

NOF CORPORATION

Consolidated Financial Statements

For the years ended March 31, 2019 and 2018



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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, 2019, 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, 2019, 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 5.

Ernst & Young ShinNihon LLC

June 27, 2019

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheet

As of March 31,

Thousands of
U.S. dollars
(Note 5)

	Millions of yen		2019
	2019	2018	2019
ASSETS			
Current assets:			
Cash and time deposits(Notes 23 and 25).....	¥ 40,767	¥ 37,665	367,310
Notes and accounts receivable (Notes 10 and 25)	48,001	43,036	432,488
Merchandise and finished goods.....	21,591	19,981	194,539
Work in process	3,528	3,495	31,792
Raw materials and supplies.....	11,079	9,541	99,823
Other current assets.....	2,422	2,233	21,829
Allowance for doubtful accounts	(223)	(185)	(2,015)
Total current assets.....	127,168	115,767	1,145,767
Fixed assets:			
Property, plant and equipment (Notes 6 and 7):			
Buildings and structures.....	69,749	68,099	628,427
Accumulated depreciation	(47,194)	(45,875)	(425,209)
Buildings and structures, net.....	22,555	22,223	203,217
Machinery, equipment and vehicles.....	100,636	99,949	906,716
Accumulated depreciation	(89,486)	(88,239)	(806,257)
Machinery, equipment and vehicles, net	11,149	11,709	100,458
Land	20,340	20,370	183,262
Leased assets.....	196	219	1,766
Accumulated depreciation	(116)	(139)	(1,050)
Leased asset, net	79	80	716
Construction in progress	1,692	1,583	15,250
Others.....	15,241	14,790	137,325
Accumulated depreciation	(13,363)	(13,151)	(120,401)
Others, net.....	1,878	1,639	16,924
Total property, plant and equipment.....	57,695	57,606	519,829
Intangible assets (Note 8):			
Others, net.....	1,154	1,020	10,406
Total Intangible assets.....	1,154	1,020	10,406
Investments and other assets:			
Investments securities (Notes 6 ,9 ,25 and 27)	53,576	56,312	482,716
Long term loans	3	6	31
Deferred tax assets (Note 31).....	891	759	8,030
Assets for retirement benefits (Note 29).....	2,066	2,230	18,620
Other assets	2,039	2,236	18,378
Allowance for doubtful accounts	(63)	(65)	(576)
Total investments and other assets.....	58,514	61,479	527,200
Total fix assets	117,364	120,107	1,057,436
Total assets.....	¥ 244,533	¥ 235,874	\$ 2,203,204

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 5)

	Millions of yen		2019
	2019	2018	2019
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Notes 10 and 25)	¥ 19,727	¥ 19,883	\$ 177,740
Electronically recorded obligations-operating (Note 10).....	1,104	780	9,951
Short-term bank loans (Notes 25 and 26)	1,128	1,385	10,163
Current portion of long-term debt (Notes 25 and 26)	0	5,150	1
Lease obligations	95	95	861
Accrued expenses.....	1,961	1,858	17,673
Income taxes payable	4,792	4,978	43,176
Deposits received	4,624	4,315	41,669
Accrued bonuses for employees	3,311	3,210	29,836
Asset retirement obligations (Note 33)	161	163	1,452
Other current liabilities	5,201	4,638	46,863
Total current liabilities	42,108	46,461	379,391
Long-term liabilities:			
Long-term debt (Notes 25 and 26)	8,061	2,913	72,632
Lease obligations	238	297	2,146
Deferred tax liabilities (Note 31)	10,347	11,563	93,225
Accrued retirement benefits for officers	93	65	845
Accrued retirement benefits for directors	0	0	7
Liabilities for retirement benefits (Note 29)	4,695	4,645	42,304
Asset retirement obligations (Note 33)	34	29	308
Other long-term liabilities	668	325	6,023
Total long-term liabilities	24,139	19,841	217,493
Total liabilities	66,248	66,302	596,885
Commitments and contingencies (Note 10)			
Net assets:			
Shareholders' equity			
Common stock	17,742	17,742	159,852
Authorized: 347,000,000 shares at March 31, 2019 and 2018			
Issued: 84,841,376 shares at March 31, 2019 and 86,841,376 shares at March 31, 2018			
Capital surplus	15,115	15,113	136,183
Retained earnings.....	122,657	113,490	1,105,123
Treasury stock, at cost.....	(2,145)	(4,522)	(19,328)
Total shareholders' equity	153,369	141,824	1,381,831
Accumulated other comprehensive income			
Unrealized holding gain on securities	25,224	27,411	227,265
Translation adjustments.....	(423)	490	(3,811)
Retirement benefits liability adjustments	(675)	(927)	(6,089)
Total accumulated other comprehensive income	24,125	26,975	217,364
Non-controlling interests	790	773	7,123
Total net assets	178,285	169,572	1,606,319
Total liabilities and net assets	¥244,533	¥235,874	\$2,203,204

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 5)
	2019	2018	2019
Net sales	¥189,152	¥179,935	\$1,704,230
Cost of sales (Notes 11 and 13).....	128,260	122,305	1,155,603
Gross profit	60,892	57,629	548,626
Selling, general and administrative expenses (Notes 12 and 13)	32,449	31,813	292,366
Operating income	28,442	25,816	256,260
Other income (expenses):			
Interest income.....	113	128	1,020
Dividend income.....	1,267	1,038	11,416
Rent income on real estate	255	242	2,305
Foreign exchange loss, net.....	(72)	(23)	(655)
Interest expenses	(80)	(80)	(724)
Liquidation cost of accounts receivables	(30)	(30)	(276)
Rent expenses on real estate	(100)	(83)	(907)
Removal cost on fixed assets	(110)	(153)	(993)
Gain (Loss) on sale of fixed assets (Notes 14 and 15).....	62	493	561
Loss on retirement of fixed assets (Note 17)	(33)	(56)	(301)
Gain on sale of investments in securities (Note 27)	1,035	606	9,329
Impairment loss on fixed assets (Note 16).....	(120)	(43)	(1,085)
Gain on liquidation of subsidiaries and affiliates	-	73	-
Loss on disaster (Note 18)	(245)	-	(2,211)
Insurance income(Note 19).....	70	-	636
Loss on business withdrawal (Notes 16 and 20).....	(155)	-	(1,403)
Others, net.....	415	575	3,740
Other income (expenses) total	2,270	2,686	20,452
Profit before income taxes	30,712	28,503	276,712
Income taxes (Note 31)			
Current	9,026	8,810	81,330
Deferred	(395)	(192)	(3,562)
	8,631	8,617	77,767
Profit.....	22,080	19,885	198,945
Profit (loss) attributable to:			
Non-controlling interests	46	(27)	415
Owners of parent (Note 36)	¥ 22,034	¥ 19,913	\$ 198,529

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 5)
	2019	2018	2019
Profit	¥22,080	¥19,885	\$198,945
Other comprehensive income (Note 21)			
Unrealized holding gain on securities.....	(2,191)	4,011	(19,742)
Translation adjustments	(916)	572	(8,261)
Retirement benefits liability adjustments.....	253	894	2,282
Total other comprehensive income	(2,854)	5,478	(25,721)
Comprehensive income.....	19,226	25,364	173,223
Total comprehensive income attributable to:			
Owners of parent.....	19,184	25,395	172,851
Non-controlling interests.....	41	(30)	372

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, 2019 and 2018

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, 2017	173,682	¥17,742	¥15,113	¥97,904	¥(489)	¥130,270	¥23,402	¥ (86)	¥(1,822)	¥21,493	¥801	¥152,564
Cash dividends	-	-	-	(4,327)	-	(4,327)	-	-	-	-	-	(4,327)
Profit attributable to owners of parent for the period.....	-	-	-	19,913	-	19,913	-	-	-	-	-	19,913
Purchase of treasury stock	-	-	-	-	(4,033)	(4,033)	-	-	-	-	-	(4,033)
Disposal of treasury stock.....	-	-	0	-	0	0	-	-	-	-	-	0
Retirement of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of loss on disposal of treasury stock.....	-	-	-	-	-	-	-	-	-	-	-	-
Change in stock of parent arising from transactions with non-controlling interest shareholders	-	-	0	-	-	0	-	-	-	-	-	0
Other	(86,841)	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity....	-	-	-	-	-	-	4,009	577	895	5,481	(27)	5,454
Balance at March 31, 2018	86,841	¥17,742	¥15,113	¥113,490	¥(4,522)	¥141,824	¥27,411	¥ 490	¥(927)	¥26,975	¥773	¥169,572
Cash dividends	-	-	-	(6,478)	-	(6,478)	-	-	-	-	-	(6,478)
Profit attributable to owners of parent for the period.....	-	-	-	22,034	-	22,034	-	-	-	-	-	22,034
Purchase of treasury stock	-	-	-	-	(4,012)	(4,012)	-	-	-	-	-	(4,012)
Disposal of treasury stock.....	-	-	0	-	0	0	-	-	-	-	-	0
Retirement of treasury stock	(2,000)	-	(6,389)	-	6,389	-	-	-	-	-	-	-
Transfer of loss on disposal of treasury stock.....	-	-	6,389	(6,389)	-	-	-	-	-	-	-	-
Change in stock of parent arising from transactions with non-controlling interest shareholders	-	-	1	-	-	1	-	-	-	-	-	1
Other	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity....	-	-	-	-	-	-	(2,187)	(913)	251	(2,849)	17	(2,832)
Balance at March 31, 2019	84,841	¥17,742	¥15,115	¥122,657	¥(2,145)	¥153,369	¥25,224	¥ (423)	¥(675)	¥24,125	¥790	¥178,285

For the Year Ended March 31, 2019

Thousands of U.S. dollars (Note 5)

	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, 2018	86,841	\$159,852	\$136,173	\$1,022,530	\$(40,746)	\$1,277,809	\$246,976	\$ 4,423	\$(8,356)	\$243,042	\$6,967	\$1,527,820
Cash dividends	-	-	-	(58,371)	-	(58,371)	-	-	-	-	-	(58,371)
Profit attributable to owners of parent for the period.....	-	-	-	198,529	-	198,529	-	-	-	-	-	198,529
Purchase of treasury stock	-	-	-	-	(36,150)	(36,150)	-	-	-	-	-	(36,150)
Disposal of treasury stock.....	-	-	0	-	0	1	-	-	-	-	-	1
Retirement of treasury stock	(2,000)	-	(57,568)	-	57,568	-	-	-	-	-	-	-
Transfer of loss on disposal of treasury stock.....	-	-	57,564	(57,564)	-	-	-	-	-	-	-	-
Change in stock of parent arising from transactions with non-controlling interest shareholders.....	-	-	13	-	-	13	-	-	-	-	-	13
Other	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity....	-	-	-	-	-	-	(19,710)	(8,234)	2,267	(25,677)	155	(25,522)
Balance at March 31, 2019	84,841	\$159,852	\$136,183	\$1,105,123	\$(19,328)	\$1,381,831	\$227,265	\$ (3,811)	\$(6,089)	\$217,364	\$7,123	\$1,606,319

NOF CORPORATION and Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended March 31,

Thousands of
U.S. dollars

	Millions of yen		(Note 5)
	2019	2018	2019
Cash flows from operating activities:			
Profit before income taxes.....	¥30,712	¥28,503	\$276,712
Adjustments for:			
Depreciation.....	5,038	4,911	45,393
Impairment loss on fixed assets.....	120	43	1,085
Net changes in retirement benefit liability.....	20	62	185
Interest and dividend income.....	(1,380)	(1,166)	(12,437)
Interest expenses.....	80	80	724
Loss (gain) on sale of fixed assets.....	(62)	(493)	(561)
Gain on sale of investments in securities.....	(1,035)	(606)	(9,329)
Insurance income.....	(70)	–	(636)
Loss on disaster.....	245	–	2,211
Loss on withdrawal from business.....	155	–	1,403
Increase in notes and accounts receivable.....	(5,251)	(4,443)	(47,314)
Decrease (increase) in inventories.....	(3,414)	(1,469)	(30,764)
Increase (decrease) in notes and accounts payable.....	474	1,402	4,277
Others, net.....	2,348	715	21,158
Sub total.....	27,981	27,538	252,106
Interest and dividends received.....	1,379	1,166	12,432
Interest paid.....	(79)	(81)	(718)
Income taxes paid.....	(9,326)	(8,413)	(84,025)
Proceeds from insurance income.....	70	–	636
Payments for loss on disaster.....	(161)	–	(1,456)
Net cash provided by operating activities.....	19,864	20,211	178,975
Cash flows from investing activities:			
Payments for purchase of investments in securities.....	(530)	(173)	(4,777)
Proceeds from sale of investments in securities.....	1,118	874	10,075
Payments for purchase of fixed assets.....	(5,950)	(6,209)	(53,608)
Proceeds from sale of fixed assets.....	113	753	1,023
Net changes in short-term loans receivable.....	10	54	94
Payments for long-term loans receivable.....	–	(2)	–
Proceeds from long-term loans receivable.....	1	3	16
Others, net.....	(304)	(180)	(2,739)
Net cash used in investing activities.....	(5,540)	(4,881)	(49,915)

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 5)
	2019	2018	2019
Cash flows from financing activities:			
Decrease in short-term bank loans	(235)	(66)	(2,118)
Increase in long-term debt	5,150	2,800	46,400
Repayments of long-term debt	(5,150)	(2,800)	(46,402)
Sale of treasury stock	0	0	1
Purchase of treasury stock	(4,012)	(4,036)	(36,150)
Purchase of treasury stock of subsidiaries.....	(15)	-	(142)
Repayments of lease obligations	(96)	(73)	(871)
Cash dividends paid.....	(6,453)	(4,311)	(58,141)
Cash dividends paid to non-controlling shareholders.....	(0)	(2)	(7)
Net cash used in financing activities.....	(10,814)	(8,490)	(97,433)
Effect of exchange rate changes on cash and cash equivalents.....	(618)	410	(5,571)
Net increase in cash and cash equivalents.....	2,891	7,249	26,054
Cash and cash equivalents at beginning of year	36,465	29,215	328,548
Cash and cash equivalents at end of year (Note 23)	¥39,357	¥36,465	\$354,603

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, 2019 and 2018

1. Basis of presentation

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

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

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

2. Summary of significant accounting policies

(1) Scope of consolidation

The Company had 32 subsidiaries (majority-owned companies) as of March 31, 2019 (33 for 2018). The accompanying consolidated financial statements include the accounts of the Company and 24 of its subsidiaries (collectively, the “Group”) for the year ended March 31, 2019 (25 for 2018).

The remaining 8 (8 for 2018) 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, 2019 and 2018

The above mentioned 24 majority-owned subsidiaries are listed below:

Name of subsidiaries	Percentage of voting rights owned by the Company
	%
(Domestic subsidiaries)	
Nippon Koki Co., Ltd.	95.0
NiGK Corporation	100.0
HOKKAIDO NOF CORPORATION	100.0
NOF METAL COATINGS ASIA PACIFIC Co., Ltd.	100.0
Showa Kinzoku Kogyo Co., Ltd.	98.3
JAPEX Corp.....	70.0
Nichiyu Trading Co., Ltd.	100.0
Nichiyu Logistics Co., Ltd.	100.0
Nippo Kogyo Co., Ltd.	94.0
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

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, 2019 and 2018

(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.

(6) Inventories

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

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
For the years ended March 31, 2019 and 2018

(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 bonuses 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 retirement benefit provisions for directors.

(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.

NOF CORPORATION and Subsidiaries

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(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.

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.

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(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. Accounting standards issued but not yet effective

Accounting Standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance

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

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4. Changes in presentation

The Company and its consolidated subsidiaries have adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) (hereinafter, the “Partial Amendments”) from the beginning of the fiscal year ended March 31, 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and long-term liabilities, respectively and related income tax disclosures have been expanded.

As a result, ¥ 2,178 million of deferred tax assets in current assets previously presented in consolidated balance sheet as of March 31, 2018 have been reclassified and included within ¥414 million of deferred tax assets in investments and other assets and ¥1,763 million of deferred tax liabilities in long-term liabilities, respectively.

Furthermore, total assets as of March 31, 2018 decreased by ¥1,763 million compared to before the changes as a result of offsetting deferred tax assets and deferred tax liabilities for the same taxable entity.

5. 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 ¥110.99 = U.S.\$1, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2019, 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 ¥110.99 = 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.

6. 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 ¥41 million (US\$370 thousand) at March 31, 2019, and ¥58 million at March 31, 2018 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Investments in securities	¥ 13	¥ 13	\$ 117
Property, plant and equipment at book value.....	29	29	263
Total	¥42	¥42	\$380

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7. 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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Buildings and structures	¥509	¥509	\$4,587
Machinery, equipment and vehicles	387	388	3,490
Other	22	22	206
Total.....	¥919	¥920	\$8,285

8. Goodwill

As of March 31, 2018, goodwill included in “Intangible assets” amounted to ¥6 million.

9. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Investments in securities	¥351	¥351	\$3,165
Capital contribution.....	94	94	850
Total.....	¥445	¥445	\$4,015

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10. Commitments and contingencies

- (1) As of March 31, 2019 and 2018, the Company was contingently liable for the conditional assignment of ¥1,708 million (US\$15,393 thousand) and ¥1,697 million, respectively, of trade notes and accounts receivable with recourse obligations.
- (2) The Company recognizes settlements of notes receivable, notes payable and electronically recorded obligations-operating when the bank clearance of the notes is actually made. As March 31, 2019 and 2018 were holidays for financial institutions, the following accounts include the unsettled balances of trade notes receivable, notes payable and electronically recorded obligations-operating due on that date in the accompanying consolidated balance sheet as of March 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Notes and accounts receivable	¥69	¥44	\$627
Notes and accounts payable	1	0	15
Electronically recorded obligations-operating.....	294	201	2,650

11. Inventories

Write-downs of inventories for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Cost of sales.....	¥256	¥(219)	\$2,308

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12. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Delivery and storage charges	¥5,474	¥5,384	\$49,321
Salaries and bonuses.....	8,626	8,091	77,726
Retirement benefit expenses.....	610	780	5,498
Accrued bonuses.....	1,117	1,116	10,067
Retirement benefit costs for officers	28	22	258
Research and development costs	5,438	5,577	49,000
Amortization of goodwill	6	6	61
Allowance for doubtful accounts	41	13	373

13. Research and development costs

Research and development costs for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Research and development costs.....	¥6,406	¥6,694	\$57,719

14. Gain on sales of fixed assets

Gain on sales of fixed assets for the years ended March 31, 2019 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Buildings and structures	¥-	¥13	\$-
Machinery, equipment and vehicles	25	0	231
Land	63	489	573
Others	0	0	0
Total.....	¥89	¥503	\$805

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15. Loss on sales of fixed assets

Loss on sales of fixed assets for the years ended March 31, 2019 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
	Land.....	¥27	¥10
Others	0	-	0
Total.....	¥27	¥10	\$244

16. 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, 2019 and 2018.

2019				
Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 5)
Taketoyo-cho, Chita-gun, Aichi	Facilities	Machinery	¥ 84	\$ 759
Kawagoe city, Saitama	Facilities	Machinery	¥ 36	\$ 326
Sakuragawa city, Ibaraki	Facilities	Buildings and structures	¥ 47	\$ 429

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

When there is a decrease in profitability of a business operation and no expectation of recovery in operating earnings, the book value of the assets is written down to the recoverable amount. The Taketoyo-cho, Chita-gun, Aichi and Kawagoe city, Saitama assets listed in the above table were written down to their respective recoverable amounts and ¥120 million (US\$1,085 thousand) of impairment loss on fixed assets was recognized in the consolidated statement of income for the year ended March 31, 2019.

The Sakuragawa city, Ibaraki assets listed in the above table was written down to their respective recoverable amounts because of loss on business withdrawal and ¥47 million (US\$429 thousand) of impairment loss on fixed assets was recognized in the consolidated statement of income for the year ended March 31, 2019.

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 ¥47 million (US\$428 thousand) for buildings and structures, ¥90 million (US\$814 thousand) for machinery and vehicles, ¥19 million (US\$173 thousand) for tools, furniture and fixtures and ¥10 million (US\$98 thousand) for others.

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2018

Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 5)
Minato-ku, Tokyo	Office Assets	Tools, Furniture and Fixtures	¥ 25	\$ 243
State of Sao Paulo, Brazil	Facilities	Machinery	¥ 17	\$ 168

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 ¥43 million (US\$412 thousand) of impairment loss on fixed assets was recognized in the consolidated statement of income for the year ended March 31, 2018.

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 ¥2 million (US\$19 thousand) for buildings and structures, ¥24 million (US\$232 thousand) for machinery and vehicles, ¥8 million (US\$82 thousand) for tools, furniture and fixtures and ¥8 million (US\$78 thousand) for others.

17. Loss on retirement of fixed assets

Loss on retirement of fixed assets for the years ended March 31, 2019 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Buildings and structures	¥15	¥32	\$137
Machinery, equipment and vehicles	9	18	81
Other	9	5	83
Total.....	¥33	¥56	\$301

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18. Loss on disaster

Loss on disaster for the years ended March 31, 2019 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
	Facilities and equipment.....	¥229	¥—
Inventories	15	—	141
Total.....	¥245	¥—	\$2,211

19. Insurance income

Insurance income is the insurance claim received for damage caused by typhoons.

20. Loss on business withdrawal

Loss on business withdrawal for the years ended March 31, 2019 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
	Facilities and equipment.....	¥47	¥—
Inventories	108	—	973
Total.....	¥155	¥—	\$1,403

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21. Other comprehensive income

Reclassification adjustments and tax effects of each component of other comprehensive income for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Unrealized holding gain on securities:			
Amount arising during the year	¥(2,580)	¥ 6,453	\$ (23,246)
Reclassification adjustments for gains and losses included in net income	(597)	(606)	(5,386)
Amount before tax effect	(3,178)	5,846	(28,633)
Tax effect	986	(1,834)	8,891
Unrealized holding gain on securities	(2,191)	4,011	(19,742)
Translation adjustments:			
Amount arising during the year	¥ (916)	¥ 572	\$ (8,261)
Retirement benefits liability adjustments:			
Amount arising during the year	¥ (186)	¥177	\$ (1,676)
Reclassification adjustments for gains and losses included in net income	556	1,118	5,013
Amount before tax effect	370	1,296	3,336
Tax effect	(116)	(402)	(1,054)
Retirement benefits liability adjustments	253	894	2,282
Total other comprehensive income	¥ (2,854)	¥5,478	\$(25,721)

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22. Net assets

Information regarding changes in net assets for the years ended March 31, 2019 and 2018 are as follows:

(1) Shares issued and outstanding / Treasury stock

	Thousands of shares			
	2019			
	Number of shares at March 31, 2018	Increase	Decrease	Number of shares at March 31, 2019
Common stock.....	86,841	–	2,000	84,841
Treasury stock	1,594	1,076	2,000	671

The increase in treasury stock during the year ended March 31, 2019 was due to the purchase of odd-lot shares (3 thousand shares) and the market purchases (1,073 thousand shares).

The decrease in treasury stock during the year ended March 31, 2018 was due to the retirement of treasury stock (2,000 thousand shares).

	Thousands of shares			
	2018			
	Number of shares at March 31, 2017	Increase	Decrease	Number of shares at March 31, 2018
Common stock.....	173,682	–	86,841	86,841
Treasury stock	578	1,313	296	1,594

The Company conducted a consolidation of shares at the ratio of 2 shares to 1 share effective October 1, 2017.

The decrease in common stock during the year ended March 31, 2018 was due to the consolidation of shares (86,841 thousand shares).

The increase in treasury stock during the year ended March 31, 2018 was due to the purchase of 18 thousand odd-lot shares (14 thousand shares before the consolidation and 3 thousand shares after the consolidation) and 1,294 thousand shares of market purchases (after the consolidation).

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The decrease in treasury stock during the year ended March 31, 2018 was due to the disposal of 0 thousand treasury stock (0 thousand shares before the consolidation and 0 thousand shares after the consolidation) and 296 thousand shares due to the consolidation of shares.

(2) Cash dividends

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

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

Dividends paid for the year ended March 31, 2019:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 5)	Yen	U.S. dollars (Note 5)
		Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 28, 2018	Common stock	¥3,750	\$33,794	¥44	\$0.40
Meeting of the Board of Directors on November 1, 2018	Common stock	¥2,727	\$24,577	¥32	\$0.29

Dividends paid for the year ended March 31, 2018:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 5)	Yen	U.S. dollars (Note 5)
		Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 29, 2017	Common stock	¥2,596	\$24,440	¥15	\$0.14
Meeting of the Board of Directors on November 1, 2017	Common stock	¥1,730	\$16,292	¥10	\$0.09

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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The Company conducted a consolidation of shares at the ratio of 2 shares to 1 share effective October 1, 2017. Dividends per share are pre-consolidation.

Dividends with the cut-off date in the year ended March 31, 2019 and the effective date in the year ending March 31, 2020:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 5)	Yen	U.S. dollars (Note 5)
		Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 27, 2019	Common stock	¥3,871	\$34,884	¥46	\$0.41

23. Supplementary cash flow information

Cash and cash equivalents as of March 31, 2019 and 2018 are reconciled to cash and deposits in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Cash and time deposits.....	¥40,767	¥37,665	\$367,310
Time deposits with maturity of more than three months.....	(1,410)	(1,200)	(12,706)
Cash and cash equivalents.....	¥39,357	¥36,465	\$354,603

24. Leases

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

Obligations under non-cancelable operating leases as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Due within one year	¥49	¥58	\$441
Due after one year	96	126	868
Total.....	¥145	¥185	\$1,310

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25. 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 28 “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 28 “Derivative financial instruments” are not an indicator of the market risk

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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, 2019 and 2018 are as follows. Fair values that are not readily determinable are not included in the following table.

	Millions of yen		
	2019		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits.....	¥40,767	¥40,767	¥ –
Trade notes and accounts receivable (less allowance for doubtful accounts) .	¥47,778	¥47,778	¥ –
Available-for-sale securities	¥52,361	¥52,361	¥ –
Liabilities			
Notes and accounts payable	¥19,727	¥19,727	¥ –
Short-term bank borrowings	¥ 1,128	¥ 1,128	¥ –
Long-term borrowings from banks and other financial institutions.....	¥ 8,061	¥ 8,020	¥(41)
Derivative transactions.....	¥ –	¥ –	¥ –
Millions of yen			
2018			
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits.....	¥37,665	¥37,665	¥ –
Trade notes and accounts receivable (less allowance for doubtful accounts) .	¥42,850	¥42,850	¥ –
Available-for-sale securities	¥55,065	¥55,065	¥ –
Liabilities			
Notes and accounts payable	¥19,883	¥19,883	¥ –
Short-term bank borrowings	¥ 1,385	¥ 1,385	¥ –
Long-term borrowings from banks and other financial institutions.....	¥ 8,063	¥ 8,041	¥(22)
Derivative transactions.....	¥ –	¥ –	¥ –

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	Thousands of U.S. dollars (Note 5)		
	2019		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits.....	\$367,310	\$367,310	\$ –
Trade notes and accounts receivable (less allowance for doubtful accounts) .	\$430,473	\$430,473	\$ –
Available-for-sale securities	\$471,766	\$471,766	\$ –
Liabilities			
Notes and accounts payable	\$177,740	\$177,740	\$ –
Short-term bank borrowings	\$ 10,163	\$ 10,163	\$ –
Long-term borrowings from banks and other financial institutions.....	\$ 72,634	\$ 72,259	\$(374)
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 27 “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.

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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 28 “Derivative financial instruments.”

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Unlisted stock.....	¥1,214	¥1,241	\$10,946
Fund certificate.....	¥ 0	¥ 5	\$ 3

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.

The carrying value of monetary assets as of March 31, 2019 and 2018 is as follows:

	Millions of yen			
	2019			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits.....	¥40,762	¥ –	¥ –	¥ –
Notes and accounts Receivable ...	¥48,001	¥ –	¥ –	¥ –
Available-for-sale securities.....				
Government and municipal bonds	¥ 10	¥ –	¥ –	¥ –

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	Millions of yen			
	2018			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits.....	¥37,658	¥ –	¥ –	¥ –
Notes and accounts receivable	¥43,036	¥ –	¥ –	¥ –
Available-for-sale securities.....				
Government and municipal bonds	¥ –	¥10	¥ –	¥ –

	Thousands of U.S. dollars (Note 5)			
	2019			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits.....	\$367,258	\$ –	\$ –	\$ –
Notes and accounts receivable	\$432,488	\$ –	\$ –	\$ –
Available-for-sale securities.....				
Government and municipal bonds	\$ 90	\$ –	\$ –	\$ –

26. 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 0.85% at March 31, 2019, and 0.83% at March 31, 2018.

Long-term debt as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
	Loans, principally from banks and insurance companies, due April 2019 to September 2024 with average interest rates of 0.36% at March 31, 2019, and 0.66% at March 31, 2018	¥8,061	¥8,063
Less: Current maturities of:			
Long-term loans	(0)	(5,150)	(1)
Total	¥8,061	¥2,913	\$72,632

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Aggregate annual maturities of long-term debt subsequent to March 31, 2019 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 5)
2021.....	¥111	\$1,001
2022.....	5,000	45,050
2023.....	2,800	25,228
2024.....	150	1,351
2025 and thereafter.....	—	—
Total.....	<u>¥8,061</u>	<u>\$72,632</u>

27. 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, 2019 and 2018 are as follows:

Description	Millions of yen		
	2019		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks.....	¥14,731	¥51,357	¥36,626
Bonds.....	9	10	0
Others.....	—	—	—
Sub total.....	<u>¥14,741</u>	<u>¥51,367</u>	<u>¥36,626</u>
Book value not in excess of acquisition cost			
Stocks.....	¥ 1,221	¥ 994	¥ (227)
Bonds.....	—	—	—
Others.....	—	—	—
Sub total.....	<u>¥ 1,221</u>	<u>¥ 994</u>	<u>¥ (227)</u>
Total.....	<u>¥15,963</u>	<u>¥52,361</u>	<u>¥36,398</u>

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Description	Millions of yen		
	2018		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks.....	¥14,811	¥54,415	¥39,604
Bonds.....	9	10	0
Others.....	—	—	—
Sub total.....	¥14,821	¥54,425	¥39,604
Book value not in excess of acquisition cost			
Stocks.....	¥ 667	¥ 639	¥ (27)
Bonds.....	—	—	—
Others.....	—	—	—
Sub total.....	¥ 667	¥ 639	¥ (27)
Total.....	¥15,488	¥55,065	¥39,576

Description	Thousands of U.S. dollars (Note 5)		
	2019		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks.....	\$132,724	\$462,721	\$329,996
Bonds.....	90	90	0
Others.....	—	—	—
Sub total.....	\$132,814	\$462,811	\$329,996
Book value not in excess of acquisition cost			
Stocks.....	\$ 11,009	\$ 8,955	\$ (2,053)
Bonds.....	—	—	—
Others.....	—	—	—
Sub total.....	\$ 11,009	\$ 8,955	\$ (2,053)
Total.....	\$143,823	\$471,766	\$327,943

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- (2) Available-for-sale securities sold during the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Proceeds from sale of available-for-sale securities	¥1,118	¥874	\$10,075
Realized gain	1,035	606	9,329
Realized loss	0	-	0

- (3) The book value of major securities without fair value as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Unlisted stocks	¥863	¥890	\$7,781
Fund certificates	0	5	3

28. 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 transaction which meet hedge accounting criteria as of March 31, 2018 and there was no transaction as of March 31, 2019.

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	Millions of yen		
	2018		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts:			
To receive variable/to pay fixed.....	¥5,000	¥–	¥–

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.

29. 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, 2019 and 2018 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Beginning balance of retirement benefit obligation	¥23,176	¥22,229	\$208,815
Service cost	1,451	1,457	13,076
Interest cost	30	31	278
Actuarial loss	(40)	3	(367)
Retirement benefits paid	(1,149)	(561)	(10,360)
Other	(24)	15	(218)
Ending balance of retirement benefit obligation	¥23,443	¥23,176	\$211,223

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- (2) The changes in plan assets during the years ended March 31, 2019 and 2018 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Beginning balance of plan assets	¥22,136	¥20,987	\$199,447
Expected return on plan assets	402	378	3,622
Actuarial loss	(229)	178	(2,065)
Contributions by the Company	943	933	8,505
Retirement benefits paid	(935)	(350)	(8,428)
Other	(69)	9	(624)
Ending balance of plan assets	¥22,248	¥22,136	\$200,456

- (3) The changes in liabilities for retirement benefits calculated by using the simplified method during the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Beginning balance of net defined benefit liability	¥1,375	¥1,296	\$12,393
Retirement benefit expenses	288	257	2,597
Retirement benefits paid	(125)	(78)	(1,131)
Contributions by the Company	(104)	(99)	(941)
Ending balance of net defined benefit liability	¥1,433	¥1,375	\$12,916

- (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, 2019 and 2018 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Funded retirement benefit obligation	¥ 21,901	¥ 21,516	\$ 197,327
Plan assets	(23,550)	(23,369)	(212,183)
	(1,648)	(1,852)	(14,855)
Unfunded retirement benefit obligation	4,277	4,267	38,539
Net liabilities in consolidated balance sheet	2,628	2,415	23,684
Assets for retirement benefits	(2,066)	(2,230)	(18,620)
Liabilities for retirement benefits	4,695	4,645	42,304
Net liabilities in consolidated balance sheet	¥ 2,628	¥ 2,415	\$ 23,684

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- (5) The components of retirement benefit expense for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Service cost	¥1,451	¥1,457	\$13,076
Interest cost	30	31	278
Expected return on plan assets	(402)	(378)	(3,622)
Amortization of actuarial loss	552	1,118	4,978
Retirement benefit expenses for simplified method	288	257	2,597
Retirement benefit expenses for defined benefit plans	¥1,921	¥2,486	\$17,307

- (6) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Actuarial loss	¥(370)	¥(1,296)	\$(3,336)
Total	¥(370)	¥(1,296)	\$(3,336)

- (7) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Unrecognized actuarial loss.....	¥981	¥1,351	\$8,841
Total.....	¥981	¥1,351	\$8,841

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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, 2019 and 2018 is as follows:

	2019	2018
Equity securities	25%	26%
Debt securities	31%	30%
General accounts.....	32%	32%
Other	12%	12%
Total.....	100%	100%

NOTE:

The plan assets include 9% of the retirement pension trusts for corporate pension plans as of March 31, 2019 and 2018, 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:

	2019	2018
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 ~ 5.87%

Defined contribution plans

The required contributions to the defined contribution plan for certain consolidated subsidiaries for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Defined contribution plans	¥106	¥105	\$955

30. Stock option

There were no applicable items.

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31. Income taxes

(1) Significant components of deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Deferred tax assets:			
Accrued bonus	¥ 1,054	¥ 1,026	\$ 9,503
Liabilities for retirement benefits	2,667	2,582	24,036
Elimination of intercompany profits....	568	505	5,119
Valuation loss on inventories.....	320	216	2,884
Accrued enterprise tax	316	311	2,847
Impairment loss on fixed assets	445	457	4,016
Accrued retirement benefits for directors and officers	29	20	261
Impairment loss on investment securities	210	210	1,896
Foreign tax credit.....	0	107	5
Others.....	917	799	8,270
Subtotal.....	6,531	6,238	58,844
Valuation allowance	(399)	(451)	(3,595)
Total deferred tax assets	6,132	5,786	55,248
Deferred tax liabilities:			
Unrealized gain on investments in securities	(11,172)	(12,159)	(100,665)
Reserve for advanced depreciation of property, plant and equipment	(1,573)	(1,602)	(14,176)
Valuation differences.....	(1,513)	(1,513)	(13,639)
Gain on revaluation of assets trusted for retirement benefit	(633)	(633)	(5,710)
Others.....	(693)	(680)	(6,251)
Total deferred tax liabilities	(15,587)	(16,590)	(140,443)
Net deferred tax liabilities.....	¥ (9,455)	¥ (10,803)	\$ (85,195)

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

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory rates of approximately 31.0% and 31.0% for the years ended March 31, 2019 and 2018, 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, 2019 and 2018 is summarized as follows:

	2019	2018
Effective statutory tax rate	31.0%	—
Non-deductible expenses	0.1	—
Tax credits	(1.3)	—
Valuation allowance	(0.2)	—
Inhabitants' per capita taxes	0.1	—
Deduction of dividends received	(0.3)	—
Different tax rates applied to foreign subsidiaries ...	(1.0)	—
Other	(0.3)	—
Effective tax rates	28.1%	—

Note: The note of 2018 is omitted, because the difference between effective statutory tax rate and effective tax rates after adoption of tax-effect accounting is less than 5% of effective statutory tax rate.

32. Business combination

There were no applicable items.

33. Asset retirement obligations

Information on the asset retirement obligations recorded on the consolidated balance sheet at March 31, 2019 and 2018 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

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ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Balance at beginning of year	¥193	¥195	\$1,745
Increase due to acquisition of property, plant and equipment	7	2	65
Accretion expenses	0	0	3
Decrease due to fulfillment of asset retirement obligations	(5)	(4)	(52)
Balance at the end of year	¥195	¥193	\$1,761

34. 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.

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Millions of yen								
2019								
Reportable segments								
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers ..	¥127,512	¥27,814	¥32,202	¥187,529	¥1,622	¥189,152	¥ –	¥189,152
Inter-segment	1,189	5,039	15	6,243	7,987	14,231	(14,231)	–
Total	128,701	32,854	32,217	193,773	9,610	203,383	(14,231)	189,152
Segment income	¥ 20,297	¥ 7,388	¥ 1,967	¥ 29,653	¥ 247	¥ 29,900	¥ (1,458)	¥ 28,442
Assets								
Assets	¥ 95,221	¥22,999	¥58,809	¥177,030	¥3,640	¥180,670	¥ 63,862	¥244,533
Depreciation	2,450	659	1,638	4,749	50	4,800	238	5,038
Capital expenditures..	3,422	402	1,316	5,142	156	5,298	658	5,956

Thousands of U.S. dollars (Note 5)								
2019								
Reportable segments								
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers ..	\$1,148,861	\$250,606	\$290,140	\$1,689,608	\$14,621	\$1,704,230	\$ –	\$1,704,230
Inter-segment	10,712	45,404	136	56,252	71,967	128,220	(128,220)	–
Total	1,159,574	296,010	290,276	1,745,860	86,589	1,832,450	(128,220)	1,704,230
Segment income	\$182,873	\$ 66,573	\$ 17,724	\$ 267,171	\$ 2,230	\$ 269,402	\$ (13,142)	\$ 256,260
Assets								
Assets	\$857,931	\$207,219	\$529,863	\$1,595,014	\$32,796	\$1,627,811	\$ 575,392	\$2,203,204
Depreciation	22,081	5,943	14,763	42,788	459	43,247	2,146	45,393
Capital expenditures..	30,839	3,628	11,861	46,328	1,412	47,741	5,929	53,670

Notes:

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

2. Adjustments

1) Adjustments and eliminations for segment income ¥ (1,458) million (\$ (13,142) thousand) include ¥ (40) million (\$ (360) thousand) of elimination of inter-segment profit and loss and ¥ (1,418) million (\$ (12,781) thousand) of corporate general administrative expense, which are not allocable to the reportable segments.

2) Adjustments and eliminations for segment assets ¥ 63,862 million (\$575,392 thousand) include ¥ (28,061) million (\$ (252,827) thousand) of elimination of inter-segment and ¥ 91,924 million (\$828,220 thousand) of corporate general administrative assets, which are not allocable to the reportable segments.

3) Adjustments for depreciation include ¥238 million (\$2,146 thousand) of depreciation and amortization for corporate assets.

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4) Adjustments for capital expenditures ¥658 million (\$5,929 thousand) refer to the increase in corporate assets.

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

Millions of yen								
2018								
Reportable segments								
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers ..	¥120,636	¥27,424	¥30,301	¥178,361	¥1,573	¥179,935	¥ -	¥179,935
Inter-segment	1,109	4,867	12	5,989	7,642	13,631	(13,631)	-
Total	121,745	32,291	30,313	184,350	9,216	193,566	(13,631)	179,935
Segment income	¥ 18,785	¥ 7,216	¥ 1,057	¥ 27,059	¥ 212	¥ 27,272	¥ (1,456)	¥ 25,816
Assets								
Assets	¥ 88,114	¥22,558	¥55,264	¥165,937	¥3,878	¥169,815	¥ 66,059	¥235,874
Depreciation	2,362	633	1,663	4,659	56	4,716	195	4,911
Capital expenditures ..	2,342	1,014	1,293	4,649	67	4,717	1,007	5,725

Notes:

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

2. Adjustments

1) Adjustments and eliminations for segment income ¥ (1,456) million include ¥ (68) million of elimination of inter-segment profit and loss and ¥ (1,387) million of corporate general administrative expense, which are not allocable to the reportable segments.

2) Adjustments and eliminations for segment assets ¥ 66,059 million include ¥ (26,339) million of elimination of inter-segment and ¥ 92,399 million of corporate general administrative assets, which are not allocable to the reportable segments.

3) Adjustments for depreciation include ¥195 million of depreciation and amortization for corporate assets.

4) Adjustments for capital expenditures ¥1,007 million refer to the increase in corporate assets.

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

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(2) Information related to reportable segments

- 1) The Group's sales by geographical area for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Japan.....	¥133,525	¥130,335	\$1,203,039
Asia.....	34,686	29,386	312,520
Others	20,940	20,213	188,670
Total	¥189,152	¥179,935	\$1,704,230

Note: 2019 Sales to Asia include more than 10% of consolidated net sales to China, which is ¥ (18,939) million (\$170,644) thousand).

- 2) The Group's property, plant and equipment by geographical area as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Japan.....	¥52,703	¥52,240	\$474,850
Others	4,992	5,366	44,979
Total	¥57,695	¥57,606	\$519,829

- (3) Impairment losses on fixed assets by reportable segments for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Functional chemicals	¥84	¥17	\$759
Life science	-	-	-
Explosive & propulsion	83	25	755
Others	-	-	-
Total	¥168	¥43	\$1,515

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- (4) Amortization and balance of goodwill by reportable segment as of and for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 5)	
	2019		2018		2019	
	Amortization	Ending balance	Amortization	Ending balance	Amortization	Ending balance
Functional						
chemicals.....	¥6	¥-	¥6	¥6	\$62	\$-
Life science ...	-	-	-	-	-	-
Explosive & propulsion....	0	-	0	0	0	-
Others	-	-	-	-	-	-
Total	¥6	¥-	¥6	¥6	\$62	\$-

35. Related party transactions

The information for the fiscal years ended March 31, 2019 and 2018 was not disclosed because there were no significant transactions with related parties.

36. 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 5)
	2019	2018	2019
Profit attributable to owners of parent per share:			
Basic	¥ 259.29	¥ 230.96	\$2.34
Diluted.....	-	-	-
Cash dividends applicable to the year	78.00	54.00	0.70
Net assets.....	2,108.77	1,980.14	19.00

Profit attributable to owners of parent– diluted for the years ended March 31, 2019 and 2018 is not disclosed because there are no diluted shares.

The Company conducted a consolidation of shares at the ratio of 2 shares to 1 share effective October 1, 2017. Profit attributable to owners of parent per share and net assets per share are calculated based on the assumption that the consolidation was implemented at the beginning of the fiscal year ended March 31, 2018.

Cash dividends per share applicable to the period for the fiscal year ended March 31,

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2019, comprise interim dividends of ¥32.00 and year-end dividends of ¥46.00.

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

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2019	2018	2019
Profit attributable to owners of parent.....	¥22,034	¥19,913	\$198,529
Amount not available to shareholders	—	—	—
Profit attributable to owners of parent applicable to common stock	¥22,034	¥19,913	\$198,529
Average number of shares outstanding (1,000 shares)	84,982	86,219	

37. Subsequent events

At the meeting of the Board of Directors held on May 9, 2019, the Company resolved to introduce a new performance-linked stock compensation plan (Board Benefit Trust, or BBT, hereinafter referred to as the “Plan”) and decided to submit a proposal associated with the Plan to the 96th Annual General Meeting of Shareholders held on June 27, 2019 (hereinafter referred to as the “General Meeting of Shareholders.”) The proposal associated with the Plan was approved at the General Meeting of Shareholders.

1. Background and purpose of the introduction of the Plan

The Board of Directors of the Company resolved to introduce the Plan on condition that the shareholders’ approval on director’s compensation was obtained at the General Meeting of Shareholders, and decided to submit a proposal associated with the Plan to the General Meeting of Shareholders, with the purpose of further clarifying the linkage between compensation of Directors who concurrently serve as Operating Officers (excluding Outside Directors, hereinafter the same applies, unless otherwise stated) and Operating Officers with a title (hereinafter collectively “Directors, etc.”), financial results of the Company and the value of the Company’s shares and having Directors, etc. share the risk of stock value fluctuation with the shareholders, thereby strengthening the awareness of Directors, etc. of their contribution to the medium- to long-term improvement in financial results and enhancement of corporate value.

2. Overview of the Plan

(1) Overview of the Plan

The Plan is a performance-linked stock compensation plan whereby the Company’s shares are acquired through a trust using funds contributed by the Company (hereinafter, such trust established pursuant to the Plan is referred to as the “Trust”), and the Company’s shares and cash equivalents of such shares at their market value (hereinafter collectively referred to as “Company’s Shares, etc.”) are distributed

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through the Trust to the Company's Directors, etc. pursuant to the Officer Stock Distribution Rules established by the Company. The Company's Directors, etc. shall receive the Company's Shares, etc. upon their retirement, in principle.

(2) Persons eligible for the Plan

Directors who concurrently serve as Operating Officers and Operating Officers with a title (Outside Directors and Corporate Auditors are not eligible for the Plan.)

(3) Trust period

From August 2019 (scheduled) until the termination of the Trust (No particular date of termination is specified for the trust period of the Trust and the Trust shall continue as long as the Plan continues. The Plan will be terminated in such case as delisting of the Company's shares, abolition of the Officer Stock Distribution Rules, etc.)

(4) Trust amount

Provided that the introduction of the Plan is approved at the General Meeting of Shareholders, the Company will introduce the Plan for the four fiscal years from the fiscal year ending on March 31, 2020 to the fiscal year ending on March 31, 2023 (hereinafter, the said four fiscal years shall be referred to as the "Initial Applicable Period" and each period consisting of three fiscal years starting after the Initial Applicable Period has passed shall be referred to as a "Next Applicable Period." Moreover, the Initial Applicable Period and the Next Applicable Periods shall be collectively referred to as the "Applicable Period.") and each Next Applicable Period and contribute cash in the amount indicated below as funds for the Trust to acquire the Company's shares in order to distribute the Company's Shares, etc. to Directors, etc.

Firstly, at the beginning of the trust period described in (3) above, the Company will contribute up to a maximum of 180 million yen (of which 152 million yen is for Directors) to the Trust as funds necessary for the Initial Applicable Period.

Moreover, after the Initial Applicable Period has passed and until the Plan comes to an end, the Company will, in principle, make an additional contribution to the Trust up to a maximum of 135 million yen (of which 114 million yen is for Directors) for each Following Applicable Period. However, if, at the time of such additional contribution, the Company's shares (excluding the Company's shares corresponding to the points awarded to the Directors, etc. concerning the most recent Applicable Periods whose distribution to the Directors, etc. has not been completed) or cash (hereinafter collectively referred to as the "Remaining Shares, etc.") remain in the trust assets on the last date of the preceding Applicable Period, the sum of the value of the Remaining Shares, etc. (in regard to the Company's shares, market value on the last date of the preceding Applicable Period) and the amount of cash for additional contribution shall be the maximum 135 million yen (of which 114 million yen is for Directors).

The Initial Applicable Period consists of four fiscal years and a Next Applicable Period consists of three fiscal years because the Company believes that it is reasonable to make the Initial Applicable Period agree with the aggregate number of years of the remaining period of the current Medium-Term Management Plan (one

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fiscal year, ending on March 31, 2020) and the period to be covered by the next Medium-Term Management Plan (scheduled to be three fiscal years).

When the Company decides to make any additional contribution, it shall disclose the fact appropriately in a timely manner.

- (5) The method of acquiring the Company's shares and the number of shares to be acquired

The Trust shall acquire the Company's shares on the stock market or by underwriting the disposition of the Company's treasury shares, using the funds contributed by (4) above.

During the Initial Applicable Period, the Trust shall acquire shares within the upper limit of 60 thousand shares without delay following the establishment of the Trust.

Details of acquisition of the Company's shares by the Trust shall be disclosed appropriately in a timely manner.

- (6) The method of calculation of the number of the Company's Shares, etc. to be distributed to the Directors, etc.

For each fiscal year, the Directors, etc. shall be awarded points, the number of which is to be decided taking into account their respective positions, achievement level of their performance, etc. based on the Officer Stock Distribution Rules. Each point awarded to the Directors, etc. shall be converted into one (1) share of the Company's common stock at the time of the distribution of the Company's Shares, etc. as described in (7) below (provided, however, that, if, in regard to the Company's shares, a share split, allotment of shares without contribution, or consolidation of shares, etc., is carried out after the approval of this proposal, the conversion ratio shall be adjusted in a reasonable manner in proportion to the relevant ratio etc.).

The number of points held by a Director, etc., which will be used as the basis for the distribution of the Company's Shares, etc., shall be, in principle, the number of points awarded to the said Director, etc. by the time of his/her retirement (hereinafter, the number of points calculated in such manner shall be referred to as the "Defined Number of Points").

- (7) Granting of the Company's Shares, etc.

When a Director, etc. of the Company retires and he/she meets the requirements for the beneficiary stipulated in the Officer Stock Distribution Rules, the said Director, etc. may receive the number of the Company's shares from the Trust in accordance with the Defined Number of Points, which is, in principle, determined in accordance with (6) above after his/her retirement, provided that he/she takes the stipulated procedures to define the beneficiary.

However, if the said Director, etc. meets the requirements separately stipulated in the Officer Stock Distribution Rules, in respect of a certain percentage of the points awarded to him/her, he/she may receive the amount of cash equivalent to the market value of the Company's shares in lieu of the Company's shares. The Trust may sell the Company's shares in order to provide cash.

- (8) Exercise of voting rights

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Voting rights pertaining to the Company's shares in the Trust account shall not be exercised without exception in accordance with the instructions of the trust administrator. This will assure the neutrality of the Company's management in relation to exercise of the voting rights of such shares.

(9) Handling of Dividends

Dividends on the Company's shares in the Trust account will be received by the Trust, and will be applied to payment for acquisition of the Company's shares, trust fees for the trustee pertaining to the Trust, etc. Dividends etc. remaining in the Trust when the Trust comes to an end will be distributed to Directors, etc. in office at that point in time in proportion to the number of points held by each Director, etc.

(10) Handling at the time of termination of the Trust

The Trust will be terminated in such cases as delisting of the Company's shares and abolition of the Officer Stock Distribution Rules, etc.

Of the property remaining in the Trust at the time of termination of the Trust, the Company plans to acquire all of the Company's shares without contribution and retire them by a resolution of the Board of Directors. Of the property remaining in the Trust at the time of termination of the Trust, the amount of cash remaining after deducting cash to be distributed to Directors, etc. in accordance with (9) above will be distributed to the Company.

(Overview of the Trust)

(1) Name	: Board Benefit Trust (BBT)
(2) Trustor	: The Company
(3) Trustee	: Mizuho Trust & Banking Co., Ltd. (Re-trustee: Trust & Custody Services Bank, Ltd.)
(4) Beneficiaries	: Retired Directors, etc. who meet the requirements for the beneficiary stipulated in the Officer Stock Distribution Rules
(5) Trust administrator	: A third-party with no conflict of interest with the Company shall be selected.
(6) Type of trust	: Money held in trust other than monetary trust (third-party benefit trust)
(7) Date of the trust agreement	: August 2019 (scheduled)
(8) Date on which money is entrusted	: August 2019 (scheduled)
(9) Period of trust	: From August 2019 (scheduled) until the termination of the Trust

(No particular date of termination is specified and the Trust shall continue as long as the Plan continues.)