

## 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 "the meeting of Representative Directors and Corporate Auditors" with the participation of Representative 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 (three times in the current period) and through management reviews (10 times in the current period), etc. The Company monitors if Directors' duties are executed appropriately and efficiently at the Board of Directors meetings (14 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 "the meeting of Representative Directors and Corporate Auditors" twice a year, as well as meetings named "the meeting of Outside Directors and Corporate Auditors" three times a year.

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (From April 1, 2018 to March 31, 2019)

(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	22,837	367,822	(323)	413,672
Changes of items during the period					
Dividends from surplus			(8,648)		(8,648)
Profit attributable to owners of parent			3,419		3,419
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock				98	98
Increase (decrease) in equity through purchase of treasury stock of consolidated subsidiaries		4			4
Increase (decrease) resulting from merger of subsidiaries		126			126
Change in ownership interest of parent due to transactions with non-controlling interests		275			275
Increase in retained earnings accompanying an increase in entities accounted for using the equity method			11		11
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	407	(5,217)	97	(4,713)
Balance at the end of current period	23,335	23,244	362,604	(226)	408,959

	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	57,490	11,909	(23,416)	45,983	40,238	499,894
Changes of items during the period						
Dividends from surplus						(8,648)
Profit attributable to owners of parent						3,419
Purchase of treasury stock						(0)
Disposal of treasury stock						98
Increase (decrease) in equity through purchase of treasury stock of consolidated subsidiaries						4
Increase (decrease) resulting from merger of subsidiaries						126
Change in ownership interest of parent due to transactions with non-controlling interests						275
Increase in retained earnings accompanying an increase in entities accounted for using the equity method						11
Net changes of items other than shareholders' equity	(9,795)	247	(1,217)	(10,765)	1,083	(9,682)
Total changes of items during the period	(9,795)	247	(1,217)	(10,765)	1,083	(14,395)
Balance at the end of current period	47,694	12,157	(24,633)	35,218	41,321	485,498

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

## Reference: Consolidated Cash Flows (From April 1, 2018 to March 31, 2019)

(Millions of yen)

From operating activities	From investing activities	From financing activities	Cash and cash equivalent at the end of period
63,854	(79,259)	6,633	80,761

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: 93
    - (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: Gain-in Technology Co., 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: 24
    - (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 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)
      - Mektec Manufacturing Corporation Europe CZ s.r.o. and 2 (two) other companies
    - (b) Companies excluded from the scope of consolidation (2)
      - FUGAKU Mold Products (Wuxi) Co., Ltd. and one (1) other company
  - (ii) Change in scope of the equity method
    - (a) Companies included in application of the equity-method (3)
      - KANASEI CORPORATION and 2 (two) other companies
    - (b) Companies excluded from application of the equity-method (2)
      - Mektec Manufacturing Corporation Europe CZ s.r.o. and 1 (one) other company
- (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.
  - (e) Method and period of amortization of goodwill  
Goodwill is amortized, in principle, over five years on a straight-line basis.
- (vi) 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 tax payment system  
The consolidated tax payment system has been applied.

## 2. Notes regarding changes in presentation methods

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting)

The Company has applied the "Ministerial Order Partially Amending the Regulation for Enforcement of the Companies Act and the Regulation on Corporate Accounting" (Ministry of Justice Order No. 5 of March 26, 2018) issued in accordance with the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) from the current fiscal year. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under noncurrent liabilities.

## 3. Notes regarding the consolidated balance sheet

### (1) Pledged assets

(i) Assets pledged as security	
Land	¥18 million
Buildings and structures, etc.	¥350 million
Investment securities	¥7 million
Total	¥376 million
(ii) Secured liabilities corresponding to the above	
Short-term loans payable	¥74 million
Long-term loans payable	¥177 million
Total	¥251 million

(2) Accumulated depreciation of property, plant and equipment ¥452,318 million

(3) Notes receivable - discounted ¥12 million

(4) Notes receivable - trade transferred by endorsement ¥136 million

### (5) Notes matured on consolidated balance sheet date

The accounting treatment for notes that matured on the last day of the current fiscal year was settled on the clearing date. Since the last day of the current fiscal year fell on a bank holiday, the following notes that matured on March 31, 2019 are included in the year-end balance.

Notes receivable - trade	¥1,776 million
Notes receivable - trade transferred by endorsement	¥10 million

## 4. 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.	Business assets	Machinery and equipment, and buildings and structures
Ayutthaya, Thailand	Idle assets	Machinery and equipment
Shanghai City, China	Business assets	Machinery and equipment, and intangible assets

(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	4,442
Machinery, equipment and vehicles	5,767
Tools, furniture and fixtures	899
Land	3,106
Intangible assets	465
Investments and other assets	70
Total	14,749

(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 6.7%.

## 5. 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	195,825 shares	280 shares	29,200 shares	166,905 shares

Notes:

- The number of treasury stock includes the Company's stock owned by the ESOP Trust account (29 thousand shares as of April 1, 2018 and - thousand shares as of March 31, 2019).
- The increase in the number of treasury stock is due primarily to the purchase of odd-lot shares.
- The decrease in the number of treasury stock is due to the sale of the Company's stock by the ESOP Trust account to the NOK Stock Ownership Association and in the market.

(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 27, 2018	Common shares	4,326	25.0	March 31, 2018	June 28, 2018
The Board of Directors meeting held on November 9, 2018	Common shares	4,326	25.0	September 30, 2018	December 4, 2018

Note: Total amount of dividends resolved by the Annual Shareholders' Meeting held on June 27, 2018, includes dividends of 0 million yen paid for the Company's stock owned by the ESOP Trust account.

(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 26, 2019	Common shares	4,326	Retained earnings	25.0	March 31, 2019	June 27, 2019

## 6. 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.

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, 2019 (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	80,798	80,798	-
(2) Notes and accounts receivable - trade	145,168	145,168	-
(3) Investment securities	96,659	96,659	-
(4) Long-term loans receivable from employees	3,078	3,376	297
Total assets	325,705	326,003	297
(1) Accounts payable - trade	44,557	44,557	-
(2) Short-term loans payable	66,972	66,972	-
(3) Deposits received from employees	16,226	16,226	-
(4) Long-term loans payable	19,563	19,628	64
Total liabilities	147,320	147,384	64
Total derivative transactions (*)	4	4	-

(\*) 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 and (2) notes and accounts receivable - trade

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) Investment securities

The fair values of stocks are based on the prices on exchanges.

(4) Long-term loans receivable from employees

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.

2. Financial instruments whose fair values are deemed extremely difficult to ascertain

Unlisted shares (112 million yen on the consolidated balance sheet) are not included in "(3) Investment securities" in "Assets." It is deemed extremely difficult to ascertain their fair values because they have no market value.

**7. 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
2,004	8,565

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, 2019 are estimated by the company that owns the property according to the "Real Estate Standards" (including those which are estimated by employing the land price index with necessary adjustments, if any), or indicators thought to appropriately reflect market prices.

**8. Notes regarding per-share information**

(1) Net assets per share

¥2,567.92

(2) Net income per share

¥19.77

## STATEMENT OF CHANGES IN NET ASSETS (From April 1, 2018 to March 31, 2019)

(Millions of yen)

	Shareholders' equity									
	Capital stock	Capital surplus		Retained earnings					Treasury stock	Total shareholders' equity
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings			Total retained earnings		
					Reserve for special depreciation	Reserve for advanced depreciation of noncurrent assets	Retained earnings brought forward			
Balance at the beginning of current period	23,335	20,397	20,397	2,983	59	1,595	114,958	119,597	(246)	163,084
Changes of items during the period										
Dividends from surplus							(8,652)	(8,652)		(8,652)
Provision of reserve for special depreciation					18		(18)	-		-
Reversal of reserve for special depreciation					(15)		15	-		-
Provision of reserve for advanced depreciation of noncurrent assets						447	(447)	-		-
Net income							21,251	21,251		21,251
Purchase of treasury stock									(0)	(0)
Disposal of treasury stock									98	98
Net changes of items other than shareholders' equity										
Total changes of items during the period	-	-	-	-	3	447	12,148	12,598	97	12,696
Balance at the end of current period	23,335	20,397	20,397	2,983	62	2,042	127,106	132,196	(148)	175,780

	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	57,301	57,301	220,385
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			21,251
Purchase of treasury stock			(0)
Disposal of treasury stock			98
Net changes of items other than shareholders' equity	(9,741)	(9,741)	(9,741)
Total changes of items during the period	(9,741)	(9,741)	2,954
Balance at the end of current period	47,559	47,559	223,340

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 tax payment system

The consolidated tax payment system has been applied.

## 2. Notes regarding changes in presentation methods

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting)

The Company has applied the "Ministerial Order Partially Amending the Regulation for Enforcement of the Companies Act and the Regulation on Corporate Accounting" (Ministry of Justice Order No. 5 of March 26, 2018) issued in accordance with the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) from the current fiscal year. Accordingly, deferred tax assets are presented under investments and other assets, and deferred tax liabilities are presented under noncurrent liabilities.

## 3. Notes regarding the balance sheet

(1) Accumulated depreciation of property, plant and equipment ¥128,906 million

(2) Monetary claims or liabilities to subsidiaries and affiliates

Short-term claims ¥27,726 million

Long-term claims ¥2,174 million

Short-term liabilities ¥44,033 million

Long-term liabilities ¥18 million

(3) Liabilities for guarantees

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

Mektec Manufacturing Corporation (Zhuhai) Ltd. ¥11,025 million

(in foreign currency terms) (US\$99,328 thousand)

Synztec Precision Parts (ShenZhen) Co., Ltd. ¥222 million

(in foreign currency terms) (US\$2,000 thousand)

(4) Notes matured on balance sheet date

The accounting treatment for notes that matured on the last day of the current fiscal year was settled on the clearing date. Since the last day of the current fiscal year fell on a bank holiday, the following notes that matured on March 31, 2019 are included in the year-end balance.

Notes receivable - trade ¥1,551 million

**4. Notes regarding the statement of income**

Transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates ¥37,124 million

Purchases from subsidiaries and affiliates ¥174,547 million

Transactions with subsidiaries and affiliates other than business transactions

¥73,401 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	107,970 shares	280 shares	29,200 shares	79,050 shares

Notes:

1. The number of treasury stock includes the Company's stock owned by the ESOP Trust account (29 thousand shares as of April 1, 2018 and - thousand shares as of March 31, 2019).
2. The increase in the number of treasury stock is due to the purchase of odd-lot shares.
3. The decrease in the number of treasury stock is due to the sale of the Company's stock by the ESOP Trust account to the NOK Stock Ownership Association and in the market.

**6. Tax effect accounting**

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

**Deferred tax assets**

Allowance for doubtful accounts	¥30 million	
Accrued enterprise tax	¥257 million	
Provision for bonuses	¥1,265 million	
Excess amount of depreciation	¥1,342 million	
Investment securities	¥1,559 million	
Provision for retirement benefits	¥9,169 million	
Other	¥727 million	¥14,351 million
Valuation allowance		¥(1,420) million
Total deferred tax assets		¥12,931 million

**Deferred tax liabilities**

Reserve for special depreciation	¥(27) million	
Reserve for advanced depreciation of noncurrent assets	¥(606) million	
Valuation difference on available-for-sale securities	¥(20,051) million	
Other	¥(0) million	¥(20,685) million
<b>Net amount of deferred tax liabilities</b>		<b>¥(7,754) million</b>

(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	1.1
Permanently non-taxable items including dividend income	(6.9)
Equalization inhabitant taxes	0.2
Tax credit	(2.2)
Foreign withholding tax	1.9
Valuation allowance	(0.5)
Other	(0.2)
Effective rate of income taxes after tax effect accounting is applied	23.6%

## 7. Notes regarding transactions with related parties

### (1) Subsidiaries and affiliates

Category	Subsidiary
Name	NOK-Freudenberg Singapore Pte. Ltd.
Location	Singapore
Capital or investment amount	¥5,978 million
Type of business or occupation	Investments in subsidiaries and affiliates in China and India
Percentage of voting rights	Direct; 50%
Relationship with the Company	—
Transaction details	Loan of funds
Transaction amount (¥ mil)	—
Item	Short-term loans receivable
End-of-term balance (¥ mil)	3,974

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)	—
Item	CMS deposits received
End-of-term balance (¥ mil)	3,904

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)	—
Item	CMS deposits received
End-of-term balance (¥ mil)	4,348

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)	32,176
Item	Accounts payable - trade
End-of-term balance (¥ mil)	2,807

(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 (¥ mil)	80
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)	102
Item	—
End-of-term balance (¥ mil)	—

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	¥1,290.54
(2) Net income per share	¥122.80