets	529	570	4,721
Accrued retirement benefits for directors and officers	18	20	167
Impairment loss on investment securities	336	336	3,000
Foreign tax credit	221	473	1,969
Others	1,811	1,918	16,149
Subtotal	6,526	7,079	58,170
Valuation allowance	(708)	(991)	(6,315)
Total deferred tax assets	5,817	6,088	51,854
Deferred tax liabilities:			
Unrealized gain on investment securities	(10,325)	(7,564)	(92,032)
Reserve for advanced depreciation of property, plant and equipment	(1,649)	(1,685)	(14,701)
Valuation differences	(1,513)	(1,513)	(13,494)
Gain on revaluation of assets trusted for retirement benefit	(633)	(633)	(5,649)
Others	(458)	(447)	(4,087)
Total deferred tax liabilities	(14,580)	(11,845)	(129,964)
Net deferred tax liabilities	¥ (8,763)	¥ (5,757)	\$ (78,109)

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Note: Deferred tax assets and liabilities as of March 31, 2017 and 2016 are reflected in the following accounts in the consolidated balance sheet:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Current assets—deferred tax assets	¥ 2,190	¥ 2,333	\$ 19,525
Investments and other assets— deferred tax assets	380	364	3,395
Current liabilities—deferred tax liabilities	—	—	—
Long-term liabilities—deferred tax liabilities	(11,334)	(8,455)	(101,030)

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

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory rates of approximately 31.0% and 33.0% for the years ended March 31, 2017 and 2016, 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, 2017 and 2016 is summarized as follows:

	2017	2016
Effective statutory tax rate	31.0%	33.0%
Non-deductible expenses	0.2	0.3
Tax credits	(1.5)	(2.0)
Valuation allowance	(0.9)	(0.6)
Inhabitants' per capita taxes	0.2	0.2
Deduction of dividends received	(0.2)	(0.3)
Different tax rates applied to foreign subsidiaries	(1.1)	(1.7)
Other	1.2	1.7
Effective tax rates	28.8%	30.5%

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27. Asset retirement obligations

Information on the asset retirement obligations recorded on the consolidated balance sheet at March 31, 2017 and 2016 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 0.00%-2.27% are used to calculate the amount of the asset retirement obligations.

C. Changes in the total amount of the asset retirement obligations for the fiscal years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Balance at beginning of year	¥207	¥223	\$1,847
Increase due to acquisition of property, plant and equipment	2	3	26
Accretion expenses	0	0	3
Decrease due to fulfillment of asset retirement obligations	(14)	(20)	(131)
Balance at end of year	¥195	¥207	\$1,746

28. 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

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

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

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

Millions of yen								
2017								
Reportable segments								
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers	¥110,750	¥26,494	¥35,444	¥172,690	¥1,367	¥174,057	¥ –	¥174,057
Inter-segment	857	3,198	14	4,071	7,446	11,517	(11,517)	–
Total	111,608	29,693	35,459	176,761	8,813	185,574	(11,517)	174,057
Segment income	¥ 16,909	¥ 6,208	¥ 2,386	¥ 25,504	¥ 200	¥ 25,704	¥ (1,368)	¥ 24,336
Assets								
Assets	¥ 78,599	¥21,394	¥55,791	¥155,785	¥3,180	¥158,965	¥ 58,161	¥217,127
Depreciation	2,343	569	1,635	4,548	55	4,604	162	4,767
Capital expenditures	2,739	1,004	2,022	5,766	49	5,816	603	6,420

Millions of yen								
2016								
Reportable segments								
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers	¥106,319	¥26,775	¥35,971	¥169,066	¥1,394	¥170,460	¥ –	¥170,460
Inter-segment	1,015	2,945	18	3,979	7,734	11,714	(11,714)	–
Total	107,334	29,721	35,989	173,046	9,129	182,175	(11,714)	170,460
Segment income	¥ 11,989	¥ 5,687	¥ 2,943	¥ 20,620	¥ (8)	¥ 20,611	¥ (1,245)	¥ 19,365
Assets								
Assets	¥ 76,320	¥21,173	¥56,305	¥153,799	¥3,020	¥156,820	¥ 39,473	¥196,293
Depreciation	2,488	612	1,674	4,775	61	4,837	161	4,998
Capital expenditures	2,324	302	2,151	4,778	22	4,800	165	4,965

Thousands of U.S. dollars (Note 4)								
2017								
Reportable segments								
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers	\$987,169	\$236,159	\$315,934	\$1,539,263	\$12,187	\$1,551,451	\$ –	\$1,551,451
Inter-segment	7,647	28,152	129	36,289	66,371	102,661	(102,661)	–
Total	994,816	264,672	316,064	1,575,553	78,558	1,654,112	(102,661)	1,551,451
Segment income	\$150,723	\$ 55,335	\$ 21,271	\$ 227,331	\$ 1,787	\$ 229,118	\$ (12,196)	\$ 216,921
Assets								
Assets	\$700,593	\$190,699	\$497,293	\$1,388,587	\$28,344	\$1,416,931	\$ 518,421	\$1,935,353
Depreciation	20,892	5,072	14,581	40,546	498	41,044	1,450	42,495
Capital expenditures	24,416	8,957	18,028	51,401	442	51,844	5,383	57,227

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(2) Information related to reportable segments

- 1) The Group's sales by geographical area for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
	Japan	¥129,519	¥124,229
Asia	25,680	25,930	228,901
Others	18,857	20,300	168,085
Total	¥174,057	¥170,460	\$1,551,451

- 2) The Group's property, plant and equipment by geographical area as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
	Japan	¥52,167	¥51,200
Others	5,429	5,713	48,396
Total	¥57,596	¥56,914	\$513,385

- (3) Impairment losses on fixed assets by reportable segments for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
	Functional chemicals	¥ 1	¥427
Life science	-	-	-
Explosive & propulsion	-	-	-
Others	172	-	1,539
Total	¥174	¥427	\$1,554

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- (4) Amortization and balance of goodwill by reportable segment as of and for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2017		2016		2017	
	Amortization	Ending balance	Amortization	Ending balance	Amortization	Ending balance
Functional chemicals	¥6	¥14	¥7	¥22	\$59	\$127
Life science	-	-	-	-	-	-
Explosive & propulsion	0	0	0	0	0	0
Others	-	-	-	-	-	-
Total	¥6	¥14	¥7	¥22	\$59	\$127

29. Related party transactions

The information for the fiscal years ended March 31, 2017 and 2016 was not disclosed because there were no significant transactions with related parties.

30. 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)
	2017	2016	2017
Profit attributable to owners of parent per share:			
Basic	¥101.14	¥ 76.41	\$0.90
Diluted	-	-	-
Cash dividends applicable to the year	24.00	18.00	0.21
Net assets	876.72	761.25	7.81

Profit attributable to owners of parent– diluted for the years ended March 31, 2017 and 2016 is not disclosed because there are no diluted shares.

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Profit attributable to owners of parent	¥17,586	¥13,589	\$156,759
Amount not available to shareholders	—	—	—
Profit attributable to owners of parent applicable to common stock	<u>¥17,586</u>	<u>¥13,589</u>	<u>\$156,759</u>
Average number of shares outstanding (1,000 shares)	<u>173,892</u>	<u>177,852</u>	

31. Subsequent events

Consolidation of shares and change in the number of shares constituting one trading unit

The Company resolved at its board of directors meeting held on May 10, 2017 to submit the proposal for the change in the number of shares constituting one trading unit to the 94th ordinary general meeting of shareholders held on June 29, 2017. The proposal was approved at the said ordinary general meeting.

(1) Purposes of consolidation of shares and change in the number of shares constituting one trading unit

Japan's stock exchanges have announced an "Action Plan for Consolidating Trading Units" with the aim of standardizing the trading units for common stock of all listed domestic corporations at 100 shares.

The Company respects the objectives of the plan and will change the number of shares constituting one trading unit from 1,000 shares to 100 shares.

Along with the change in the trading unit, the Company will also consolidate 2 shares to 1 share for the purpose of maintaining the standard investment unit considered optimal by the stock exchanges (50,000 yen or more and less than 500,000 yen) even after the change.

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(2) Details of the consolidation of shares

1) Type of shares to be consolidated

Common stock

2) Ratio of consolidation of shares

As of October 1, 2017, the number of shares owned by shareholders recorded in the final register of shareholders on September 30, 2017 will be consolidated at the ratio of 2 shares to 1 share.

3) Number of shares to be reduced through the consolidation

Number of outstanding shares before the consolidation (as of March 31, 2017)	173,682,752 shares
Number of shares to be reduced through the consolidation	86,841,376 shares
Number of outstanding shares after the consolidation	86,841,376 shares

“Number of shares to be reduced through the consolidation” and “Number of outstanding shares after the consolidation” are theoretical values calculated by multiplying the number of outstanding shares before the consolidation by the consolidation ratio.

4) Treatment of fractional shares

In the case that fractional shares occur as a result of the consolidation of shares, pursuant to the provision under Article 235 of the Companies Act, such shares will be disposed in a bulk, and the proceeds will be distributed to shareholders holding such fractional shares in proportion to their respective fractions.

(3) Details of the change in the number of shares constituting one trading unit

Concurrently with the effectiveness of the consolidation of shares, the company will change the number of shares constituting one trading unit from 1,000 shares to 100 shares.

(4) Dates of consolidation of shares and change in the number of shares constituting one trading unit

Resolution at the board of directors meeting	May 10, 2017
Resolution at the general meeting of shareholders	June 29, 2017
Effective date for consolidation of shares and change in the number of shares constituting one trading unit	October 1, 2017

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(5) Effect on per share information

Net assets per share and earning per share as of and for the years ended March 31, 2017 and 2016 assuming the consolidation of shares was executed at the beginning of the previous fiscal year is as follows:

	Yen		U.S. dollars
	2017	2016	2017
Net assets per share	¥1,753.44	¥1,522.49	\$15.62
Net income per share	202.27	152.82	1.79