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 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 properness of the Company business operations.

(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, and also file approval documents and other authorizations. Directors and Corporate Auditors shall ensure an environment 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 establishing 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 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 (four times in the current period) and through management reviews (ten 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 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 directions and orders of 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.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (From April 1, 2015 to March 31, 2016)

(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	22,716	302,571	(374)	348,250
Changes of items during the period					
Dividends from surplus			(10,373)		(10,373)
Profit attributable to owners of parent			30,053		30,053
Purchase of treasury stock				(2,200)	(2,200)
Disposal of treasury stock				455	455
Changes in equity of the parent company associated with transactions with non-controlling shareholders		19			19
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	19	19,680	(1,745)	17,954
Balance at the end of current period	23,335	22,735	322,251	(2,119)	366,204

(Millions of yen)

	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	47,343	34,253	(7,952)	73,644	40,860	462,754
Changes of items during the period						
Dividends from surplus						(10,373)
Profit attributable to owners of parent						30,053
Purchase of treasury stock						(2,200)
Disposal of treasury stock						455
Changes in equity of the parent company associated with transactions with non-controlling shareholders						19
Net changes of items other than shareholders' equity	(10,320)	(22,528)	(11,554)	(44,404)	(2,900)	(47,304)
Total changes of items during the period	(10,320)	(22,528)	(11,554)	(44,404)	(2,900)	(29,350)
Balance at the end of current period	37,023	11,724	(19,507)	29,239	37,959	433,404

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

Reference: Consolidated Cash Flows (From April 1, 2015 to March 31, 2016)

(Millions of yen)

From operating activities	From investing activities	From financing activities	Cash and cash equivalent at the end of period
88,503	(65,682)	(24,008)	94,032

1. Notes regarding the basis for preparing consolidated financial statements

(1) Scope of consolidation

(i) Consolidated subsidiaries

(a) Number of consolidated subsidiaries: 91

(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: 26

(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 (6)

Mektec Europe Production GmbH and five other companies

(b) Companies excluded from the scope of consolidation (2)

SBC Co., Ltd. and one other company

(ii) Change in scope of the equity method

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

Freudenberg Technical Products LP and two other companies

(4) Matters concerning the business term of consolidated subsidiaries

There are 41 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 two companies, including 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 principally 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) 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 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)

Amortization 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.

(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 environmental measures

Provision for environmental measures is recognized to provide for the cost of soil contamination countermeasures of consolidated subsidiaries.

(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 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.

(v) 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.

(Additional Information)

(Transactions that issue own shares to employees, etc. through trust)

NOK decided to introduce an incentive plan in the form of the Employee Stock Ownership Plan Trust (the "ESOP Trust") via resolution of the Board of Directors held on November 10, 2015. With the ESOP Trust, employee benefits are linked to financial results and stock prices so as to enhance employee motivation to further promote business execution that aims for the increase in financial results as well as to increase corporate value over the medium to long term.

(i) Outline of the ESOP Trust

The ESOP Trust is an incentive plan designed with reference to the ESOP system in the US. Its purpose is to promote the asset formation of employees and enhance employee benefits using NOK stock.

The beneficiaries of the NOK Corporation's ESOP Trust are members of NOK Stock Ownership Association who satisfy certain conditions. The ESOP Trust shall, within a predefined period of time, acquire the stock scheduled for acquisition by NOK Stock Ownership Association over the next five (5) years from the stock market. The ESOP Trust will then sell the stock to NOK Stock Ownership Association at a set date each month. Upon the expiration of the ESOP Trust, any profits gained by an increase in the stock price shall be distributed to the beneficiaries in proportion to their contributions. Any debts resulting from a decrease in the stock price shall be paid to the bank by NOK Corporation pursuant to the warranty clause in the loan agreement.

(ii) The Company's own stock that remains in the trust

NOK stock that remains in the trust has been posted as treasury stock under net assets based on its book value (excluding the amount of incidental expenses) in the trust. Book value and number of said treasury stock were 1,904 million yen and 566 thousand shares, respectively, in the current consolidated fiscal year.

(iii) Book value of loans payable posted due to the application of the gross method

2,200 million yen in the current consolidated fiscal year

2. Notes regarding changes in accounting policies

(Application of the accounting standard for business combinations)

Effective from this fiscal year under review, the Company has adopted the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ statement No. 22, September 13, 2013), and the Accounting Standard for Business Divestitures (ASBJ statement No. 7, September 13, 2013), etc. Accordingly, the method of recording the amount of difference caused by changes in the Company's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. In addition, as for business combinations carried out on or after the beginning of this fiscal year, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the tentative accounting treatment is reflected in the consolidated financial statements for the fiscal year in which the business combination occurs. Furthermore, changes have been made to the presentation method of net income, etc. and the presentation for non-controlling interests from minority interests. To reflect these changes in presentation, the Company reclassified the consolidated financial statements for the fiscal year ended March 31, 2015.

Application of the Accounting Standard for Business Combinations, etc. is in line with the transitional measures provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. Application of these standards commenced as of the beginning of this fiscal year, and will continue going forward.

The effect of these changes on the consolidated financial statements for the fiscal year under review is immaterial.

3. Notes regarding the consolidated balance sheet

(1) Pledged assets

(i) Assets pledged as security

Land	¥120 million
Buildings and structures etc.	¥720 million
Total	¥841 million

(ii) Secured liabilities corresponding to the above

Short-term loans payable	¥112 million
Long-term loans payable	¥370 million
Total	¥483 million

(2) Accumulated depreciation of property, plant and equipment	¥373,636 million
(3) Notes receivable - trade transferred by endorsement	¥69 million

4. 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	297,055 shares	655,093 shares	213,700 shares	738,448 shares

Notes:

1. The number of treasury stocks includes the Company's stock owned by the ESOP Trust account (125,000 shares as of April 1, 2015 and 566,000 shares as of March 31, 2016).
2. The increase in the number of treasury stocks is due to the purchase of odd-lot shares of 293 shares and acquisition of the Company's stock by the ESOP Trust account of 654,800 shares.
3. The decrease in the number of treasury stocks 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 25, 2015	Common shares	6,057	35.0	March 31, 2015	June 26, 2015
The Board of Directors meeting held on November 10, 2015	Common shares	4,326	25.0	September 30, 2015	December 3, 2015

Notes:

1. Total amount of dividends resolved by the Annual Shareholders' Meeting held on June 25, 2015, include dividends of 4 million yen paid for the Company's stock owned by the ESOP Trust account.
2. There was no stock of the Company owned by the ESOP Trust account on the record date on September 30, 2015.

(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 24, 2016	Common shares	4,326	Retained earnings	25.0	March 31, 2016	June 27, 2016

Note: Total amount of dividends to be resolved by the Annual Shareholders' Meeting on June 24, 2016 include dividends of 14 million yen paid for the Company's stock owned by the ESOP Trust account.

5. 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.

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, 2016 (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.

(Millions of yen)

	Amount recorded in consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	95,881	95,881	-
(2) Notes and accounts receivable - trade	132,012	132,012	-
(3) Investment securities	80,016	80,016	-
(4) Long-term loans receivable from employees	4,257	4,709	451
Total assets	312,168	312,620	451
(1) Accounts payable - trade	46,958	46,958	-
(2) Short-term loans payable	47,132	47,132	-
(3) Deposits received from employees	15,943	15,943	-
(4) Long-term loans payable	21,307	21,339	31
Total liabilities	131,342	131,374	31
Total derivative transactions (*)	23	23	-

(*) 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.

(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.

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 (81 million yen 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.

6. 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

(Millions of yen)

Amount on the consolidated balance sheet	Fair value
757	7,469

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 property as of March 31, 2016 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.

7. Notes regarding per-share information

(1) Net assets per share ¥2,293.76

(2) Net income per share ¥173.97

STATEMENT OF CHANGES IN NET ASSETS (From April 1, 2015 to March 31, 2016)

(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	29	1,028	76,044	80,085	(306)	123,512
Changes of items during the period										
Dividends from surplus							(10,379)	(10,379)		(10,379)
Provision of reserve for special depreciation					7		(7)	-		-
Reversal of reserve for special depreciation					(9)		9	-		-
Provision of reserve for advanced depreciation of non-current assets						211	(211)	-		-
Reversal of reserve for advanced depreciation of non-current assets						(90)	90	-		-
Net income							21,239	21,239		21,239
Purchase of treasury stock									(2,200)	(2,200)
Disposal of treasury stock									455	455
Net changes of items other than shareholders' equity										
Total changes of items during the period	-	-	-	-	(2)	121	10,740	10,860	(1,745)	9,114
Balance at the end of current period	23,335	20,397	20,397	2,983	27	1,149	86,785	90,945	(2,051)	132,627

	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	47,021	47,021	170,534
Changes of items during the period			
Dividends from surplus			(10,379)
Provision of reserve for special depreciation			-
Reversal of reserve for special depreciation			-
Provision of reserve for advanced depreciation of non-current assets			-
Reversal of reserve for advanced depreciation of non-current assets			-
Net income			21,239
Purchase of treasury stock			(2,200)
Disposal of treasury stock			455
Net changes of items other than shareholders' equity	(10,048)	(10,048)	(10,048)
Total changes of items during the period	(10,048)	(10,048)	(933)
Balance at the end of current period	36,973	36,973	169,600

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 principally 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) 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 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)

Amortization 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) Allowance for investment loss

To prepare for losses due to significant drop 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

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 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

All amounts stated exclude consumption tax and other taxes.

(6) Application of the consolidated tax payment system

The consolidated tax payment system is applied.

(Additional Information)

(Transactions that issue own shares to employees, etc. through trust)

NOK decided to introduce an incentive plan in the form of the Employee Stock Ownership Plan Trust (the "ESOP Trust") via resolution of the Board of Directors held on November 10, 2015. With the ESOP Trust, employee benefits are linked to financial results and stock prices so as to enhance employee motivation to further promote business execution that aims for the increase in financial results as well as to increase corporate value over the medium to long term.

(i) Outline of the ESOP Trust

The ESOP Trust is an incentive plan designed with reference to the ESOP system in the US. Its purpose is to promote the asset formation of employees and enhance employee benefits using NOK stock.

The beneficiaries of the NOK Corporation's ESOP Trust are members of NOK Stock Ownership Association who satisfy certain conditions. The ESOP Trust shall, within a predefined period of time, acquire the stock scheduled for acquisition by NOK Stock Ownership Association over the next five (5) years from the stock market. The ESOP Trust will then sell the stock to NOK Stock Ownership Association at a set date each month. Upon the expiration of the ESOP Trust, any profits gained by an increase in the stock price shall be distributed to the beneficiaries in proportion to their contributions. Any debts resulting from a decrease in the stock price shall be paid to the bank by NOK Corporation pursuant to the warranty clause in the loan agreement.

(ii) The Company's own stock that remains in the trust

NOK stock that remains in the trust has been posted as treasury stock under net assets based on its book value (excluding the amount of incidental expenses) in the trust. Book value and number of said treasury stock were 1,904 million yen and 566 thousand shares, respectively, in the current consolidated fiscal year.

(iii) Book value of loans payable posted due to the application of the gross method
2,200 million yen in the current fiscal year

2. Notes regarding the balance sheet

(1) Accumulated depreciation of property, plant and equipment	¥116,210 million
(2) Monetary claims or liabilities to subsidiaries and affiliates	
Short-term claims	¥23,230 million
Long-term claims	¥3,387 million
Short-term liabilities	¥60,713 million
Long-term liabilities	¥17 million

3. Notes regarding the statement of income

Transactions with subsidiaries and affiliates	
Sales to subsidiaries and affiliates	¥40,813 million
Purchases from subsidiaries and affiliates	¥169,502 million
Transactions with subsidiaries and affiliates other than business transactions	¥63,747 million

4. 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	203,678 shares	655,093 shares	213,700 shares	645,071 shares

Notes:
1. The number of treasury stock includes the Company's stock owned by ESOP Trust account.
2. The increase in the number of treasury stocks is due to the purchase of odd-lot shares of 293 shares and acquisition of the Company's stock by the ESOP Trust account of 654,800 shares.
3. The decrease in the number of treasury stocks 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.

5. Tax effect accounting

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

Deferred tax assets		
Allowance for doubtful accounts	¥88 million	
Accrued enterprise tax	¥84 million	
Provision for bonuses	¥1,151 million	
Excess amount of depreciation	¥1,607 million	
Investment securities	¥1,668 million	
Allowance for investment loss	¥215 million	
Provision for retirement benefits	¥7,926 million	
Other	¥494 million	¥13,236 million
Valuation allowance		¥(1,177) million
Total deferred tax assets		¥12,059 million
Deferred tax liabilities		
Reserve for special depreciation	¥(11) million	
Reserve for advanced depreciation of noncurrent assets	¥(317) million	
Valuation difference on available-for-sale securities	¥(15,620) million	
Other	¥(1) million	¥(15,950) million
Net amount of deferred tax liabilities		¥(3,890) 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	32.6%
Adjustments:	
Permanently non-deductible items including entertainment expense	0.9
Permanently non-taxable items including dividend income	(10.4)
Equalization inhabitant taxes	0.2
Downward adjustment of term-end deferred tax assets due to corporate tax change	(2.3)
Tax credit	2.4
Assumption of loss brought forward from the previous term as a result of an absorption-type merger of subsidiary	(11.7)
Other	(0.1)
Effective rate of income taxes after tax effect accounting is applied	11.6%

(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 for Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Revision of the Local Tax, etc." (Act No. 13 of 2016) were enacted in the Diet on March 29, 2016, and the corporate tax rates were lowered from the fiscal year beginning on and after April 1, 2016. Accordingly, the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 31.8% to 30.5% for temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2016 and on April 1, 2017, and to 30.2% for temporary differences expected to be eliminated in the fiscal year beginning on and after April 1, 2018.

As a result of the above changes in the rates of corporate taxes, deferred tax liabilities (after deducting the amount of deferred tax assets) decreased by 240 million yen, while income taxes-deferred and valuation difference on available-for-sale securities increased by 587 million yen and 827 million yen, respectively.

6. Notes regarding transactions with related parties

(1) Subsidiaries and affiliates

Category	Subsidiary
Name	Nippon Mektron, Ltd.
Location	Minato Ward, Tokyo
Capital or investment amount (¥ mil)	5,000
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 manufactured by the subsidiary
Transaction details	Receiving of capital
Transaction amount (¥ mil)	—
Item	CMS deposits received
End-of-term balance (¥ mil)	20,390

Category	Subsidiary
Name	Kansai NOK Hanbai Co., Ltd.
Location	Osaka City, Osaka
Capital or investment amount (¥ mil)	40
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)	3,423

Category	Affiliate
Name	Eagle Industry Co., Ltd.
Location	Minato Ward, Tokyo
Capital or investment amount (¥ mil)	10,490
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 sells products manufactured by the Company to Eagle Industry Co., Ltd.
Transaction details	Purchase of products, etc.
Transaction amount (¥ mil)	36,394
Item	Accounts payable - trade
End-of-term balance (¥ mil)	3,468

(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 NOK shares; 5.1%
Relationship with the Company	—
Transaction details	Rental of buildings, etc.
Transaction amount (¥ mil)	461
Item	—
End-of-term balance (¥ mil)	—

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	¥983.23
(2) Net income per share	¥122.88