

**NOF CORPORATION**

**Consolidated Financial Statements**

For the years ended March 31, 2020 and 2019

## **Independent Auditor's Report**

The Board of Directors  
NOF CORPORATION

### **Opinion**

We have audited the accompanying consolidated financial statements of NOF CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 6 to the consolidated financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan

June 26, 2020

/s/ Motoaki Ikeuchi  
Designated Engagement Partner  
Certified Public Accountant

/s/ Tetsuya Kawawaki  
Designated Engagement Partner  
Certified Public Accountant

# NOF CORPORATION and Subsidiaries

## Consolidated Balance Sheet

**As of March 31,**

Thousands of  
U.S. dollars  
(Note 6)

	Millions of yen		2020
	2020	2019	2020
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits(Notes 23 and 25).....	¥ 51,849	¥ 40,767	\$ 476,428
Notes and accounts receivable (Notes 10 and 25).....	38,625	45,600	354,913
Electronically recorded monetary claims-operating (Note 10)..	2,467	2,401	22,675
Merchandise and finished goods.....	21,261	21,591	195,360
Work in process.....	3,299	3,528	30,321
Raw materials and supplies.....	10,353	11,079	95,137
Other current assets .....	2,446	2,422	22,484
Allowance for doubtful accounts .....	(188)	(223)	(1,734)
<b>Total current assets .....</b>	<b>130,115</b>	<b>127,168</b>	<b>1,195,586</b>
<b>Fixed assets:</b>			
<b>Property, plant and equipment (Notes 7 and 8):</b>			
Buildings and structures .....	72,238	69,749	663,769
Accumulated depreciation.....	(48,349)	(47,194)	(444,262)
Buildings and structures, net.....	23,888	22,555	219,507
Machinery, equipment and vehicles.....	101,477	100,636	932,444
Accumulated depreciation.....	(89,727)	(89,486)	(824,473)
Machinery, equipment and vehicles, net.....	11,750	11,149	107,970
Land.....	20,332	20,340	186,830
Leased assets.....	425	196	3,911
Accumulated depreciation.....	(146)	(116)	(1,341)
Leased asset, net.....	279	79	2,569
Construction in progress .....	1,117	1,692	10,264
Others .....	15,316	15,241	140,738
Accumulated depreciation.....	(13,426)	(13,363)	(123,374)
Others, net.....	1,889	1,878	17,363
<b>Total property, plant and equipment.....</b>	<b>59,258</b>	<b>57,695</b>	<b>544,506</b>
<b>Intangible assets:</b>			
Others, net.....	1,050	1,154	9,654
<b>Total Intangible assets.....</b>	<b>1,050</b>	<b>1,154</b>	<b>9,654</b>
<b>Investments and other assets:</b>			
Investments securities (Notes 7 ,9 ,25 and 27) .....	40,868	53,576	375,522
Long term loans.....	2	3	27
Deferred tax assets (Note 30).....	1,012	891	9,304
Assets for retirement benefits (Note 28).....	1,153	2,066	10,595
Other assets .....	1,846	2,039	16,962
Allowance for doubtful accounts .....	(59)	(63)	(548)
<b>Total investments and other assets.....</b>	<b>44,823</b>	<b>58,514</b>	<b>411,865</b>
<b>Total fix assets.....</b>	<b>105,132</b>	<b>117,364</b>	<b>966,025</b>
<b>Total assets.....</b>	<b>¥ 235,248</b>	<b>¥ 244,533</b>	<b>\$ 2,161,611</b>

The accompanying notes are an integral part of the statements.

## NOF CORPORATION and Subsidiaries

### Consolidated Balance Sheet (continued)

**As of March 31,**

Thousands of  
U.S. dollars  
(Note 6)

	Millions of yen		2020
	2020	2019	2020
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Notes and accounts payable (Notes 10 and 25).....	¥ 14,998	¥ 19,727	\$ 137,811
Electronically recorded obligations-operating (Note 10) .....	852	1,104	7,832
Short-term bank loans (Notes 25 and 26) .....	1,353	1,128	12,438
Current portion of long-term debt (Notes 25 and 26).....	0	0	1
Lease obligations.....	161	95	1,484
Accrued expenses.....	1,696	1,961	15,591
Income taxes payable .....	4,067	4,792	37,372
Deposits received .....	4,045	4,624	37,169
Accrued bonuses for employees.....	3,227	3,311	29,654
Asset retirement obligations (Note 32).....	156	161	1,436
Other current liabilities.....	5,555	5,201	51,046
<b>Total current liabilities</b> .....	36,114	42,108	331,840
<b>Long-term liabilities:</b>			
Long-term debt (Notes 25 and 26) .....	8,059	8,061	74,059
Lease obligations.....	289	238	2,662
Deferred tax liabilities (Note 30) .....	6,629	10,347	60,920
Accrued retirement benefits for officers.....	106	93	982
Accrued retirement benefits for directors .....	0	0	6
Liabilities for retirement benefits (Note 29) .....	4,841	4,695	44,490
Asset retirement obligations (Note 32).....	34	34	314
Other long-term liabilities .....	454	668	4,175
<b>Total long-term liabilities</b> .....	20,417	24,139	187,611
<b>Total liabilities</b> .....	56,532	66,248	519,452
<b>Commitments and contingencies (Note 10)</b>			
<b>Net assets:</b>			
Shareholders' equity			
Common stock.....	17,742	17,742	163,024
Authorized: 347,000,000 shares at March 31, 2020 and 2019			
Issued: 84,841,376 shares at March 31, 2020 and 2019			
Capital surplus.....	15,115	15,115	138,892
Retained earnings .....	136,643	122,657	1,255,567
Treasury stock, at cost.....	(6,333)	(2,145)	(58,197)
Total shareholders' equity .....	163,167	153,369	1,499,286
Accumulated other comprehensive income			
Unrealized holding gain on securities .....	16,933	25,224	155,591
Translation adjustments.....	(883)	(423)	(8,122)
Retirement benefits liability adjustments .....	(1,280)	(675)	(11,768)
Total accumulated other comprehensive income .....	14,768	24,125	135,700
Non-controlling interests.....	780	790	7,172
<b>Total net assets</b> .....	178,716	178,285	1,642,159
<b>Total liabilities and net assets</b> .....	¥235,248	¥244,533	\$2,161,611

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 6)
	2020	2019	2020
<b>Net sales</b> .....	¥180,917	¥189,152	\$1,662,389
<b>Cost of sales</b> (Notes 11 and 13).....	122,313	128,260	1,123,895
Gross profit.....	58,604	60,892	538,493
<b>Selling, general and administrative expenses</b> (Notes 12 and 13)	31,730	32,449	291,557
Operating income .....	26,874	28,442	246,936
<b>Other income (expenses):</b>			
Interest income.....	96	113	888
Dividend income.....	1,561	1,267	14,344
Rent income on real estate.....	253	255	2,331
Foreign exchange loss, net .....	(221)	(72)	(2,038)
Interest expenses .....	(69)	(80)	(640)
Liquidation cost of accounts receivables.....	(31)	(30)	(286)
Rent expenses on real estate .....	(78)	(100)	(724)
Removal cost on fixed assets.....	(133)	(110)	(1,228)
Gain (Loss) on sale of fixed assets (Notes 14 and 15).....	52	62	485
Loss on retirement of fixed assets (Note 17).....	(123)	(33)	(1,133)
Gain (Loss) on sale of investments in securities (Note 27).....	1,972	1,035	18,120
Impairment loss on fixed assets (Note 16).....	(449)	(120)	(4,126)
Loss on disaster (Note 18).....	(216)	(245)	(1,993)
Insurance income (Note 19) .....	371	70	3,409
Loss on business withdrawal (Notes 16 and 20).....	(87)	(155)	(800)
Office relocation expenses .....	(108)	—	(993)
Others, net.....	576	415	5,297
Other income (expenses) total .....	3,364	2,270	30,912
Profit before income taxes.....	30,238	30,712	277,848
<b>Income taxes</b> (Note 30)			
Current.....	8,949	9,026	82,232
Deferred.....	116	(395)	1,070
	9,065	8,631	83,302
<b>Profit</b> .....	21,172	22,080	194,545
<b>Profit (loss) attributable to:</b>			
<b>Non-controlling interests</b> .....	32	46	296
<b>Owners of parent (Note 35)</b> .....	¥ 21,140	¥ 22,034	\$ 194,249

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 6)
	2020	2019	2020
<b>Profit</b> .....	¥21,172	¥22,080	\$194,545
Other comprehensive income (Note 21)			
Unrealized holding gain on securities.....	(8,294)	(2,191)	(76,217)
Translation adjustments.....	(463)	(916)	(4,257)
Retirement benefits liability adjustments.....	(604)	253	(5,550)
Total other comprehensive income.....	(9,362)	(2,854)	(86,025)
Comprehensive income.....	11,810	19,226	108,520
<b>Total comprehensive income attributable to:</b>			
Owners of parent.....	11,783	19,184	108,270
Non-controlling interests.....	27	41	249

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, 2020 and 2019**

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, 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
Cash dividends.....	-	-	-	(7,154)	-	(7,154)	-	-	-	-	-	(7,154)
Profit attributable to owners of parent for the period.....	-	-	-	21,140	-	21,140	-	-	-	-	-	21,140
Purchase of treasury stock.....	-	-	-	-	(4,188)	(4,188)	-	-	-	-	-	(4,188)
Disposal of treasury stock.....	-	-	-	-	-	-	-	-	-	-	-	-
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.....	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity....	-	-	-	-	-	-	(8,291)	(460)	(604)	(9,357)	(10)	(9,367)
Balance at March 31, 2020	84,841	¥17,742	¥15,115	¥136,643	¥(6,333)	¥163,167	¥16,993	¥ (883)	¥(1,280)	¥14,768	¥780	¥178,716

**For the Year Ended March 31, 2020**

Thousands of U.S. dollars (Note 6)

	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, 2019.....	84,841	\$163,024	\$138,886	\$1,127,057	\$(19,711)	\$1,409,257	\$231,776	\$ (3,887)	\$(6,120)	\$221,678	\$7,264	\$1,638,200
Cash dividends.....	-	-	-	(65,739)	-	(65,739)	-	-	-	-	-	(65,739)
Profit attributable to owners of parent for the period.....	-	-	-	194,249	-	194,249	-	-	-	-	-	194,249
Purchase of treasury stock.....	-	-	-	-	(38,486)	(38,486)	-	-	-	-	-	(38,486)
Disposal of treasury stock.....	-	-	-	-	-	-	-	-	-	-	-	-
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.....	-	-	5	-	-	5	-	-	-	-	-	5
Other.....	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity....	-	-	-	-	-	-	(76,184)	(4,235)	(5,558)	(85,978)	(92)	(86,070)
Balance at March 31, 2020.....	84,841	\$163,024	\$138,892	\$1,255,567	\$(58,197)	\$1,499,286	\$155,591	\$ (8,122)	\$(11,768)	\$135,700	\$7,172	\$1,642,159

# NOF CORPORATION and Subsidiaries

## Consolidated Statement of Cash Flows

**For the Year Ended March 31,**

Thousands of  
U.S. dollars

	Millions of yen		(Note 6)
	2020	2019	2020
<b>Cash flows from operating activities:</b>			
Profit before income taxes.....	¥30,238	¥30,712	\$277,848
Adjustments for:			
Depreciation.....	5,304	5,038	48,745
Impairment loss on fixed assets .....	449	120	4,126
Net changes in retirement benefit liability .....	93	20	861
Interest and dividend income .....	(1,657)	(1,380)	(15,232)
Interest expenses .....	69	80	640
Loss (gain) on sale of fixed assets.....	(52)	(62)	(485)
Gain on sale of investments in securities .....	(1,972)	(1,035)	(18,120)
Insurance income .....	(371)	(70)	(3,409)
Loss on disaster .....	216	245	1,993
Loss on withdrawal from business.....	87	155	800
Relocation expenses .....	108	—	993
Increase in notes and accounts receivable.....	6,767	(5,251)	62,182
Decrease (increase) in inventories.....	1,114	(3,414)	10,236
Increase (decrease) in notes and accounts payable .....	(4,818)	474	(44,274)
Others, net .....	132	2,348	1,213
Sub total.....	35,709	27,981	328,118
Interest and dividends received .....	1,658	1,379	15,241
Interest paid.....	(69)	(79)	(638)
Payment of relocation expenses .....	(65)	—	(601)
Income taxes paid.....	(9,584)	(9,326)	(88,064)
Proceeds from insurance income.....	371	70	3,409
Payments for loss on disaster .....	(182)	(161)	(1,678)
Net cash provided by operating activities.....	27,837	19,864	255,785
<b>Cash flows from investing activities:</b>			
Payments for purchase of investments in securities .....	(32)	(530)	(299)
Proceeds from sale of investments in securities .....	2,678	1,118	24,609
Payments for purchase of fixed assets.....	(7,711)	(5,950)	(70,854)
Proceeds from sale of fixed assets.....	98	113	901
Net changes in short-term loans receivable.....	(59)	10	(543)
Payments for long-term loans receivable .....	(2)	—	(25)
Proceeds from long-term loans receivable .....	2	1	24
Others, net .....	188	(304)	1,728
Net cash used in investing activities.....	(4,838)	(5,540)	(44,460)

## NOF CORPORATION and Subsidiaries

### Consolidated Statement of Cash Flows (continued)

**For the Year Ended March 31,**

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
<b>Cash flows from financing activities:</b>			
Net change short-term bank loans .....	231	(235)	2,128
Increase in long-term debt.....	—	5,150	—
Repayments of long-term debt .....	(0)	(5,150)	(1)
Sale of treasury stock.....	—	0	—
Purchase of treasury stock.....	(4,188)	(4,012)	(38,486)
Purchase of treasury stock of subsidiaries.....	(31)	(15)	(285)
Repayments of lease obligations .....	(165)	(96)	(1,524)
Cash dividends paid.....	(7,130)	(6,453)	(65,523)
Cash dividends paid to non-controlling shareholders .....	(2)	(0)	(24)
Net cash used in financing activities .....	(11,287)	(10,814)	(103,717)
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	(383)	(618)	(3,526)
<b>Net increase in cash and cash equivalents.....</b>	11,327	2,891	104,081
<b>Cash and cash equivalents at beginning of year .....</b>	39,357	36,465	361,641
<b>Cash and cash equivalents at end of year (Note 23).....</b>	¥50,684	¥39,357	\$465,722

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, 2020 and 2019

## 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, 2020 (32 for 2019). 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, 2020 (24 for 2019).

The remaining 8 (8 for 2019) 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, 2020 and 2019

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

Name of subsidiaries	Percentage of voting rights owned by the Company
	%
<b>(Domestic subsidiaries)</b>	
Nippon Koki Co., Ltd. ....	95.0
NiGK Corporation .....	100.0
HOKKAIDO NOF CORPORATION .....	100.0
NOF METAL COATINGS ASIA PACIFIC Co., Ltd. ....	100.0
Showa Kinzoku Kogyo Co., Ltd. ....	98.3
JAPEX Corp. ....	70.0
Nichiyu Trading Co., Ltd. ....	100.0
Nichiyu Logistics Co., Ltd. ....	100.0
Nippo Kogyo Co., Ltd. ....	98.1
Yuka Sangyo Co., Ltd. ....	100.0
Nichiyu Kogyo Co., Ltd. ....	100.0
NIKKA COATING Co., Ltd. ....	100.0
CACTUS Co., Ltd. ....	100.0
<b>(Foreign subsidiaries)</b>	
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  
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### (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, 2020 and 2019

(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**

Notes to Consolidated Financial Statements  
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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. It is the Company's policy not to enter into any speculative derivatives transactions.

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

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

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

### (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.



## NOF CORPORATION and Subsidiaries

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### (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.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
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Accounting standards for Fair Value Measurement, etc.

On July 4, 2019, the ASBJ issued “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30), “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9), “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10) and “Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31).

On March 31, 2020, the ASBJ issued “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19)

### (1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States have established almost identical detailed guidance on fair value measurement (IFRS 13 “Fair Value Measurement” based on International Financial Reporting Standards (IFRS) and Accounting Standards Codification topic 820 “Fair Value Measurement” based on U.S. generally accepted accounting principles (GAAP)). Considering this situation, the Accounting Standards Board of Japan (ASBJ) has worked to ensure consistency between Japanese standards primarily regarding guidance and disclosure related to the fair value of financial and international accounting standards, and has published the “Accounting Standards for Fair Value Measurement, etc.”

The basic policy of the ASBJ in developing accounting standards for fair value measurement is to fundamentally incorporate all of the provisions of IFRS 13, from the standpoint of improving the international comparability of financial statements between companies by applying a unified measurement method, and to establish other accounting treatments for individual items without significantly compromising comparability between financial statements, taking into consideration practices, etc. that have been carried out in Japan.

### (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.

Accounting Standard for Disclosure of Accounting Estimates

On March 31, 2020, the ASBJ issued “I Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No.31)

### (1) Overview

The international Accounting Standards Board (ISAB) published International Accounting Standards (IAS) 1 “Presentation of Financial Statements” (“IAS 1”) in 2003, and paragraph 125 of this standard requires the disclosure of key sources of estimation uncertainty.” The ASBJ had been requested to consider disclosure of this information as notes under Japanese generally accepted accounting principles (GAAP), as this information would be highly useful to users of financial statements.

## NOF CORPORATION and Subsidiaries

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In response, the ASBJ has developed and published the Accounting Standard for Disclosure of Accounting Estimates (“the Accounting Standard”).

The basic policy of the ASBJ in developing the Accounting Standards is not to enhance the information in individual notes, but to present the principles (the purpose of disclosure of key sources of estimation uncertainty) and allow companies to determine the specific content of disclosure in light of purpose of disclosure. In developing the Accounting Standard, the ASBJ referred to the provisions of paragraph 125 of IAS 1.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard from the close of the fiscal year ending March 31, 2021.

### Accounting Standard for Accounting Policy Disclosures, According Changes and Error Corrections

On March 31, 2020, the ASBJ issued “Accounting Standard for Accounting Policy Disclosures, According Changes and Error Corrections” (ASBJ Statement No.24)

(1) Overview

The ASBJ received a recommendation to consider enhancing information in notes related to “principles and procedures of the accounting treatment adopted in cases where the provisions of relevant accounting standards, etc. are unclear.” In response, the ASBJ made the necessary revisions and published those revisions as part of the Accounting Standard for Accounting Policy Disclosures, According Changes and Error Corrections.

When enhancing the information in notes related to “principles and procedures of the accounting treatment adopted in cases where the provision of relevant accounting standards, etc. are unclear,” the provisions of annotations (Note 1-2) will be carried over in order not to conflict with the current accounting practices where the relevant accounting standards are clear.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard from the close of the fiscal year ending March 31, 2021.

4. Changes in presentation

#### Consolidated balance sheet

“ Electronically recorded monetary claims-operating,” which were included in “Notes and accounts receivable” until previous fiscal year, is separately presented from the fiscal year ended March 31, 2020 due to increased monetary materiality.

As a result of the above, in the consolidated balance sheet of the previous fiscal year, ¥48,001 million that was previously included in “Notes and account receivable” has been reclassified as ¥45,600 million in “Notes and accounts receivable” and ¥2,401 million in “Electronically recorded monetary claims-operating”.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
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### 5. Additional Information

#### Board Benefit Trust (BBT)

Based on the resolution at the 96th Annual General Meeting of Shareholders held on June 27, 2019, the Company introduced in the fiscal year ended March 31, 2020 a performance-linked stock compensation plan (the Board Benefit Trust (BBT)) for Directors (excluding Outside Directors) and Executive Operating Officers (hereinafter collectively referred to as the “Directors, etc.”) (hereinafter referred to as the “Plan”).

The purpose of the Plan is to further clarify the linkage between compensation of Directors, etc., financial results of the Company and the value of the Company’s shares, and have Directors, etc. share the risk of stock value fluctuation with the shareholders, thereby strengthening the awareness of Directors, etc. of their contribution to the medium to long-term improvement in financial results and enhancement of corporate value.

#### (1) Overview of the transactions under the Plan

Under the Plan, the Company’s shares are acquired through a trust using funds contributed by the Company (hereinafter, such trust established pursuant to the Plan is referred to as the “Trust”), and the Company’s shares and cash equivalents of such shares at their market value (hereinafter collectively referred to as the “Company’s Shares, etc.”) are distributed through the Trust to the Directors, etc., pursuant to the Officer Stock Distribution Rules established by the Company. The Directors, etc. shall receive the Company’s Shares, etc. upon their retirement, in principle. Accounting treatment of the trust agreement hereunder is subjected to the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (PITF No.30, March 26, 2015).

#### (2) The Company’s shares remaining in the Trust

The Company records the Company’s shares remaining in the Trust at their book value (excluding incidental costs) at the Trust, as treasury stock under net assets. At the end of the fiscal year ended March 31, 2020, such treasury stock stood at ¥179 million of book value and the number of such shares was 52,700.

### 6. United States dollar amounts

The Company maintains its accounting records in yen by round down to the million. The dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen to U.S. dollars on the basis of  $¥108.83 = \text{U.S.}\$1$ , the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2020, 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  $¥108.83 = \text{U.S.}\$1$  or at any other rate. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2020 and 2019

### 7. 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 ¥229 million (US\$2,108 thousand) at March 31, 2020, and ¥41 million at March 31, 2019 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Investments in securities.....	¥ 9	¥ 13	\$ 84
Buildings and structures.....	64	16	593
Land.....	163	12	1,498
Total.....	¥236	¥42	\$2,175

### 8. 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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Buildings and structures.....	¥509	¥509	\$4,678
Machinery, equipment and vehicles.....	379	387	3,490
Other.....	22	22	208
Total.....	¥911	¥919	\$8,377

### 9. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Investments in securities.....	¥349	¥351	\$3,209
Capital contribution.....	94	94	867
Total.....	¥443	¥445	\$4,076

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
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### 10. Commitments and contingencies

- (1) As of March 31, 2020 and 2019 the Company was contingently liable for the conditional assignment of ¥1,480 million (US\$13,602 thousand) and ¥1,708 million, respectively, of trade notes and accounts receivable with recourse obligations.
- (2) The Company recognizes settlements of notes receivable, electronically recorded monetary claims-operating, notes payable and electronically recorded obligations-operating when the bank clearance of the notes is actually made. As March 31, 2019 were holidays for financial institutions, the following accounts include the unsettled balances of trade notes receivable, electronically recorded monetary claims-operating, notes payable and electronically recorded obligations-operating due on that date in the accompanying consolidated balance sheet as of March 31, 2019.

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Notes and accounts receivable.....	¥—	¥69	\$—
Electronically recorded monetary claims-operating.....	—	45	—
Notes and accounts payable.....	—	1	—
Electronically recorded obligations-operating.....	—	294	—

### 11. Inventories

Write-downs of inventories for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Cost of sales.....	¥147	¥256	\$1,352

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
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### 12. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Delivery and storage charges .....	¥5,445	¥5,474	\$50,036
Salaries and bonuses .....	8,474	8,626	77,871
Retirement benefit expenses.....	464	610	4,267
Accrued bonuses .....	1,118	1,117	10,281
Retirement benefit costs for officers.....	35	28	322
Research and development costs .....	5,181	5,438	47,614
Amortization of goodwill.....	—	6	—
Allowance for doubtful accounts.....	(33)	41	(311)

### 13. Research and development costs

Research and development costs for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Research and development costs.....	¥6,148	¥6,406	\$56,499

### 14. Gain on sales of fixed assets

Gain on sales of fixed assets for the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Machinery, equipment and vehicles .....	¥1	¥25	\$12
Land .....	56	63	515
Others .....	0	0	9
Total .....	¥58	¥89	\$536

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
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### 15. Loss on sales of fixed assets

Loss on sales of fixed assets for the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Machinery, equipment and vehicles .....	¥4	¥—	\$37
Land .....	—	27	—
Others .....	1	0	14
Total .....	<u>¥ 5</u>	<u>¥27</u>	<u>\$51</u>



## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2020 and 2019

### 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, 2020 and 2019.

2020				
Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 6)
Taketoyo-cho, Chita-gun, Aichi	Facilities	Machinery	¥ 19	\$ 179
Kawagoe city, Saitama	Facilities	Buildings and structures	¥ 429	\$ 3,946

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 ¥449 million (US\$4,126 thousand) of impairment loss on fixed assets was recognized in the consolidated statement of income for the year ended March 31, 2020.

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 ¥294 million (US\$2,703 thousand) for buildings and structures, ¥64 million (US\$595 thousand) for machinery and vehicles, ¥89 million (US\$826 thousand) for tools, furniture and fixtures and ¥0 million (US\$1 thousand) for others.

2019				
Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 6)
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

## NOF CORPORATION and Subsidiaries

### Notes to Consolidated Financial Statements For the years ended March 31, 2020 and 2019

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.

#### 17. Loss on retirement of fixed assets

Loss on retirement of fixed assets for the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Buildings and structures .....	¥63	¥15	\$584
Machinery, equipment and vehicles .....	52	9	482
Other .....	7	9	66
Total .....	¥123	¥33	\$1,133

#### 18. Loss on disaster

Loss on disaster for the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Facilities and equipment.....	¥203	¥229	\$1,867
Inventories .....	13	15	125
Total .....	¥216	¥245	\$1,993

#### 19. Insurance income

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

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### 20. Loss on business withdrawal

Loss on business withdrawal for the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Facilities and equipment.....	¥4	¥47	\$43
Inventories .....	82	108	756
Total .....	¥87	¥155	\$800

### 21. Other comprehensive income

Reclassification adjustments and tax effects of each component of other comprehensive income for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Unrealized holding gain on securities:			
Amount arising during the year .....	¥(10,069)	¥(2,580)	\$ (92,524)
Reclassification adjustments for gains and losses included in net income .....	(1,955)	(597)	(17,969)
Amount before tax effect.....	(12,025)	(3,178)	(110,493)
Tax effect.....	3,730	986	34,276
Unrealized holding gain on securities .....	(8,294)	(2,191)	(76,217)
Translation adjustments:			
Amount arising during the year .....	¥ (463)	¥ (916)	\$ (4,257)
Retirement benefits liability adjustments:			
Amount arising during the year .....	¥ (971)	¥ (186)	\$ (8,929)
Reclassification adjustments for gains and losses included in net income .....	96	556	885
Amount before tax effect.....	(875)	370	(8,043)
Tax effect.....	271	(116)	2,493
Retirement benefits liability adjustments .....	(604)	253	(5,550)
Total other comprehensive income .....	¥ (9,362)	¥ (2,854)	\$(86,025)

## NOF CORPORATION and Subsidiaries

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### 22. Net assets

Information regarding changes in net assets for the years ended March 31, 2020 and 2019 are as follows:

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

	Thousands of shares			
	2020			
	Number of shares at March 31, 2019	Increase	Decrease	Number of shares at March 31, 2020
Common stock .....	84,841	–	–	84,841
Treasury stock.....	671	1,060	–	1,732

The increase in treasury stock during the year ended March 31, 2020 was due to the purchase of odd-lot shares (2 thousand shares), the market purchases (1,005 thousand shares) and the purchase of the Board Benefit Trust (BBT) (52 thousand shares).

Number of shares of treasury stock at the end of the fiscal year ended March 31, 2020 includes 52 thousand shares held by the Board Benefit Trust (BBT).

	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, 2019 was due to the retirement of treasury stock (2,000 thousand 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)

## NOF CORPORATION and Subsidiaries

### Notes to Consolidated Financial Statements For the years ended March 31, 2020 and 2019

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, 2020:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 6)	Yen	U.S. dollars (Note 6)
		Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 27, 2019	Common stock	¥3,871	\$35,576	¥46	\$0.42
Meeting of the Board of Directors on November 7, 2019	Common stock	¥3,282	\$30,162	¥39	\$0.36

Total dividends ¥3,282 million includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

Dividends paid for the year ended March 31, 2019:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 6)	Yen	U.S. dollars (Note 6)
		Total dividends	Total dividends	Dividends per share	Dividends per share
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 with the cut-off date in the year ended March 31, 2020 and the effective date in the year ending March 31, 2021:

	Type of shares	Millions of yen	Thousands of U.S. dollars (Note 6)	Yen	U.S. dollars (Note 6)
		Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 26, 2020	Common stock	¥3,243	\$29,801	¥39	\$0.36

Total dividends ¥3,243 million includes ¥2 million of dividends for shares held by the Board Benefit Trust (BBT).

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
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### 23. Supplementary cash flow information

Cash and cash equivalents as of March 31, 2020 and 2019 are reconciled to cash and deposits in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Cash and time deposits .....	¥51,849	¥40,767	\$476,428
Time deposits with maturity of more than three months .....	(1,158)	(1,410)	(10,643)
Separate deposit (Board Benefit Trust) .....	(6)	—	(62)
Cash and cash equivalents .....	¥50,684	¥39,357	\$465,722

### 24. Leases

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

Obligations under non-cancelable operating leases as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Due within one year .....	¥55	¥49	\$510
Due after one year .....	60	96	551
Total .....	¥115	¥145	\$1,062

## NOF CORPORATION and Subsidiaries

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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 for long-term debt bearing interest at variable rates, the Group mainly utilizes fixed interest.

The group policy for hedge accounting is indicated in Note 2 “Summary of significant accounting policies” (15) “Hedge accounting”.

#### (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.

## NOF CORPORATION and Subsidiaries

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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, 2020 and 2019 are as follows. Fair values that are not readily determinable are not included in the following table.

	Millions of yen		
	2020		
	Carrying value	Estimated fair value	Difference
<b>Assets</b>			
Cash and time deposits.....	¥51,849	¥51,849	¥ –
Trade notes, accounts receivable and electronically recorded monetary claims-operating (less allowance for doubtful accounts) ...	¥40,904	¥40,904	¥ –
Available-for-sale securities.....	¥39,655	¥39,655	¥ –
<b>Liabilities</b>			
Notes and accounts payable .....	¥14,998	¥14,998	¥ –
Short-term bank borrowings.....	¥ 1,353	¥ 1,353	¥ –
Long-term borrowings from banks and other financial institutions.....	¥ 8,060	¥ 8,025	¥(34)
Millions of yen			
2019			
	Carrying value	Estimated fair value	Difference
<b>Assets</b>			
Cash and time deposits.....	¥40,767	¥40,767	¥ –
Trade notes, accounts receivable and electronically recorded monetary claims-operating (less allowance for doubtful accounts) ...	¥47,778	¥47,778	¥ –
Available-for-sale securities.....	¥52,361	¥52,361	¥ –
<b>Liabilities</b>			
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)



## NOF CORPORATION and Subsidiaries

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For the years ended March 31, 2020 and 2019

	Thousands of U.S. dollars (Note 6)		
	2020		
	Carrying value	Estimated fair value	Difference
<b>Assets</b>			
Cash and time deposits.....	\$476,428	\$476,428	\$ -
Trade notes, accounts receivable and electronically recorded monetary claims-operating (less allowance for doubtful accounts) ...	\$375,854	\$375,854	\$ -
Available-for-sale securities.....	\$364,383	\$364,383	\$ -
<b>Liabilities</b>			
Notes and accounts payable .....	\$137,811	\$137,811	\$ -
Short-term bank borrowings.....	\$ 12,438	\$ 12,438	\$ -
Long-term borrowings from banks and other financial institutions.....	\$ 74,061	\$ 73,741	\$(319)

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

### 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, accounts receivable and electronically recorded monetary claims -operating

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

## NOF CORPORATION and Subsidiaries

### Notes to Consolidated Financial Statements For the years ended March 31, 2020 and 2019

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.

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
	Unlisted stock .....	¥1,211	¥1,214
Fund certificate .....	¥ 0	¥ 0	\$ 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, 2020 and 2019 is as follows:

	Millions of yen			
	2020			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits.....	¥51,843	¥ –	¥ –	¥ –
Notes and accounts Receivable ...	¥38,625	¥ –	¥ –	¥ –
Electronically recorded monetary claims-operating .....	¥ 2,467	¥ –	¥ –	¥ –
Available-for-sale securities.....				
Government and municipal bonds .....	¥ –	¥ –	¥ –	¥ –

  

	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.....	¥45,600	¥ –	¥ –	¥ –
Electronically recorded monetary claims-operating .....	¥ 2,401	¥ –	¥ –	¥ –
Available-for-sale securities.....				
Government and municipal bonds .....	¥ 10	¥ –	¥ –	¥ –

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2020 and 2019

	Thousands of U.S. dollars (Note 6)			
	2020			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits .....	\$476,371	\$ –	\$ –	\$ –
Notes and accounts receivable .....	\$354,913	\$ –	\$ –	\$ –
Electronically recorded monetary claims-operating .....	\$ 22,675	\$ –	\$ –	\$ –
Available-for-sale securities .....				
Government and municipal bonds .....	\$ –	\$ –	\$ –	\$ –

### 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 0.96% at March 31, 2020, and 0.85% at March 31, 2019.

Long-term debt as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
	Loans, principally from banks and insurance companies, due April 2020 to September 2025 with average interest rates of 0.34% at March 31, 2020, and 0.36% at March 31, 2019 .....	¥8,060	¥8,061
Less: Current maturities of:			
Long-term loans .....	(0)	(0)	(1)
Total .....	¥8,059	¥8,061	\$74,059

Aggregate annual maturities of long-term debt subsequent to March 31, 2020 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 6)
2022 .....	¥5,109	\$46,951
2023 .....	2,800	25,729
2024 .....	150	1,378
2025 .....	–	–
2026 and thereafter .....	–	–
Total .....	¥8,059	\$74,059

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2020 and 2019

### 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, 2020 and 2019 are as follows:

Description	Millions of yen		
	2020		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks.....	¥12,543	¥37,489	¥24,945
Bonds.....	-	-	-
Others.....	-	-	-
Sub total.....	¥12,543	¥37,489	¥24,945
Book value not in excess of acquisition cost			
Stocks.....	¥ 2,738	¥2,166	¥ (572)
Bonds.....	-	-	-
Others.....	-	-	-
Sub total.....	¥ 2,738	¥2,166	¥ (572)
Total.....	¥15,282	¥39,655	¥24,373
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.....	¥14,741	¥51,367	¥36,626
Book value not in excess of acquisition cost			
Stocks.....	¥ 1,221	¥ 994	¥ (227)
Bonds.....	-	-	-
Others.....	-	-	-
Sub total.....	¥ 1,221	¥ 994	¥ (227)
Total.....	¥15,963	¥52,361	¥36,398

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2020 and 2019

Description	Thousands of U.S. dollars (Note 6)		
	2020		
	Acquisition cost	Book value (fair value)	Unrealized gain or loss
Book value in excess of acquisition cost			
Stocks.....	\$115,258	\$344,473	\$229,214
Bonds.....	-	-	-
Others.....	-	-	-
Sub total.....	\$115,258	\$344,473	\$229,214
Book value not in excess of acquisition cost			
Stocks.....	\$ 25,166	\$ 19,909	\$ (5,256)
Bonds.....	-	-	-
Others.....	-	-	-
Sub total.....	\$ 25,166	\$ 19,909	\$ (5,256)
Total.....	\$140,425	\$364,383	\$223,957

- (2) Available-for-sale securities sold during the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
	Proceeds from sale of available-for-sale securities .....	¥2,678	¥1,118
Realized gain .....	1,994	1,035	18,322
Realized loss .....	21	0	201

- (3) The book value of major securities without fair value as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
	Unlisted stocks.....	¥862	¥863
Fund certificates.....	0	0	3

## NOF CORPORATION and Subsidiaries

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### 28. 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, 2020 and 2019 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Beginning balance of retirement benefit obligation.....	¥23,443	¥23,176	\$215,416
Service cost .....	1,422	1,451	13,066
Interest cost .....	32	30	298
Actuarial loss .....	(15)	(40)	(146)
Retirement benefits paid .....	(1,279)	(1,149)	(11,759)
Other .....	5	(24)	51
Ending balance of retirement benefit obligation.....	<u>¥23,608</u>	<u>¥23,443</u>	<u>\$216,926</u>

- (2) The changes in plan assets during the years ended March 31, 2020 and 2019 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Beginning balance of plan assets.....	¥22,248	¥22,136	\$204,434
Expected return on plan assets .....	406	402	3,733
Actuarial loss .....	(988)	(229)	(9,086)
Contributions by the Company.....	883	943	8,115
Retirement benefits paid .....	(1,155)	(935)	(10,621)
Other .....	26	(69)	247
Ending balance of plan assets.....	<u>¥21,420</u>	<u>¥22,248</u>	<u>\$196,824</u>

## NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements  
For the years ended March 31, 2020 and 2019

- (3) The changes in liabilities for retirement benefits calculated by using the simplified method during the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Beginning balance of net defined benefit liability.....	¥1,433	¥1,375	\$13,173
Retirement benefit expenses.....	283	288	2,605
Retirement benefits paid .....	(115)	(125)	(1,065)
Contributions by the Company.....	(100)	(104)	(921)
Ending balance of net defined benefit liability .....	¥1,500	¥1,433	\$13,791

- (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, 2020 and 2019 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Funded retirement benefit obligation	¥ 22,081	¥ 21,901	\$ 202,897
Plan assets	(22,800)	(23,550)	(209,509)
	(719)	(1,648)	(6,612)
Unfunded retirement benefit obligation	4,408	4,277	40,506
Net liabilities in consolidated balance sheet	3,688	2,628	33,894
Assets for retirement benefits	(1,153)	(2,066)	(10,595)
Liabilities for retirement benefits	4,841	4,695	44,490
Net liabilities in consolidated balance sheet	¥ 3,688	¥ 2,628	\$ 33,894

## NOF CORPORATION and Subsidiaries

### Notes to Consolidated Financial Statements For the years ended March 31, 2020 and 2019

- (5) The components of retirement benefit expense for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Service cost .....	¥1,422	¥1,451	\$13,066
Interest cost .....	32	30	298
Expected return on plan assets .....	(406)	(402)	(3,733)
Amortization of actuarial loss .....	96	552	885
Retirement benefit expenses for simplified method .....	283	288	2,605
Retirement benefit expenses for defined benefit plans .....	¥1,428	¥1,921	\$13,122

- (6) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Actuarial loss .....	¥875	¥(370)	\$8,043
Total .....	¥875	¥(370)	\$8,043

- (7) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Unrecognized actuarial loss .....	¥1,856	¥981	\$17,060
Total .....	¥1,856	¥981	\$17,060



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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, 2020 and 2019 is as follows:

	2020	2019
Equity securities .....	22%	25%
Debt securities .....	31%	31%
General accounts .....	33%	32%
Other .....	14%	12%
Total.....	100%	100%

NOTE:

The plan assets include 8% and 9% of the retirement pension trusts for corporate pension plans as of March 31, 2020 and 2019, 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:

	2020	2019
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 ~ 5.86%	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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
	Defined contribution plans .....	¥103	¥106

29. Stock option

There were no applicable items.

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### 30. Income taxes

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

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Deferred tax assets:			
Accrued bonus.....	¥ 1,032	¥ 1,054	\$ 9,491
Liabilities for retirement benefits .....	3,030	2,667	27,848
Elimination of intercompany profits ...	397	568	3,648
Valuation loss on inventories.....	378	320	3,479
Accrued enterprise tax .....	277	316	2,547
Impairment loss on fixed assets .....	535	445	4,922
Accrued retirement benefits for directors and officers .....	33	29	303
Impairment loss on investment securities .....	210	210	1,934
Foreign tax credit.....	—	0	—
Deemed dividend by distribution in kind ..	2,125	—	19,527
Others.....	704	917	6,474
Subtotal .....	8,725	6,531	80,177
Valuation allowance .....	(2,489)	(399)	(22,877)
Total deferred tax assets .....	6,235	6,132	57,300
Deferred tax liabilities:			
Unrealized gain on investments in securities .....	(7,442)	(11,172)	(68,387)
Reserve for advanced depreciation of property, plant and equipment.....	(1,546)	(1,573)	(14,210)
Valuation differences.....	(1,513)	(1,513)	(13,910)
Gain on revaluation of assets trusted for retirement benefit .....	(633)	(633)	(5,823)
Others.....	(716)	(693)	(6,584)
Total deferred tax liabilities .....	(11,853)	(15,587)	(108,916)
Net deferred tax liabilities.....	¥ (5,617)	¥ (9,455)	\$ (51,616)

## NOF CORPORATION and Subsidiaries

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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, 2020 and 2019, 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, 2020 and 2019 is summarized as follows:

	2020	2019
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 2020 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.

31. Business combination

There were no applicable items.

32. Asset retirement obligations

Information on the asset retirement obligations recorded on the consolidated balance sheet at March 31, 2020 and 2019 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.

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- C. Changes in the total amount of the asset retirement obligations for the fiscal years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Balance at beginning of year .....	¥195	¥193	\$1,796
Increase due to acquisition of property, plant and equipment .....	2	7	25
Accretion expenses.....	0	0	3
Decrease due to fulfillment of asset retirement obligations.....	(8)	(5)	(73)
Balance at the end of year.....	¥190	¥195	\$1,750

### 33. Segment information

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

The Company's reportable segments are as follows:

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

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

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

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

## NOF CORPORATION and Subsidiaries

### Notes to Consolidated Financial Statements For the years ended March 31, 2020 and 2019

Millions of yen								
2020								
Reportable segments								
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers...	¥117,270	¥30,369	¥31,838	¥179,479	¥1,438	¥180,917	¥ –	¥180,917
Inter-segment.....	994	3,019	15	4,029	8,229	12,258	(12,258)	–
Total.....	118,265	33,389	31,854	183,508	9,668	193,176	(12,258)	180,917
Segment income.....	¥ 17,562	¥ 8,456	¥ 1,916	¥ 27,935	¥ 207	¥ 28,143	¥ (1,269)	¥ 26,874
Assets .....	¥ 91,099	¥21,907	¥58,425	¥171,433	¥3,551	¥174,984	¥ 60,263	¥235,248
Depreciation.....	2,657	671	1,647	4,976	69	5,045	259	5,304
Capital expenditures..	6,106	350	1,363	7,820	76	7,897	188	8,085

Thousands of U.S. dollars (Note 6)								
2020								
Reportable segments								
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers...	\$1,077,558	\$279,055	\$292,555	\$1,649,169	\$13,220	\$1,662,389	\$ –	\$1,662,389
Inter-segment.....	9,136	27,745	142	37,024	75,616	112,640	(112,640)	–
Total.....	1,086,695	306,801	292,697	1,686,194	88,836	1,775,030	(112,640)	1,662,389
Segment income.....	\$161,377	\$ 77,702	\$ 17,611	\$ 256,691	\$ 1,907	\$ 258,599	\$ (11,662)	\$ 246,936
Assets .....	\$837,085	\$201,303	\$536,848	\$1,575,236	\$32,634	\$1,607,871	\$ 553,740	\$2,161,611
Depreciation.....	24,416	6,166	15,140	45,724	637	46,361	2,383	48,745
Capital expenditures..	56,106	3,222	12,532	71,862	704	72,566	1,727	74,294

#### 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 ¥ (1,269) million (\$ (11,662) thousand) include ¥ 234 million (\$ 2,157 thousand) of elimination of inter-segment profit and loss and ¥ (1,504) million (\$ (13,820) thousand) of corporate general administrative expense, which are not allocable to the reportable segments.

2) Adjustments and eliminations for segment assets ¥ 60,263 million (\$553,740 thousand) include ¥ (25,567) million (\$ (234,931) thousand) of elimination of inter-segment and ¥ 85,831 million (\$788,672 thousand) of corporate general administrative assets, which are not allocable to the reportable segments.

3) Adjustments for depreciation include ¥259 million (\$2,383 thousand) of depreciation and amortization for corporate assets.

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4) Adjustments for capital expenditures ¥188 million (\$1,727 thousand) refer to the increase in corporate assets.

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

	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 .....	¥ 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

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 include ¥ (40) million of elimination of inter-segment profit and loss and ¥ (1,418) million of corporate general administrative expense, which are not allocable to the reportable segments.

2) Adjustments and eliminations for segment assets ¥ 63,862 million include ¥ (28,061) million of elimination of inter-segment and ¥ 91,924 million of corporate general administrative assets, which are not allocable to the reportable segments.

3) Adjustments for depreciation include ¥ 238 million of depreciation and amortization for corporate assets.

4) Adjustments for capital expenditures ¥ 658 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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Japan .....	¥129,115	¥133,525	\$1,186,393
Asia.....	30,676	34,686	281,870
Others .....	21,126	20,940	194,125
Total.....	¥180,917	¥189,152	\$1,662,389

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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Japan .....	¥54,029	¥52,703	\$496,454
Others .....	5,229	4,992	48,052
Total.....	¥59,258	¥57,695	\$544,506

- (3) Impairment losses on fixed assets by reportable segments for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Functional chemicals .....	¥19	¥84	\$179
Life science .....	-	-	-
Explosive & propulsion .....	429	83	3,946
Others.....	-	-	-
Total .....	¥449	¥168	\$4,126

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- (4) Amortization and balance of goodwill by reportable segment as of and for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 6)	
	2020		2019		2020	
	Amortization	Ending balance	Amortization	Ending balance	Amortization	Ending balance
Functional chemicals.....	¥-	¥-	¥6	¥-	\$-	\$-
Life science ...	-	-	-	-	-	-
Explosive & propulsion....	-	-	0	-	-	-
Others.....	-	-	-	-	-	-
Total.....	¥-	¥-	¥6	¥-	\$-	\$-

#### 34. Related party transactions

The information for the fiscal years ended March 31, 2020 and 2019 was not disclosed because there were no significant transactions with related parties.

#### 35. Per share information

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

	Yen		U.S. dollars (Note 6)
	2020	2019	2020
	Profit attributable to owners of parent per share:		
Basic.....	¥ 251.72	¥ 259.29	\$2.31
Diluted.....	-	-	-
Cash dividends applicable to the year.....	78.00	78.00	0.72
Net assets.....	2,140.98	2,108.77	19.67

Profit attributable to owners of parent– diluted for the years ended March 31, 2020 and 2019 is not disclosed because there are no diluted shares.

Cash dividends per share applicable to the period for the fiscal year ended March 31, 2020, comprise interim dividends of ¥39.00 and year-end dividends of ¥39.00.

The Company's shares held by the Board Benefit Trust (BBT) are included in treasury stock subject to exclusion.

Number of shares issued at the end of the fiscal year that were excluded for the purpose of calculating per share information 52,700



## NOF CORPORATION and Subsidiaries

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Average number of shares issued during the fiscal year that were excluded for the purpose of calculating per share information 32,431

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

	Millions of yen		Thousands of U.S. dollars (Note 6)
	2020	2019	2020
Profit attributable to owners of parent .....	¥21,140	¥22,034	\$194,249
Amount not available to shareholders.....	—	—	—
Profit attributable to owners of parent applicable to common stock .....	¥21,140	¥22,034	\$194,249
Average number of shares outstanding (1,000 shares).....	83,981	84,982	

### 36. Subsequent events

There were no applicable items.