System for Ensuring Properness of Operations

(1) The details of the decisions on a system for ensuring properness of operations

Following are the details of the decisions regarding a system for ensuring the compliance of Directors' execution of their duties in line with the laws and regulations as well as with the Articles of Incorporation and a system for ensuring the properness of business operations of NOK CORPORATION (the "Company").

(i) System for storing and managing information regarding the execution of duties by the Company's Directors

In accordance with the relevant laws and regulations, the Articles of Incorporation and other rules established by the Company, departments in charge shall record and file minutes of meetings, including Annual Shareholders' Meetings and Board of Directors meetings, as well as approval documents and other authorizations. Directors and Corporate Auditors shall ensure a system that allows to inspect such documents.

(ii) Rules and other systems concerning loss risk management of the Company

In accordance with the Risk Management Rules established by the Company, the Risk Management Committee shall take the initiative in identifying and analyzing underlying risks and promoting a cross-organizational risk management system. The Risk Management Committee shall report to Directors regarding the implementation status of said system on a regular basis and revise the system as necessary.

(iii) System for securing the efficiency of the execution of duties by the Company's Directors

Directors shall hold Board of Directors meetings in accordance with Board of Directors Regulations. At these meetings, they shall determine allocation of their duties and important matters such as business strategies and management policy and appoint Operating Officers responsible for implementation of operations at individual divisions. Directors shall authorize them to execute operations at individual divisions, encourage them to execute operations quickly and accomplish objectives, and supervise them. The Directors shall clarify operational authorities and rules on decision-making in the Rules concerning the Operational Authorities of Upper Management. They shall ensure a system to execute their respective duties in an appropriate and efficient manner by monitoring the progress of business plans, managerial policies, and operational implementation plans at regular management meetings and through management reviews.

In order to ensure the efficiency in the execution of duties by Directors, the Directors shall hold committee meetings including meetings of the Central Labor-Management Council consisting of the representatives of both the management team and employees, and explain and discuss business plans, important changes to organizational structures, and managerial policies.

(iv) System for ensuring compliance in the execution of duties by the Company's Directors and employees with the relevant laws and regulations and the Articles of Incorporation

Pursuant to the NOK Charter of Corporate Behavior, the Company shall clearly state that it places priority on compliance in its business activities. In accordance with compliance rules and Behavioral Guidelines Concerning Employee Compliance, the Company shall also provide training programs for its employees, thereby establishing and promoting a framework for compliance that conforms with the relevant laws and regulations, the Articles of Incorporation, and other rules established by the Company.

(v) System for ensuring properness of operations of the Group consisting of the Company and its subsidiaries

In accordance with the provisions of the Internal Control Rules, the Company shall establish the following systems for its subsidiaries to ensure the properness of operations of the Group as a whole.

In addition, the Company, under the provisions of the Internal Control Rules regarding Financial Reporting, shall monitor the properness of operations based on Directors' instructions to ensure the credibility of the financial statements of the Company and its subsidiaries.

a. System regarding reporting from subsidiaries to the Company regarding execution of duties by Directors, etc.
   In accordance with the provisions of the Internal Control Rules, the division responsible for supervising subsidiaries shall monitor the status of management of subsidiaries. The headquarters divisions shall give necessary instructions and support to subsidiaries regarding operations under their supervision and monitor the implementation status of the system.
b. Rules and other system concerning loss risk management of subsidiaries
   In accordance with the Internal Control Rules, the headquarters divisions shall have subsidiaries establish a risk management system and report to the headquarters divisions and the divisions responsible for supervising subsidiaries regarding the implementation status of the system on a regular basis, and give instructions to subsidiaries to revise the system as necessary.
c. System for securing the efficiency of the execution of duties by Directors, etc. of subsidiaries
   The management teams and managers of subsidiaries shall hold joint management meetings on a semiannual basis to share information and promote managerial transparency. At these meetings, attendees shall report on and discuss the progress of the Group's managerial policies and business plans, thereby ensuring efficiency in the management of the Group as a whole.
d. System for ensuring compliance in the execution of duties by Directors, etc. and employees of subsidiaries with the relevant laws and regulations and the Articles of Incorporation
   In accordance with the Internal Control Rules, the headquarters divisions shall require the subsidiaries to establish a charter of corporate behavior, compliance rules and behavioral guidelines concerning employee compliance to clearly state that they place priority on compliance in their business activities. In addition, the headquarters divisions shall also require the subsidiaries to establish and promote a framework for compliance that conforms with the relevant laws and regulations, the Articles of Incorporation, and other internal rules, and monitor the implementation status.

(vi) Matters concerning assistant employees in cases where the Company's Corporate Auditors request the Company to assign employees to assist them with their duties

Regarding the employees who are required to assist Corporate Auditors with their duties, the Company shall assign personnel with expertise of laws and regulations who are capable of providing assistance to Corporate Auditors, upon discussions with the Corporate Auditors on the selection of assistant employees and the operational authorities thereof.

(vii) Matters regarding the independence of employees provided for in the preceding item from the Company's Directors and ensuring the effectiveness of instructions by the Company's Corporate Auditors to said employees

Employees assigned to assist Corporate Auditors with their duties shall follow the directions and orders of Corporate Auditors in the execution of duties, attend the Board of Corporate Auditors meetings and other important meetings attended by Corporate Auditors to execute instructions from Corporate Auditors. The Company shall have discussions with Corporate Auditors regarding changes of said assistant employees.

(viii) System for reporting to the Company's Corporate Auditors by the Company's and its subsidiaries' Directors and employees and other system for reporting to the Company's Corporate Auditors

The Auditing Committee for Internal Controls, an advisory body to the Board of Directors, shall, in accordance with the Internal Control Rules, conduct periodical internal audits on the state of the system to ensure the appropriateness of the Company's and its subsidiaries' operations, and report the results thereof to the Board of Corporate Auditors.

(ix) System for ensuring that the person who made the report provided for in the preceding item shall not be subject to unfavorable treatment for reason of having made such report

The Company shall prohibit unfavorable treatment of a person who made the report provided for in the preceding item for reason of having made such report, and communicate to that effect widely across the Company and its subsidiaries.

(x) Matters regarding the policy for handling expenses or payables in relation to execution of duties of the Company's Corporate Auditors, such as procedures for advance payment or reimbursement in relation to execution of such duties

In accordance with the audit policy and audit plan formulated at the Board of Corporate Auditors meetings pursuant to the Board of Corporate Auditors Regulations, the Company shall secure expenses to enable Corporate Auditors to execute their duties appropriately.

(xi) Other systems for securing effective audits by the Company's Corporate Auditors

In order to supervise the Directors' execution of their duties, in accordance with the audit policy and audit plan formulated at the Board of Corporate Auditors meetings pursuant to the Board of Corporate Auditors Regulations, the Company shall maintain a system that allows Corporate Auditors to attend the Board of Directors meetings and other important meetings and to investigate the Company's operational and financial conditions.

The Independent Auditor and Corporate Auditors shall exchange opinions on a regular basis.

In addition, joint meetings named "Management Supervision Meeting" with the participation of Representative Directors, Outside Directors and Corporate Auditors shall be held on a regular basis with a view to facilitating exchanges of opinions.

(2) Overview of the operational status of the systems for ensuring the properness of operations

In accordance with "the details of the decisions on a system for ensuring properness of operations" described in (1) above, the Company strives to develop systems and operate such systems appropriately. An overview of the operational status of such systems is as follows.

(i) Overview of the operational status of the system for storing and managing information

Minutes of meetings, including Shareholders' Meetings and Board of Directors meetings, approval documents and other authorizations are prepared and drawn up by departments in charge or drafting departments without delay and are managed and stored appropriately.

(ii) Overview of the operational status of the risk management system

In accordance with the Risk Management Rules, the headquarters divisions have established a cross-organizational risk management system. The Risk Management Committee identifies and analyzes underlying risks and reports to Directors regarding the implementation status of such system.

(iii) Overview of the operational status of the system for securing efficient execution of duties

Operating Officers and Upper Management are executing their duties promptly and efficiently in accordance with operational authorities and rules on decision-making. Their execution of duties is supervised by Directors at management meetings (two times in the current period) and through management reviews (nine times in the current period), etc. The Company monitors if Directors' duties are executed appropriately and efficiently at the Board of Directors meetings (15 times in the current period), the Central Labor-Management Council (16 times in the current period) and various other committee meetings.

(iv) Overview of the operational status of the system for ensuring compliance

The Company communicates and ensures compliance with the NOK Charter of Corporate Behavior, the compliance rules and Behavioral Guidelines Concerning Employee Compliance. In addition, the Company continuously makes efforts for compliance with the relevant laws and regulations, the Articles of Incorporation and other rules established by the Company by implementing the month for promoting compliance, providing training programs for its employees and establishing a whistleblowing hotline, etc.

(v) Overview of the operational status of the system for ensuring the properness of operations of the Group

a. The Company has received reports as necessary on the management status of its subsidiaries and the status of progress for instructions and support provided by the Company.
b. The Company has required its subsidiaries to establish risk management systems, and the headquarters divisions have received reports on the status of implementation of the systems.
c. The Company holds joint management meetings twice a year to ensure the management efficiency of the Group as a whole.
d. The Company has required its subsidiaries to establish Charters of Corporate Behavior, compliance rules and Behavioral Guidelines Concerning Employee Compliance, and monitors the status of compliance with the relevant laws and regulations, the Articles of Incorporations and other rules established by the Company on a regular basis.
e. The Company monitors the properness of operations to ensure the credibility of the financial statements of the Company and its subsidiaries once a year.

(vi) Overview of the operational status of the system for audit by Corporate Auditors

a. The Company has assigned personnel with expertise in laws and regulations who are capable of providing assistance to Corporate Auditors, upon consultation with Corporate Auditors on the selection of assistant employees.
b. Employees who are assigned to assist Corporate Auditors with their duties attend the Board of Corporate Auditors meetings, etc. and follow the instructions from Corporate Auditors in executing their duties.
c. The Auditing Committee for Internal Controls conducts internal audits on the status of the system to ensure appropriateness of the Company's and its subsidiaries' operations annually, and reports the results thereof to the Board of Corporate Auditors.
d. The Company has included a provision in the compliance rules that prohibits unfavorable treatment of personnel for reason of having made a report to the whistleblowing hotline, and has communicated to that effect across the Company and its subsidiaries.
e. The Company secures expenses that allow Corporate Auditors to execute their duties appropriately in accordance with the audit policy and audit plans.
f. Corporate Auditors attend the Board of Directors meetings and other important meetings and investigate the Company's operational and financial conditions.
   In addition, Corporate Auditors exchange opinions with the Independent Auditor on a regular basis, and hold meetings named "Management Supervision Meeting," with the participation of Representative Directors and Outside Directors three times a year.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (From April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	23,335	23,244	362,604	(226)	408,959
Cumulative effects of changes in accounting policies			(114)		(114)
Restated balance	23,335	23,244	362,489	(226)	408,844
Changes of items during the period					
Dividends from surplus			(8,648)		(8,648)
Loss attributable to owners of parent			(2,218)		(2,218)
Purchase of treasury stock				(4)	(4)
Increase (decrease) resulting from merger of subsidiaries		43			43
Change in ownership interest of parent due to transactions with non-controlling interests		0			0
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	43	(10,867)	(4)	(10,827)
Balance at the end of current period	23,335	23,288	351,622	(230)	398,016

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	47,694	12,157	(24,633)	35,218	41,321	485,498
Cumulative effects of changes in accounting policies						(114)
Restated balance	47,694	12,157	(24,633)	35,218	41,321	485,384
Changes of items during the period						
Dividends from surplus						(8,648)
Loss attributable to owners of parent						(2,218)
Purchase of treasury stock						(4)
Increase (decrease) resulting from merger of subsidiaries						43
Change in ownership interest of parent due to transactions with non-controlling interests						0
Net changes of items other than shareholders' equity	(13,464)	(11,237)	(1,440)	(26,142)	(1,175)	(27,318)
Total changes of items during the period	(13,464)	(11,237)	(1,440)	(26,142)	(1,175)	(38,145)
Balance at the end of current period	34,230	919	(26,074)	9,075	40,146	447,238

Note: Figures are rounded down to the nearest million yen.

Reference: Consolidated Cash Flows (From April 1, 2019 to March 31, 2020)

(Millions of yen)

From operating activities	From investing activities	From financing activities	Cash and cash equivalent at the end of period
71,370	(50,425)	(17,497)	82,366

Note: Figures are rounded down to the nearest million yen.

1. Notes regarding the basis for preparing consolidated financial statements

(1) Scope of consolidation

(i) Consolidated subsidiaries

(a) Number of consolidated subsidiaries: 92

(b) Names of major consolidated subsidiaries:

Thai NOK Co., Ltd.
Unimatec Co., Ltd.
Nippon Mektron, Ltd.
Mektec Corporation (Taiwan)
SYNZTEC Co., Ltd.

(ii) Unconsolidated subsidiaries

(a) Name of major unconsolidated subsidiary: Mektec Automation Technology Corporation (Zhuhai) Ltd.

(b) Reasons for exclusion from scope of consolidation

The respective totals of total assets, net sales, net income, retained earnings and the like of unconsolidated subsidiaries are all immaterial with respect to total assets, net sales, profit attributable to owners of parent, retained earnings and the like on the consolidated financial statements. Therefore, they are not included in the scope of consolidation because they do not have a significant impact on the consolidated financial statements overall.

(2) Application of the equity method of accounting

(i) Unconsolidated subsidiaries and affiliates accounted for by the equity method

(a) Number of unconsolidated subsidiaries and affiliates accounted for by the equity method: 21

(b) Names of major unconsolidated subsidiaries and affiliates:

Eagle Industry Co., Ltd.
Pyung-Hwa Oilseal Industry Co., Ltd.
Freudenberg-NOK General Partnership

(ii) Unconsolidated subsidiaries and affiliates not accounted for by the equity method

Names of major unconsolidated subsidiaries:
Not applicable

(3) Notes regarding changes of scope of consolidation and equity method affiliates

(i) Change in scope of consolidation

(a) Subsidiaries newly included in consolidation (3)

KANASEI CORPORATION and 2 (two) other companies

(b) Companies excluded from the scope of consolidation (4)

Senpoku Industry Co., Ltd. and three (3) other companies

(ii) Change in scope of the equity method

Companies excluded from application of the equity-method (3)

KANASEI CORPORATION and 2 (two) other companies

(4) Matters concerning the business term of consolidated subsidiaries

There are 40 consolidated subsidiaries whose accounting periods differ from the consolidated accounting period and have their fiscal year end on December 31. Of these, important transactions made by NOK Inc., between the said accounting date and the consolidated accounting date have been adjusted to the extent necessary for consolidation. Mektec Manufacturing Corporation (Zhuhai) Ltd. and 38 other consolidated subsidiaries carry out provisional settlements of account based on full-year business results on March 31, the consolidated accounting date.

(5) Matters concerning accounting policies

(i) Valuation criteria and methods for principal assets

(a) Available-for-sale securities

• Those with market quotations

Stated at market value based on the quoted market price, etc. as of the accounting date. (Valuation difference is reported as a component of net assets. Cost of sales is calculated using the moving average method.)

• Those without market quotations

They are stated at cost with the cost being determined by the moving average method.

(b) Derivatives

They are stated at market price.

(c) Inventories

Finished goods and work in process of the Company and its domestic consolidated subsidiaries are mainly valued at cost based on the retail method (balance sheet amounts are determined by writing down the book value according to the decrease in profitability). Meanwhile, raw materials and supplies are valued at cost based on the periodic average method (balance sheet amounts are determined by writing down the book value according to the decrease in profitability). For overseas consolidated subsidiaries, those are mainly valued at the lower of cost or market based on the moving average method or the first-in first-out method.

(ii) Method of depreciation of principal noncurrent assets

(a) Property, plant and equipment (excluding lease assets)

Depreciation is computed by the straight-line method.
The useful lives of major items of property, plant and equipment are as follows:
Buildings and structures: 5-50 years
Machinery, equipment and vehicles: 4-10 years

(b) Intangible assets (excluding lease assets)

Amortization is computed by the straight-line method.

(c) Lease assets

Lease assets related to finance leases other than those deemed to transfer ownership of leased property to the lessee by the Company

Depreciation is calculated on the straight-line method over the lease period as the useful life and assuming no residual value.

(d) Long-term prepaid expenses

Amortization is computed on a straight-line basis.

(iii) Accounting policies for principal allowances

(a) Allowance for doubtful accounts

To prepare for losses on bad debt, general claims are accounted using the loan loss ratio and doubtful claims are accounted as the expected unrecoverable amount taking into consideration of the recoverability of individual claims.

As for overseas subsidiaries, estimated amount of allowance for doubtful accounts has been recorded depending primarily on the condition of receivables.

(b) Provision for bonuses

In order to prepare for the payment of employee bonuses, accrued bonuses based primarily on estimated payment amounts have been entered into the accounts.

(iv) Method for accounting for retirement benefits

(a) Method for attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, the method of attributing expected retirement benefits to periods up to the end of the current consolidated fiscal year is the benefit formula basis.

(b) Method of expenses for actuarial differences

Actuarial differences are treated as expenses in equal installments using the straight-line method over a prescribed period of time (10 years) that is within the average remaining period of employment for the employees in question, beginning in the year following the fiscal year in which such calculations are made.

(v) Method of hedge accounting

(a) Method of hedge accounting

Special treatment is applied as the interest rate swaps satisfy the requirements for special treatment.

(b) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps

Hedged items: Interest on borrowings

(c) Hedging policy

The interest rate swaps are made in order to hedge fluctuation risks in interest rates on borrowings.

(d) Method of assessing hedge effectiveness

Regarding the interest rate swaps, the Company assesses hedge effectiveness based upon the fulfillment of the requirements for special treatment.

(vi) Method and period of amortization of goodwill

Goodwill is amortized, in principle, over five years on a straight-line basis.

(vii) Other significant Items for preparing consolidated financial statements

(a) Accounting for consumption tax and other taxes

The tax-exclusion method is used in accounting for consumption tax and local consumption tax of the Company and domestic consolidated subsidiaries.

(b) Application of the consolidated taxation system

The consolidated taxation system has been applied.

(c) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

As for items regarding the transition to the group tax sharing system introduced in the "Act Partially Amending the Income Tax Act" (Act No. 8 of 2020) and items revised for taxation on a stand-alone basis in connection with the transition to the group tax sharing system, the Company and some consolidated subsidiaries in Japan have not applied the provisions of paragraph 44 of the "Guidance on Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) as allowed by the provisions of paragraph 3 of the "Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ PITF No. 39, March 31, 2020). Accordingly, amounts of deferred tax assets and deferred tax liabilities are determined in accordance with the provisions of the tax law before revision.

2. Notes regarding changes in accounting policies

(Adoption of IFRS 16 "Leases")

With effect from the beginning of the first quarter of the current fiscal year, some of the consolidated subsidiaries that adopt IFRS have adopted IFRS 16. Lessees are required to record, in principle, all leases as assets and liabilities on the consolidated balance sheet accordingly. The effect of adopting the accounting standards on the consolidated financial statements is insignificant.

3. Notes regarding changes in presentation methods

(Consolidated balance sheet)

"Electronically recorded monetary claims," which was included in "Notes and accounts receivable-trade" under "Current assets" in the previous fiscal year, is presented separately from the current fiscal year because of an increase in the materiality of the amount.

As a result of the above, in the consolidated balance sheet of the previous fiscal year, ¥145,168 million that was previously included in "Notes and accounts receivable-trade" under "Current assets" has been reclassified as ¥129,464 million in "Notes and accounts receivable-trade" and ¥15,704 million in "Electronically recorded monetary claims."

(Consolidated statement of income)

"Subsidy income," which was included in "Other" under "Non-operating income" in the previous fiscal year, is presented separately from the current fiscal year because of an increase in the materiality of the amount.

As a result of the above, in the consolidated statement of income of the previous fiscal year, ¥3,096 million that was previously included in "Other" under "Non-operating income" has been reclassified as ¥1,186 million in "Subsidy income" and ¥1,909 million in "Other."

"Commission expenses," which was included in "Other" under "Non-operating expenses" in the previous fiscal year, is presented separately from the current fiscal year because of an increase in the materiality of the amount.

As a result of the above, in the consolidated statement of income of the previous fiscal year, ¥652 million that was previously included in "Other" under "Non-operating expenses" has been reclassified as ¥51 million in "Commission expenses" and ¥601 million in "Other."

"Gain on sales of investment securities," which was included in "Other" under "Extraordinary income" in the previous fiscal year, is presented separately from the current fiscal year because of an increase in the materiality of the amount.

As a result of the above, in the consolidated statement of income of the previous fiscal year, ¥37 million that was previously included in "Other" under "Extraordinary income" has been reclassified as ¥32 million in "Gain on sales of investment securities" and ¥4 million in "Other."

"Loss on valuation of investment securities," which was included in "Other" under "Extraordinary loss" in the previous fiscal year, is

presented separately from the current fiscal year because of an increase in the materiality of the amount.
As a result of the above, in the consolidated statement of income of the previous fiscal year, ¥781 million that was previously included in "Other" under "Extraordinary loss" has been reclassified as ¥282 million in "Loss on valuation of investment securities" and ¥499 million in "Other."

4. Notes regarding the consolidated balance sheet

(1) Pledged assets

(i) Assets pledged as security

Land	¥18 million
Buildings and structures, etc.	¥311 million
Total	¥330 million

(ii) Secured liabilities corresponding to the above

Short-term loans payable	¥42 million
Long-term loans payable	¥135 million
Total	¥177 million

(2) Accumulated depreciation of property, plant and equipment ¥471,026 million

Accumulated depreciation of property, plant and equipment includes accumulated impairment loss.

5. Notes regarding the consolidated statement of income

Impairment loss

In the current fiscal year, the Group recorded impairment loss on the following asset groups.

(1) Overview of asset groups for which impairment loss was recognized

Location	Description	Classification
Ushiku City, Ibaraki Pref.	Assets to be disposed of	Construction in progress
Makinohara City, Shizuoka Pref.	Business assets	Machinery, equipment and vehicles, buildings and structures, tools, furniture and fixtures, land, and construction in progress
Nihonmatsu City, Fukushima Pref.	Business assets	Machinery, equipment and vehicles, buildings and structures, tools, furniture and fixtures, land, and construction in progress
Ayutthaya, Thailand	Assets to be disposed of	Buildings, and machinery and equipment
Shanghai City, China	Business assets	Machinery and equipment
Xiamen City, China	Assets to be disposed of	Machinery, equipment and vehicles, and lease assets
Kaohsiung City, Taiwan	Business assets	Machinery and equipment, and buildings

(2) Ground for recognition of impairment loss

As for the asset groups, future recoverability was examined because of their indication of impairment due to a decline of profitability along with changes in market and business environment. Accordingly, the Group reduced their carrying amount to the recoverable amount, and recognized the amount of decrease as impairment loss under extraordinary loss.

(3) Components of impairment loss

(Millions of yen)

Type of noncurrent assets	Amount
Buildings and structures	1,286
Machinery, equipment and vehicles	5,163
Tools, furniture and fixtures	46
Land	40
Construction in progress	974
Lease assets	70
Total	7,581

(4) Method of grouping assets

The Group groups assets based on, in principle, division in accordance with business segment under management accounting, deeming it as the smallest unit that generates cash flows. However, the Group groups assets of some consolidated subsidiaries by the unit of subsidiary company. Moreover, corporate assets such as head office are categorized into shared assets, since these assets do not generate independent cash flows as assets that contribute to the generation of future cash flows of multiple assets or groups of assets.

Idle assets and assets to be disposed of are grouped for individual assets.

(5) Method of determining recoverable amount

The recoverable amount is determined based on the net realizable value or the value in use. The net realizable value is evaluated using the disposal value, and the value in use is calculated as the amount of future cash flows discounted principally at a rate of 10.2%.

6. Notes regarding the consolidated statement of changes in net assets

(1) Matters concerning the total number of shares issued

Type of shares	Number of shares at the beginning of the current fiscal year	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares at the end of the current fiscal year
Common shares	173,138,537 shares	- shares	- shares	173,138,537 shares

(2) Matters concerning the number of treasury stock shares

Type of shares	Number of shares at the beginning of the current fiscal year	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares at the end of the current fiscal year
Common shares	166,905 shares	2,749 shares	- shares	169,654 shares

Note:The increase in the number of treasury stock is due to the purchase of 249 odd-lot shares and the acquisition of 2,500 shares that are the attributable portion to the Company out of the treasury stock (the Company's stock) acquired by entities accounted for using the equity method.

(3) Matters concerning dividends

(i) Payment of dividends

(Resolution)	Type of shares	Total amount of dividends (million yen)	Dividends per share (yen)	Record date	Effective date
The Annual Shareholders' Meeting held on June 26, 2019	Common shares	4,326	25.0	March 31, 2019	June 27, 2019
The Board of Directors meeting held on November 12, 2019	Common shares	4,326	25.0	September 30, 2019	December 4, 2019

(ii) Dividends for which the effective date will fall after the end of the current fiscal year among those whose record date is within the current fiscal year

(Resolution)	Type of shares	Total amount of dividends (million yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
The Annual Shareholders' Meeting held on June 25, 2020	Common shares	2,163	Retained earnings	12.5	March 31, 2020	June 26, 2020

7. Notes regarding financial instruments

(1) Matters regarding the situation of financial instruments

(i) Policy for handling financial instruments

The NOK Group has a policy of managing funds by investing in safe and secure targets and raising funds mainly by means of loan from financial institutions. For derivatives, the NOK Group uses forward exchange contracts based on actual demand and does not carry out speculative transactions of any kind.

(ii) Details and risks of financial instruments and risk management system

Notes and accounts receivable - trade are operating receivables that are exposed to credit risk of customers. With regard to this risk, the NOK Group adopts a system to manage due dates and balance of individual business partners and ascertain the credit status of principal business partners semiannually in accordance with the credit management regulations of the NOK Group.

Shares are investment securities and exposed to the market price fluctuation risk. The shares possessed by the NOK Group are mainly those of the companies with which the NOK Group has business relations, the fair values of which are ascertained periodically and reported to officers in charge of finance.

Employees who receive loans from the Company are obligated to provide collateral. In addition, there are regulations that the balance of the loan upon retirement shall be offset by the retirement allowance.

Accounts payable - trade are trade liabilities and become due within one year.

Short-term loans payable are mainly for raising funds pertaining to business transactions, while long-term loans payable (to be payable within five years in principle) are for raising funds for capital investment. Floating interest rate loans are exposed to interest rate fluctuation risk. For some floating interest rate long-term loans payable, derivative transactions (interest rate swaps) are used for each loan contract as hedging instruments to hedge risks of fluctuations in interest rates on loans and to fix the amount of interest on loans. Because the hedge meets the requirements of special treatment of interest rate swaps, assessment of hedge effectiveness has been omitted and replaced with the judgment thereof.

The NOK Group carries out and manages derivative transactions in accordance with internal regulations which stipulate the authorities to carry out transactions. The NOK Group carries out derivative transactions only with financial institutions with high credit ratings in order to reduce the credit risk.

Trade liabilities and loans are exposed to liquidity risk. Individual companies of the NOK Group manage them by means such as planning monthly cash flow management.

Deposits received from employees yield fixed interest rate and are not exposed to interest rate fluctuation risk.

(2) Matters regarding fair value, etc. of financial instruments

As of March 31, 2020 (the consolidated account settlement date), the amount recorded in the consolidated balance sheet, fair value, and difference between them are as shown in the table below.

Any item whose fair value is deemed extremely difficult to ascertain is excluded from the following table.

(Millions of yen)

	Amount recorded in consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	82,400	82,400	-
(2) Notes and accounts receivable - trade	122,157	122,157	-
(3) Electronically recorded monetary claims	14,254	14,254	-
(4) Investment securities	75,999	75,999	-
(5) Long-term loans receivable from employees	2,667	2,926	259
Total assets	297,480	297,739	259
(1) Accounts payable - trade	44,915	44,915	-
(2) Short-term loans payable	59,617	59,617	-
(3) Deposits received from employees	16,465	16,465	-
(4) Long-term loans payable	17,441	17,615	174
Total liabilities	138,439	138,613	174
Total derivative transactions (*)	(20)	(20)	-

(*) Amounts of claims and liabilities derived from derivative transactions are shown in net amount. Amounts in parentheses show that those are net liabilities.

Notes:

1. Matters regarding the measurement of fair values of financial instruments as well as securities and derivative transactions

Assets

(1) Cash and deposits, (2) notes and accounts receivable - trade and (3) Electronically recorded monetary claims

Book values of above items are described in the above table because they are settled in a short term and their fair values are almost the same as the book values.

(4) Investment securities
The fair value of stocks is based on prices on exchanges.
(5) Long-term loans receivable from employees
In the NOK Group, fair values of long-term loans receivable from employees are calculated by discounting their future cash flow by using the interest rate based on the yield of government bonds.

Liabilities

(1) Accounts payable - trade and (2) short-term loans payable
Book values of above items are described in the above table because they are settled in a short term and their fair values are almost the same as the book values.
(3) Deposits received from employees
The book value of deposits received from employees is described in the above table because the period is not longer than one year.
(4) Long-term loans payable
Fair values of long-term loans payable are calculated by discounting the total amount of the interest and principal by using the interest rate which is assumed for new loans of the same amount.

Derivative transactions

Fair values of foreign exchange forward transactions are calculated based on the forward exchange rates as of the balance sheet date. Because derivative transactions to which the special treatment of interest rate swaps applies are treated together with long-term loans payable which may be hedged, the fair value of such derivative transactions is included in the fair value of such long-term loans payable.

2. Financial instruments whose fair values are deemed extremely difficult to ascertain
Unlisted shares (¥112 million on the consolidated balance sheet) are not included in "(4) Investment securities" in "Assets." It is deemed extremely difficult to ascertain their fair values because they have no market value.

8. Notes regarding investment and rental properties

(1) Matters related to status of investment and rental properties
The Company and some consolidated subsidiaries have properties for rent in Kanagawa prefecture and other regions.
(2) Matters related to the fair value of investment and rental properties

(Millions of yen)

Amount on the consolidated balance sheet	Fair value
1,787	9,322

Notes: 1. The amount on the consolidated balance sheet is the amount of acquisition cost less accumulated depreciation and impairment loss.
2. The fair values of investment and rental properties as of March 31, 2020 are estimated by the company that owns the property according to indicators thought to appropriately reflect market prices.

9. Notes regarding per-share information

(1) Net assets per share	¥2,353.56
(2) Net loss per share	¥(12.83)

STATEMENT OF CHANGES IN NET ASSETS (From April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity									
	Capital stock	Capital surplus		Retained earnings					Treasury stock	Total shareholders' equity
					Other retained earnings					
		Legal capital surplus	Total capital surplus	Legal retained earnings	Reserve for special depreciation	Reserve for advanced depreciation of noncurrent assets	Retained earnings brought forward	Total retained earnings		
Balance at the beginning of current period	23,335	20,397	20,397	2,983	62	2,042	127,106	132,196	(148)	175,780
Changes of items during the period										
Dividends from surplus							(8,652)	(8,652)		(8,652)
Provision of reserve for special depreciation					21		(21)	-		-
Reversal of reserve for special depreciation					(18)		18	-		-
Provision of reserve for advanced depreciation of noncurrent assets						424	(424)	-		-
Net income							18,905	18,905		18,905
Purchase of treasury stock									(0)	(0)
Disposal of treasury stock									-	-
Net changes of items other than shareholders' equity										
Total changes of items during the period	-	-	-	-	2	424	9,825	10,252	(0)	10,252
Balance at the end of current period	23,335	20,397	20,397	2,983	65	2,467	136,932	142,449	(149)	186,033

	Valuation and translation adjustments		Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at the beginning of current period	47,559	47,559	223,340
Changes of items during the period			
Dividends from surplus			(8,652)
Provision of reserve for special depreciation			-
Reversal of reserve for special depreciation			-
Provision of reserve for advanced depreciation of noncurrent assets			-
Net income			18,905
Purchase of treasury stock			(0)
Disposal of treasury stock			-
Net changes of items other than shareholders' equity	(13,077)	(13,077)	(13,077)
Total changes of items during the period	(13,077)	(13,077)	(2,824)
Balance at the end of current period	34,482	34,482	220,515

Note: Figures are rounded down to the nearest million yen.

1. Notes regarding the significant accounting policies

(1) Valuation criteria and methods for assets

(i) Valuation criteria and methods for securities that have been traded on the exchange and other investments

(a) Stocks and investments in subsidiaries and affiliates have been valued at cost based on the moving average method.

(b) Available-for-sale securities

• Those with market quotations

Stated at market value based on the quoted market price, etc. as of the accounting date. (Valuation difference is reported as a component of net assets. Cost of sales is calculated using the moving average method.)

• Those without market quotations

They are stated at cost with the cost being determined by the moving average method.

(ii) Derivatives

They are stated at market price.

(iii) Inventories

(a) Finished goods and work in process

They are valued at cost based on the retail method (balance sheet amounts are determined by writing down the book value according to the decrease in profitability).

(b) Raw materials and supplies

They are valued at cost based on the periodic average method (balance sheet amounts are determined by writing down the book value according to the decrease in profitability).

(2) Method of depreciation of noncurrent assets

(i) Property, plant and equipment (excluding lease assets)

Depreciation is computed by the straight-line method.

(ii) Intangible assets (excluding lease assets)

Amortization is computed by the straight-line method.

(iii) Lease assets

Lease assets related to finance leases other than those deemed to transfer ownership of leased property to the lessee by the Company

Depreciation is calculated on the straight-line method over the lease period as the useful life and assuming no residual value.

(3) Accounting policies for allowances

(i) Allowance for doubtful accounts

To prepare for losses on bad debt, general claims are accounted using the loan loss ratio and doubtful claims are accounted as the expected unrecoverable amount taking into consideration of the recoverability of individual claims.

(ii) Provision for bonuses

In order to prepare for the payment of employee bonuses, accrued bonuses based on the estimated amount of payment have been entered in the accounts.

(iii) Provision for retirement benefits

To provide for accrued employees' retirement benefits, the Company provides an allowance in the amount deemed to have accrued at the end of the current fiscal year based on estimated retirement benefit obligations and pension assets.

(a) Method for attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, the method of attributing expected retirement benefits to periods up to the end of the current business year is the benefit formula basis.

(b) Method of expenses for actuarial differences

Actuarial differences are treated as expenses in equal installments using the straight-line method over a prescribed period of time (10 years) that is within the average remaining period of employment for the employees in question, beginning in the year following the fiscal year in which such calculations are made.

(4) Method for Accounting for Retirement Benefits

The method of accounting for unprocessed amount of unrecognized actuarial differences in relation to retirement benefits is different from the method of accounting for them in the consolidated financial statements.

(5) Accounting for consumption tax and other taxes

The tax-exclusion method is used in accounting for consumption tax and local consumption tax.

(6) Application of the consolidated taxation system

The consolidated taxation system has been applied.

(7) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

As for items regarding the transition to the group tax sharing system introduced in the "Act Partially Amending the Income Tax Act" (Act No. 8 of 2020) and items revised for taxation on a stand-alone basis in connection with the transition to the group tax sharing system, the Company has not applied the provisions of paragraph 44 of the "Guidance on Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) as allowed by the provisions of paragraph 3 of the "Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ PITF No. 39, March 31, 2020). Accordingly, amounts of deferred tax assets and deferred tax liabilities are determined in accordance with the provisions of the tax law before revision.

2. Notes regarding changes in presentation methods

(Balance sheet)

"Electronically recorded monetary claims," which was included in "Notes receivable - trade" under "Current assets" in the previous fiscal year, is presented separately from the current fiscal year because of an increase in the materiality of the amount.

As a result of the above, in the balance sheet of the previous fiscal year, ¥23,035 million that was previously included in "Notes receivable - trade" under "Current assets" has been reclassified as ¥9,216 million in "Notes receivable - trade" and ¥13,818 million in "Electronically recorded monetary claims."

(Statement of income)

"Loss on valuation of stocks of subsidiaries and affiliates" and "Impairment loss," which were included in "Other" under "Extraordinary loss" in the previous fiscal year, are presented separately from the current fiscal year because of increases in the materiality of the amount.

As a result of the above, in the statement of income of the previous fiscal year, ¥38 million that was previously included in "Other" under "Extraordinary loss" has been reclassified as ¥36 million in "Loss on valuation of stocks of subsidiaries and affiliates," ¥1 million in "Impairment loss" and ¥1 million in "Other."

3. Notes regarding the balance sheet

(1) Accumulated depreciation of property, plant and equipment	¥140,681 million

Accumulated depreciation of property, plant and equipment includes accumulated impairment loss.

(2) Monetary claims or liabilities to subsidiaries and affiliates

Short-term claims	¥25,929 million
Long-term claims	¥16,276 million
Short-term liabilities	¥42,719 million
Long-term liabilities	¥4 million

(3) Liabilities for guarantees

The Company is guaranteeing borrowings of subsidiaries and affiliates from financial institutions as follows.

Mektec Manufacturing Corporation (Suzhou)		¥5,267 million
	(in foreign currency terms)	(US$28,975 thousand)
	(in foreign currency terms)	(CNY138,137 thousand)
Synztec Precision Parts (ShenZhen) Co., Ltd.		¥186 million
	(in foreign currency terms)	(US$1,712 thousand)

4. Notes regarding the statement of income

Transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates	¥33,143 million
Purchases from subsidiaries and affiliates	¥164,372 million
Transactions with subsidiaries and affiliates other than business transactions	¥76,226 million

5. Notes regarding the statement of changes in net assets

Matters concerning the number of treasury stock shares

Type of shares	Number of shares at the beginning of the current fiscal year	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares at the end of the current fiscal year
Common shares	79,050 shares	249 shares	- shares	79,299 shares

Note: The increase in the number of treasury stock is due to the purchase of odd-lot shares.

6. Tax effect accounting

(1) Breakdown of deferred tax assets/liabilities by cause

Deferred tax assets		
Allowance for doubtful accounts	¥31 million	
Accrued enterprise tax	¥153 million	
Provision for bonuses	¥1,312 million	
Excess amount of depreciation	¥1,254 million	
Loss on impairment of noncurrent assets	¥552 million	
Investment securities	¥2,006 million	
Provision for retirement benefits	¥9,929 million	
Other	¥946 million	¥16,188 million
Valuation allowance		¥(2,113) million
Total deferred tax assets		¥14,075 million
Deferred tax liabilities		
Reserve for special depreciation	¥(28) million	
Reserve for advanced depreciation of noncurrent assets	¥(721) million	
Valuation difference on available-for-sale securities	¥(14,718) million	
Other	¥(0) million	¥(15,469) million
Net amount of deferred tax liabilities		¥(1,394) million

(2) Breakdown of major adjustments that have caused differences between the effective statutory tax rate and the effective rate of income taxes after tax effect accounting is applied

Effective statutory tax rate	30.2%
Adjustments:	
Permanently non-deductible items including entertainment expense	0.7
Permanently non-taxable items including dividend income	(16.8)
Equalization inhabitant taxes	0.3
Tax credit	(0.5)
Foreign withholding tax	1.4
Valuation allowance	3.0
Other	(0.8)
Effective rate of income taxes after tax effect accounting is applied	17.4%

7. Notes regarding transactions with related parties

(1) Subsidiaries and affiliates

Category	Subsidiary
Name	Nippon Mektron, Ltd.
Location	Minato Ward, Tokyo
Capital or investment amount	¥5,000 million
Type of business or occupation	Manufacture and sale of electronic parts
Percentage of voting rights	Direct; 100%
Relationship with the Company	The Company sells a part of products of the subsidiary. Interlocking of officers: 2
Transaction details	Loan of funds
Transaction amount (¥ mil)	10,000
Item	Long-term loans receivable
End-of-term balance (¥ mil)	10,000

Category	Subsidiary
Name	Chubu NOK Hanbai Co., Ltd.
Location	Nagoya City, Aichi
Capital or investment amount	¥24 million
Type of business or occupation	Purchase and sale of seal products, etc.
Percentage of voting rights	Direct; 70%
Relationship with the Company	The subsidiary sells the Company's products.
Transaction details	Receiving of capital
Transaction amount (¥ mil)	4,394
Item	CMS deposits received
End-of-term balance (¥ mil)	4,650

Category	Subsidiary
Name	Kansai NOK Hanbai Co., Ltd.
Location	Osaka City, Osaka
Capital or investment amount	¥40 million
Type of business or occupation	Purchase and sale of seal products, etc.
Percentage of voting rights	Direct; 51.1%
Relationship with the Company	The subsidiary sells the Company's products.
Transaction details	Receiving of capital
Transaction amount (¥ mil)	4,042
Item	CMS deposits received
End-of-term balance (¥ mil)	4,142

Category	Subsidiary
Name	Kanto NOK Hanbai Co., Ltd.
Location	Shinjuku Ward, Tokyo
Capital or investment amount	¥30 million
Type of business or occupation	Purchase and sale of seal products, etc.
Percentage of voting rights	Direct; 73.8%
Relationship with the Company	The subsidiary sells the Company's products.
Transaction details	Receiving of capital
Transaction amount (¥ mil)	3,421
Item	CMS deposits received
End-of-term balance (¥ mil)	3,716

Category	Subsidiary
Name	Unimatec Co., Ltd.
Location	Minato Ward, Tokyo
Capital or investment amount	¥400 million
Type of business or occupation	Manufacture and sale of synthetic chemical products, etc.
Percentage of voting rights	Direct; 100%
Relationship with the Company	The subsidiary sells a part of products to the Company. Interlocking of officers: 1
Transaction details	Loan of funds
Transaction amount (¥ mil)	3,700
Item	Long-term loans receivable
End-of-term balance (¥ mil)	3,700

Category	Subsidiary
Name	Mektec Manufacturing Corporation (Suzhou)
Location	Suzhou, China
Capital or investment amount	¥12,184 million
Type of business or occupation	Manufacture and sale of electronic parts
Percentage of voting rights	Indirect; 100%
Relationship with the Company	—
Transaction details	Liabilities for guarantees
Transaction amount (¥ mil)	5,267
Item	—
End-of-term balance (¥ mil)	—

Category	Affiliate
Name	Eagle Industry Co., Ltd.
Location	Minato Ward, Tokyo
Capital or investment amount	¥10,490 million
Type of business or occupation	Manufacture and sale of mechanical seals, etc.
Percentage of voting rights	Direct; 29.0%, Indirect; 1.3%
Relationship with the Company	The Company purchases products manufactured by Eagle Industry Co., Ltd., and Eagle Industry Co., Ltd. sells the Company's products.
Transaction details	Purchase of products, etc.
Transaction amount (¥ mil)	28,268
Item	Accounts payable - trade
End-of-term balance (¥ mil)	2,196

(2) Board members and major individual shareholders

Category	The company whose board members, or their family members and other close relatives, own a majority of its voting rights.
Name	Seiwa Jisho Co., Ltd.
Location	Minato Ward, Tokyo
Capital or investment amount	¥80 million
Type of business or occupation	Real estate leasing
Percentage of voting rights	Direct ownership of the Company's shares; 5.1%
Relationship with the Company	Lease of buildings, etc.
Transaction details	Rental of buildings, etc.
Transaction amount (¥ mil)	29
Item	Guarantee deposits
End-of-term balance (¥ mil)	2

Notes: Terms and conditions of transactions and the decision-making policy therefor.
1. Regarding loan of funds and receiving of capital, rates are determined based on market interest rates.
2. Lease of buildings, etc. and purchase of products, etc. are determined based on current market prices.

8. Notes regarding per-share information

(1) Net assets per share ¥1,274.22
(2) Net income per share ¥109.24