

Nitto

Innovation for Customers

Nitto Group Report 2017



Nitto Denko Corporation

Corporate Philosophy



The Nitto Way Concrete Thoughts and Actions

- **We place safety before everything else**
 - Achieve zero accidents and injuries.
 - All employees must work together to establish a safe and secure workplace.
- **Amaze and inspire our customers**
 - Exceed customers' expectations to have them say, "This is exactly what we wanted!"
 - Work with customers and create new societal values.
 - Customer satisfaction brings value to our stakeholders.
- **Anticipate and leverage change**
 - Go to the field to sense changes in society and the market.
 - Rapidly link sensed changes to actions.
 - Refine our strengths, and aim to become the company customers want to consult with first.
- **Take on challenges for new value creation**
 - Continue to take on challenges, even if we fail in the short-term, rather than do nothing for fear of failure.
 - Embrace change, exercise curiosity, and take the first step forward.
- **Act promptly and follow through on your decisions with determination**
 - Take the first step forward and then think while advancing.
 - Share information openly, have equal and fair discussions, and if a decision is made, work together as a team to bring out the best possible result.
 - Always make efforts to ensure frank and open communication beyond organizational boundaries and roles.
- **Transform ourselves constantly**
 - Anticipate challenges, implement reforms, and bring about growth in the spirit of Mu-Gen-Dai.
 - Keep changing. Change leads to opportunity and growth.
 - Challenge ourselves to improve our future. Changes in each of us lead to growth of the entire organization.
- **Have an attitude of integrity, and understand and respect diversity**
 - Take actions based on integrity and modesty to build relationships of respect and trust with stakeholders.
 - Appreciate the diversity of our global team. Accept and respect others.

Editing Policy

Editing Policy

The Nitto Group compiles its financial and non-financial information in the form of the Nitto Group Report, which is then published to inform every stakeholder of the overall picture of the Nitto Group and its business undertakings over the previous fiscal year. Since this volume is compiled with a broad spectrum of readers in mind, only the topics deemed most important are covered. Please refer to our corporate website for more details and relevant information.

To celebrate the first centennial of our founding in October 2018, we have once again included the proud history of our company and messages for the future in the *Nitto Group Report 2017*. We would be delighted if this report can help readers to understand how the Nitto Group became what it is today and where it is headed going forward.

This report is available in Japanese, English and Chinese, and can be found on our website.

Scope

The report covers the business activities of the 106 companies of the Nitto Group, which include 103 consolidated subsidiaries and 2 affiliates, as of March 31, 2017.

Time Period

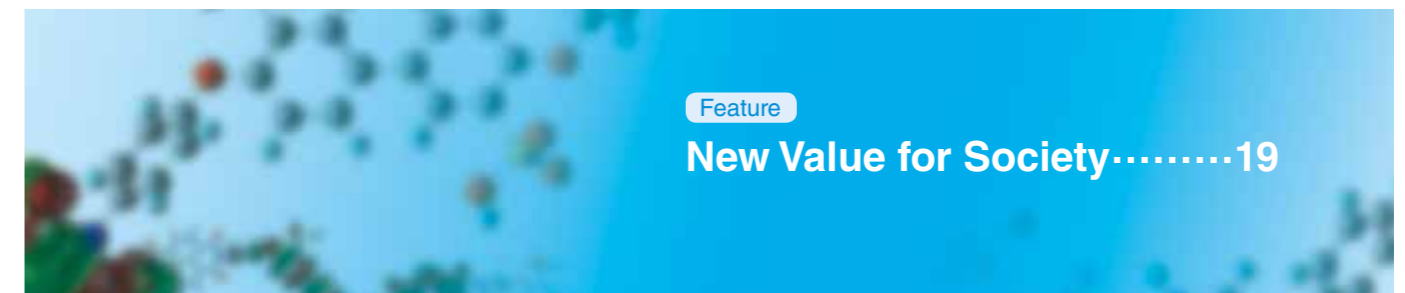
Fiscal 2016 (April 1, 2016 - March 31, 2017)

Some performance and activities from periods other than the above are also included.

Reference Guidelines

- This report has been compiled in accordance with the Core option of the G4 Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI).
- The International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) has also been referred to.

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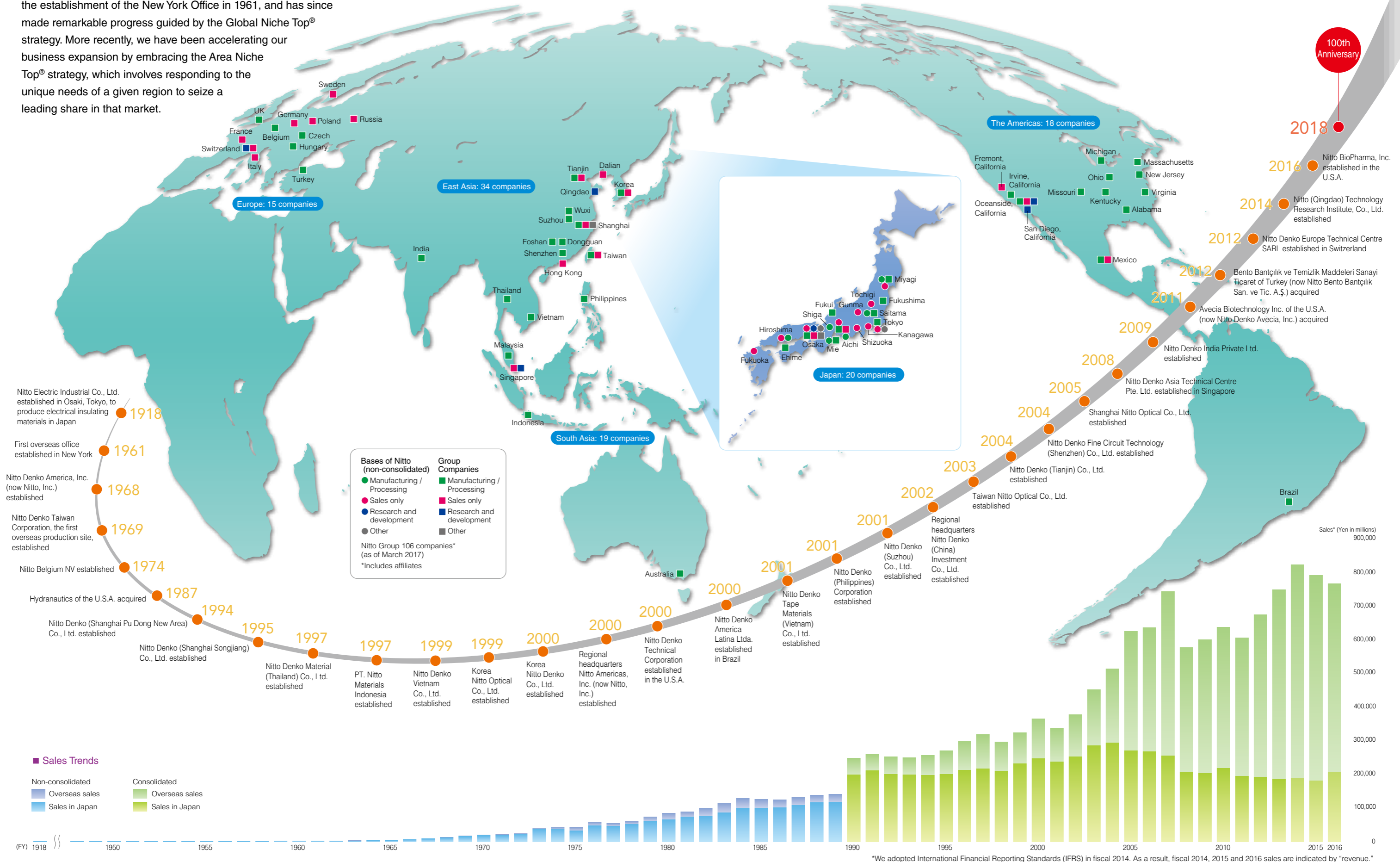
For further details on matters related to this Nitto Group Report, please refer to Nitto's website: <https://www.nitto.com/>

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30-34	Management System Certification	https://www.nitto.com/about_us/sustainability/certificate/iso/
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-	GRI Content Index	https://www.nitto.com/about_us/sustainability/report/2017/gri/

*ESG: Environmental, Social and Governance

Business Development of the Nitto Group

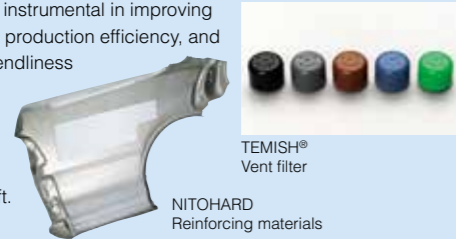
The Nitto Group gained its first foothold outside of Japan upon the establishment of the New York Office in 1961, and has since made remarkable progress guided by the Global Niche Top® strategy. More recently, we have been accelerating our business expansion by embracing the Area Niche Top® strategy, which involves responding to the unique needs of a given region to seize a leading share in that market.



Business Fields and Major Products

Automotive and Transportation Equipment

Our products are instrumental in improving the performance, production efficiency, and environmental friendliness of forms of transportation such as automobiles, trains, and aircraft.

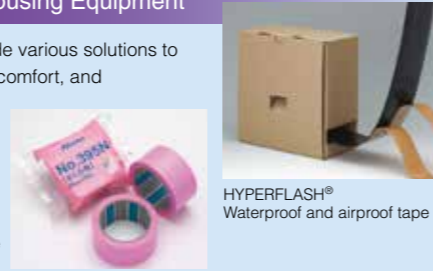


TEMISH®
Vent filter

NITOHARD
Reinforcing materials

Housing and Housing Equipment

Our products provide various solutions to improve the safety, comfort, and environmental performance of housing.



Curing tape
No.395N

HYPERFLASH®
Waterproof and airproof tape

Social Infrastructure

We provide various products for industrial infrastructures that support people's lifestyles.

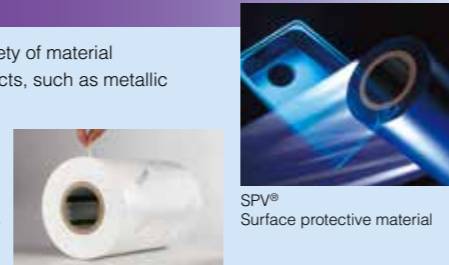


NITOHULLMAC® XG Series
Outdoor anti-corrosion tape

Seawater desalination
spiral RO membrane
element

Materials

We provide a variety of material processing products, such as metallic plates.



LASERGUARD®
Surface protective
material for laser
processing

SPV®
Surface protective material

Home Electrical Appliances and Electronic Equipment

We supply components used in a variety of home electronics, including major appliances, audiovisual systems, mobile devices, and LED lights.

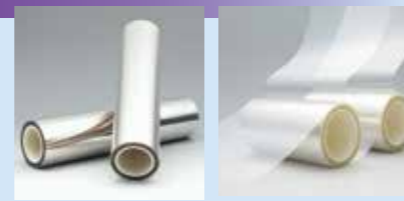


Double-sided rubber tape

NITTO EPTSEALER®
Foam sealing material

Displays

We provide peripheral materials for high-definition displays featuring the latest technologies.



ELECRYSTA™
Transparent conductive
film

LUCIACS®
Transparent double-sided
adhesive tape

Electronic Devices

We satisfy our customers' needs with our wide-ranging products, from processing materials to peripheral materials.

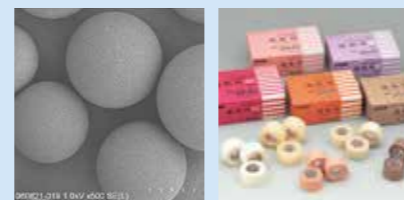


CISFLEX®
Thin-film metal baseboard
with high-resolution circuit

ELEP HOLDER®
Adhesive tape for
protecting and fixing
semiconductor wafers

Medical-Related Materials

We provide a variety of products for medical services and healthcare, from sanitary materials to nucleic acid medicine.



Particles for nucleic acid
synthesis

Yu-Ki Ban™
Medical hygiene materials

Packaging Materials

Our adhesive tapes and taping machine solutions respond to our customers' various needs to play an important role in logistics.



Packaging tape

Carton sealer

Consumer Products

Our consumer products create comfortable, convenient, and innovative solutions for people's lives.



COLOCOLO®

STÁLOGY®
stationery

Highlights

FY2016 Highlights

Revenue	767,710 million yen
Operating Income	92,589 million yen
Income before Income Taxes	91,791 million yen
Net Income	63,690 million yen
R&D Expenses	30,366 million yen
Capital Investment	36,538 million yen
Depreciation Cost	48,556 million yen

Total Assets	879,899 million yen
Equity Attributable to Owners of the Parent Company	653,772 million yen
ROE	10.0%

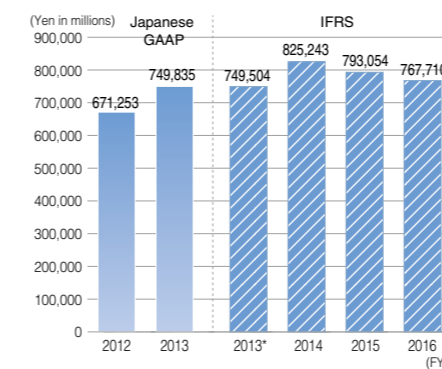
Amount per Share

Basic Earnings per Share	390.9 yen
Dividends per Share	150 yen

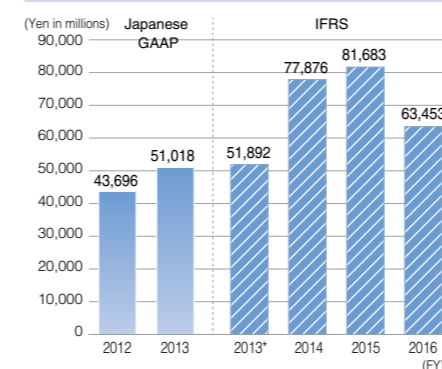
Regional Breakdown of Revenue

Japan	186,979 million yen
The Americas	80,123 million yen
Europe	40,521 million yen
Asia & Oceania	460,085 million yen

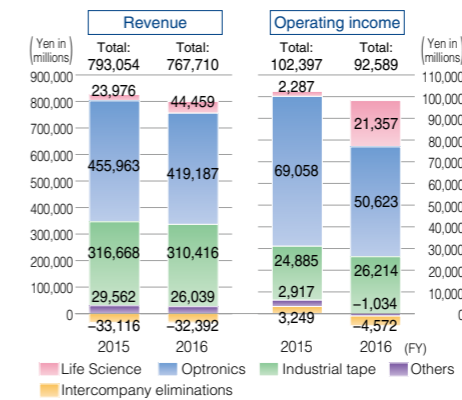
Revenue



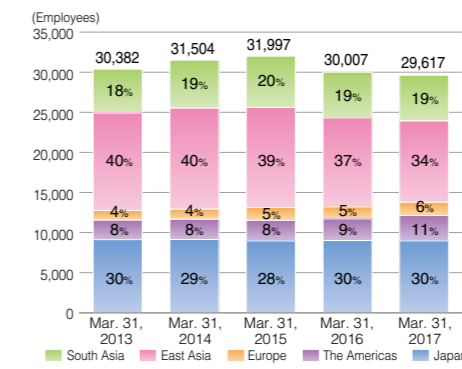
Net Income Attributable to Owners of the Parent Company



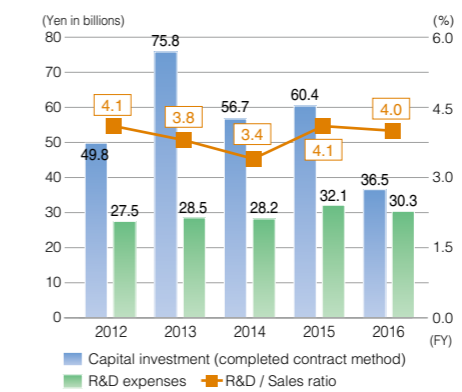
Business Performance of Each Segment



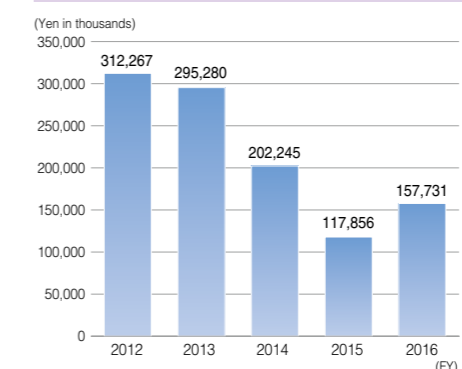
Number of Employees and Breakdown of Employees by Region



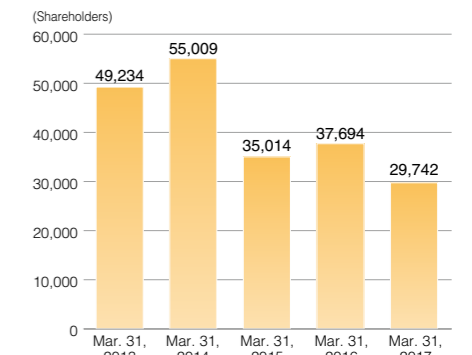
Capital Investment and R&D Expenses



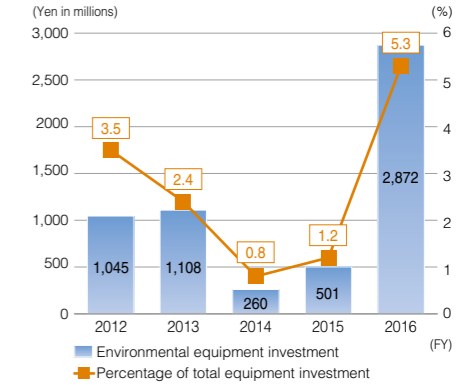
Total Amount Donated (non-consolidated)



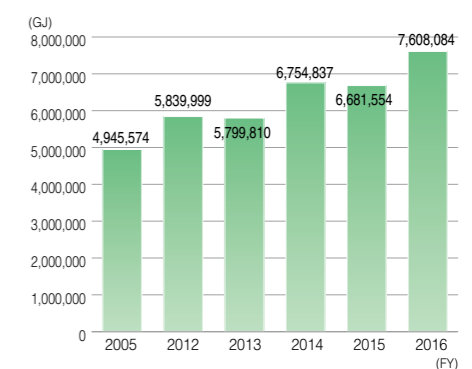
Number of Shareholders (non-consolidated)



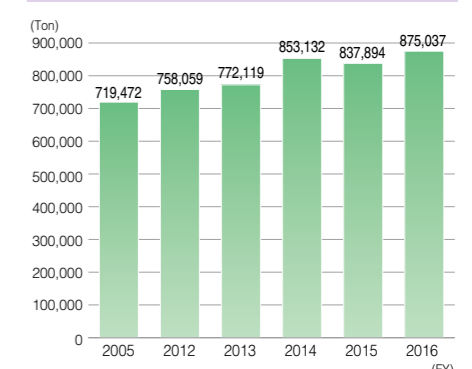
Environmental Equipment Investment (non-consolidated)



Total Input Energies



CO₂ Emissions (Scope 1+2)

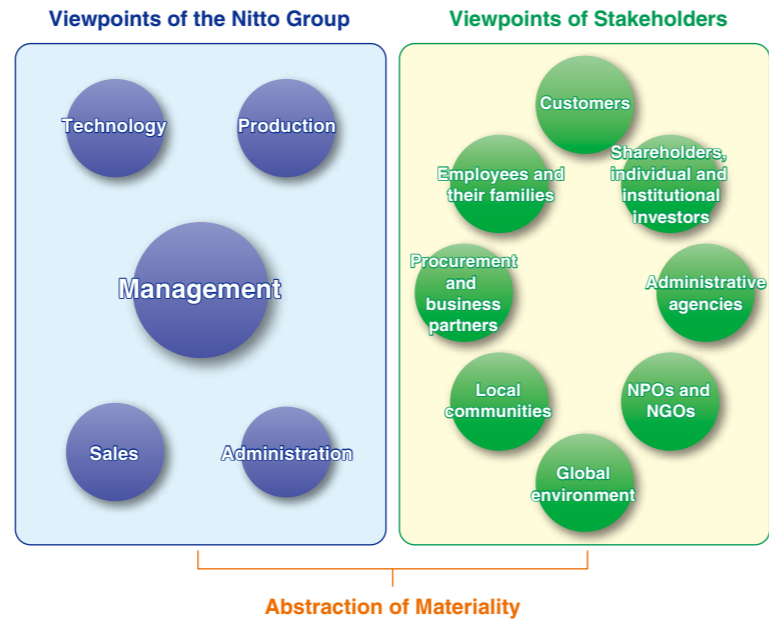


*Data for revenue and operating income in fiscal 2013 are presented according to IFRS for reference.

Materiality

The Nitto Group identifies material issues according to the following processes:

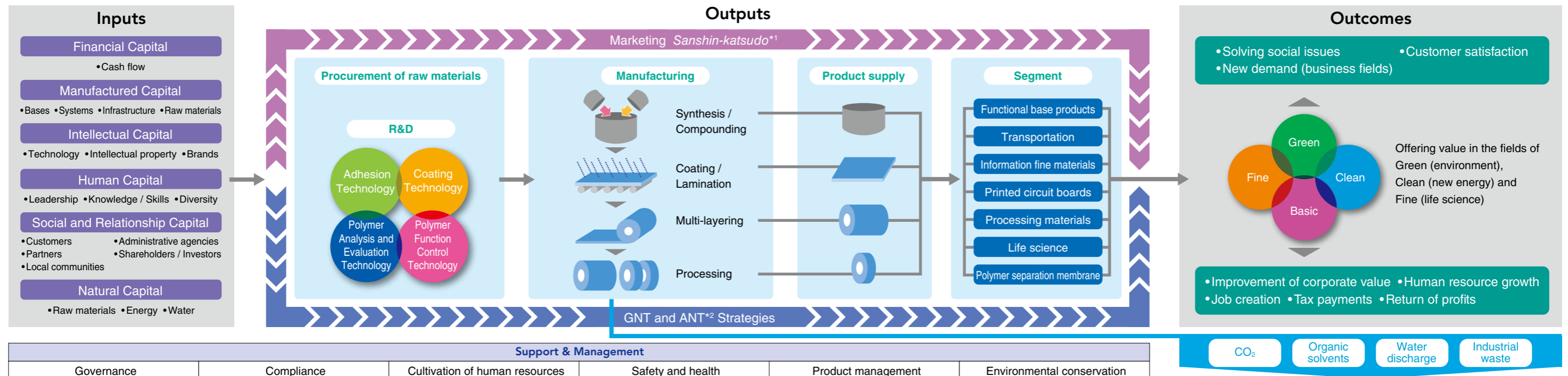
- Abstraction of Materiality**
The Nitto Group abstracts materiality from the viewpoints of both the Nitto Group and its stakeholders. (Refer to chart to the right)
- Identification of Material Issues in Management**
Important business challenges are deliberated at management conferences and incorporated into our Mid-term Management Plan.
- Identification of Material Issues in Specialized fields**
The important challenges which have been defined in each specialized division and committee obtain approval in budgetary discussions and are reflected in each policy and activity plan.
- Identification of Material Issues for Reporting**
The CSR committee decides items for reporting from the above material issues referring to GRI Guidelines.



Materiality

	Initiatives to Address Materiality	Goals/Aspirations for the Future	References for Action/Progress	
			Reports	Websites
Business	<ul style="list-style-type: none"> Business portfolio reform Consecutive structural reform Investment plan: 400 billion yen 	Promoting business portfolio reform, aiming for sustainable growth in the "Nitto-New Century"	Pp. 9-13 Pp. 19-26	Mid-Term Management Plan Business report
Governance	Prompt decision-making and transparency	Sustaining perpetual growth by maximizing corporate value	P. 13	Governance
Occupational Safety and Health	<ul style="list-style-type: none"> Fostering of Safety Culture Securement of employees' safety and health 	Achieving zero accidents and injuries by creating a workplace in which people can work safely and in good health	P. 14	Relationship with Society
Environmental Management	<ul style="list-style-type: none"> Setting of environmental goals linked to business plans Comprehension of environmental risks and attainment of opportunities 	Contributing to the sustainable growth of society in an environmentally friendly manner	P. 15 Pp. 32-34	Environmental Efforts
Compliance and Human Rights	Thorough observance of compliance and human rights enlightenment across entire supply chains	Having all employees fully comprehend the "Nitto Group Business Conduct Guidelines" and act according to those common criteria	P. 16	Governance Relationship with Society
Employment and Human Resources Cultivation	<ul style="list-style-type: none"> Employment and cultivation of diverse human resources and promotion of them Proper labor management 	Contributing to business growth by building a solid personnel base through optimal allocation of people across the globe	Pp. 17-18	Employment
Risk Management	<ul style="list-style-type: none"> Identification of key risks and actions against them Information security management 	Ensuring business continuity by responding proactively to perceived risks and taking proper actions during times of emergency	Pp. 27-29	Governance
Business Continuity	Disaster mitigation and preparations for quick recovery	Protecting lives and fulfilling responsibilities for product supply	P. 29	Governance
Value Chain Management	<ul style="list-style-type: none"> Promotion of CSR-based procurement Increased customer satisfaction Reduction of environmental impact 	Ensuring stakeholders' wellbeing by way of product management throughout the value chain	Pp. 30-34	Relationship with Society Environmental Efforts Procurement
Social Contributions	Support for solutions to issues in host communities	Achieving harmony with society and host communities	Pp. 39-40	Relationship with Society

Value Creation Process



^{*1} Sanshin-katsudo: Please refer to the Nitto Group Report 2016 on our website. ^{*2} GNT: Global Niche Top[®] ANT: Area Niche Top[®]

To our stakeholders

On behalf of the Nitto Group, I would like to express my appreciation for the understanding and patronage that the Nitto Group continues to receive from our shareholders, investors, customers, business partners, and local communities. This report will outline our activities in fiscal 2016 and present our key initiatives for fiscal 2017 and beyond.

Hideo Takasaki
Board Member
President, CEO & COO
Nitto Denko Corporation




Business Summary of Fiscal 2016

During the fiscal year ended March 31, 2017, the overseas economy took an unexpected turn toward a more turbulent path as a result of major political events, including Britain's decision to withdraw from the EU and the outcome of the U.S. presidential election. Nonetheless, modest growth continued throughout the year as the U.S. economy subsequently rebounded and the Chinese economy held up. The Japanese economy also continued to recover, albeit modestly, as exports increased and the strong yen was corrected on the back of the overseas economy's turnaround later in the fiscal year.

Under these economic circumstances, the Nitto Group successfully improved the earnings of its mainstay Optronics segment by deftly capitalizing on a pickup in production volume in the IT industry in the second half of the year, despite sluggish business in the first half. For the Industrial Tape segment, the profitability of functional base products improved due to productivity enhancement, while that of the Transportation business remained almost flat. For the Life Science segment, on the other hand, the Nitto Group forged ahead with the reform of its business portfolio. As a result, contract manufacturing of oligonucleotides showed substantial growth in the U.S., and an exclusive license agreement with a leading pharmaceutical manufacturer in the U.S. for a liver cirrhosis drug, which the Group had been working on for many years, led to the receipt of an upfront payment. The change in annual average yen-dollar exchange rate from 120.2 yen for the previous year to 108.9 yen for the fiscal year under

review had a negative impact on the Group's performance.

As a result, revenue decreased by 3.2% from the same period of the previous year (changes hereafter are given in comparison with the same period of the previous year) to 767.7 billion yen. Operating income decreased by 9.6% to 92.5 billion yen, income before income taxes dropped by 10.0% to 91.7 billion yen, net income fell by 22.3% to 63.6 billion yen, and net income attributable to owners of the parent company declined by 22.3% to 63.4 billion yen.

■ Business Performance of Each Segment* (Yen in Millions)

			Fiscal	Fiscal	Year-on-year
			2015	2016	
Industrial Tape	Revenue	Functional base products	191,134	186,187	97.4%
		Transportation	125,534	124,229	99.0%
		Total	316,668	310,416	98.0%
	Operating income		24,885	26,214	105.3%
Optronics	Revenue	Information fine materials	380,805	352,905	92.7%
		Printed circuit boards	51,533	42,871	83.2%
		Process materials	23,625	23,410	99.1%
		Total	455,963	419,187	91.9%
	Operating income		69,058	50,623	73.3%
Life Science	Revenue		23,976	44,459	185.4%
	Operating income		2,287	21,357	933.9%
Others	Revenue		29,562	26,039	88.1%
	Operating income		2,917	-1,034	-

Excluding "Intercompany eliminations" in "Business Performance of Each Segment" on page 6.

*Business segmentation has been partially altered.

Meanwhile, in accordance with the basic dividend policy, it has been decided to pay 75 yen per share for the year-end dividend, which remains unchanged from the interim dividend, to make the full-year total 150 yen per share, an increase of 10 yen from the previous year. We plan to pay a full-year dividend of 160 yen per share for the next fiscal year after taking into account earnings forecasts, capital expenditure plans, and other factors.

As the world is faced with an ever-growing mountain of social issues associated with climate change, demographic shifts, and other transformations in our society, computerization and advancements in other technologies have brought about dramatic changes in living environments. The Nitto Group has accumulated technological assets with which to address such issues and shape the future, and it is our corporate mission to continue delivering new value to the public in order to earn their trust and sustain our growth into the future.

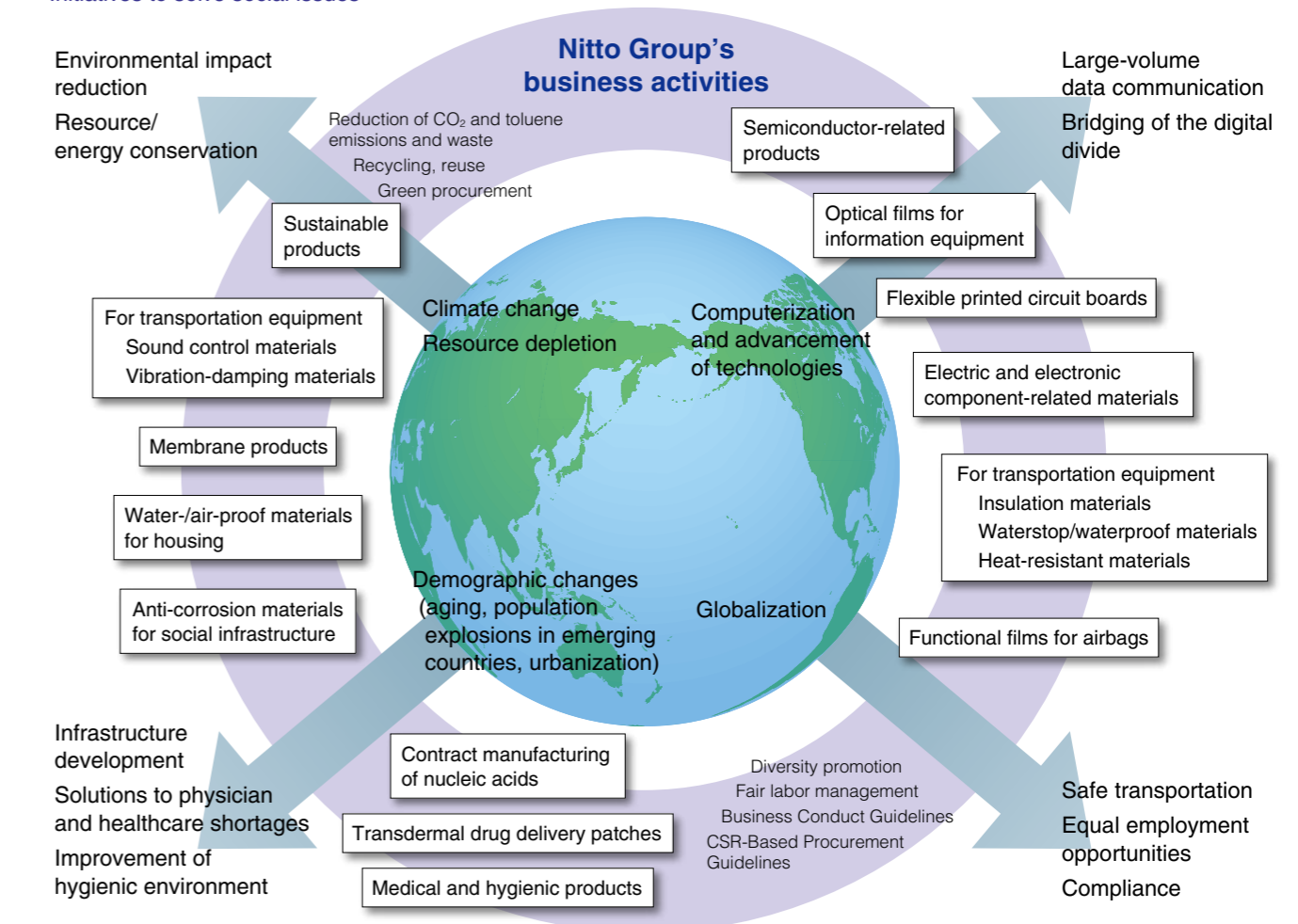
Toward Solving Social Issues

Since its foundation, the Nitto Group has listened carefully to the demands of society and read the wants of the market to deliver numerous technologies and products based on its four core technologies, which include adhesion and coating, thereby expanding its presence in diverse business fields.

Consideration for the Environment

In November 2016, the Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC) went into effect. Hailed as one of the United Nations' most historic agreements, the Paris Agreement involves all signatory nations to the Convention in anti-global warming countermeasures that aim to keep the average global temperature rise to "well below 2°C" from preindustrial levels.

■ Initiatives to solve social issues



The Nitto Group has given birth to a number of products that help to reduce environmental impact, including the energy efficiency-enhancing neodymium magnet and its membrane products that can be used to prevent environmental pollution. Also available from the Group are numerous products and services that simplify customers' production processes, thereby eliminating resource and energy waste. We will accelerate our drive to develop technologies, products, and services that address environmental problems, which represent a threat faced by all of humanity.

Meanwhile, in order to reduce the impact that our production activities have on the environment, we will focus on reducing CO₂ and toluene emissions and waste in line with our new mid- and long-term environmental plan.

Underpinning the Computerization and Advancements of Other Technologies

Liquid crystal displays use a variety of materials delivered by the Nitto Group, including optical films. Those materials have made displays thinner and larger and improved picture quality, thereby underpinning our information society. Among our many products, we maintain the leading share of polarizers, and our original ultra-thin polarizer has the potential to make displays more flexible and usable for wearable devices. Meanwhile, our ELECRYSTA™ transparent conductive film and other materials for touch panels play a part in the diffusion of smartphones and tablets and improvement of their functions.

Going forward, organic electroluminescence displays are expected to replace LCDs as screens for television sets and smartphones. In anticipation of such a change, we have begun working on highly functional materials that will support such next-generation displays.

It can be said that technology is progressing with each passing day, or even with each passing second. As the IoT (Internet of Things) and AI (Artificial Intelligence) are being introduced at an accelerated pace, the Nitto Group utilizes its multifaceted technologies to wholeheartedly create value that underpins its evolution.

Contributing to Better Quality of Life

With aging populations in developed countries and population explosions in emerging countries, the absolute numbers of physicians, nurses, and other medical professionals are seriously lacking throughout the globe. In light of this, the Nitto Group has also offered a variety of solutions in the life science field by developing innovative

dosing strategies that make use of its original technologies. From the late 1970s, we began working on transdermal drug delivery patches ahead of others in the world to establish technologies for synthesizing adhesives optimized for controlled release and designing safe and stable preparations. More recently, we have been developing the "Nitto PassPort® System," which combines tape patch technology with technology for creating micropores on the surface of the skin. When these technologies are put to practical use, injections, intravenous drips, and other forms of drug administration that only medical professionals are currently allowed to perform will become simplified, thereby reducing the burdens placed not only on patients, but on physicians and nurses as well.

The Nitto Group's technology also makes itself felt in nucleic acid medicines, which hold great promise for treating intractable diseases. The development of a liver cirrhosis drug using nucleic acid, in particular, is expected to be accelerated since the signing of a license agreement with Bristol-Myers Squibb Company of the United States last year.

Meanwhile, as standards of living improve in emerging countries and developing countries, people are increasingly interested in enhanced comfort and hygiene. To cater to this growing need, the Nitto Group delivers tape materials for disposable diapers, including NITOFOLD™ folding tape, as well as its COLOCOLO® Series of cleaning tools, thus improving environmental hygiene and comfort in life.

For Greater Wellbeing in Society

As the wave of globalization eliminates distances, people seek greater convenience and speed from transportation, which in turn gives rise to the need to ensure the safety of increasingly congested and complicated means of transportation.

The Nitto Group's automotive products meet these conflicting needs by ensuring safe and comfortable travel while at the same time conserving the environment. NITOHARD reinforcing material, for example, is in wide demand to retain the strength of ever-lightening vehicle bodies. Meanwhile, AEROSEAL anti-corrosion tape for aircraft prevents corrosion on support structures under floorboards due to water condensation and offers easy maintenance, thereby helping to increase aircraft safety. These unique products offer great potential for broader applications to other transport equipment.

We have also commenced the functional film business for curtain airbags, which protect the driver and passengers of a vehicle in the event of a side impact crash. By breaking

into a heretofore-untapped market, we will enhance comfort and safety for passengers.

The Nitto Group "places safety before everything else" in its business activities to ensure employees' safety and health. Not merely aiming to achieve zero accidents and injuries on the shop floor, we will also continue to remind our employees of the importance of staying healthy and always acting safely.

Mid-Term Management Plan

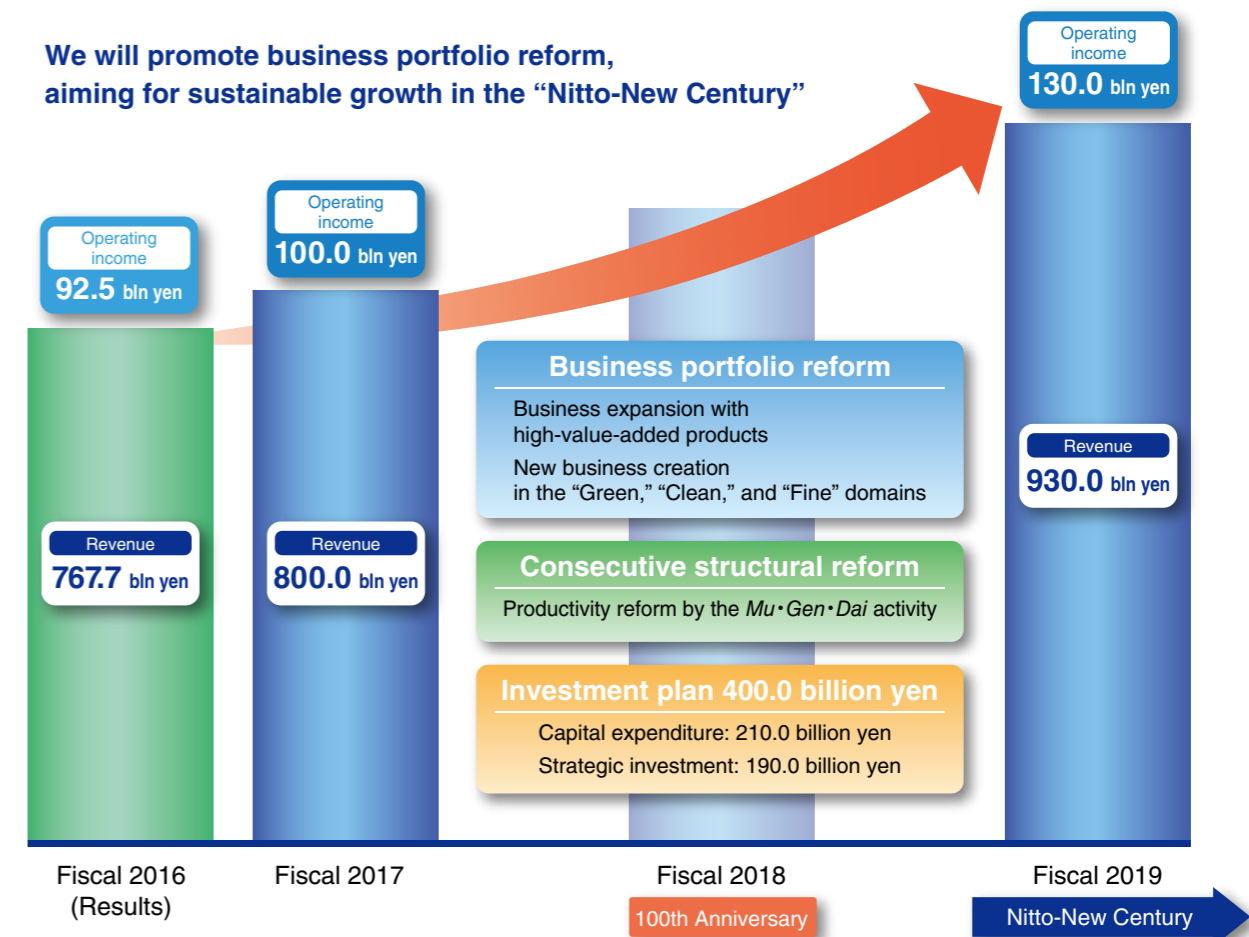
Nitto will celebrate its first centennial in October 2018. In order for us to "realize" a further leap forward during the next hundred years beyond this commemorative milestone, we have drawn up the new Mid-Term Management Plan

Jitsugen*-2019, which will guide us into the 2019 fiscal year that will end on March 31, 2020. Under Jitsugen-2019, we aim to increase our earning power by expanding business through the steady implementation of growth strategies in existing fields, such as smartphones and vehicles, and maximizing productivity via the "Mu Gen Dai" approach, which seeks greater efficiency by streamlining every operation and process from the viewpoints of *mu* (removing), *gen* (reducing), and *dai* (replacing). At the same time, we will attempt to create new businesses in the Green (environmental concerns), Clean (new energy), and Fine (life science) domains. The Nitto Group has been able to identify opportunities presented by changes and, by responding to market needs ahead of the competition, combine and integrate diverse technologies and information from both within and outside of the Group. We will leverage this strength to continue creating new values.

* The name of the new Mid-Term Management Plan is based on its aim to "realize" (*jitsugen*) the mid-term corporate strategies and performance goals without fail.

Mid-Term Management Plan "Jitsugen-2019"

We will promote business portfolio reform, aiming for sustainable growth in the "Nitto-New Century"



In order to support these growth strategies, we will remain aggressive in making strategic investments for M&As and environmental measures, in addition to capital expenditures. We will also further consolidate our management foundations by fulfilling our duties as a manufacturer, namely, safety assurance, advancements in manufacturing, and enhancement of quality and brand value. In all of these endeavors, human resources are the single most important aspect, and so we will cultivate, assign, and optimally allocate people on a global basis.

At the Nitto Group, all employees display their "jitsugen power (capability to deliver)" while living up to the Nitto Way, thereby achieving sustainable business growth.

Nitto Sponsors the ATP Finals

Nitto concluded a four-year title sponsorship contract from 2017 to 2020 with the Association of Tennis Professionals (ATP) for the ATP Finals, the season-ending finale of the ATP World Tour for men's professional tennis. The Nitto ATP Finals features only the world's best eight qualified singles players and doubles teams of the year and is the biggest indoor tennis tournament of the world.



By sponsoring the ATP Finals, Nitto will raise its brand recognition globally and aim to create innovation through collaborations and other activities with new business partners.

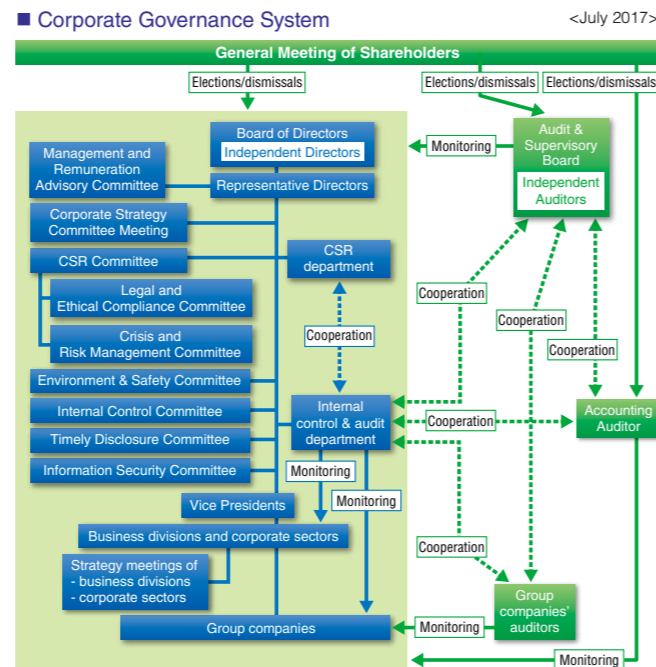
Reinforcement of Corporate Governance

Fiscal 2015 witnessed corporate governance reform in Japan, and a prompt response was required of businesses to comply with the Corporate Governance Code. To respond to this change and live up to our Corporate Philosophy, which was renewed in 2014, we recreated our governance system and established our Corporate Governance Guidelines.

Then, as the term "governance" became a buzzword, the effectiveness of our Guidelines was put to the test in fiscal 2016. Nitto analyzed and evaluated the effectiveness of our

Board of Directors and disclosed the summary of the findings.* We concluded that our Board of Directors is being operated both effectively and appropriately through consultation among directors and corporate auditors. Without being merely content with these results, we will make continued efforts to further strengthen the governance of the entire Board of Directors.

* A summary of our Board's effectiveness evaluation results can be found under "Relevant Disclosed Information" in "Investor Relations" on our corporate website.



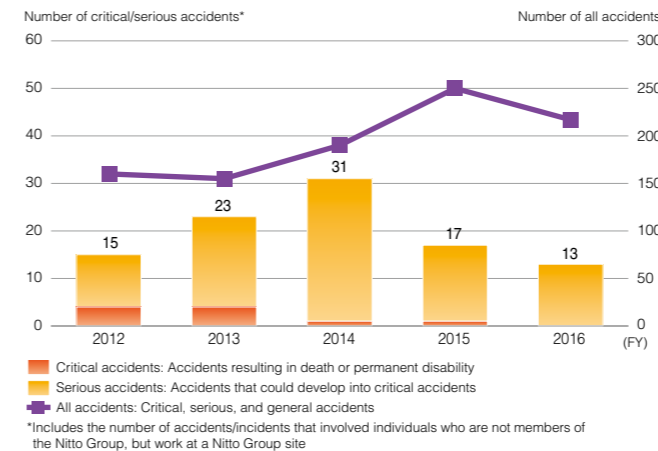
ESG Issue 1

Occupational Safety and Health

The Nitto Group shares the value of "placing safety before everything else" and we put it into practice in all of our business undertakings. It is our belief that we can achieve our goal of zero accidents and injuries if all members of the Group unite together to create workplace environments in which each and every member can work in safe, anxiety-free surroundings.

Work-Related Accidents in FY2016

In FY2016, the number of critical accidents and serious accidents that might lead to critical accidents decreased by four from the previous year. Reports on general accidents (other than critical/serious accidents) had been on the rise outside of Japan in recent years, but the number of such accidents in FY2016 fell by 14% from the previous year, as a series of safety campaigns helped employees to raise their safety awareness.



management member present then organized a safety workshop for supervisors to urge the necessity of placing safety first in accordance with the Corporate Philosophy. The participating supervisors also deepened their understanding of safety - as issue that is highly relevant to them as well - while comparing notes with their peers.

Responses to the Revised Industrial Safety and Health Act

Following the amendments to the Industrial Safety and Health Act of Japan, it is now made mandatory to assess all risks associated with chemical substances and check employees' stress.

Chemical Risk Assessment (CRA)

The Nitto Group has established the "Chemical Risk Assessment Guidelines" to conduct autonomous CRA. Now that the Act has been amended, the Nitto Group companies in Japan have gone one step further to conduct CRA not only for the 640 regulated substances, but also for all of the other chemical substances that they use.

Stress Check

Between May and July 2016, we conducted stress checks for all employees of the Nitto Group companies in Japan. The results are being used to deal with those who are deemed to be under high stress and to comprehend and improve workplace environments. We will continue our drive to make our workplaces worker-friendly with a view toward enhancing the good health of our people and productivity and achieving the sound development of our company.

Achieving Zero Accidents and Injuries

Since the beginning of FY2017, five critical/serious accidents have occurred up to the end of April. One of them was a tragic traffic accident that resulted in the death of a person from outside of the Nitto Group in one of Nitto's plants. All of those at the Nitto Group have renewed their determination to thoroughly "implement safety measures and raise safety awareness" so that such an unfortunate event will never occur again.

Fostering Safety Culture

In addition to proactive safety activities to reduce risks associated with equipment and production processes, the Nitto Group began placing a higher priority on the creation of a safety culture as well in FY2014.

Over the past two years, the practice of Safety Call, in which everyone chants safety slogans prior to conferences/meetings, has spread throughout the Nitto Group. Since FY2016, employees have been sharing their experiences in "Safety Talks," thereby honing their abilities to sense dangerous behaviors and situations. Furthermore, regular "Safety Patrols" have evolved from pointing out dangers to helping operators to notice areas for improvement through dialogue. We believe that this will encourage operators to break away from the passive attitude of "not acting until instructed (told)" and begin autonomous safety activities.

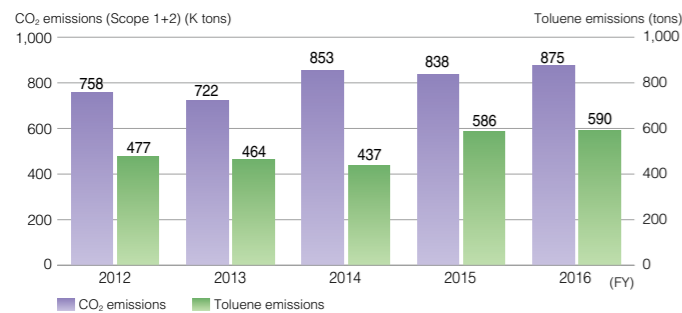
In June 2016, we organized a safety session for our management, to which we invited a visiting lecturer. Each

The Nitto Group remains committed to our environmental policy of “protecting our planet for future generations.” By valuing compliance with the letter and spirit of the law and acting with integrity and a commitment to environmental preservation both locally and globally, we believe that we will be able to contribute even further to the development of a sustainable society.

Status of Fiscal 2016 Environmental Target Achievement

The Nitto Group has set mid-term environmental targets of reducing the total CO₂ emissions of the entire Group to 859,000 tons per year* and the total atmospheric toluene emissions of Nitto (non-consolidated) to 300 tons per year by fiscal 2018.

Despite an increase in the amount of business activity, the rise in CO₂ emissions for fiscal 2016 was kept to a minimum at 875,037 tons (up by 4.4% from the previous year) thanks to a series of measures taken under the lead of each sector to address environmental issues. Total atmospheric toluene emissions ended up at 590 tons (up by 0.8% from the previous year) – equivalent to the previous year’s level.



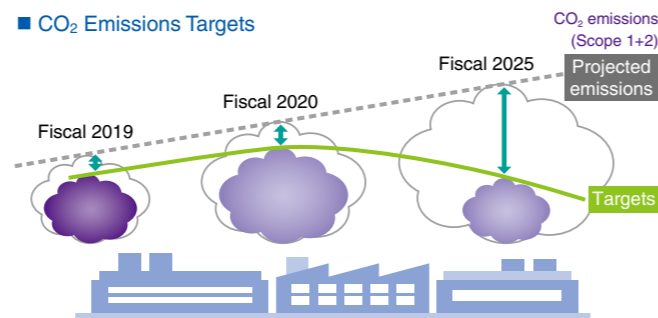
* The CO₂ emissions target for fiscal 2016 provided in the Nitto Group Report 2016 (789,000 tons per year) was incorrect, and should have been 859,000 tons per year.

Mid- and Long-Term Environmental Plan (Ending in Fiscal 2025)

At the Nitto Group, as a part of our constant efforts to integrate our management objectives with our environmental activities, we involve the President and other members of our management team in discussions to draw up an environmental vision by the Green Committee. In fiscal 2016, the Committee set a new reduction target for waste, in addition to those for CO₂ emissions and atmospheric toluene emissions. The goal is to reduce waste by 21% (per unit production, compared with fiscal 2015 levels) by fiscal 2025 by reducing waste by 3% (per unit production) per annum. In fiscal 2017, more detailed analysis of waste generated by the entire Group will be conducted to gain a better picture of the realities so that the efficiency of activities in this regard may be assessed and any findings fed back to future initiatives.

A new target of reducing CO₂ emissions by 6.5% (compared with the fiscal 2013 levels, or by 730,000 tons per year) by fiscal 2025 has been added, which we plan to achieve by conserving more energy and collecting organic solvents. A

new target has also been added for atmospheric toluene emissions, which aims to reduce atmospheric toluene emissions to 200 tons per year by fiscal 2020. In fiscal 2017, 4.2 billion yen will be set aside to address environmental issues so that these targets can be achieved.



Mid- and Long-Term Environmental Plan

Target	Mid-term	Long-term
CO ₂ emissions	805,000 tons/year (Fiscal 2019)	730,000 tons/year (Fiscal 2025)
Atmospheric toluene emissions	228 tons/year (Fiscal 2019)	200 tons/year (Fiscal 2020)
Waste reduction	3% reduction in per unit production (vs. the previous year)	21% reduction in per unit production (Fiscal 2025 levels vs. fiscal 2015 levels)

Environmental Risks and Opportunities

We closely monitor environmental risks incidental to our business activities (see the illustration below) and strive to reduce them by placing them under proper management. By coming up with technologies, products, and services that provide solutions to these environmental risks, access to greater business opportunities will be achieved. To create a sustainable society, we will continue to seek such opportunities that help to reduce environmental impact and conserve the environment by making various suggestions on solutions to such issues.

Environmental risks and opportunities incidental to the Nitto Group's business activities

<p>Climate change</p> <ul style="list-style-type: none"> •Global warming •Abnormal weather 	<p>Resource depletion</p> <ul style="list-style-type: none"> •Energy resource depletion •Increase of waste
<p>Water crisis</p>	<p>Decrease of biodiversity</p> <ul style="list-style-type: none"> •Use of harmful chemical substances

Corporate scandals are liable to occur if we forget to fulfill social demands as a good corporate citizen and fail to reflect on our own actions. At the Nitto Group, we distribute the “Nitto Group Business Conduct Guidelines,” which exemplify compliant actions under various circumstances, to all of our employees, including directors and those on the management level, and encourage them to refer to those Guidelines in any situation. Compliance is also ensured throughout our supply chains.

Furthermore, we consider the promotion of human rights a part of compliance activities, and work accordingly in support of the Universal Declaration of Human Rights.

Deepening Our Understanding of Compliance

The Nitto Group defines compliance as actions that are carried out in accordance with social rules, as well as relevant laws/regulations and internal rules, and conform to corporate ethics, and we demand that such actions be taken. We distribute the “Nitto Group Business Conduct Guidelines,” which are available in 16 different languages, to all of our employees, irrespective of culture, custom, or nationality, and oblige every employee to receive training on the Guidelines as a part of our new employee orientation.

At yearly CSR workshops held for directors and management-level employees, participants are encouraged not to stop at merely practicing compliance, but to play an active role in monitoring and preventing injustices. In fiscal 2016, a total of 152 workshops were held in 20 countries on such topics as “export/import control” and “information security measures,” both of which can risk violation of relevant laws or incur accidents unless due care is taken. The total of 2,540 attendees deepened their understanding of compliance as they were reminded of its importance through case studies and group discussions.



CSR workshop in Thailand

In FY2016, there were no violations of any law or regulation involving our business activities, including those concerning environmental conservation and product management.

Reporting and Counseling System on Corporate Ethics

To facilitate early detection of law/regulation violations and ethical issues and ensure instantaneous action against them, we have a reporting and counseling system that allows employees to contact the CSR Department directly. Contact information is noted in the “Nitto Group Business Conduct Guidelines.” All employees of the Group may avail themselves of this service if they find it difficult to consult with their superiors or the relevant departments at their respective Group

companies. Also, though limited, employees can make use of independent reporting systems, and several reports are made each year. We believe that, when employees assume it is natural to speak out about anything that they think is “not right,” ours will be a workplace in which not a single sign of injustice will be overlooked.

In fiscal 2016, there were no issues concerning duty of disclosure under the Commercial Code of Japan. However, we did receive 14 reports concerning labor disputes, human rights violations, and dishonesty through this system. We have settled these issues after carefully interviewing the parties involved, while ensuring the protection of all whistleblowers.

Ban on Child Labor and Forced Labor

The Nitto Group clearly states its ban on child labor and forced labor in its Business Conduct Guidelines and has all Group companies follow suit. We also ask our business partners to comply with this policy in the “CSR-Based Procurement Guidelines.” Starting from fiscal 2017, we began checking whether new suppliers are CSR conscious beforehand.

In fiscal 2016, we had no issues with child labor or forced labor.

Human Rights Enlightenment Activities

Endorsing the Universal Declaration of Human Rights, the Nitto Group has established its own Basic Policy on Human Rights. Twice annually, at the beginning of each new fiscal year and on Human Rights Day, a message from the Nitto Group Central Human Rights Enlightenment Committee Chairman reminds the entire Group to protect human rights.

In Japan, each plant/office and Group company appoints a person in charge of human rights promotion, who regularly attends conferences and training sessions to share any issues. Such individuals organize human rights workshops at their respective plants/offices/companies in order to help all employees to deepen their understanding of human rights. In fiscal 2016, training sessions on “Diversity,” which included viewing of an informative DVD, were given at each location.

In other countries, too, similar programs are offered to address the human rights issues unique to each country and region. In the United States, for example, training sessions on different forms of harassment are given separately to management-level and non-management-level employees every year.

The Nitto Group considers human resources to be our most valuable assets. Guided by this overriding principle, we are developing measures aimed at cultivating our human resources, including the creation of a work environment in which our employees can find pleasure in honing their skills and an organization in which they are encouraged to take on more challenging tasks to advance their careers, as the company sustains its growth in the global market.

Diversity

The approximately 30,000 employees of the Nitto Group all diligently live up to the Nitto Way as good "Nitto Persons," and forge ahead day after day while putting their abilities to the best possible use, irrespective of nationality, cultural background, gender, age, or employment type. In fiscal 2016, we established a special task force for the promotion of diversity and inclusion within the Group with a focus on "achieving work-life balance" and "supporting diverse human resources in playing active roles."

To further promote diversity, Nitto (non-consolidated) is working on a method that allows female employees to achieve smooth career development by organizing workshops for them and other activities in an effort to raise the percentage of women in management to 4% by fiscal 2018. Meanwhile, to encourage good work-life balance, we are promoting "work style reform" by making it easier for employees with young children and/or family members

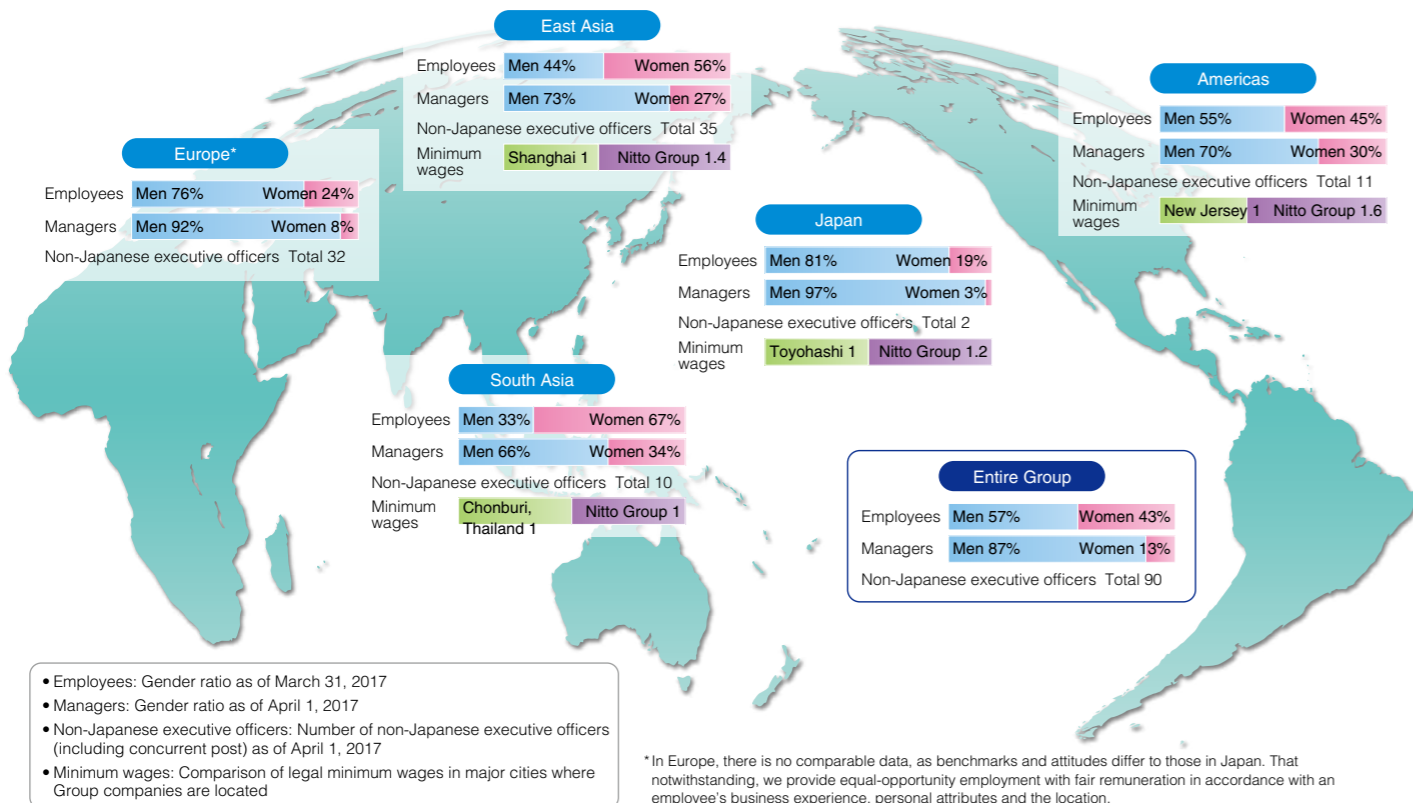
requiring nursing care to pursue their careers and introducing a work-at-home scheme.

Others

At the Nitto Group, we adopt the motto of "open, fair, and best" in every personnel-related matter, including recruitment, assignment, evaluation, and training. In addition to strictly following the Equal Employment Opportunity Act, we make it a principle to treat people in a fair and equitable manner and manage their working hours properly in accordance with the labor laws of each country and region.

Nitto and several of its Group companies conduct employee surveys to increase employee satisfaction. In order for employees to maintain good health and work in good spirits, we are strengthening measures designed to promote their health such as allocating full time health staff members to main sites in Japan.

Employment Data of the Nitto Group



Training System

	New employees	General-level employees	Management-level employees
Management literacy	Leadership, language, etc.		
	Marketing, finance, logical thinking		Cultivation of direct reports
Corporate Philosophy training	Corporate Philosophy workshop		
Job-function-specific training	Division A	Technical training	
	Division B	Technical training	
Objective-specific training	Safety and health training, language training, etc.		
			CSR workshop
		Overseas transferee / trainee training	

	New employees	General-level employees	Management-level employees	Directors
Grade-level training	New employee training	Mid-career employee training	Management-level employee training	Director candidate training
Selected group training	External	Think tank	Leadership training	Director training
	Internal	NGBA-F	NGBA-A	NGBA-E

Cultivation of Human Resources

Today's business environment is changing so rapidly that we can no longer expect to retain our competitive advantage if we continue to cultivate human resources by providing old-fashioned routine training according to job positions and responsibilities. In order to sustain business growth amid fierce competition, the Nitto Group has put together a new seamless human resource cultivation program in a bid to develop Nitto Persons through collaboration with each workplace.

We offer a variety of training opportunities to assist individual employees in developing their competency. They are now able to choose courses from an expanded list of e-learning and other programs so that they can acquire in a timely manner the skills that they need to move up through their job ranks and functions. They can also avail themselves of training courses tailored for each job function, including sales and production engineering.

In addition, a training program for individuals whose promotion has been decided, which is available for those in each job rank, ranging from new recruits to those in managerial positions, will be linked to the Nitto Global

Business Academy* (NGBA), which was launched in 2011 to foster future C-Level executives. By encouraging employees in all positions to think from a management perspective, we expect that they will find messages from management more relevant, which should in turn help them to gain global leadership abilities.

* The NGBA comprises three courses: the Executive course for cultivating next C-Level executives, the Advanced course for cultivating next regional/business leaders, and the Future course for cultivating next-generation leaders.

e-Learning to Raise Subcontract Act* Awareness

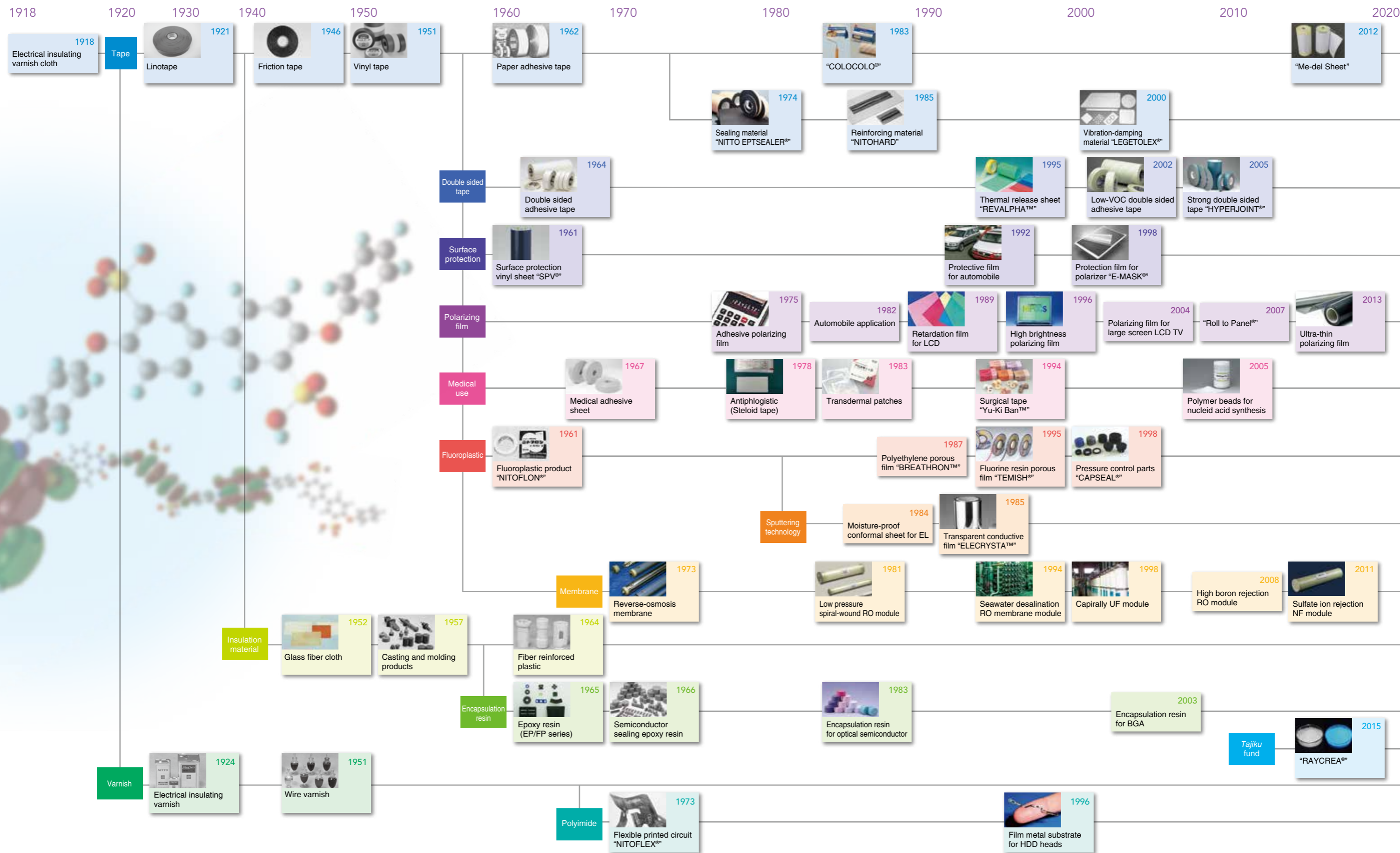
In fiscal 2016, employees of all Group companies in Japan were invited to participate in e-learning about the Japanese Subcontract Act. The purpose of the Act is to ensure that transactions between main subcontracting entrepreneurs and subcontractors are fair and to protect the interests of subcontractors. To prevent any behavior that might infringe upon the Act, continual training is provided to help each individual to raise his or her awareness of the Act and comply with it.

* Short for the "Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors"

New Value for Society

History of Technological Innovation

The Nitto Group has produced countless new technologies based on our four core technologies and has created various products by combining these technologies since 1918, our foundation year. Furthermore, we have developed our business by applying the products and technologies which we have developed to various fields.



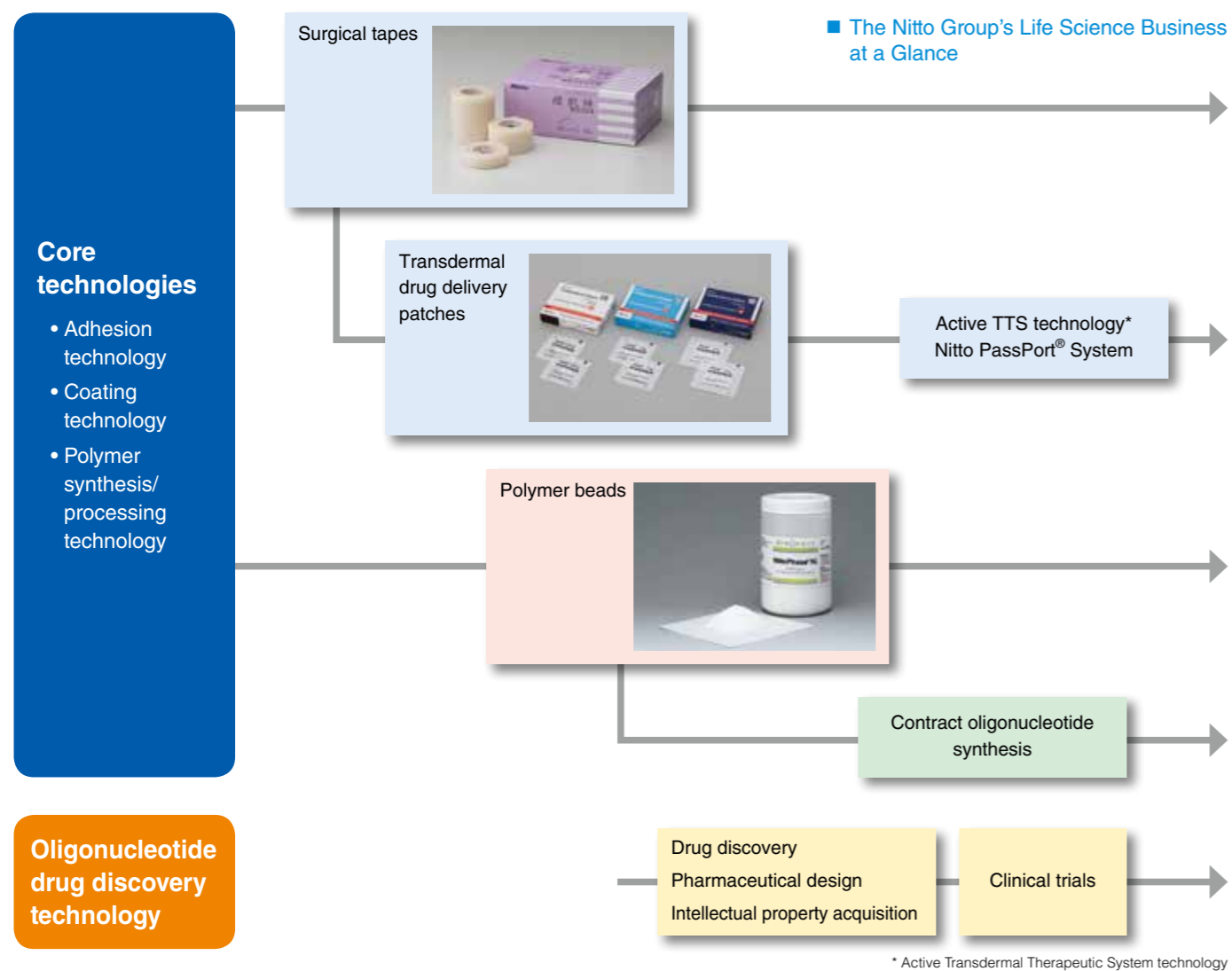
Technologies and Products that Benefit Society

Globalization and rapid development have brought along with them various social challenges. Nitto, which was founded in 1918 to produce the electrical insulating materials that would go on to underpin Japan's development, has long offered solutions to such challenges while achieving dramatic growth through global expansion. With its focus spreading to cover the new Green (environment), Clean (new energy), and Fine (life science) domains, the Nitto Group continues to provide new value to the global community.

For Example For People's Good Health

The Nitto Group's life science business dates back to the late 1960s, when Nitto first produced medical adhesive sheets by combining its adhesion, coating, and polymer synthesis/processing technologies. Since then, the Group has opened up a new path for administration and development of drugs.

As medical needs continue to rise amid the rapidly aging populations in developed countries and the population explosions in emerging countries, shortages of medical professionals and poor access to healthcare are posing ever more difficult problems. Meanwhile, there have been increasing calls for the development of drugs for hard-to-treat diseases. The Nitto Group will improve and expand its products and services that address these issues, thereby enhancing people's quality of life (QOL).



In this chapter, we introduce our new products and services, and those we aim to commercialize, as well as our existing products and services.



Products and services in new domains that Nitto is putting emphasis on



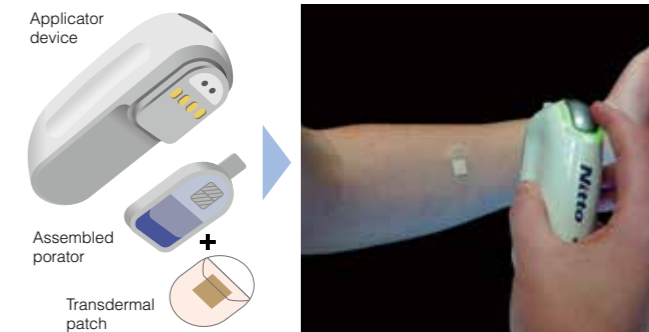
Products and services which we aim to commercialize.

Fine Nitto PassPort® System

Proposals for the Future!

The Nitto PassPort® System is a novel drug delivery system that combines technology for painless and safe creation of micropores on the skin surface with advanced drug patch technology. Capable of efficiently delivering substances that cannot be absorbed into the skin as they are, such as polymer bio-pharmaceuticals, which include peptides, oligonucleotides, and proteins, and hydrophilic drugs, this innovative transdermal drug delivery platform allows patients to receive drugs that are currently available only via injection or infusion, and is able to control the duration and quantity of the delivered drugs by optimizing the number and size of micropores, as well as the formulation.

At present, Nitto is working on this platform with multiple pharmaceutical manufacturers to accelerate its commercialization.



Creating micropores on the skin to apply a transdermal patch

Fine Agreement with Bristol-Myers Squibb to Develop Therapies for NASH and Cirrhosis

Proposals for the Future!

Nitto has been working to develop fibrosis therapy through the use of small interfering RNA (siRNA) since 2008. One of Nitto's leading investigational products thus developed has been granted fast track designation by the U.S. Food and Drug Administration for indications of liver fibrosis and cirrhosis secondary to advanced non-alcoholic steatohepatitis (NASH) and to the hepatitis C virus (HCV).

In November 2016, Nitto and Bristol-Myers Squibb (BMS) of the U.S. entered into an agreement granting BMS exclusive worldwide rights for the development, manufacture, and commercialization of Nitto's leading investigational product for NASH and liver cirrhosis. The agreement is expected to accelerate development of this investigational product, thereby delivering the therapy to patients as early as possible.

Fine Expanding Contract Manufacturing of Oligonucleotides

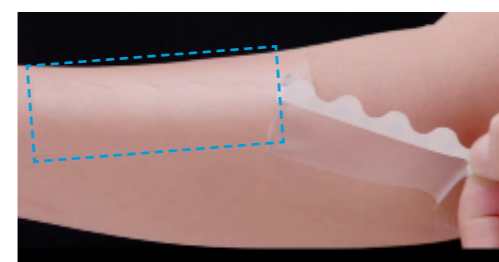
The Nitto Group boasts the leading share of the market for contract manufacturing of oligonucleotide medicines, which are expected to be effective for cancer and other difficult-to-cure diseases.

In October 2016, Nitto acquired the assets of Irvine Pharmaceutical Services and Avrio Biopharmaceuticals of the U.S. via Nitto Denko Avecia Inc. to establish Nitto Avecia Pharma Services Inc. This acquisition allows the Nitto Group to broaden its pharmaceutical analytical capabilities and provide aseptic fill & finish services.

We will remain committed to providing services that help to accelerate the development of oligonucleotide medicines in its bid to deliver new drugs into the hands of patients as soon as possible.

XTRATA® Perme-Roll AIR™

A thinner model of the XTRATA® Perme-Roll™ transparent film roll has made its debut. Only one-fourth the thickness of the previous model, XTRATA® Perme-Roll AIR™ covers injured skin surfaces to make the wound dressings impermeable to bacteria and liquids. Stretching easily to gently fit the contours of the body, it feels as if nothing is on the skin at all. The unique STRATAGEL® soft gel adhesive fits so perfectly to the skin surface that wound dressings can be gently removed with minimum damage to the stratum corneum.

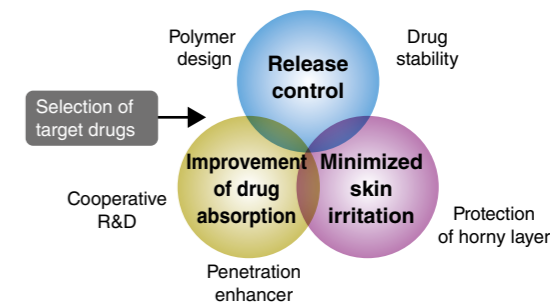


XTRATA® Perme-Roll AIR™ is applied to the area within the dotted line.

Transdermal drug delivery patches

Transdermal drug delivery patches are medicated adhesive patches placed on the skin to deliver drugs. Unlike internal medicine, they neither irritate the digestive tract nor the liver, and do not cause pain like injections using needles. They also help to alleviate adverse drug reactions due to rapid drug absorption by controlling dosages.

Nitto's technologies have produced medicated adhesive patches for local anesthesia and a broad range of indications, including ischemic heart disease, asthma, and hypertension, thereby helping patients to ease their concerns and burdens.

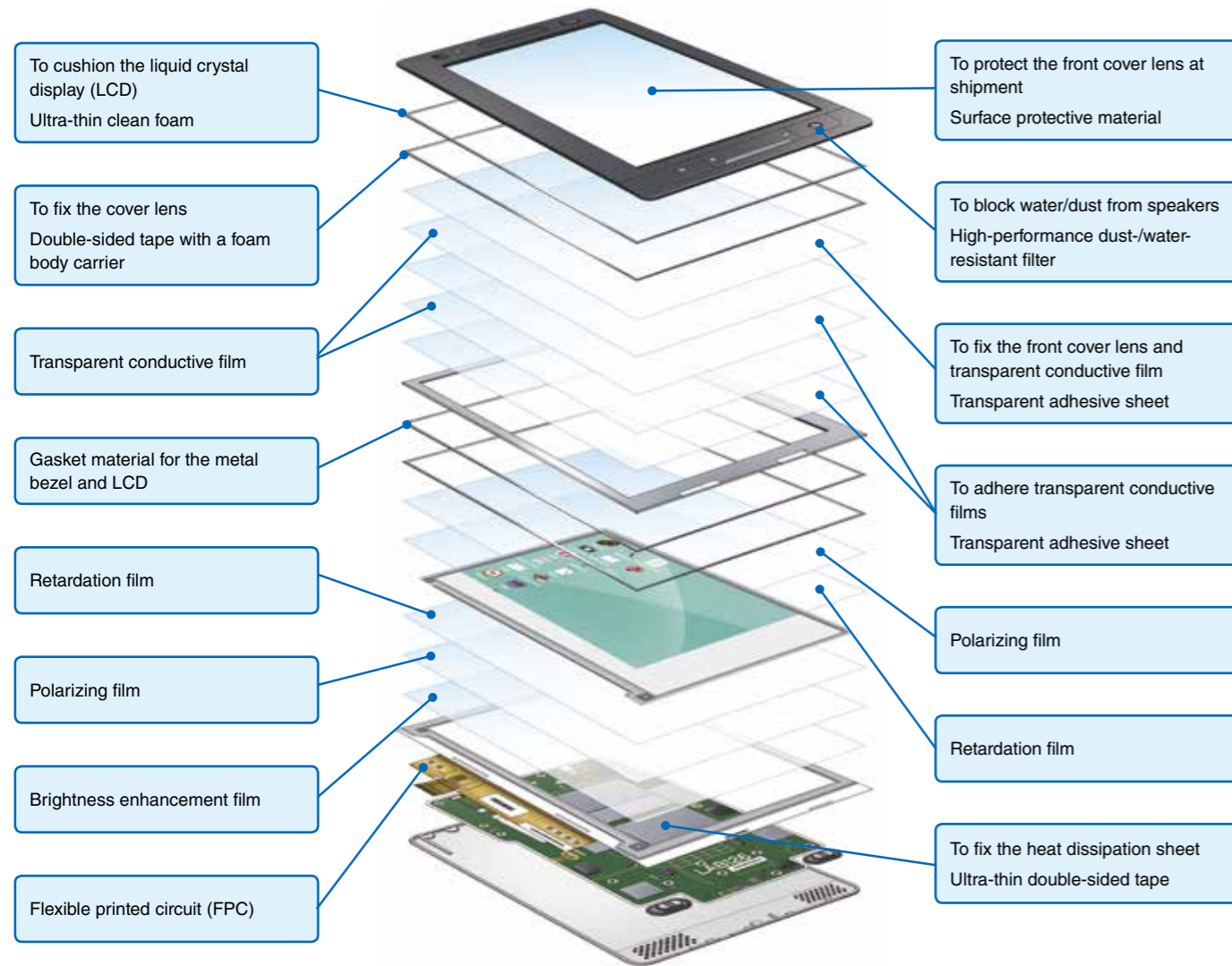


For Example

Underpinning Our Information Society

Amid the constant exchange of all kinds of information today, smartphones, tablet PCs, and other information terminals have become an integral part of our contemporary lifestyle. Accordingly, greater compactness and lighter weight are required from the displays of these ubiquitous information devices, and the demands for flexible displays, which may be applied to wearable devices as well, are rising.

A variety of our products at the Nitto Group, including optical films, play a key role in such displays, thereby underpinning our rapidly evolving information society.



Ultra-Thin Polarizing Film

Nitto's Ultra-Thin Polarizing Film has been selected for the Prime Minister's Prize at the 2017 National Commendation for Invention. By preventing panel warping when stretching films and achieving greater thinness with stable quality, this innovative manufacturing method has made it possible to make displays thinner and more flexible. A review of conventional processes and materials together with the new manufacturing approaches showed a thickness reduction of approximately 80% and a reduction of shrinkage, which is the cause of panel warping, by approximately 60% compared with standard polarizing films. Nitto has already received the Display Component of the Year Award at the Display Industry Awards 2016 in recognition of this innovative development.

The Ultra-Thin Polarizing Film has already been used for flat panel displays, smartphones, and other devices, and its application to flexible displays is expected going forward.

Different levels of shrinkage

Standard polarizing film



Ultra-Thin Polarizing Film



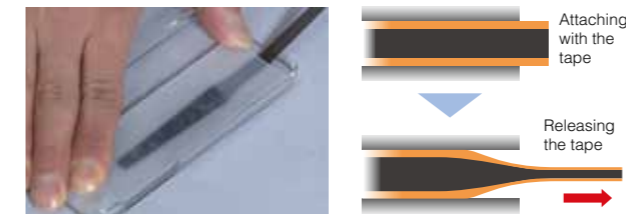
For Example

Reducing Environmental Impact

Environmental problems, such as climate change and resource depletion, have become so serious that they threaten our present-day lifestyle, demanding that we take them on both rapidly and proactively. The Nitto Group not only reduces the environmental impact caused directly by our business activities, but also develops products that help our customers to reduce environmental impact at their production process.

Stretch Tape for Easy Release

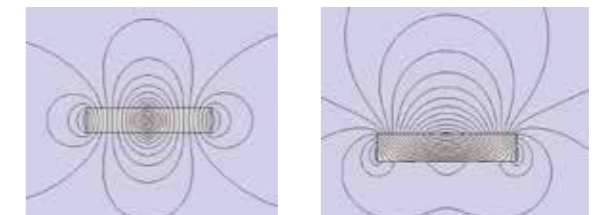
Stretch release double-coated adhesive tapes (No. 58110B and No. 58115B) achieve both excellent adhesion and easy release simply by stretching the tape. Its easy release without damaging the regions that it adheres to makes it ideal for recycling and reuse of batteries and built-in cameras of mobile devices.



By stretching the tape, the special flexible backing material deforms to achieve clean peeling.

Clean Neodymium One-Sided Attraction Magnet

By concentrating the magnetic flux on only one side, Nitto's neodymium magnet achieves strength beyond anything that could be achieved by conventional technology. This innovative magnet enhances motors' performance while reducing size and weight, and also shortens tact time for semiconductor and LCD fabrication. This unique product is also ideal for linear motors.

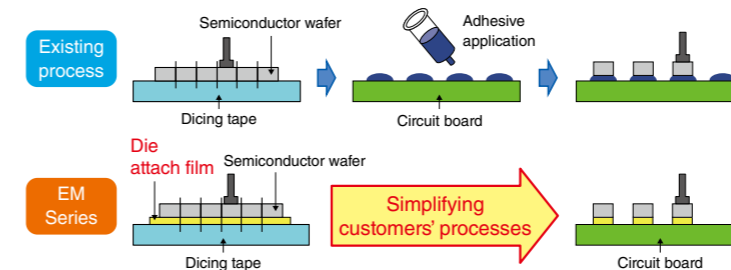


Standard magnet Nitto's one-sided attraction magnet

Proposals for the Future!

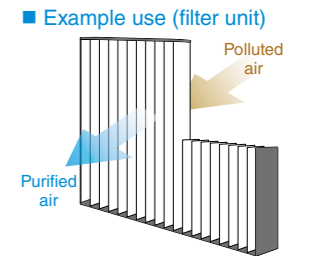
Die Attach Film with Pressure Sensitive Dicing Tape ELEMOUNT® (EM Series)

This adhesive film eliminates the need for the existing process of fixing chips with silver paste or other materials during semiconductor fabrication, thereby simplifying customers' processes and reducing their environmental impact.



Green Clean TEMISH® Air Filter NTF9300 Series

This high-performance air filter lets clean air pass through while collecting fine particles of dust, and is perfect for cleanrooms and vacuum cleaners. Its low permeation resistance is expected to reduce energy consumption. The filter releases dust easily, thereby increasing the efficiency of maintenance work.



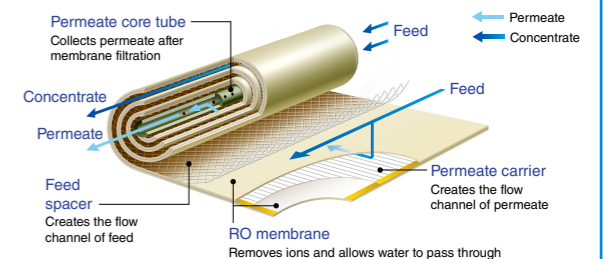
Green Ultra-Low Pressure RO Membrane Element ESPA®2-LD MAX

Reverse osmosis (RO) membranes are used to eliminate impurities from river water and wastewater. They are widely used in various applications such as sewage/wastewater reclamation, seawater desalination, and ultrapure water production.

Our new offering, ESPA®2-LD MAX, uses a thinner RO membrane and a thicker feed spacer. The thinner membrane allows ESPA®2-LD MAX to have a larger membrane area, thereby increasing water treatment production output. Meanwhile, the thicker feed spacer widens the membrane's flow channel, which then reduces energy consumption thanks to its lower water resistance. It also reduces the frequency of chemical cleaning with its anti-fouling feature.

As a result, ESPA®2-LD MAX's energy saving features and reduced need for chemical consumption provide it not only with environmental friendliness, but also a longer expected service life.

RO membrane element structure



For Example **Safeguarding Transportation**

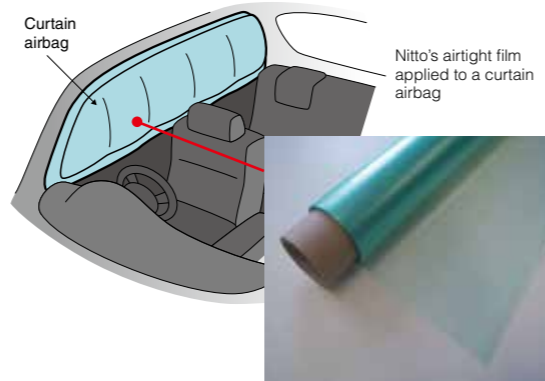
Along with globalization has come the necessity for speedy transportation of large numbers of both people and goods. In addition, automation and electronization of transportation equipment are making rapid progress in order to assure safety. Through the development of new technologies and materials, the Nitto Group is pursuing greater safety and comfort in a bid to fulfill these social needs.

Airtight Films for Curtain Airbags

Proposals for the Future!

In July 2016, Nitto acquired the functional film business for curtain airbags from Swiss company nolax Holding AG.

In the event of a side impact crash, curtain airbags are activated and deployed to cover the side windows and protect the driver and passengers. In order to prevent the driver and passengers from being thrown out of a car when it rolls or is overturned immediately after a collision, curtain airbags are required to have an airtightness that will allow them to remain deployed for several seconds. Nitto's thin adhesive films offer airtightness equivalent to that achieved by the traditional method of applying varnish, and simplifies processes to reduce their environmental impact.



Reinforcing Material of Steel/Aluminum Panels NITOHARD

As a result of the pursuit of greater safety and comfort, vehicles nowadays come with a greater amount of equipment, and this additional weight then lowers fuel efficiency. Meanwhile, in order to improve fuel efficiency and reduce gas emissions to meet ever-tightening environmental regulations, panels with a thinner skin are often chosen to make automobiles lighter. However, this then increases the risk of their rigidity being compromised.

By simply being attached to skin panels and heated, NITOHARD generates foam and hardens to provide reinforcement to portions of the panels, and also offers excellent vibration-damping, soundproofing, and thermal insulation properties. Its flexibility allows it to adhere tightly even to complex shapes and curved surfaces.

Developed specifically for aluminum materials, NITOHARD AS2000 controls skin panel distortions that often occur during heating processes and is used widely in the U.S., where demands for aluminum panels are growing in the quest for lighter weight.



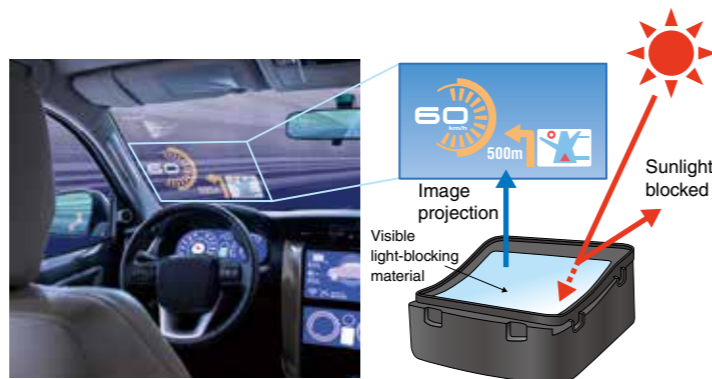
Proposals for the Future!

Green Visible Light-Blocking Material for HUDs

Head-up displays (HUDs), which project information necessary for safe driving directly into the driver's line of sight, are expected to grow in demand. They support drivers by projecting not only meter information, but also data related to oncoming vehicles and pedestrians.

Due to the fact that HUD units are usually installed close to the windshield, sunlight can easily penetrate the device and cause trouble with the display.

Nitto's visible light-blocking material is able to reduce sunlight penetration by 50% while allowing the unit to project images clearly. It also helps to lengthen the HUD unit's service life.



For Example **For Enhanced Neighborhood Safety/Security**

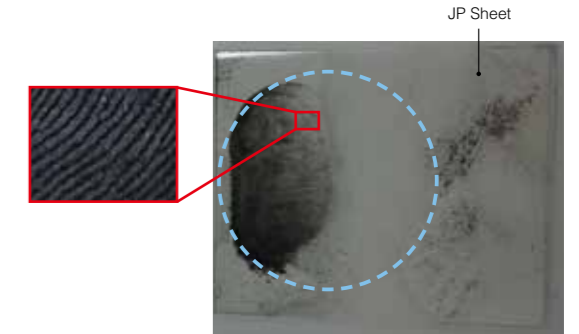
Rapid development of communities can sometimes result in the deterioration of public order. At the request of those tasked with maintaining order, the Nitto Group applies its technologies to products and services that enhance the safety and security of neighborhoods.

Latent Print Lifting Sheet for Crime Scene Investigations – JP Sheet

In the past, collecting fingerprints required developing them by sprinkling powder where they were likely to exist and then lifting them onto the adhesive face of a gelatin sheet. Due to the heat sensitivity of such sheets, however, they cannot be used in such a way to collect fingerprints on the hood of a car during the summer.

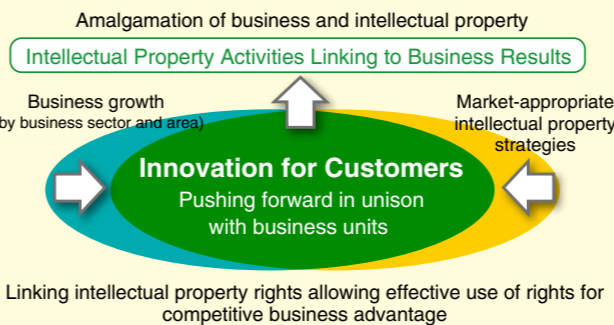
Nitto's JP Sheet exhibits excellent heat and water resistance and offers clearer images, allowing even more fingerprints to be presented as evidence. Because it does not use powder and instead lifts fingerprints directly onto the adhesive sheet, staining or accidents involving office automation equipment and other items can be avoided.

Developed in response to requests from the field, the JP Sheet is currently used by police throughout Japan to help to increase efficiency of scientific criminal investigations.



A clear fingerprint image can be collected even from a cup filled with hot water.

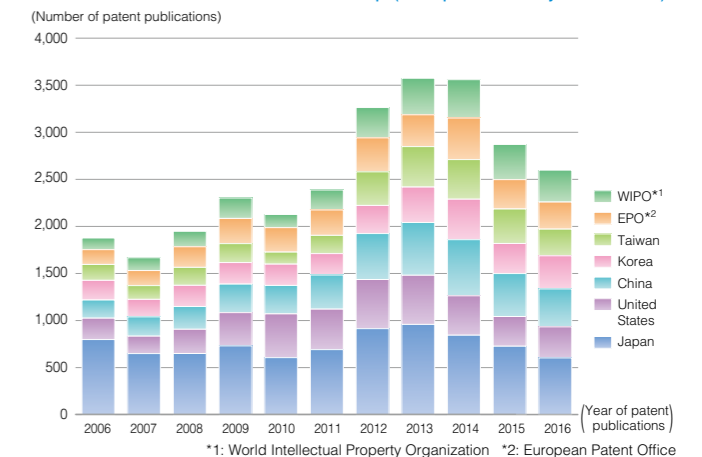
Protecting Businesses with Intellectual Property



The Nitto Group is engaged in optimal intellectual property activities that are suited to each market in an effort to commercialize its technologies, services, and products in the new domains of Green (environment), Clean (new energy), and Fine (life science), as well as in existing domains, and to gain a greater share of such markets. By "protecting businesses with intellectual property," we are expanding potential of our business strategies.

The Group's global patent application rate now stands high at 60%, and our intellectual property activities have become globalized in tandem with our business expansion. In recognition of such activities, the Nitto Group was selected by Clarivate Analytics (formerly Thomson Reuters IP & Science) as one of its "2016 Top 100 Global Innovators" for the sixth consecutive year.

■ Patent Publications of the Nitto Group (In Japan and major countries)



Mr. Hino of Clarivate Analytics (right) presents a trophy to President Takasaki.

Associated Business Risks Listed in the Financial Report (for the Year Ended March 2017)

Described below are potential risks that could have an adverse effect on the Nitto Group's business results, stock prices, and financial positions.

(1) Political, social, and economic trends

Because the Nitto Group operates across the globe, there are always inherent risks in the various countries that it operates in, such as deterioration of employment relationships, labor disputes, rising labor costs, and interruption of transportation services and electric power supply. When such risks emerge, the performance of the Nitto Group can be adversely affected. Furthermore, the Nitto Group's performance can be adversely affected by the occurrence of terrorism, wars, and coup d'états triggered by sudden turns in political situations, as well as market stagnation, unforeseeably large forex fluctuations, and financial instability that are brought about by abrupt changes in the global economy, such as the rise of "our country first" policies.

(2) Changes in laws/regulations and compliance

The Nitto Group carries out business in various fields and territories, and so it endeavors to abide by the laws/regulations of each host country in everything that it does. In the event of tightening of or significant changes in relevant laws/regulations and tax systems, discrepancies in their interpretation, or differences in business practices, the activities of the Nitto Group might be restricted and additional costs might be incurred, which in turn could adversely affect its performance. Moreover, failure to comply with the relevant laws/regulations on the part of executives and employees could also have adverse effects on the performance of the Nitto Group.

(3) Accidents and disasters

In accordance with the policy of "placing safety before everything else," the Nitto Group has drawn up a Business Continuity Plan (BCP) and promotes Business Continuity Management (BCM) in preparation for work-related accidents and natural disasters. Earthquakes, which are often accompanied by tsunami and floods, are particularly frequent in Japan, and can result in fires, chemical leaks, and damage to infrastructures, such as electricity and gas supplies, thereby causing disruptions of supply chains across a wide area. Also, regional and global economies would almost certainly be affected by massive outbreaks of new infectious diseases with a serious impact on human lives, and such occurrences could interfere with the continuity of the Nitto Group's business. Any of these contingencies would impact the performance of the Nitto Group.

(4) Environmental issues

The Nitto Group views "integrity with a commitment to environmental preservation on both a local and global basis" as one of its key business policies, and it has drawn up a voluntary environmental impact reduction plan that is geared toward reducing waste and preventing air pollution and global warming in an effort to fulfill its social responsibility. The Nitto Group has not been the cause of any serious environmental problems to date; however, there exists a possibility that it might fail to reduce environmental impact as planned, or that an unexpected accident or a natural disaster might lead to unforeseen environmental pollution, which would result in significant expenses. Any of these contingencies would influence the performance of the Nitto Group.

(5) Optoelectronics business

Materials used in LCD-related and touch panel products form the core of the Nitto Group's business. This market is crowded with many players that engage in fierce competition. Market trends for products using such materials, technical innovations, realignment and strategy changes of customer LCD panel / touch panel manufacturers, price erosions due to supply-demand imbalances, and sharp rises in material costs due to suppliers' capacity constraints or changing demands can all negatively affect the performance of the Nitto Group.

(6) Life science business

The Nitto Group is pouring an increasing amount of resources into the new business of life science. Many factors involved in this business, including rigorous screening and resultant approval by regulatory authorities in the countries/regions concerned and suspended sales and/or recalls in the event of adverse drug reactions, can negatively affect the performance of the Nitto Group.

(7) Research and development

With the aim of meeting the high expectations for technological innovation and cost competitiveness in many of the markets in which it is involved, the Nitto Group remains committed to the development of new products and applications and the creation of new demand by means of the Area Niche Top® strategy, wherein it supplies products that cater to the specific needs of each region, in addition to the Global Niche Top® strategy. Accordingly, the Nitto Group carries out all necessary research and development investments and capital expenditures. Nevertheless, changes in some markets are so rapid that it is difficult to predict them. Furthermore, new technologies or products from competitors can suddenly render the Nitto Group's offerings obsolete. Should such an event develop,

the performance of the Nitto Group could be negatively affected.

(8) Procurement of raw materials

The Nitto Group endeavors to reduce the risk of becoming unable to procure its key raw materials by sourcing such materials from multiple suppliers. However, some raw materials are sourced from specific individual suppliers. If the supply were to decrease or be disrupted due to unavoidable circumstances on the part of those suppliers, such as damage from natural disasters, accidents, or bankruptcy, the supply-demand balance could be disturbed, resulting in failure to procure necessary raw materials or an increase in costs. Any of these contingencies could influence the performance of the Nitto Group.

(9) Product quality

The Nitto Group manufactures components, devices, and other products in compliance with international quality standards and delivers them to its customers. Nevertheless, it is virtually impossible to completely eliminate liability risks associated with product defects. If the amount of compensation were to exceed the coverage of product liability insurance in such cases, the performance of the Nitto Group could be negatively affected.

(10) Intellectual property rights

The Nitto Group owns, maintains and manages a large amount of intellectual property rights for the purpose of enhancing its market competitiveness. However, it is possible that a third party could claim that such rights are invalid, or such rights could be inadequately protected, imitated, or involved in litigation in some regions. Should the protection afforded by intellectual property rights be seriously lost, the performance of the Nitto Group could be negatively affected.

(11) Mergers and acquisitions

With the aim of sustaining its business growth, the Nitto Group forges relationships with other companies in various ways, such as acquisitions of and alliances with companies possessing superior technologies. If such acquisitions or alliances do not produce their expected outcomes, the performance and financial positions of the Group could be adversely affected.

(12) Retention of human resources

In order to promote the business activities of the Nitto Group, it is necessary to recruit talented people in a variety of fields, including research, development, manufacturing,

sales, and administration. The Nitto Group proactively recruits global-minded human resources who will drive its business in the global arena. Nevertheless, failure to continually hire necessary personnel or to prevent the drain of such talents could negatively affect the performance of the Nitto Group.

(13) Financial position of customers

The Nitto Group makes it a rule to closely investigate the financial positions of its customers before starting business. Nevertheless, serious financial problems could develop at some customers with whom the Nitto Group holds accounts receivable due to major changes in their operating environments. Should such receivables become irrecoverable at any one of its largest customers in the fast-changing electronics and life science sectors, the amount to be written off could be enormous, which in turn could negatively affect the performance of the Nitto Group.

(14) Information management

Information systems play a crucial role in every aspect of the Nitto Group's business activities. Such systems become increasingly complicated and advanced with each passing year, and are often subject to cyberterrorism attacks and other forms of human-caused risk. The Nitto Group takes various security measures against both hardware and software problems in order to prevent leakage and unauthorized use of technical, customer, transaction, and personal information. However, if such systems should fail to prevent leakage or unauthorized use of such information, the performance of the Nitto Group could be adversely affected due to response to those situations.

(15) Litigation

In the course of performing business activities, the Nitto Group might become involved in litigation with its business partners or third parties. There is no telling whether or not the outcome of such litigation will be in accord with its assertions or predictions. Should such risks become a reality, the performance and financial positions of the Nitto Group could be negatively affected.

(16) Defined benefit liabilities

The Nitto Group's defined benefit liabilities are calculated on the basis of various assumptions used in actuarial calculations and investment yields of pension assets. As such, fluctuations in the market value of pension assets, interest rate behaviors, and changes in retirement allowance systems and pension plans can affect the amount of such liabilities that are recognized or reported, thereby having an impact on the performance of the Nitto Group.

Risk Management

Risk Identification and Countermeasures

The Nitto Group distributes questionnaires on business risks to over 2,000 management-level employees every year. The purpose of this survey is to determine risks concerning the entire Group and those specific to individual businesses and regions, as well as to enhance the level of each management-level employee's risk awareness. Rather than merely feeding survey results back to them, we discuss risks that are unique to individual sites and Group companies at CSR workshops for them. Going forward, we will add a program that encourage all management-level employees to draw up their action plans based on the survey results, thereby empowering management at each site and Group company.

The survey results are also used for field-specific risk management, meaning that risks concerning products, for example, are analyzed and dealt with by the Product Risk Management Committee.

Reinforcement of Information Security Management

In its efforts to achieve "a state of fewer security incidents*1 and no information leaks," the Nitto Group pursues a variety of programs, such as development of information security systems and employee training.

In FY2016, we formed the Nitto-CSIRT (Computer Security Incident Response Team), which monitors the computer security system's operational status and takes organized approaches to problems. In order to prevent information leaks by targeted e-mail attacks*2, we sent out a sample e-mail to all employees of the Nitto Group without prior notice to see how the recipients would react to it. Unfortunately, some of them opened the attached file. We will continue to conduct similar tests to warn employees against suspicious e-mail.

*1 Incidents and accidents including data loss, virus infection, and unauthorized access
*2 A type of cyber attack that attempts to steal information by sending e-mail with an attached file or URL containing a computer virus to members of a target organization

Business Continuity Management

In accordance with its four basic policies, the Nitto Group promotes Business Continuity Management (BCM) with a strong link between disaster mitigation (for minimizing damage caused by disasters) and quick recovery. In FY2016, we reinforced our capability to respond to emergencies, which covers our supply chains as well.

One initiative in this regard involves sending questionnaires on Business Continuity Plan (BCP) to our suppliers as a part of our efforts to ensure stable procurement of raw materials. Based on the survey responses, we conduct follow-ups and offer solutions to further reinforce BCM in Japan. Going forward, we will gradually push forward stable procurement outside of Japan in a bid to establish a global procurement system.

In an attempt to raise the level of initial response to disruptions in logistics services, we organized drills involving multiple sites and ensured cooperation with external services, in addition to drawing up a code of behavior for the Crisis Management Team and holding a

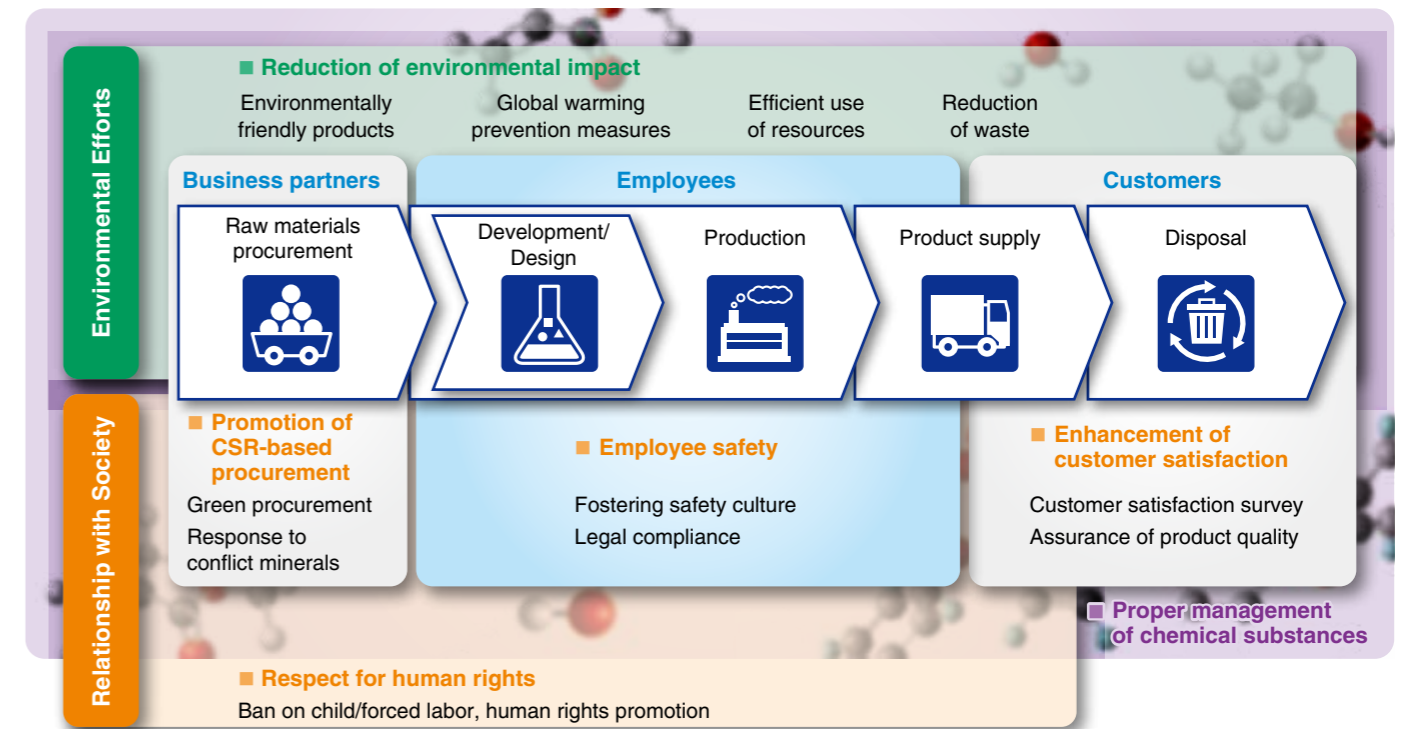
workshop on the code. We are also investigating BCP of warehouses located in Japan to build a framework for early restoration of logistics services. Going forward, we will continue to perform drills through both internal and external collaborations so that we can deliver our products to customers even in times of emergency.

Chemical Spill Response Drills

Taiwan Nitto Optical Co., Ltd. has been highly acclaimed by the Taichung City Fire Department for its expertise in fire and other disaster prevention and hazardous material management. On April 27, 2016, the company invited 30 people from the Fire Department for a joint response drill against chemical spills.

This event helped them to not only verify their BCP and enhance preparedness, but also set a model for management and handling of chemicals in the Taichung production complex.

Value Chain Management



The Nitto Group takes into account any and all impacts that its business undertakings throughout the value chain from R&D to disposal might have on society, and fulfills its corporate social responsibility by complying with laws and regulations in every country/region that it operates in and by respecting the spirit behind such legislation.

Relationship with Society

Always keeping in mind the environmental impact of its business activities, the Nitto Group promotes the wellbeing of its stakeholders by practicing CSR-based procurement, increasing customer satisfaction, ensuring the safety of its employees, and respecting human rights.

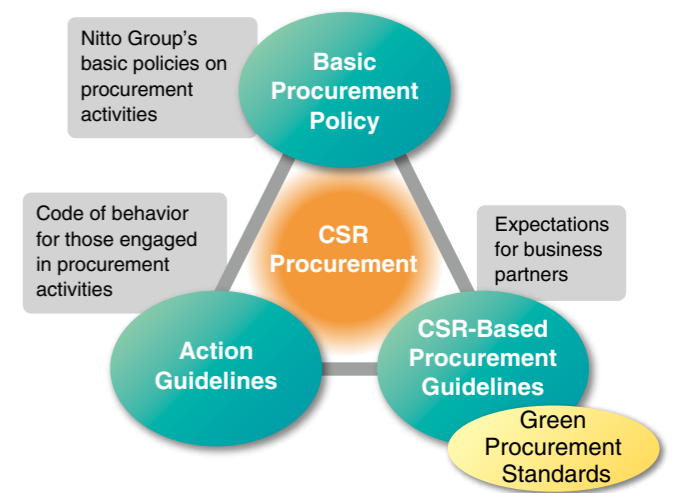
In FY2017, questionnaires will be distributed to business partners to find out their responses to each of the requirements in the CSR-Based Procurement Guidelines. Similar questionnaires will also be conducted with new business partners going forward.

The Nitto Group wishes to establish a win-win relationship with all of its business partners and enjoy the trust of every stakeholder.

Promotion of CSR-Based Procurement

The Nitto Group pursues CSR-based procurement so that it can become an entity that is trusted and chosen by customers, business partners, and other stakeholders. In order to implement the Basic Procurement Policy, it makes every effort not to deviate from corporate ethics or social norms in accordance with the Action Guidelines.

Business partners are also asked to engage in fair and equitable trade, comply with corporate ethics and applicable laws, and show consideration for the environment in line with the CSR-Based Procurement Guidelines, so that the practice of CSR-based procurement throughout the supply chain can be ensured.



Green Procurement

So far, the Nitto Group has pursued green procurement by preferentially procuring materials with little environmental impact from environmentally conscious business partners.

In early FY2017, Nitto Group companies in Japan updated their requirements concerning green procurement for business partners, which are included in the sixth edition of the Green Procurement Standards, and revised the checklist in order to monitor the progress of green procurement. Going forward, Nitto Group companies outside of Japan will also be urged to implement the Standards.

Response to Conflict Minerals

The Nitto Group properly manages information on chemical substances contained in raw materials and produced within the Group, and discloses such information to its customers both appropriately and promptly. The Nitto Group has made clear its policy on non-use of conflict minerals* and provides all relevant information as appropriate with cooperation from its business partners.

* Minerals that are produced in conflict zones and used to finance armed groups

Enhancement of Customer Satisfaction

The Nitto Group is engaged in a variety of initiatives in order to deliver products and services that satisfy customers.

To achieve the best possible product quality, the Nitto Group has introduced activities using Failure Mode and Effect Analysis (FMEA), which is an analysis technique for advance prediction of product failure and defects so that preventive measures may be taken, pursues SBSQ (Same Brand Same Quality) activities with the purpose of maintaining an identical level of quality for all products with the same serial number, irrespective of where they were made, and develops its human resources accordingly. In FY2016, past quality defect cases were utilized to take preventive measures by going back to the R&D stage with the aim of meeting customer requests to the greatest possible extent.

Also, starting from the Onomichi and Toyohashi Plants, dashboard cameras have been attached to forklifts to prevent recurrence of accidents within internal logistics services, thereby achieving timely delivery without compromising on quality. Now that the logistics management system that began construction in FY2014 has been completed in South Korea, Taiwan, and China, even further improvement of logistics efficiency is expected.

In addition to the above, the Nitto Group promptly and appropriately provides information on the properties and handling of chemical substances and other materials needed by customers.

Thanks to these endeavors, every product and service that

the Nitto Group provides is highly regarded by customers and markets both in and outside of Japan. To further improve those products and services, the Nitto Group periodically conducts customer satisfaction surveys and feeds survey findings back to the relevant departments.

Environmental Efforts

The Nitto Group acts with integrity to reduce the environmental impact that its business activities generate, out of consideration for the environment on a regional and global scale.

Reduction of Environmental Impact

The Nitto Group uses a large quantity of chemical substances for its business activities, and this raises concerns about potential impact on the environment. For instance, organic solvent vaporizes at the adhesive tape production process and, although it is rendered harmless along the way, minute quantities of organic solvent gas are discharged into the atmosphere. In addition to chemical substances, large quantities of energy, raw materials, and water are used for production, which inevitably result in the emission of CO₂, waste, and effluent. There are concerns that these byproducts can have an adverse effect on the environment. With this in mind, the Nitto Group has set its “responses to climate change, resource depletion, the water crisis, and decreased biodiversity” as one of its material issues. In the current mid- and long-term plan, reduction targets have been set for CO₂ and atmospheric toluene emissions and waste discharge and efforts are being made toward them. For other environmentally hazardous substances, the Nitto Group not only has complied with the relevant laws and regulations of each country, but also has reduced the quantities of substances subject to the PRTR*¹ system that are emitted into the atmosphere. The Nitto Group’s policy is to set internal standards that are more rigorous than required, so that such substances can be managed on a voluntary basis.

*1 PRTR: Pollutant Release and Transfer Register

Global Warming Prevention Measures

To combat global warming, the Nitto Group remains committed to energy conservation in processes and equipment that consume large quantities of energy. To plants that consume large quantities of energy, an “energy visualization system” has been introduced to conduct detailed monitoring. The system allows determination of

which equipment and production processes require energy reduction and quantification of how much energy consumption has been reduced due to improvements.

Following its success at some Japanese sites, the cogeneration system*² was introduced to Nitto Group companies in Europe in FY2016. Greater energy use efficiency is expected to reduce CO₂ emissions by approximately 1,400 tons in a year.

In response to the resolution in the Montreal Protocol to discontinue production of specified CFCs, the Nitto Group announced in FY2016 its policy to cease use of any and all equipment using specified CFCs.

Accordingly, Nitto Group companies in Japan, Taiwan, the U.S., and Europe will abolish all such equipment by 2020, and those in other regions will do so by 2030. Based on the data on usage of such equipment, replacement has begun according to schedule.

The Nitto Group will continue to promote anti-global warming measures while sharing all relevant information among its companies.

Reduction of Waste

The Nitto Group uses Material Flow Cost Accounting*³ (MFCA) to reduce waste generation. Known by the Japanese shorthand *Mate Furo*, this environmental management method helps to cut down unnecessary resource use by visualizing loss of raw materials and energy.

The Nitto Group played a leading role in an MFCA international standardization project for its implementation in a supply chain, and rendered its services to the publication of ISO 14052 in March 2017. It is expected that MFCA will be introduced to various aspects of the organization, including the supply chain.

Concerning hazardous waste, the Nitto Group has external services process such waste properly and shares information on its disposal within the Group.

Efficient Use of Resources

Effluent generated from production processes of displays and electronic devices is discharged after proper treatment and/or recycled within the organization by using the Nitto Group’s own membrane products for the sake of efficient use of resources.

*2 A system that recovers exhaust heat while generating electric power through the use of petroleum or gas as a fuel

*3 An environmental accounting method that monitors resource and energy losses from the production process to visualize both physical and monetary waste; made into an ISO international standard (ISO 14051) in 2011

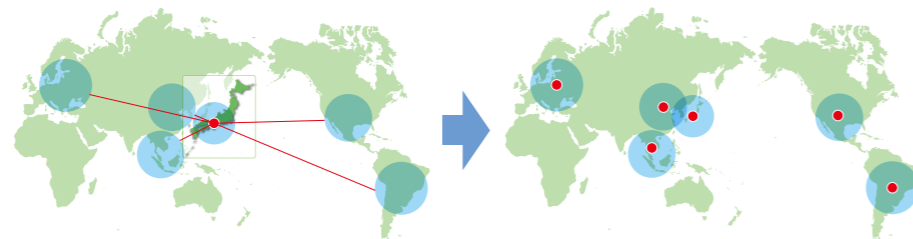
Reinforcement of the Chemical Substance Management System

The Nitto Group is building a chemical substance management system led by those in the relevant regions in order to be able to promptly respond to changes in the laws and regulations of each country/region.

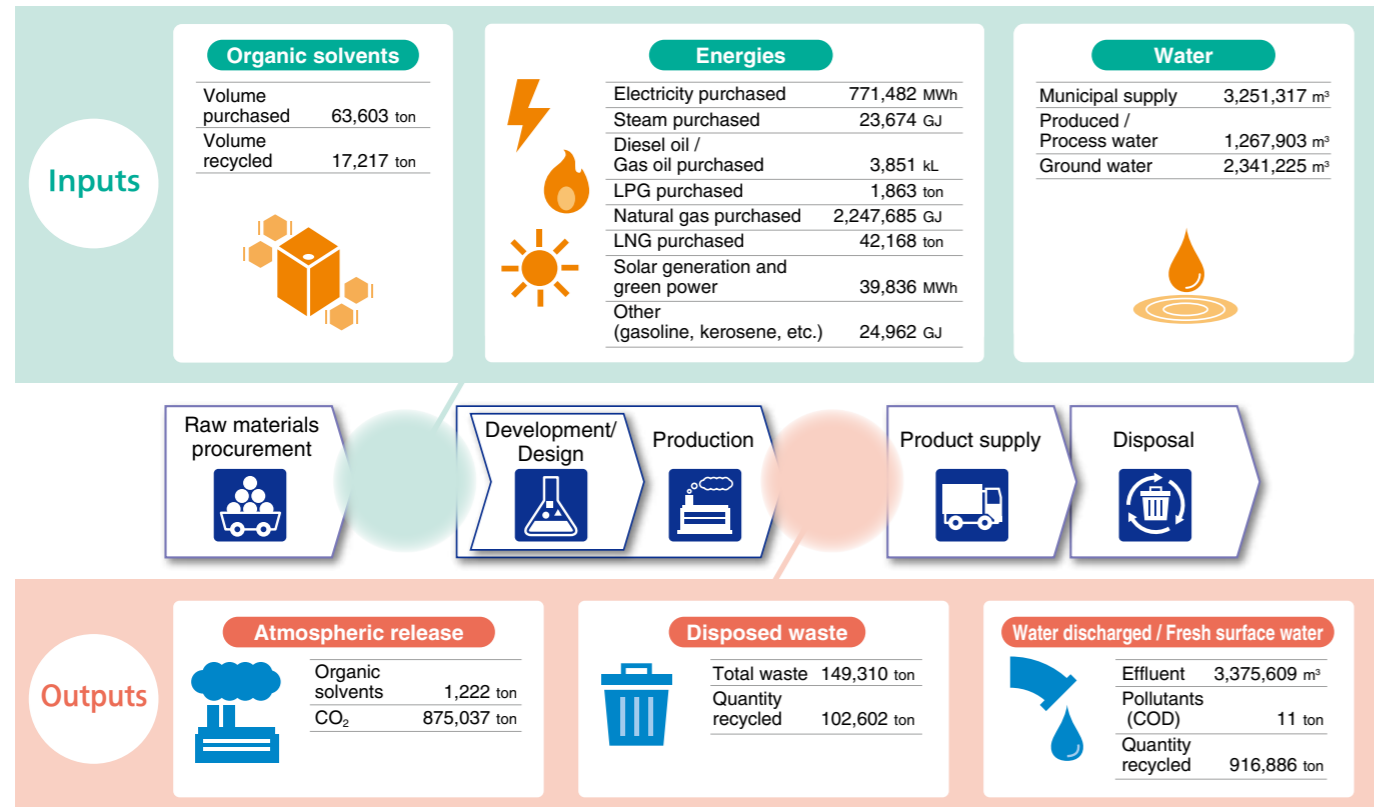
In FY2016, surveys were conducted mainly at sites where regulated chemical substances are frequently used to check the progress of that initiative and comprehend any problems. The surveys found that, although information on each country/region’s laws and regulations and what raw materials are used is managed under the lead of the relevant regions, most information on intermediate products and finished products is still placed under centralized management in Japan.

In FY2017, we will draw up an improvement plan based on the status of each site’s chemical substances management, so that every region can take the lead in managing such information in its territories.

■ From central management to region-led management



Material Flow



Kameyama Plant's transition to ISO 14001: 2015

The Kameyama Plant was certified for ISO 14001 as a collective entity of multiple business divisions and Group companies that is overseen by the head of the plant. One of the challenges that they faced with when moving to the 2015 version involved how to integrate the requirements of the environmental management system into their business process. To address this challenge, they realigned their organization into one in which the heads of each business division oversee the status of ISO certification, and invited external experts to hold internal training sessions for all management-level employees. These efforts paid off when the Kameyama Plant was certified for the ISO 14001: 2015 in March 2016.

Using this as a model, a task force team has been assembled to spread their initiative throughout the Nitto Group.



Internal training held at the Kameyama Plant

Environmental Data

Total Energy Input

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Japan	4,385,508	4,218,336	4,321,749
The Americas	245,444	377,032	1,173,438
Europe	342,474	353,345	304,411
Asia and Oceania	1,781,411	1,732,841	1,808,486
Total	6,754,837	6,681,554	7,608,084

CO₂ Emissions (Scopes 1 + 2)

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Japan	540,689	521,562	505,267
The Americas	27,059	37,430	72,555
Europe	44,090	44,919	47,177
Asia and Oceania	241,294	233,983	250,039
Total	853,132	837,894	875,037

Water Withdrawal

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Japan	4,328,713	4,171,581	4,140,776
The Americas	580,896	719,810	666,267
Europe	85,351	88,057	82,641
Asia and Oceania	2,202,531	1,966,708	1,970,761
Total	7,197,491	6,946,156	6,860,445

COD Discharge / Fresh Surface Water

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Japan	15.1	11.4	9.0
The Americas	0	0	0
Europe	0	0	0
Asia and Oceania	2.2	2.0	2.1
Total	17.3	13.4	11.1

Disposed Waste

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Japan	74,658	73,365	75,079
The Americas	7,532	8,370	11,423
Europe	9,697	10,426	10,902
Asia and Oceania	66,040	57,893	51,905
Total	157,927	150,054	149,310

Percentage of Disposed Waste Recycled

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Japan	92	93	98
The Americas	23	17	20
Europe	57	56	97
Asia and Oceania	31	28	31
Total	61	61	69

Hazardous Waste

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Japan	6,114	6,248	8,363
The Americas	438	495	2,033
Europe	656	654	597
Asia and Oceania	37,311	30,055	23,823
Total	44,519	37,452	34,816

Atmospheric Release of PRTR Substances (non-consolidated)

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Toluene	437.1	585.7	590.3
Xylene	8.9	9.0	5.1
N-hexane	10.6	11.5	10.1
Butyl acrylate	2.6	3.1	0.3
2-hydroxyethyl acrylate	0.2	0.1	0.0

Atmospheric Release of NO_x and SO_x (non-consolidated)

	Fiscal 2016		Fiscal 2016
NO _x	11	SO _x	225

Consolidated Financial Statements Consolidated Statements of Financial Position

	(Yen in Millions)	
	Amount	
	As of March 31, 2017	As of March 31, 2016
Current assets	563,798	502,253
Cash and cash equivalents	280,343	240,891
Trade and other receivables	173,362	149,305
Inventories	88,701	88,499
Other financial assets	5,455	8,662
Other current assets	15,936	14,894
Non-current assets	316,100	323,651
Property, plant and equipment	249,541	263,645
Goodwill	7,300	2,663
Intangible assets	13,829	10,634
Investments accounted for using equity method	326	319
Financial assets	8,799	7,869
Deferred tax assets	27,087	29,146
Other non-current assets	9,215	9,372
Total assets	879,899	825,905

	(Yen in Millions)	
	Amount	
	As of March 31, 2017	As of March 31, 2016
Current liabilities	174,557	153,817
Trade and other payables	110,840	96,145
Bonds and borrowings	1,097	3,395
Income tax payables	15,978	3,753
Other financial liabilities	9,660	12,477
Other current liabilities	36,980	38,044
Non-current liabilities	50,920	54,196
Bonds and borrowings	3,000	3,000
Other financial liabilities	1,449	722
Defined benefit liabilities	42,838	47,594
Deferred tax liabilities	847	349
Other non-current liabilities	2,784	2,530
Total liabilities	225,477	208,014
Equity attributable to owners of the parent company	653,772	614,425
Share capital	26,783	26,783
Capital surplus	56,139	56,681
Retained earnings	603,886	559,351
Treasury stock	-50,876	-51,016
Other components of equity	17,839	22,624
Non-controlling interests	648	3,465
Total equity	654,421	617,891
Total liabilities and equity	879,899	825,905

Consolidated Financial Statements Consolidated Statements of Income

	(Yen in Millions)	
	April 1, 2016 - March 31, 2017	April 1, 2015 - March 31, 2016
Revenue	767,710	793,054
Cost of sales	528,592	548,354
Gross profit	239,118	244,700
Selling, general and administrative expenses	109,317	115,040
Research and development expenses	30,366	32,120
Other income	6,773	8,714
Other expenses	13,618	3,855
Operating income	92,589	102,397
Financial income	1,065	1,140
Financial expenses	1,848	1,527
Equity in profits (losses) of affiliates	-13	-13
Income before income taxes	91,791	101,996
Income tax expenses	28,101	20,006
Net income	63,690	81,989
Net income attributable to:		
Owners of the parent company	63,453	81,683
Non-controlling interests	236	306

Consolidated Financial Statements Consolidated Statements of Cash Flows

	(Yen in Millions)	
	April 1, 2016 - March 31, 2017	April 1, 2015 - March 31, 2016
I. Cash flows from operating activities		
Income before income taxes	91,791	101,996
Depreciation and amortization	48,556	48,537
Impairment losses	2,341	51
Increase (decrease) in defined benefit liabilities	944	-742
Decrease (increase) in trade and other receivables	-25,161	32,082
Decrease (increase) in inventories	-1,328	542
Increase (decrease) in trade and other payables	15,382	-9,181
Interest and dividend income	829	985
Interest expenses paid	-385	-534
Income taxes (paid) refunded	-13,742	-34,146
Others	710	1,067
Net cash provided by (used in) operating activities	119,939	140,658
II. Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	-43,178	-63,047
Proceeds from sales of property, plant and equipment and intangible assets	537	2,823
Decrease (increase) in time deposits	2,550	395
Proceeds from sales of investment securities	77	3,009
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-4,796	—
Payments for transfer of business	-4,752	—
Others	-176	-266
Net cash provided by (used in) investing activities	-49,739	-57,085
III. Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-1,973	-1,767
Repayment of long-term loans payable	—	-581
Decrease (increase) in treasury stock	-0	-20,007
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-3,224	—
Cash dividends paid	-23,533	-22,297
Others	-151	-247
Net cash provided by (used in) financing activities	-28,884	-44,902
IV. Effect of exchange rate changes on cash and cash equivalents	-1,864	-12,339
V. Net increase (decrease) in cash and cash equivalents	39,451	26,332
VI. Cash and cash equivalents at the beginning of period	240,891	214,559
VII. Cash and cash equivalents at the end of period	280,343	240,891

Consolidated Financial Statements
Consolidated Statements of Changes in Equity

April 1, 2016 through March 31, 2017

(Yen in Millions)

	Share capital	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance at the beginning of current year	26,783	56,681	559,351	-51,016	22,624	614,425	3,465	617,891
Net income			63,453			63,453	236	63,690
Other comprehensive income					-170	-170	-175	-345
Total comprehensive income	—	—	63,453	—	-170	63,283	60	63,344
Share-based payment transactions		114				114		114
Dividends			-23,533			-23,533	-151	-23,685
Changes in treasury stock		-34		139		105		105
Transfers from other components of equity to retained earnings			4,614		-4,614	—		—
Additional purchase of shares of consolidated subsidiaries		-622				-622	-2,726	-3,349
Total transactions with owners	—	-542	-18,918	139	-4,614	-23,936	-2,878	-26,814
Balance at the end of current year	26,783	56,139	603,886	-50,876	17,839	653,772	648	654,421

<Note>

- Part-time employees are included.
- The exchange rate used was JPY112.19 to USD1.00, which was the rate as at March 31, 2017.
- Effective from the fiscal year ended March 31, 2014, the Company and some of its consolidated subsidiaries changed the method of recognition of revenue to one based on the time of delivery to customers from the prior one which was based mainly on the time of shipment. The figures for the fiscal year ended March 31, 2013, are those after the retrospective application of the change except for the figures in "Segment information by geographic area".
- From the fiscal year ended March 31, 2015, the Nitto Denko Group has implemented the International Financial Reporting Standards (IFRS) to prepare its consolidated financial statements (date of transition to IFRS: April 1, 2013). Accordingly, the financial data for the fiscal year ended March 31, 2014 is also presented based on the IFRS.
- The 10-year Summary is presented based on the International Financial Reporting Standards (IFRS). The term based on the Japanese standard for "Revenue" is "Net sales," "Net income attributable to owners of the parent company" is "Net income," "Equity attributable to owners of the parent company per share" is "Net assets per share," "Basic earnings per share" is "Net income per share," "Total assets" is "Total assets," "Equity attributable to owners of the parent company" is "Equity," "Ratio of profit attributable to owners of the parent company to total assets" is "Return on assets," "Return on equity attributable to owners of the parent company" is "Return on equity" and "Ratio of equity attributable to owners of the parent company to total assets" is "Equity to total assets."

Business Results
10-Year Summary

Consolidated financial results of the fiscal years (April 1- March 31)

	Japanese GAAP							IFRS				IFRS
	2007	2008	2009	2010	2011	2012	2013	2013	2014	2015	2016	2016
Statement of income												
Revenue	745,259	577,922	601,859	638,556	607,639	671,253	749,835	749,504	825,243	793,054	767,710	6,842,945
Operating income	77,954	13,838	56,086	85,245	56,491	68,482	72,254	72,503	106,734	102,397	92,589	825,287
ratio to revenue	10.5%	2.4%	9.3%	13.3%	9.3%	10.2%	9.6%	9.7%	12.9%	12.9%	12.1%	12.1%
Ordinary income	74,468	14,807	58,833	85,143	58,436	67,182	71,658	—	—	—	—	—
ratio to revenue	10.0%	2.6%	9.8%	13.3%	9.6%	10.0%	9.6%	—	—	—	—	—
Net income attributable to owners of the parent company	46,634	267	37,570	55,743	31,066	43,696	51,018	51,892	77,876	81,683	63,453	565,585
ratio to revenue	6.3%	0.0%	6.2%	8.7%	5.1%	6.5%	6.8%	6.9%	9.4%	10.3%	8.3%	8.3%
Segment information by geographic area												
Japan Revenue	256,288	207,263	203,982	218,528	194,636	192,600	186,320	185,990	189,779	180,987	186,979	1,666,628
Japan Operating income	44,969	3,305	34,897	64,376	39,571	44,338	43,263	44,112	70,322	60,793	51,979	463,312
Americas Revenue	45,054	39,002	37,766	36,116	35,739	40,014	52,085	52,085	59,451	75,344	80,123	714,172
Americas Operating income	338	-1,298	2,012	-289	-1,363	1,768	1,198	1,373	-1,725	12,241	16,570	147,696
Europe Revenue	29,172	25,519	26,933	23,245	21,189	31,057	38,834	38,834	43,041	42,750	40,521	361,182
Europe Operating income	2,178	-20	1,147	1,471	480	898	3,104	3,025	2,729	3,081	3,727	33,220
Asia & Oceania Revenue	414,743	306,136	333,177	360,665	356,074	411,942	472,594	472,594	532,971	493,972	460,085	4,100,945
Asia & Oceania Operating income	27,614	8,368	17,952	19,032	15,514	20,258	22,158	23,874	36,573	24,410	22,905	204,163
Per share information							Yen				Yen	U.S. dollars
Equity attributable to owners of the parent company per share	2,297.1	2,148.2	2,320.9	2,540.3	2,635.9	2,961.9	3,172.0	3,159.9	3,706.0	3,785.9	4,027.6	35.90
Basic earnings per share	280.1	1.6	225.5	337.4	188.9	265.5	309.3	314.6	471.8	495.2	390.9	3.48
Dividends per share	80.0	80.0	40.0	90.0	100.0	100.0	100.0	100.0	120.0	140.0	150.0	1.34
Shares outstanding (thousands)	173,758	173,758	173,758	173,758	173,758	173,758	173,758	173,758	173,758	173,758	173,758	—
Number of shareholders	41,309	63,479	66,032	59,059	65,321	49,234	55,009	55,009	35,014	37,694	29,742	—
Total assets	595,972	558,258	624,992	653,961	651,908	740,949	781,352	783,583	855,433	825,905	879,899	7,842,936
Equity attributable to owners of the parent company	382,627	357,839	386,664	417,606	433,541	488,179	523,391	521,385	612,016	614,425	653,772	5,827,364
Ratio of profit attributable to owners of the parent company to total assets (ROA)	7.8%	0.0%	6.4%	8.7%	4.8%	6.3%	6.7%	6.8%	9.5%	9.7%	7.4%	—
Return on equity attributable to owners of the parent company (ROE)	12.5%	0.1%	10.1%	13.9%	7.3%	9.5%	10.1%	10.5%	13.7%	13.3%	10.0%	—
Ratio of equity attributable to owners of the parent company to total assets	64.2%	64.1%	61.9%	63.9%	66.5%	65.9%	67.0%	66.5%	71.5%	74.4%	74.3%	—
Capital investment	59,406	55,926	37,147	26,882	33,758	49,807	75,814	75,814	56,721	60,420	36,538	325,680
Depreciation cost	49,617	50,556	44,810	39,940	36,806	36,467	43,188	43,223	45,662	48,537	48,556	432,801
R&D expenses	22,096	21,716	20,876	21,949	25,003	27,573	28,573	28,444	28,240	32,120	30,366	270,666
Number of employees (Note 1)	33,663	28,640	31,288	33,192	32,198	30,382	31,504	31,504	31,997	30,007	29,617	—

Contributing to Local Communities

Matching Gift to the American Heart Association

In February 2017, Nitto BioPharma, Inc. (NBPI) matched funds graciously raised by its employees following the unexpected passing of an NBPI employee's spouse. The donation total of USD 2,700 was given to the American Heart Association based on the employee's wishes.

Fundraising for Wells

In 2010, the Nitto Group started a drive to raise money for digging wells under the banner of the slogan, "Support the Challengers with Shared Enthusiasm." This campaign was started out of a sincere wish to protect children in developing Asian countries from drinking unsanitary water that can make them sick and to free them from the heavy burden of drawing water, instead allowing them to take on challenges to make their dreams come true.

So far, we have donated wells in India, Nepal, Sri Lanka, the Philippines, Myanmar, Bangladesh, and Laos via the Japan Asian Association & Asian Friendship Society, providing some 12,000 people with access to sanitary water.

A woman in Muska Village of Gadchiroli District in Maharashtra State (central India) said, "My children and I used to be sickly all the time, but we have gotten a lot better. We are now very happy."



Well in Maharashtra, India

Support for Indigenous Peoples in the Philippines

On June 25, 2016, Nitto Denko Philippines Corporation (NDP) reached out to the Aeta people, who comprise one of the Philippines' indigent communities living in the central mountainous region of Luzon Island. Among the earliest inhabitants of the Philippines, they suffer from dire poverty because assistance and support for the community is seldom extended to their remote areas.

In addition to clothing and daily supplies donated by its employees, NDP provided the faculty and students of a local school with trainings to acquire safety and health knowledge and donated fire extinguishers and emergency preparedness equipment to the school and hygiene kits to the children.



Donations from NDP

Support for a New Jersey Facility for Domestic Violence Victims

In fiscal 2016, Nitto, Inc. (Lakewood, NJ) offered its support to Dottie's House, a facility for women and children who have survived domestic violence. School supplies were donated to children at the beginning of the new school year in September, and turkeys, pies, and other dishes were delivered to all of the families living in the facility for Thanksgiving Day in November. During the holiday season, toys, gift cards, clothing, and other gifts from the wish lists of the residents of the facility were provided through an NPO.

Promotion of Education / International Interaction

Nitto Toyohashi Plant Welcomes Overseas Inspection Group

On July 20, 2016, the Toyohashi Plant hosted a group of 22 top managers and executives of manufacturing businesses from eight countries, including Thailand, India, and Egypt, as a part of a training program organized by the Overseas Human Resources and Industry Development Association (HIDA)*. This visit became a reality at the request of the organizer, who wanted the trainees to learn from practical examples of material flow cost accounting (MFCA), and



Trainees listen to MFCA presentation by an employee

Nitto was singled out for the honor since it was among the first to introduce MFCA.

Following an introduction to Nitto's environmental management, the trainees deepened their understanding of MFCA as they watched it in practice there.

* A Japanese organization for human resources development in developing countries that promotes technical cooperation through training, dispatch of experts, and other programs.

Donation of PE Equipment/Supplies to an Ethnic Minority Elementary School in China

Nitto Denko (China) Investment Co., Ltd. (NC) supports Total Football Asia (TFA), an organization geared toward promoting soccer in Asia. NC donated soccer balls on September 27, 2016 in support of TFA's initiative to "deliver soccer balls to children in Asia," and on another occasion provided ping-pong tables, basketballs, and volleyballs to Fengyi Town Elementary School in Mao County, Sichuan Province. Attended by children of the Qiang ethnic minority group, who represent one of China's ethnic minorities, the school had been reconstructed after the 2008 Sichuan earthquake, but still lacked physical education equipment. These special gifts were purchased using the funds raised by members of the Nitto Group in China, which were matched by NC.

After the presentation ceremony, attending members of the TFA gave a soccer workshop, where children enjoyed playing soccer with the brand new balls.



Supporting Sports

36th Osaka International Women's Marathon

Since 2005, Nitto has been a dedicated sponsor of the Osaka International Women's Marathon to "Support the Challengers with Shared Enthusiasm." For this event, which is the 13th meet since that time, the largest number of volunteers ever offered a helping hand, cheering on the challengers as they ran by providing water and offering sport taping for athletes.



The start (Photo credit: Sankei Shimbun)



"COLOCOLO Candy Catch"

Nitto also sponsored the Osaka Half Marathon and Osaka Enjoy RUN and organized its own unique events to great acclaim, including commemorative photograph sessions for runners and the "COLOCOLO Candy Catch," in which guests could attempt to gather up candy using Nitto's COLOCOLO adhesive roller.

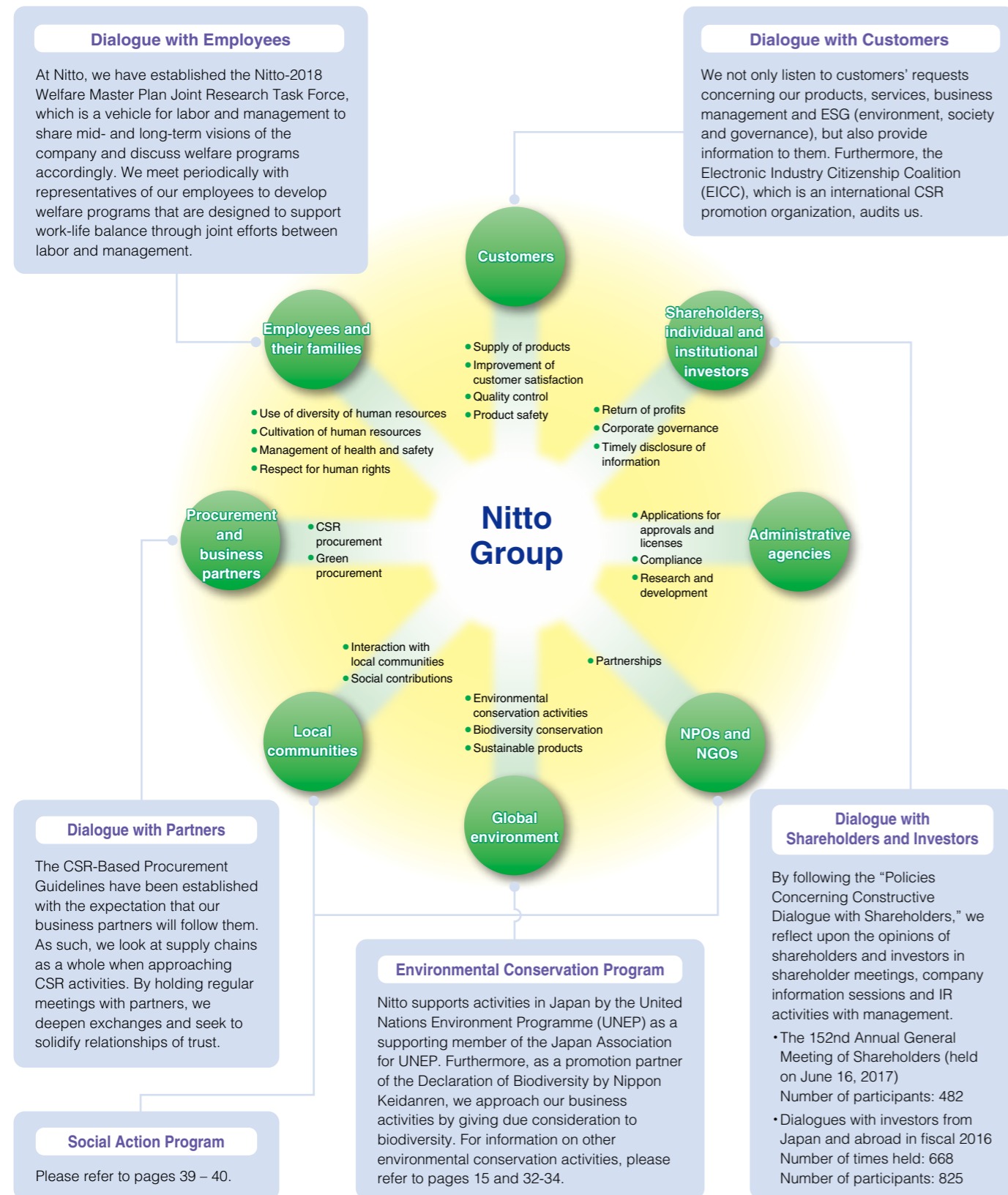
At the sponsor booth, many visitors were invited to play games in which they were encouraged to come in contact with our products so that they would feel closer to the Nitto Group. Looking forward to 2018, when Nitto will celebrate its first centennial, a corner was set up where guests could write the challenges they wish to achieve on *ema* (wooden votive plaques). The *ema* were then offered to Sumiyoshi Grand Shrine.



Ema

Relationships with Stakeholders

The Nitto Group engages with our stakeholders through various activities. We have developed alongside our stakeholders by establishing face-to-face relationships as much as possible, responding to feedback from them and adopting countermeasures to improve business performance.



Disclaimer

This report contains future projections as well as past and present facts related to Nitto Denko Corporation (non-consolidated) and the Nitto Group (consolidated). These statements are based on information at the time of creation and may not be completely accurate at the time of reading. Please be advised that actual business activity results may differ materially from those described in the projections. All chapters of this report are also available in Japanese. In the event of any discrepancies between the two versions, the Japanese version will prevail.

About Business Performance and Financial Information

As we have applied International Financial Reporting Standards (IFRS) from fiscal 2014, business performance and financial information from fiscal 2014 described in this report are based on IFRS.

About Our Trademarks

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About Environmental Data

Figures for past years have been partly altered to reflect the increase or decrease in number of group companies covered, or changes in calculation procedures.



About the Front Cover

By incorporating the Nitto Group's products, which are used in every aspect of our daily lives, we express the business fields that we focus on.

Illustration of the front cover: Tetsuzi Yamaguchi

Printing and Binding

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Nitto Denko Corp. has been reconfirmed for inclusion in the Ethibel EXCELLENCE Investment Register since 30/06/2017. This selection by Forum ETHIBEL (www.forumethibel.org) indicates that the company performs better than average in its sector in terms of Corporate Social Responsibility (CSR).

Nitto

Innovation for Customers

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