System for Ensuring Properseness of Operations

Following are the details of the decisions made in order to firmly implement 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 properseness of the Company business operations.

(i) System for storing and managing of information regarding Directors’ execution of duties

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, and also file approval documents and other authorizations. Directors and Corporate Auditors shall ensure an environment that allows to inspect such documents.

(ii) Rules concerning loss risk management

In accordance with the Risk Management Rules established by the Company, the Corporate Risk Management Office shall take the initiative in identifying and analyzing underlying risks and establishing and promoting a cross-organizational risk management system. The Corporate Risk Management Office 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 efficiency of Directors’ execution of duties

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 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 execution of duties by 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

The management teams and managers of the NOK Group companies 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 their managerial policies and business plans, thereby ensuring efficiency in the management of the Group as a whole.

In accordance with the provisions of the Internal Control Rules, each of the Group’s companies is under the supervision of a supervising division that is maintained by the Company and designed to inspect the management of the respective group company, and each department and division shall provide their companies with necessary instructions and support in relation to the business operations in which they are engaged, and review the progress in their managerial policies and business plans.

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

(vi) Matters concerning assistant employees in cases where 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) Independence of the aforementioned assistant employees from Directors

If the Company assigns employees to assist Corporate Auditors with their duties, said personnel shall follow the directions and orders of the Corporate Auditors in their duties, and it shall discuss with the Corporate Auditors about the changes of assistant employees.

(viii) Systems for reporting to Corporate Auditors by Directors and employees, etc.

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 appropriateness of the Company’s and its group companies’ operations, and where necessary report the results thereof to the Board of Corporate Auditors.
(ix) Other systems for securing effective audits by 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.
Notes to Consolidated Financial Statements

1. Basis for preparing consolidated financial statements

(1) Scope of consolidation
   (i) Consolidated subsidiaries
      (a) Number of consolidated subsidiaries: 87
      (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 subsidiary is excluded from the scope of consolidation because its business scale is small and its total assets, net sales, net income/loss (corresponding to equity shares) and retained earnings (corresponding to equity shares) have no major impact on the consolidated financial statements.

(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: 30
      (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) Subsidiary newly included in consolidation (4)
          Kuki Roll Industrial Co., Ltd. and 3 other companies
      (b) Companies excluded from the scope of consolidation (3)
          Neopt Corporation and 2 other companies
   (ii) Change in scope of the equity method
      Company newly included in the scope of equity method (2)
          Mektec Automation Technology Co., Ltd. and 1 other company

(4) Matters concerning the business term of consolidated subsidiaries
    The closing date for overseas subsidiaries (48) is December 31.
    Important deals made between said closing date and the consolidated closing date have been adjusted to the extent necessary for consolidation.

(5) Matters concerning accounting criteria
   (i) Valuation criteria and methods for principal assets
      (a) Available-for-sale securities
          Those with market quotations
          They are stated at market price based on the market price, etc. on the closing date (variance of the estimate is incorporated into the capital and the costs of products sold are determined by the moving average method).
          Those without market quotations
          They are stated at cost with the cost being determined by the moving average method.
      (b) Valuation criteria and methods for derivatives
          They are stated at market price.
      (c) Valuation criteria and methods for inventories
          Finished goods and work in process
          They are primarily stated at cost with the gross average method (The book values in the balance sheet are calculated by the write-down method to reflect the decline of profitability).
          Raw materials and supplies
          They are primarily stated at cost with the gross average method (The book values in the balance sheet are calculated by the write-down method to reflect the decline of profitability).
   (ii) Method of depreciation of principal noncurrent assets
      (a) Property, plant and equipment (excluding lease assets)
          Depreciation is computed primarily by the declining balance method.
          However, in some of the domestic consolidated subsidiaries, depreciation on buildings (excluding fixtures) acquired on and after April 1, 1998 is computed by the straight-line method.
      (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.
(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.

(c) Provision for business structure improvement

The necessary amount has been recorded to provide for expenses and losses in relation to restructuring of production structures of consolidated subsidiaries.

(d) Provision for loss on recall product

To provide for payment of losses associated with a recall by a client related to a product of the Company, the expected contribution by the Company is recorded.

(iv) Method of hedge accounting

(a) Method of hedge accounting

Special treatment applies to the interest rate swap because it meets the requirements for it.

(b) Hedging instrument and hedged item

(Hedging instrument): Interest rate swap
(Hedged item): Interest rate of loans

(c) Hedging policy

Finance Department of the Company carries out interest rate swap transactions for the purpose of hedging the risk of interest rate fluctuation of loans.

(d) Method of assessing hedge effectiveness

The interest rate swap meets the requirements for special treatment. The judgment applies as judgment of effectiveness.

(v) Other Significant Items for Preparing Consolidated Financial Statements

(a) Method for accounting for retirement benefits

i. Method for attributing expected retirement benefits to periods

When calculating retirement benefit obligations, the straight-line method is used for attributing expected retirement benefits to periods through the end of the current fiscal year.

ii. Method of expenses for actuarial differences and prior service costs

Prior service costs are treated as expenses 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.

Actuarial differences are treated as expenses 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.

(b) Accounting for consumption tax and other taxes

All amounts stated exclude consumption tax and other taxes.

(Changes in accounting policies)

(Implementation of accounting standard for retirement benefits, etc.)

The Accounting Standard for Retirement Benefits (May 17, 2012, Accounting Standards Board of Japan (ASBJ) Statement No. 26., hereinafter, the “Accounting Standard”) and the Guidance on Accounting Standard for Retirement Benefits (May 17, 2012, ASBJ Guidance No. 25. hereinafter, the “Guidance”) have been implemented since the end of fiscal 2013 (excluding the stipulations stated in the text from Item 35 of the Accounting standard and the text from Item 67 of the Guidance). The posting method has been changed to post retirement benefit obligations minus the amount of pension assets as liabilities concerning retirement benefits, and the unrecognized actuarial loss and unrecognized prior service costs have been posted in liabilities concerning retirement benefits.

The implementation of accounting standard for retirement benefits, etc. conforms with the transitional treatment stipulated in Item 37 of the Accounting Standard, and the effect of the said change is adjusted in the remeasurements of defined benefit plans of accumulated other comprehensive income at the end of fiscal 2013.

As a result, ¥59,315 million in liabilities concerning retirement benefits were posted at the end of fiscal 2013. In addition, accumulated other comprehensive income decreased by ¥14,594 million.

2. Notes regarding the consolidated balance sheet

(1) Pledged assets

(i) Assets pledged as security

Land ¥172 million
Buildings and structures etc. ¥817 million
Total ¥989 million

(ii) Secured liabilities corresponding to the above

Short-term loans payable ¥125 million
Long-term loans payable ¥609 million
Total ¥735 million

(2) Accumulated depreciation of property, plant and equipment ¥341,714 million

(3) Notes receivable - trade transferred by endorsement ¥68 million
3. Notes regarding the consolidated statement of changes in net assets

(1) Matters concerning the total number of shares issued

<table>
<thead>
<tr>
<th>Type of shares</th>
<th>Number of shares at the beginning of the current fiscal year</th>
<th>Increase in number of shares during the current fiscal year</th>
<th>Decrease in number of shares during the current fiscal year</th>
<th>Number of shares at the end of the current fiscal year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common shares</td>
<td>173,138,537 shares</td>
<td>- shares</td>
<td>- shares</td>
<td>173,138,537 shares</td>
</tr>
</tbody>
</table>

(2) Matters concerning the number of treasury stock shares

<table>
<thead>
<tr>
<th>Type of shares</th>
<th>Number of shares at the beginning of the current fiscal year</th>
<th>Increase in number of shares during the current fiscal year</th>
<th>Decrease in number of shares during the current fiscal year</th>
<th>Number of shares at the end of the current fiscal year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common shares</td>
<td>819,921 shares</td>
<td>3,881 shares</td>
<td>283,200 shares</td>
<td>536,602 shares</td>
</tr>
</tbody>
</table>

Notes:
1. The number of treasury shares includes shares of the Company held by Employee Stock Ownership Plan Trust.
2. The increase in the number of treasury shares is comprised of an increase of 686 shares that were purchased as less-than-one-unit shares and 3,195 shares that is the attributable portion to the Company out of the treasury shares (the Company’s own shares) acquired by entities accounted for under the equity method.
3. The decrease in the number of treasury shares is equal to the number of shares of the Company which the Employee Stock Ownership Plan Trust has sold to NOK Stock Ownership Association.

(3) Matters concerning dividends

(i) Payment of dividends
   - Matters concerning dividends resolved at the 107th Annual Shareholders’ Meeting held on June 26, 2013
     - Total amount of dividends: ¥1,730 million
     - Dividends per share: ¥10.00
     - Record date: March 31, 2013
     - Effective date: June 27, 2013
   - Matters concerning dividends resolved at the Board of Directors meeting held on November 7, 2013
     - Total amount of dividends: ¥1,730 million
     - Dividends per share: ¥10.00
     - Record date: September 30, 2013
     - Effective date: December 3, 2013

(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
   - This will be discussed at the 108th Annual Shareholders’ Meeting to be held on June 26, 2014 as follows:
     - Total amount of dividends: ¥1,730 million
     - Dividends per share: ¥10.00
     - Record date: March 31, 2014
     - Effective date: June 27, 2014

4. 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 Group uses forward exchange contracts based on actual demand and interest rate swap for avoiding interest rate fluctuation risk of loans 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 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 Group are mainly those of the companies with which the 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 part of long-term floating interest rate loans, the Group uses derivative transactions (interest rate swap transactions) as a means for hedging individual contracts in order to avoid the fluctuation risk of interest paid and fix interest expenses.

   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 Group carries out and manages derivative transactions in accordance with internal regulations which stipulate the authorities to carry out transactions. The 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, 2014 (the consolidated account settlement date of the current fiscal year), 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.

<table>
<thead>
<tr>
<th>(Millions of yen)</th>
<th>Amount recorded in consolidated balance sheet</th>
<th>Fair value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Cash and deposits</td>
<td>78,633</td>
<td>78,633</td>
<td>-</td>
</tr>
<tr>
<td>(2) Notes and accounts receivable - trade</td>
<td>158,606</td>
<td>158,606</td>
<td>-</td>
</tr>
<tr>
<td>(3) Investment securities</td>
<td>73,704</td>
<td>73,707</td>
<td>2</td>
</tr>
<tr>
<td>(4) Long-term loans receivable from employees</td>
<td>5,492</td>
<td>5,893</td>
<td>400</td>
</tr>
<tr>
<td>Total assets</td>
<td>316,437</td>
<td>316,841</td>
<td>403</td>
</tr>
<tr>
<td>(1) Accounts payable - trade</td>
<td>67,653</td>
<td>67,653</td>
<td>-</td>
</tr>
<tr>
<td>(2) Short-term loans payable</td>
<td>83,987</td>
<td>83,987</td>
<td>-</td>
</tr>
<tr>
<td>(3) Deposits received from employees</td>
<td>15,849</td>
<td>15,849</td>
<td>-</td>
</tr>
<tr>
<td>(4) Long-term loans payable</td>
<td>14,277</td>
<td>14,604</td>
<td>327</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>181,668</td>
<td>181,995</td>
<td>327</td>
</tr>
<tr>
<td>Total derivative transactions (*)</td>
<td>(24)</td>
<td>(24)</td>
<td>-</td>
</tr>
</tbody>
</table>

(*) 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
   These fair values of stocks are based on the prices on exchanges, and those of bonds are prices on exchanges or prices presented by correspondent financial institutions.

   (4) Long-term loans receivable from employees
   For fair value of long-term loans receivable from employees, the NOK Group uses the present value 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 and they yield fixed interest rate.

   (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. Special treatment of interest rate swap applies to some floating-rate long-term loans (see “Derivative transactions” below). The fair values of such long-term loans are calculated by discounting the total amount of the interest and principal, which are treated together with the interest rate swap, by using the reasonably estimated interest rate which would be applied to 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. Since derivative transactions to which special treatment of interest rate swap applies are treated together with the long-term loans payable to be hedged, their fair values are included in the fair values of such long-term loans payable. (See "Liabilities (4)" above.)

2. Matters regarding unlisted shares

   Unlisted shares (¥81 million on the consolidated balance sheet) are not included in “(3) Investment securities”. It is deemed extremely difficult to ascertain their fair values because they have no market value and it is impossible to appropriately estimate future cash flow.

5. Explanatory 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

<table>
<thead>
<tr>
<th>(Millions of yen)</th>
<th>Amount on the consolidated balance sheet</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,070</td>
<td></td>
<td>8,278</td>
</tr>
</tbody>
</table>

Notes. 1. The amount on the consolidated balance sheet is the amount of acquisition cost less accumulated depreciation.

2. The fair values of investment and rental property as of March 31, 2014 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.
6. Notes regarding per-share information

(1) Net assets per share ¥1,920.88
(2) Net income per share ¥126.16

Additional Information

(Implementation of a consolidated taxation system)

The Company and some of its consolidated subsidiaries have applied for approval of the consolidated taxation system during fiscal 2013, which resulted in the implementation of the taxation system starting fiscal 2014. Since fiscal 2013, therefore, accounting has been based on the implementation of the taxation system in accordance with the Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1) (March 18, 2011, ASBJ Practical Issue Task Force (PITF No.5) and the tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2) (June 30, 2010, ASBJ PITF No.7).
1. 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
  
  They are stated at market price based on the moving closing date (variance of the estimate is incorporated into the capital and the costs of products sold are determined by the moving average method).

• Those without market quotations
  
  They are stated at cost with the cost being determined by the moving average method.

(ii) Valuation criteria and methods for derivatives

They are stated at market price.

(iii) Valuation criteria and methods for inventories

(a) Finished goods and work in process

They are stated at cost with the cost being determined by the selling price reduction method. (The book values in the balance sheet are calculated by the write-down method to reflect the decline of profitability).

(b) Raw materials and supplies

They are stated at cost with the cost being determined by the gross average method. (The book values in the balance sheet are calculated by the write-down method to reflect the decline of profitability).

(2) Method of depreciation of noncurrent assets

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

Depreciation is computed by the declining balance 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) Allowance for investment loss

To prepare for losses due to significant dropdown in stocks in subsidiaries and affiliates, the necessary amounts are recorded in consideration of actual amounts as of the end of the current fiscal year.

(iii) 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.

(iv) 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 benefits and pension assets.

(a) Method for attributing expected retirement benefits to periods

When calculating retirement benefit obligations, the straight-line method is used for attributing expected retirement benefits to periods through the end of the current fiscal year.

(b) Method of expenses for actuarial differences and prior service costs

Prior service costs are treated as expenses 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.

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) Provision for loss on recall product

To provide for payment of losses associated with a recall by a client related to a product of the Company, the expected contribution by the Company is recorded.

(4) Method of hedge accounting

(i) Method of hedge accounting

Special treatment applies to the interest rate swap because it meets the requirements for it.

(ii) Hedging instrument and hedged item

(Hedging instrument): Interest rate swap

(Hedged item): Interest rate of loans

(iii) Hedging policy

Finance Department of the Company carries out interest rate swap transactions for the purpose of hedging the risk of interest rate fluctuation of loans.

(iv) Method of assessing hedge effectiveness

The interest rate swap meets the requirements for special treatment. The judgment applies as judgment of effectiveness.

(5) Method for Accounting for Retirement Benefits

The method of accounting for unprocessed amounts of unrecognized actuarial differences and unrecognized prior service costs in relation to retirement benefits is different from the method of accounting for them in the consolidated financial statements.

(6) Accounting for consumption tax and other taxes

All amounts stated exclude consumption tax and other taxes.
2. Notes regarding the balance sheet
(1) Accumulated depreciation of property, plant and equipment ¥115,256 million
(2) Liabilities for guarantees
   The Company has offered to guarantee borrowings of subsidiaries and affiliates from financial institutions as follows.
   Mektec Manufacturing Corporation (Zhuhai) Ltd. (China) ¥2,572 million
   (Foreign currency US$25,000 thousand)
(3) Monetary claims or liabilities to subsidiaries and affiliates
   Short-term claims ¥21,310 million
   Long-term claims ¥6,525 million
   Short-term liabilities ¥52,485 million
   Long-term liabilities ¥17 million

3. Notes regarding the statement of income
Transactions with subsidiaries and affiliates
   Sales to subsidiaries and affiliates ¥39,534 million
   Purchases from subsidiaries and affiliates ¥171,540 million
Transactions with subsidiaries and affiliates other than business transactions ¥60,292 million

4. Notes regarding the statement of changes in net assets
Matters concerning the number of treasury stock

<table>
<thead>
<tr>
<th>Type of shares</th>
<th>Number of shares at the beginning of the current fiscal year</th>
<th>Increase in number of shares during the current fiscal year</th>
<th>Decrease in number of shares during the current fiscal year</th>
<th>Number of shares at the end of the current fiscal year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common shares</td>
<td>668,922 shares</td>
<td>688 shares</td>
<td>283,200 shares</td>
<td>386,408 shares</td>
</tr>
</tbody>
</table>

Notes:
1. The number of treasury shares includes shares of the Company held by Employee Stock Ownership Plan Trust.
2. The increase in the number of treasury shares consists of shares obtained through purchase of shares constituting less than one share-trading unit.
3. The decrease in the number of treasury shares is equal to the number of shares of the Company which the Employee Stock Ownership Plan Trust has sold to NOK Stock Ownership Association.

5. Tax effect accounting
(1) Breakdown of deferred tax assets/liabilities by cause
Deferred tax assets
   Allowance for doubtful accounts ¥197 million
   Accrued enterprise tax ¥321 million
   Provision for bonuses ¥1,265 million
   Excess amount of depreciation ¥1,909 million
   Investment securities ¥1,525 million
   Allowance for investment loss ¥713 million
   Provision for retirement benefits ¥8,428 million
   Loss on recall products ¥1,827 million
   Other ¥805 million
   Valuation allowance ¥(1,347) million
   Total deferred tax assets ¥15,647 million

Deferred tax liabilities
   Reserve for special depreciation ¥(9) million
   Reserve for advanced depreciation of noncurrent assets ¥(307) million
   Valuation difference on available-for-sale securities ¥(15,870) million
   Other ¥(1) million
   Net amount of deferred tax liabilities ¥(16,188) million

(2) Breakdown of major adjustments that have caused differences between the prevailing statutory tax rate and the effective rate of income taxes after tax effect accounting is applied
   Effective statutory tax rate 37.5%
   Adjustments:
   - Permanently non-deductible items including entertainment expense 2.9
   - Permanently non-taxable items including dividend income (4.8)
   - Equalization inhabitant taxes 0.5
   - Valuation allowance (0.1)
   - Downward adjustment of term-end deferred tax assets due to corporate tax change 2.6
   - Other (4.3)
   Effective rate of income taxes after tax effect accounting is applied 34.3%

(3) Revision of the amount of deferred tax assets and deferred tax liabilities due to the influence of change in corporate tax rate
The “Act on Partial Revision of the Income Tax Act” (Act No. 10 of 2014) was promulgated on March 31, 2014, repealing the special reconstruction surtax from fiscal years beginning on or after April 1, 2014. Accordingly, the effective statutory tax rate used for calculating deferred tax assets and deferred tax liabilities was reduced from 37.5% to 35.1% for temporary differences expected to extinguish in the fiscal year beginning on April 1, 2014.
This change in the tax rate had the effect of reducing deferred tax assets (after deducting deferred tax liabilities) by ¥332 million, with income taxes—deferred increasing by the same amount.

6. Notes regarding transactions with related parties

(1) Subsidiaries and affiliates

<table>
<thead>
<tr>
<th>Category</th>
<th>Name</th>
<th>Location</th>
<th>Capital or investment amount (¥ mil)</th>
<th>Type of business or occupation</th>
<th>Percentage of voting rights</th>
<th>Relationship with the Company</th>
<th>Transaction details</th>
<th>Transaction amount (¥ mil)</th>
<th>Item</th>
<th>End-of-term balance (¥ mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidiary</td>
<td>Nippon Mektron, Ltd.</td>
<td>Minato Ward, Tokyo</td>
<td>5,000</td>
<td>Manufacture and sale of electronic parts</td>
<td>Direct; 100%</td>
<td>The Company sells a part of products manufactured by the subsidiary</td>
<td>Receiving of capital</td>
<td>-</td>
<td>CMS deposits received</td>
<td>16,046</td>
</tr>
<tr>
<td>Subsidiary</td>
<td>Kansai NOK Hanbai Co., Ltd.</td>
<td>Osaka City, Osaka</td>
<td>40</td>
<td>Purchase and sale of seal products, etc.</td>
<td>Direct; 51.1%</td>
<td>The subsidiary sells the Company’s products.</td>
<td>Receiving of capital</td>
<td>-</td>
<td>CMS deposits received</td>
<td>3,283</td>
</tr>
<tr>
<td>Affiliate</td>
<td>Eagle Industry Co., Ltd.</td>
<td>Minato Ward, Tokyo</td>
<td>10,490</td>
<td>Manufacture and sale of mechanical seals, etc.</td>
<td>Direct; 29.3%, Indirect; 1.2%</td>
<td>The Company purchases products manufactured by Eagle Industry Co., Ltd. and sells products manufactured by the Company to Eagle Industry Co., Ltd.</td>
<td>Purchase of products, etc.</td>
<td>34,094</td>
<td>Accounts payable - trade</td>
<td>3,169</td>
</tr>
</tbody>
</table>

(2) Board members and major individual shareholders

<table>
<thead>
<tr>
<th>Category</th>
<th>Name</th>
<th>Location</th>
<th>Capital or investment amount (¥ mil)</th>
<th>Type of business or occupation</th>
<th>Percentage of voting rights</th>
<th>Relationship with the Company</th>
<th>Transaction details</th>
<th>Transaction amount (¥ mil)</th>
<th>Item</th>
<th>End-of-term balance (¥ mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company whose board members, or their family members and other close relatives, own a majority of its voting rights.</td>
<td>Seiwa Jisho Co., Ltd.</td>
<td>Minato Ward, Tokyo</td>
<td>80</td>
<td>Real estate leasing</td>
<td>Direct ownership of NOK shares; 5.1%</td>
<td>-</td>
<td>Rental of buildings, etc.</td>
<td>464</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Notes: Terms and conditions of transactions and the decision-making policy therefor.

1. Regarding the receiving of capital, rates are determined based on market interest rates.
2. Rental of buildings, etc. and purchase of products, etc. are determined based on current market prices.

7. Notes regarding per-share information

(1) Net assets per share ¥836.84
(2) Net profit per share ¥49.02