This document is a translation of the Japanese language original for information purposes and is prepared as a guide for non-Japanese-speaking shareholders. In the event of a discrepancy, the Japanese original version shall prevail.

May 26, 2017

NOTICE OF
THE 152ND ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Shareholders:

It is our pleasure to invite you to the 152nd Ordinary General Meeting of Shareholders of Nitto Denko Corporation (hereinafter “the Company”) to be held as indicated below.

If you are unable to attend the meeting in person, you may exercise your voting rights in writing or electronically (e.g. over the Internet). Please review the attached reference materials for the general meeting of shareholders and exercise your voting rights as per the instructions on pages 3 and 4.

Sincerely,

Hideo Takasaki, President
Nitto Denko Corporation
1-1-2, Shimohozumi, Ibaraki, Osaka, Japan 567-0041
(Head Office: 4-20, Ofuka-cho, Kita-ku, Osaka, Japan 530-0011)

Date/time: Friday, June 16, 2017 from 10:00 a.m. (Reception desk opens at 9:00 a.m.)

Place: 3-1, Ofuka-cho, Kita-ku, Osaka, Japan
Grand Front Osaka, Knowledge Capital Congrès Convention Center (North Building B2F)

Meeting Agenda

Items to be reported:

1. Business Report, Consolidated and Non-Consolidated Financial Statements for the 152nd term (from April 1, 2016 to March 31, 2017)
2. Auditing results of Consolidated Financial Statements by Accounting Auditors and the Board of Corporate Auditors

Items to be resolved:

Item 1	Approval of the proposed dividends from surplus
Item 2	Approval of the payment of bonus for Directors
Item 3	Election of nine Directors
Item 4	Election of one Corporate Auditor
Item 5	Determination of the amount of compensation provided as stock options to Directors and related details

◆Any revisions of reference materials for the general meeting of shareholders, Business Report, Consolidated Financial Statements, and Non-Consolidated Financial Statements will be disclosed on our Investor Relations website.

◆This English translation of this notice can be referred on our Investor Relations website (English version).

- Investor Relations website (Japanese): https://www.nitto.com/jp/ja/ir/
- Investor Relations website (English): https://www.nitto.com/jp/en/ir

■ When attending, it is necessary to present the enclosed Voting Rights Exercise Form at the reception of the venue. To conserve resources, we ask that you kindly bring this Notice with you to the meeting. Your cooperation is appreciated.

■ The casual dress code will be followed at the meeting. Shareholders are encouraged to dress casually as well.

How to Exercise Voting Rights

I. Exercising your voting rights

1 Voting at the general meeting of shareholders
Please present the Voting Rights Exercise Form at the reception of the venue.
Meeting date/time: Friday, June 16, 2017 from 10:00 AM (JST)

2 Mailing the Voting Rights Exercise Form
Please mail the Voting Rights Exercise Form after indicating your approval or disapproval of each item.*
Deadline for mail arrival: Thursday, June 15, 2017 at 5:00 PM (JST)

3 Internet voting (PC or mobile phone)
Please indicate your approval or disapproval of each item on the Exercise of Voting Rights Website: http://www.evote.jp/ (Japanese only). [Please refer to the next page for details.]
Deadline for voting: Thursday, June 15, 2017 at 5:00 PM (JST)

* If you indicate neither approval nor disapproval of any items when exercising your voting rights through the Voting Rights Exercise Form, it will be assumed that you approve of those items.

II. To institutional investors (information on the electric voting rights exercise platform)

We currently make use of the electronic voting platform operated by ICJ Co., Ltd.

If nominal owners, including trust and custody services banks (including standing proxies), apply for use of this platform beforehand, it may be used in addition to the abovementioned Internet method as an electronic means of exercising voting rights for the general meeting of shareholders of the Company. Please note that the deadline for voting is Thursday, June 15, 2017 at 5:00 PM (JST), which is the same as the deadline for voting via the Internet.

III. Treatment of multiple exercises of voting rights

1. In the event of multiple votes cast using either the Voting Rights Exercise Form or by electronic means (via the Internet, etc.), the last vote shall be considered the effective exercise of your voting rights.
2. Even if the Voting Rights Exercise Form is returned, if your vote is cast via the Internet, etc., that vote shall be considered to be the effective exercise of your voting rights.

How to Exercise Voting Rights via the Internet

If you wish to vote via the Internet, you may do so by accessing the Exercise of Voting Rights Website (URL: http://www.evote.jp/ [Japanese only]) designated by the Company by using a PC or mobile phone. The site will be unavailable between the hours of 2:00 AM and 5:00 AM (JST) each day.

Please note that any costs arising from use of the Exercise of Voting Rights Website, including Internet provider connection fees and telecom rates charged by telecommunications carriers, shall be borne by the shareholder.

■ If you have any questions regarding the exercise of voting rights via the Internet, please call the following number.

Mitsubishi UFJ Trust and Banking Corporation Securities Agency Division (Help Desk)
Tel: 0120-173-027 (toll-free)
Hours: 9:00 AM to 9:00 PM (JST)

Reference Materials for the General Meeting of Shareholders

Item 1: Approval of the proposed dividends from surplus

We consider the stable return of our profits to shareholders to be one of our most important management issues and, before providing dividends, we comprehensively assess profit conditions and the dividend payout ratio, and also consider improvement of financial conditions, prior investments for technical innovation and business development, and retained earnings. Proposed year-end dividends for the 152nd term are as described below. Since we have paid interim dividends of 75 yen per share, the amount of annual dividend per share will be 150 yen, an increase of 10 yen compared to the previous term.

Matters concerning year-end dividends

(1) Type of dividend property
Cash

(2) Matters concerning distribution of dividend property and its total amount
75 yen per share of our common stock: 12,174,322,800 yen in total

(3) Effective date of distribution of dividends
June 19, 2017

Item 2: Approval of payment of bonus for Directors

We propose providing the total amount of 204 million yen as a bonus based on the results of this business year for five of the eight Directors (excluding the three Outside Directors) as of the end of this business year and for the Director who retired during the business year under review. We would like to ask our shareholders to leave the specific amount for each person and payment date and method to be decided by the Board of Directors.

Item 3: Election of nine Directors

At the close of this Ordinary General Meeting of Shareholders, the terms of office of all eight current Board of Directors members will expire, and Representative Director Yukio Nagira and Director Koushi Mizukoshi will retire. We hereby propose the election of nine Directors, three of whom are Outside Directors.

The following are the candidates, with six being nominated for reelection and three nominated for new election.

Candidate number	Name	Current position and areas of responsibility in the Company	
1	Hideo Takasaki	Representative Director, President CEO (Chief Executive Officer), concurrently COO (Chief Operating Officer) of the Group	Reelection
2	Toru Takeuchi	Director, Executive Vice President, CFO (Chief Financial Officer) of the Group General Manager of Corporate Strategy Sector and General Manager of Corporate Accounting & Finance Division	Reelection
3	Toshiyuki Umehara	Director, Executive Vice President, CTO (Chief Technology Officer) of the Group General Manager of Corporate Technology Sector, concurrently General Manager of Transportation Business Sector	Reelection
4	Yasushi Nakahira	Director, Senior Vice President General Manager of Functional Base Products Sector, concurrently General Manager of Sales Management Sector	Reelection
5	Nobuhiro Todokoro	Vice President General Manager of Information Fine Materials Sector	New election
6	Yosuke Miki	Vice President, Deputy CTO General Manager of Information and Communication Technology Sector, concurrently Deputy General Manager of Corporate Technology Sector and General Manager of New Business Development Division	New election
7	Yoichiro Furuse	Outside Director	Reelection Independent Director Candidate for Outside Director
8	Takashi Hatchoji	Outside Director	Reelection Independent Director Candidate for Outside Director
9	Hiroshi Sato		New election Independent Director Candidate for Outside Director

* All of the Director candidates meet the "Criteria for Election of Board Members" provided on page 16 of this document.

* For the reasons for election of candidates for Directors, please refer to their Brief Profiles. For the candidates for Outside Directors, please refer to the Notes on the Candidates for Outside Director as well.

Candidate number

1 Hideo Takasaki (Date of birth: August 11, 1953)

For reelection

Number of Company shares owned: 12,100

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 9 years

Attendance at Board meetings: 12 out of 12

Brief Profile

April 1978	Joined Nitto Denko Corporation
June 2008	Director, Vice President
June 2010	Director, Senior Vice President
June 2011	Director, Executive Vice President
June 2013	Director, Senior Executive Vice President
April 2014	Representative Director, President CEO, concurrently COO
November 2016	Representative Director, President CEO, concurrently COO, concurrently CTO
April 2017	Representative Director, President CEO, concurrently COO (present)

Candidate number

2 Toru Takeuchi (Date of birth: January 1, 1959)

For reelection

Number of Company shares owned: 5,900

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 6 years

Attendance at Board meetings: 12 out of 12

Brief Profile

April 1981	Joined Nitto Denko Corporation
June 2010	Vice President, General Manager of Corporate Accounting Division, Corporate Sector
June 2011	Director, Vice President, CFO
June 2014	Director, Senior Vice President, CFO
June 2015	Director, Executive Vice President, CFO (present)

Candidate number

3 **Toshiyuki Umehara** (Date of birth: September 3, 1957)

For reelection

Number of Company shares owned: 1,800

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 2 years

Attendance at Board meetings: 12 out of 12

Brief Profile

April 1984	Joined Nitto Denko Corporation
June 2010	Vice President, General Manager of Optical Sector
June 2013	Senior Vice President, General Manager of Information Fine Materials Sector and Deputy General Manager of Functional Base Products Sector
April 2014	Senior Vice President, General Manager of Corporate Strategy Management Division, Corporate Sector, and General Manager of Procurement Business Division
June 2014	Senior Vice President, CIO (Chief Information Officer) of the Group General Manager of Corporate Strategy Management Division, Corporate Sector, General Manager of IT Management Division, and General Manager of Procurement Business Division
August 2014	Senior Vice President, CIO, General Manager of Corporate Strategy Management Division, Corporate Sector, and General Manager of IT Management Division
April 2015	Senior Vice President, General Manager of Automotive Products Sector
June 2015	Director, Executive Vice President, General Manager of Automotive Products Sector
April 2016	Director, Executive Vice President, General Manager of Transportation Business Sector
April 2017	Director, Executive Vice President, CTO General Manager of Corporate Technology Sector, concurrently General Manager of Transportation Business Sector (present)

Candidate number

4 **Yasushi Nakahira** (Date of birth: December 3, 1957)

For reelection

Number of Company shares owned: 15,085

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 2 years

Attendance at Board meetings: 12 out of 12

Brief Profile

April 1981	Joined Nitto Denko Corporation
June 2013	Vice President, General Manager of Membrane Division
October 2013	Vice President, General Manager of Functional Base Products Sector
April 2015	Vice President, General Manager of Functional Base Products Sector and Deputy General Manager of Sales Management Sector
June 2015	Director, Senior Vice President, General Manager of Functional Base Products Sector, concurrently General Manager of Sales Management Sector (present)

Candidate number

5 Nobuhiro Todokoro (Date of birth: June 1, 1965)

For new election

Number of Company shares owned: 1,000

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): —

Attendance at Board meetings: —

Brief Profile

April 1989	Joined Nitto Denko Corporation
April 2013	General Manager of Information Fine Materials Unit, Information Fine Materials Sector
June 2015	Vice President, General Manager of Information Fine Materials Unit, Information Fine Materials Sector
April 2017	Vice President, General Manager of Information Fine Materials Sector (present)

Candidate number

6 Yosuke Miki (Date of birth: June 19, 1965)

For new election

Number of Company shares owned: 1,000

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): —

Attendance at Board meetings: —

Brief Profile

April 1993	Joined Nitto Denko Corporation
July 2012	General Manager of HDD Business Division, Information and Communication Technology Sector
July 2013	General Manager of Fine Device Business Division, Information and Communication Technology Sector
April 2014	General Manager, Semiconductor Business Division, Information and Communication Technology Sector
January 2016	Deputy General Manager of Information and Communication Technology Sector, General Manager of Semiconductor Business Division
February 2016	General Manager of Information and Communication Technology Sector
June 2016	Vice President, General Manager of Information and Communication Technology Sector
April 2017	Vice President, Deputy CTO General Manager of Information and Communication Technology Sector, concurrently Deputy General Manager of Corporate Technology Sector and General Manager of New Business Development Division (present)

Candidate number

7 **Yoichiro Furuse** (Date of birth: November 4, 1941)

For reelection

Independent Director

Candidate for Outside Director

Number of Company shares owned: 2,000

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 3

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 10 years

Attendance at Board meetings: 12 out of 12

Brief Profile

April 1964	Joined Sumitomo Bank, Ltd.
June 1989	Director, Sumitomo Bank, Ltd.
October 1993	Executive Director, Sumitomo Bank, Ltd. (retired in June 1996)
June 1996	Senior Managing Director, Mazda Motor Corporation (retired in June 2000)
June 2001	Director, Sanyo Electric Co., Ltd.
June 2002	Representative Director and Vice President, Sanyo Electric Co., Ltd. (retired in October 2005)
Jan. 2006	Representative Director, Evanston Corporation (present)
June 2007	Outside Director, Nitto Denko Corporation (present)
September 2010	Non-Executive & Independent Director, Global Logistic Properties Limited (present)
July 2015	Chairman of Japan, Permira Advisers KK (present)
October 2015	Director, Sushiro Global Holdings Ltd. (retired in December 2016)
March 2016	Outside Director, Nasta Co., Ltd. (present)

[Important concurrent positions held at] Evanston Corporation, Global Logistic Properties Limited, and Permira Advisers KK

Notes on the Candidate for Outside Director

1) Reason for nomination as a candidate for Outside Director

   In this fiscal year, Mr. Furuse participated in all of the Board of Directors meetings (12) and made useful comments based on his deep insight into management, which was cultivated through his service as director and representative director at listed companies, and extensive experience.

   The Company believes that his insight and experience can continue to be reflected in the management of the Company. Hence, the Company proposes his appointment as an Outside Director.

2) Limited Liability Agreement

   The Company has executed an agreement with Mr. Furuse to limit his compensation liability to the degree stipulated in laws and regulations, and the Company intends to extend the agreement when he is reelected.

3) Base of judgment on independence

   The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 16 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Furuse as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Candidate number

8 Takashi Hatchoji (Date of birth: January 27, 1947)

For reelection

Independent Director

Candidate for Outside Director

Number of Company shares owned: 0

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 2 years

Attendance at Board meetings: 12 out of 12

Brief Profile

April 1970	Joined Hitachi, Ltd.
June 2003	Vice President and Executive Officer, Hitachi, Ltd.
April 2004	Senior Vice President and Executive Officer, Hitachi, Ltd.
April 2006	Representative Executive Officer, Executive Vice President, and Executive Officer, Hitachi, Ltd. (retired in March 2007)
June 2007	President and Representative Director, Hitachi Research Institute (retired in March 2009)
April 2009	Representative Executive Officer, Executive Vice President, and Executive Officer, Hitachi, Ltd. (retired in March 2011)
April 2011	Chairman of the Board, Hitachi America, Ltd. (retired in March 2015)
June 2011	Director, Hitachi, Ltd. (retired in June 2015)
June 2015	Advisor, Hitachi, Ltd. (retired in June 2016)
June 2015	Outside Director, Nitto Denko Corporation (present)

Notes on the Candidate for Outside Director

1) Reason for nomination as a candidate for Outside Director
In this fiscal year, Mr. Hatchoji participated in all of the Board of Directors meetings (12) and made useful comments based on his deep insight into management, which was cultivated through his service as representative executive officer and director of listed companies, and his extensive experience. The Company believes that his insight and experience can continue to be reflected in the management of the Company. Hence, the Company proposes his appointment as an Outside Director.

2) Limited Liability Agreement
The Company has executed an agreement with Mr. Hatchoji to limit his compensation liability to the degree stipulated in laws and regulations and the Company intends to extend the agreement when he is reelected.

3) Base of judgment on independence
The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 16 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Hatchoji as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Candidate number

9 Hiroshi Sato (Date of birth: September 25, 1945)

For new election

Independent Director

Candidate for Outside Director

Number of Company shares owned: None

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 4

Length of service (as of the close of this Ordinary General Meeting of Shareholders): —

Attendance at Board meetings: —

Brief Profile

April 1970	Joined Kobe Steel, Ltd.
June 1996	Director, Kobe Steel, Ltd.
April 1999	Director, Executive Officer, Kobe Steel, Ltd.
June 1999	Managing Executive Officer, Kobe Steel, Ltd.
June 2000	Director, Managing Executive Officer, Kobe Steel, Ltd.
June 2002	Director, Senior Managing Executive Officer, Kobe Steel, Ltd.
June 2003	Senior Managing Director, Kobe Steel, Ltd.
April 2004	Executive Vice President and Representative Director, Kobe Steel, Ltd.
April 2009	President, CEO and Representative Director, Kobe Steel, Ltd.
April 2013	Chairman of the Board and Representative Director, Kobe Steel, Ltd.
May 2013	Vice Chairman, Kansai Economic Federation (Kankeiren) (present)
June 2014	Member, Board of Directors (Outside), Sumitomo Dainippon Pharma Co., Ltd. (present)
April 2016	Senior Adviser & Director, Kobe Steel, Ltd.
June 2016	Senior Adviser, Kobe Steel, Ltd. (present)
June 2016	Outside Director, Sumitomo Electric Industries, Ltd. (present)

[Important concurrent positions held at] Kobe Steel, Ltd., Kankeiren, Sumitomo Dainippon Pharma Co., Ltd., and Sumitomo Electric Industries, Ltd.

Notes on the Candidate for Outside Director

1) Reason for nomination as a candidate for Outside Director
Mr. Sato has gained deep management insight and experience through his service as representative director and outside director at listed companies, which the Company believes will be instrumental in providing advice and opinions on the Company's management in general. Hence, the Company proposes his appointment as an Outside Director.

2) Limited Liability Agreement
When Mr. Sato is appointed, the Company intends to execute an agreement with him to limit his compensation liability to the degree stipulated in laws and regulations.

3) Base of judgment on independence
The Company stipulates "Criteria for Election of Independent Outside Directors and Outside Corporate Auditors" (please refer to page 16 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company intends to designate Mr. Sato as an Independent Director as stipulated by the Tokyo Stock Exchange and will report such designation to

the Exchange.

Item 4: Election of one Corporate Auditor

At the close of this Ordinary General Meeting of Shareholders, Corporate Auditor Yoshihiro Taniguchi will retire from office due to his resignation. Accordingly, we propose the election of one Corporate Auditor.

The following is the candidate for new election. The consent of the Board of Corporate Auditors has been obtained for the submission of this item.

Name	Current position and areas of responsibility in the Company	
Kageshi Maruyama	Senior Vice President, General Manager of Corporate Governance Department	New election

* The candidate for Corporate Auditor meets the "Criteria for Election of Board Members" provided on page 16 of this document.

* For the reasons for election of a candidate for Corporate Auditor, please refer to his Brief Profile.

Kageshi Maruyama (Date of birth: May 31, 1958)

For new election

Number of Company shares owned: 4,000

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): —

Attendance at Board meetings: —

Attendance at Board of Corporate Auditors meetings: —

Brief Profile

April 1981	Joined Nitto Denko Corporation
April 2002	General Manager of Electronic Equipment Market Division, Sales & Marketing Sector
April 2003	General Manager, Global Management, Corporate Sector
June 2004	General Manager of Corporate Business Development Department
May 2005	General Manager of Corporate Planning Department
June 2006	General Manager of Corporate Business Development Department
June 2011	Vice President, General Manager of Corporate Business Development Division
June 2015	Senior Vice President, General Manager of Corporate Business Development Division
September 2016	Senior Vice President, General Manager of Nucleic Acid Medicine Business Division
October 2016	Senior Vice President, General Manager of Corporate Governance Department (present)

Item 5: Determination of the amount of compensation provided as stock options to Directors and related details

In 2004, the Company abolished retirement benefits paid in cash to Directors and Corporate Vice Presidents and introduced an equity-based compensation stock option system as a replacement. As the stock options are granted as a way to effectively grant stocks in kind, those who are qualified can set aside an amount equal to the grant during a year while they are in service and acquire the stock by exercising their right after retirement.

With respect to the above-mentioned grant, it is proposed that the amount and related details of the equity-based compensation stock options that are planned to be granted to Directors in the current fiscal year be approved. Further, those who are granted the warrants will not include the Outside Directors.

(1) Amount of compensation provided as stock options

Since its approval at the 150th Ordinary General Meeting of Shareholders in 2015, the current amount of compensation for Directors of the Company is "up to 30 million yen per month (of which up to 3 million yen is allocated to Outside Directors)." Apart from this maximum compensation amount, warrants up to 131 million yen (to be the amount calculated based on the fair value at the time of issuing the warrants) will be issued to Directors of the Company as equity-based compensation stock options for a period of one year from the date of this Ordinary General Meeting of Shareholders. The number of Directors eligible to receive the warrants will be six, excluding the number of Outside Directors, under the condition that Item 3 is approved.

(2) Details of warrants as stock option compensation

The details of the warrants to be issued as equity-based compensation stock options within the extent of the above amount shall be as follows, and the specific matters concerning the issuance shall be determined by a resolution of the Board of Directors regarding the issuance of warrants.

1) Total number of the warrants and class and number of underlying shares that are subject to the warrants

Total number of the warrants: Up to 155 units

Class and number of underlying shares that are the subject of the warrants:

100 shares of common stock per warrant

(Maximum total number of shares: 15,500)

In the event that the Company merges, undergoes corporate separation, or splits or consolidates its common stock and it becomes appropriate to change the number of shares, the Company shall make any adjustment deemed necessary.

2) Amount to be paid upon exercise of the warrants

The amount to be paid for one underlying share of the warrants (exercise value) shall be 1 yen.

3) Period during which the warrants can be exercised

The Company shall separately determine the period of 30 years or less from the day following the issue date of the warrants.

4) Conditions for the exercise of the warrants

Regardless of the provisions described in 3) above, in principle, a holder of the warrants shall be able to exercise these warrants only for a period separately determined from the day following the holder's retirement from the position as Director of the Company.

(Reference) Nomination and Compensation of Directors and Corporate Auditors

The Company has stipulated the following Criteria for Election of Board Members and nominates those who meet these criteria as suitable candidates for Director and Corporate Auditor positions.

In addition to the Criteria for Election of Board Members, the Company has stipulated the Criteria for Election of Independent Outside Directors and Outside Corporate Auditors, and nominates those who meet these criteria as suitable candidates for Outside Director and Outside Corporate Auditor positions. In order for the Company's Outside Directors and Outside Corporate Auditors to properly allocate the time and labor necessary to fulfill their respective roles and responsibilities, the Company ensures that, if they hold any concurrent positions as Directors, Corporate Auditors, and so forth at other companies, the status of their concurrent positions will be appropriate.

<Criteria for Election of Board Members>

Successful candidates must not only possess deep insight and high expertise based on previous experience, but also be able to comprehend and live up to the Company's Corporate Philosophy, deliver results, and continue to take on new challenges. (Individuals who meet these requirements are referred to as "Nitto Persons" within the Company.)

<Criteria for Election of Independent Outside Directors and Outside Corporate Auditors>

1. The Outside Director / Outside Corporate Auditor is not, nor has been an executing person (Director, Corporate Auditor, Corporate Vice President or any other employee) of the Company or the Group.
2. The Outside Director / Outside Corporate Auditor is not an important executing person (director, corporate auditor, accounting advisor, executive officer or executive director, or any other important employee) of a major shareholder of the Company (a shareholder holding 10% or more of the voting rights of the Company).
3. The Outside Director / Outside Corporate Auditor is not an important executing person of a company of which the Company is a major shareholder.
4. The Outside Director / Outside Corporate Auditor is not an important executing person of a major counterparty of the Company (a counterparty for which the amount of payment or receipt for transactions with the Company for the latest fiscal year exceeds 2% of consolidated gross sales).
5. The Outside Director / Outside Corporate Auditor is not an important executing person of a major financial institution of the Company (a financial institution to which the Group's aggregate amount of loans payable for the latest fiscal year exceeds 2% of consolidated total assets).
6. The Outside Director / Outside Corporate Auditor is not a legal professional, accounting and tax professional, consultant, or research and education specialist who receives a large amount of compensation or donations (for the latest fiscal year, 10 million yen or more in the case of an individual and more than 2% of consolidated gross sales in the case of a corporation or an organization) from the Company.
7. The Outside Director / Outside Corporate Auditor has no kinship (being a relative within the third degree of kinship or a relative living together) with any executing person of the Company or the Group.
8. In addition to the above, the Outside Director / Outside Corporate Auditor does not have any interest that could be reasonably considered to give rise to any doubt about independence as an independent outside director or independent outside corporate auditor, or about any conflict of interest with shareholders of the Company.

<Criteria for "Important Concurrent Positions">

Concurrent positions are deemed "important" if:

1. The director (candidate) in question concurrently holds a position as Director, etc. at listed companies or equivalent public companies;
2. The director (candidate) is a representative of corporations other than those stipulated in the preceding item and does not have the time, etc. necessary to fulfill his/her duties at the Company;
3. The director (candidate) has a specialist job (as a professor, lawyer, accountant, etc.) and his/her related duties can affect the allocation of time, etc. necessary to fulfill his/her duties at the Company;
4. The place of employment of the director (candidate) affects his/her independence in light of the Criteria for Election of Independent Outside Directors and Outside Corporate Auditors of the Company; and/or
5. The place of employment of the director (candidate) affects the allocation of time, etc. necessary to fulfill his/her duties at the Company.

<Policy on compensation for Directors and Corporate Auditors>

・ Policy on compensation for Directors

Compensation for Directors of the Company has three components: (fixed) compensation in cash, a bonus for Directors based on short-term performance, and compensation in the form of warrants as mid- and long-term incentives. The amounts of each of the three components are determined within the range of the total amount approved at the general meetings of shareholders.

In order to increase the objectivity and transparency of such compensation, the Representative Directors determine the specific amount of compensation paid to each Director in accordance with their duties, responsibilities, and performance after consulting the Management and Remuneration Advisory Committee on their views regarding compensation paid to Directors.

・ Policy on compensation for Corporate Auditors

In light of the nature of Corporate Auditors' duties, which are to audit and otherwise examine the execution of duties by Directors, the compensation paid to Corporate Auditors of the Company does not include any performance-based components, including equity-related compensation, and instead consists of only fixed compensation in cash. The amount of their compensation is determined within the range of the total amount approved at the general meetings of shareholders.

The specific amount of compensation paid to each Corporate Auditor is determined through consultation among Corporate Auditors in accordance with their respective duties and responsibilities.

Business Report for the 152nd Fiscal Term

For the 2016 fiscal year (April 1, 2016 to March 31, 2017)

1. Overview of business operations of the Nitto Group

(1) Operating progress and results

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 automotive products remained almost flat. For the Life Science segment, on the other hand, the Nitto Group forged ahead with the restructuring 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 767,710 million yen. Operating income decreased by 9.6% to 92,589 million yen, and net income attributable to owners of the parent company declined by 22.3% to 63,453 million yen.

(2) Summary of operations by segment

[Industrial Tape] Composition of revenue: 38.8%

Main products: Functional base products (bonding and joining products, protection products, etc.) and automotive products

For automotive products, in the main market of North America, sales of reinforcing materials for aluminum bodies expanded in the second half of the year under the review, and converted adhesive tapes and internal pressure-adjusting materials for car electronics applications performed strongly throughout the year. For functional base products, demands for double-sided adhesive tapes for smartphones, for which sales remained sluggish due to a surge in customers' inventories during the first half of the year, recovered into the second half, and sales of air filters for plants' cleanroom air conditioners grew substantially throughout the year. The Group also successfully improved the earnings power of general-purpose double-sided adhesive tapes and protection films, which are used in a broad range of industrial applications, by increasing their productivity through streamlining efforts.

As a result of the above, revenue decreased by 2.0% to 310,416 million yen and operating income increased by 5.3% to 26,214 million yen.

[Optronics] Composition of revenue: 52.4%

Main products: Information fine materials, flexible printed circuit boards, and process materials

For information fine materials, sales of the Group's mainstay optical films had been negatively affected by major inventory adjustments on the part of high-end smartphone manufacturers since the end of the last fiscal year. Toward the end of the year, however, their sales recovered rapidly as they began to penetrate into leading smartphone manufacturers' new models and emerging Chinese manufacturers' high-end models, with the result that both revenue and operating income surpassed initial projections. For flexible printed circuit boards, the negative impact of smaller unit production of hard disk drives (HDDs) was offset chiefly because demands for high-capacity models for data centers expanded. Sales of process materials achieved growth, as orders remained at a high level on the back of the expanding demands for semiconductors.

As a result, revenue decreased by 8.1% to 419,187 million yen and operating income declined by 26.7% to 50,623 million yen.

[Life Science] Composition of revenue: 5.6%

Main products: Medical-related products

Fiscal 2016 saw the Life Science Business make a huge leap forward. Contract manufacturing of oligonucleotides maintained momentum in North America to boost the performance of this business significantly. Also, the Company signed an exclusive license agreement on a liver cirrhosis drug using oligonucleotides with Bristol-Myers Squibb of the U.S. to receive an upfront payment of 100 million U.S. dollars.

As a result, revenue increased by 85.4% to 44,459 million yen and operating income jumped by 833.9% to 21,357 million yen.

[Others] Composition of revenue: 3.2%

Main products: Membrane products, other products

Sales of membrane products (polymer separation membranes) remained strong in the first half of the year following the brisk performance of the previous fiscal year, but were negatively affected by pricing competition as demands for seawater desalination plants and others slowed down after the beginning of the second half. It should be noted that, since the re-segmentation of business from the fiscal year under review, this segment now includes new businesses that have yet to generate a sufficient level of revenue.

As a result, revenue decreased by 11.9% to 26,039 million yen and operating loss amounted to 1,034 million yen (operating income of 2,917 million yen was reported in the same period of the previous year).

(Yen in Millions)

Business segment	FY2016 (152nd term)		FY2015 (151st term)
	Revenue (year-on-year change)		Revenue
Industrial Tape	310,416	(down 2.0%)	316,668
Optronics	419,187	(down 8.1%)	455,963
Life Science	44,459	(up 85.4%)	23,976
Others	26,039	(down 11.9%)	29,562
Eliminations and corporate	-32,392	—	-33,116
Total	767,710	(down 3.2%)	793,054

Note:

1. Following a review of the quantitative materiality of each business, changes in the management structure, and other factors, reporting segments have been changed from three ("Industrial Tape," "Optronics," and "Medical & Membrane") to four ("Industrial Tape," "Optronics," "Life Science," and "Others") since the fiscal year under review. Numbers for the previous fiscal year reflect such changes.
2. The breakdown of composition of revenue stated above is calculated by excluding eliminations and corporate.

(3) Capital expenditure

During the fiscal year under review, the Group used a total of 36,538 million yen in capital spending.

Below is the breakdown of such spending by segment.

For the Industrial Tape segment, 15,310 million yen was spent, which included capacity ramp-up for automotive tapes in North America. For the Optronics segment, 13,160 million yen was spent mainly for information fine materials' downstream processing equipment in East Asia and environment-related projects at the Kameyama Plant in Japan. For the Life Science segment, 1,778 million yen was spent mainly for capacity ramp-up in North America. For the Others segment, 3,295 million yen was spent mainly for production equipment of new materials.

Capital expenditures not directly related to any business segment amounted to 2,993 million yen.

(4) Financing

During the fiscal year under review, overseas subsidiaries of the Group were able to repay borrowings, with the result that interest-bearing debts decreased by 2,297 million yen from the end of the previous fiscal year to 4,097 million yen.

(5) Issues to be addressed by the Group

The Group will celebrate its first centennial in October 2018. In order to sustain business growth beyond this auspicious occasion and further accelerate it into the next 100 years, the Group recognizes that it is crucial to take advantage of rapid changes by staying one step ahead of the game so that it can cater to market demands.

As dramatic innovations take place in information technology and other areas, the Group intends to create new value by capturing any changes in the market earlier than before and creating the convergence of a wide range of technologies and information from both within and outside the Company. Toward this goal, the Group will remain flexible in adopting new techniques and approaches without being limited by conventional business models and manufacturing methods, thereby realizing "Innovation for Customers" the world over.

Accordingly, the Group will implement the following key initiatives in each business segment.

- **Industrial Tape**

For functional base products, the Group will expedite the ongoing shift in focus from adhesive tapes to functional products to deliver high-value-added products to the market by creating new products through cooperation with other businesses within the Group and other initiatives. In the Transportation Business, the Group will respond to the demands for transportation equipment in general by developing new products in such areas as advanced automobiles and mobility management, while at the same time increasing production efficiency.

- **Optronics**

For information fine materials, the Group will pour its efforts into the pursuit of opportunities in growth areas, such as mobile devices, televisions, and automotive products, in order to expand profitable businesses and innovate business structures. With regard to printed circuit boards (PCBs) and process materials, the Group will shore up existing businesses for HDDs and semiconductor memory and bring about cost structure reform.

- **Life Science**

For the Life Science segment, the Group will utilize reinforced equipment and purchased services to maintain the high market penetration of its contract manufacturing of oligonucleotides. To this end, the Group will increase its production capacity by expanding the value chain through M&As and making capital expenditures to shoot for high growth. For its liver cirrhosis drug using oligonucleotides, cooperation with Bristol-Myers Squibb of the U.S. will be fostered for an early launch. Meanwhile, for other drugs including cancer treatments, the Group's vehicle for drug discovery Nitto BioPharma Inc. will take the lead in ramping up efforts to make this a future mainstay of the Group's business.

- **Others**

For membrane products, the Group will take a series of action designed to improve profitability, such as focusing its resources on high-growth segments and discovering new markets, while at the same time building solid business foundations. The Group will also expedite its activities to bring newer businesses to the market as early as possible.

(6) Trends in operating results and assets

	Japan GAAP		IFRS			
Item	FY2012 (148th term)	FY2013 (149th term)	FY2013 (149th term)	FY2014 (150th term)	FY2015 (151st term)	FY2016 (152nd term)
Revenue (million yen)	671,253	749,835	749,504	825,243	793,054	767,710
Operating income (million yen)	68,482	72,254	72,503	106,734	102,397	92,589
Ordinary income (million yen)	67,182	71,658	—	—	—	—
Net income attributable to owners of the parent company (million yen)	43,696	51,018	51,892	77,876	81,683	63,453
Basic earnings per share (yen)	265.48	309.29	314.59	471.75	495.23	390.94
Dividend payout ratio (%)	37.7	32.3	31.8	25.4	28.2	38.4
ROA (Ratio of profit attributable to owners of the parent company to total assets) (%)	6.3	6.7	6.8	9.5	9.7	7.4
ROE (Return on equity attributable to owners of the parent company) (%)	9.5	10.1	10.5	13.7	13.3	10.0
Operating income to revenue (%)	10.2	9.6	9.7	12.9	12.9	12.1
Total assets (million yen)	740,949	781,352	783,583	855,433	825,905	879,899
Total equity (million yen)	491,105	527,299	524,552	615,776	617,891	654,421
Equity attributable to owners of the parent company per share (yen)	2,961.90	3,172.03	3,159.87	3,705.96	3,785.91	4,027.57
Ratio of equity attributable to owners of the parent company to total assets (%)	65.9	67.0	66.5	71.5	74.4	74.3
Depreciation and amortization (million yen)	36,467	43,188	43,223	45,662	48,537	48,556
Capital investment (million yen)	49,807	75,814	75,814	56,721	60,420	36,538
Research and Development Costs (million yen)	27,573	28,573	28,444	28,240	32,120	30,366
Exchange rate (average rate) (yen/1 US dollar)	82.42	99.93	99.93	109.00	120.17	108.88

Notes:

1. 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.
2. From the fiscal year ended March 31, 2015, the Nitto 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 IFRS.
3. Trends in operating results and assets are presented based on the International Financial Reporting Standards (IFRS).
4. "Dividend payout ratio" is calculated based on a tentative dividend amount whose payment is subject to approval of Item 1 as proposed for the 152nd Ordinary General Meeting of Shareholders.

(7) Principal offices and status of major subsidiaries (as of March 31, 2017)

<1> Principal offices of the Group

<table>
<tr><td rowspan="3">Nitto Denko Corporation</td><td>Head Office</td><td>Kita-ku, Osaka</td></tr>
<tr><td>Offices (Plants/ Laboratory)</td><td>Tohoku Plant (Osaki, Miyagi), Kanto Plant (Fukaya, Saitama), Toyohashi Plant (Toyohashi, Aichi), Kameyama Plant (Kameyama, Mie), Shiga Plant (Kusatsu, Shiga), Ibaraki Laboratory (Ibaraki, Osaka), Onomichi Plant (Onomichi, Hiroshima)</td></tr>
<tr><td>Branches</td><td>Tokyo Sales Branch (Shinagawa-ku, Tokyo), Nagoya Sales Branch (Naka-ku, Nagoya), Osaka Sales Branch (Chuo-ku, Osaka), Kyushu Sales Branch (Hakata-ku, Fukuoka)</td></tr>
<tr><td>Nissho Corporation</td><td colspan="2">Kita-ku, Osaka, Japan</td></tr>
<tr><td>Nitto EMEA NV</td><td colspan="2">Leuven, Belgium</td></tr>
<tr><td>Nitto, Inc.</td><td colspan="2">Lakewood, NJ, U.S.</td></tr>
<tr><td>Nitto Denko (China) Investment Co., Ltd.</td><td colspan="2">Shanghai, China</td></tr>
<tr><td>Taiwan Nitto Optical Co., Ltd.</td><td colspan="2">Taichung, Taiwan</td></tr>
<tr><td>Korea Nitto Optical Co., Ltd.</td><td colspan="2">Pyeongtaek, South Korea</td></tr>
<tr><td>Korea Optical High Tech Co., Ltd.</td><td colspan="2">Gumi, South Korea</td></tr>
<tr><td>Nitto Denko (HK) Co., Ltd.</td><td colspan="2">Hong Kong, China</td></tr>
<tr><td>Shanghai Nitto Optical Co., Ltd.</td><td colspan="2">Shanghai, China</td></tr>
<tr><td>Shenzhen Nitto Optical Co., Ltd.</td><td colspan="2">Shenzhen, China</td></tr>
<tr><td>Nitto Denko Material (Thailand) Co., Ltd.</td><td colspan="2">Ayutthaya, Thailand</td></tr>
</table>

<2> Status of major subsidiaries

Corporate name	Capital	Company's stake	Main business
Nissho Corporation	in million yen 500	% 100.0	Production, processing, and sales of industrial tapes
Nitto EMEA NV	in thousand euro 212,282	100.0	Administration of Group companies in Europe
Nitto, Inc.	in thousand U.S. dollars 0	100.0	Administration of Group companies in the Americas Production, processing, sales, etc. of industrial tapes
Nitto Denko (China) Investment Co., Ltd.	in thousand RMB 925,394	100.0	Administration of the Group companies in China
Taiwan Nitto Optical Co., Ltd.	in thousand NT$ 568,003	100.0 (3.6)	Production, processing, and sales of optronics
Korea Nitto Optical Co., Ltd.	in million won 84,365	100.0	Production, processing, and sales of optronics
Korea Optical High Tech Co., Ltd.	in million won 22,000	100.0	Production, processing, and sales of optronics
Nitto Denko (HK) Co., Ltd.	in thousand HK$ 13,826	100.0	Sales of industrial tapes and optronics
Shanghai Nitto Optical Co., Ltd.	in thousand RMB 89,981	100.0 (24.5)	Production, processing, and sales of optronics
Shenzhen Nitto Optical Co., Ltd.	in thousand RMB 568,925	100.0	Production, processing, and sales of optronics
Nitto Denko Material (Thailand) Co., Ltd.	in thousand Thai Baht 460,000	100.0 (39.4)	Production, processing, and sales of optronics

Note: Figures in parenthesis in "Company's stake" indicate the percentage of indirect stake

(8) Employees of the Group and the Company (as of March 31, 2017)

	Number of employees	Changes from the end of the previous fiscal year
Group	26,659	-178
Company	5,164	+71

Note: The number of employees does not include Directors (those who are classified as employees) and temporary workers.

(9) Major creditors (as of March 31, 2017)

(Yen in Millions)

Creditor	Balance at the end of the fiscal year
Nippon Life Insurance Company	3,000
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	988

2. Shareholders' equity (as of March 31, 2017)

(1) Number of shares authorized to be issued 400,000,000 shares
(2) Number of shares issued 173,758,428 shares
(Amount of treasury stock held 11,434,124 shares)
(3) Number of shareholders 29,742
(4) Major shareholders (top 10)

Name	Number of shares held	Ownership percentage
	Thousands of shares	%
The Master Trust Bank of Japan, Ltd. (Trust Account)	21,440	13.21
JPMorgan Chase Bank 380055	14,189	8.74
Japan Trustee Services Bank, Ltd. (Trust Account)	14,089	8.68
State Street Bank and Trust Company	4,312	2.66
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,768	2.32
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,775	1.71
State Street Bank West Client – Treaty 505234	2,464	1.52
State Street Bank and Trust Company 505225	2,381	1.47
JPMorgan Chase Bank 380634	2,267	1.40
Japan Trustee Services Bank, Ltd. (Trust Account 7)	2,245	1.38

Notes:
1. The Company holds a total treasury stock of 11,434,124 shares, but it is not included among the major shareholders above.
2. The ownership percentage has been calculated based on the number of shares issued, excluding treasury stock.
3. Although the reports on large-scale shareholdings have been submitted as follows, the Company lists the major shareholders above according to the shareholder register as of March 31, 2017.
   A total of nine shareholders comprising BlackRock Japan Co., Ltd. and its joint holders
   12,038,651 shares (as of October 30, 2015)
   Capital Research and Management Company
   17,238,300 shares (as of June 15, 2016)
   A total of three shareholders comprising Nomura Securities Co., Ltd. and its joint holders
   12,325,322 shares (as of July 29, 2016)
   Asset Management One Co., Ltd.
   9,389,100 shares (as of October 14, 2016)
   A total of three shareholders comprising Sumitomo Mitsui Trust Bank, Limited and its joint holders
   11,964,700 shares (as of March 15, 2017)

3. Matters concerning warrants

(1) Summary of warrants issued as compensation for executing duties and responsibilities and owned by officers of the Company at the end of this business year

・Number of warrants: 1,290 units (100 shares of common stock per unit)

・Class and number of underlying shares: Company's common stock; 129,000 shares

・Classified total of warrants held by Directors

Classification	Type 1	Type 2
Exercise value (payment amount per unit at time of exercise)	100 yen	100 yen
Exercise period	• 20 years from the day following the issuing date • 6 years from the day following the day from which they no longer serve as Directors, Corporate Vice Presidents, Corporate Auditors, Advisers or specific staff members (in principle)	• 30 years from the day following the issuing date • 10 days from the day following the day from which they no longer serve as Directors
Number of owners and units by classification		
Directors	1 person 63 units	5 persons 1,227 units

Notes:

1. Following the discontinuation of traditional retirement benefits for officers in cash approved at the 139th ordinary general meeting of shareholders, issue of the above equity-based compensation stock options was approved as its replacement from the 139th ordinary general meeting of shareholders and onward.
2. Type 1 was approved at the 139th and 140th ordinary general meetings of shareholders under the former Commercial Code. Type 2 was approved from the 141st ordinary general meeting of shareholders and onward.
3. Outside Directors and Corporate Auditors are not eligible for warrants.

(2) Summary of warrants issued as compensation for executing duties and responsibilities to the employees of the Company and officers and employees of subsidiaries during this business year

Subject	Warrants issued in August 2016
Number of warrants issued	173 units (100 shares of common stock per unit)
Class and number of underlying shares subject to warrants	Company's common stock: 17,300 shares
Exercise value (payment amount per unit at time of exercise)	100 yen
Exercise period	August 2, 2016 through August 1, 2046 10 days from the day following the day from which the Corporate Vice President of the Company no longer serves in that position ("Right Exercise Starting Day"); however, if the warrant owner is the Corporate Vice President of the Company and has an employment contract with the Company, the later of the day following the day from which the warrant owner no longer serves as Corporate Vice President or the day following the day on which the said employment contract expires shall be the Right Exercise Starting Day.
Classified number of persons and units issued	
Employees of the Company (excluding those who also serve as Directors of the Company)	14 persons 173 units

Note: Following the discontinuation of traditional retirement benefits for officers in cash approved at the 139th ordinary general meeting of shareholders, the above equity-based compensation stock options were approved by the Board of Directors of the Company to be granted as their replacement to the Directors and the Corporate Vice Presidents.

4. Executives

(1) Directors and Corporate Auditors (as of March 31, 2017)

Name	Positions, duties, and significant concurrent positions	
Yukio Nagira	Chairman Representative Director, B.O.D.	Outside Director, Kao Corporation
Hideo Takasaki	President Representative Director, B.O.D.	CEO (Chief Executive Officer), concurrently COO (Chief Operating Officer) and CTO (Chief Technology Officer), of the Group General Manager of Corporate Technology Sector
Toru Takeuchi	Director	Executive Vice President, CFO (Chief Financial Officer) of the Group General Manager of Corporate Strategy Sector and General Manager of Corporate Accounting & Finance Division
Toshiyuki Umehara	Director	Executive Vice President General Manager of Transportation Business Sector
Yasushi Nakahira	Director	Senior Vice President General Manager of Functional Base Products Sector, concurrently General Manager of Sales Management Sector
Yoichiro Furuse	Outside Director	Representative Director of Evanston Corporation Non-Executive & Independent Director of Global Logistic Properties Limited Chairman of Japan of Permira Advisers KK
Koushi Mizukoshi	Outside Director	Honorary Adviser of Kobe Steel, Ltd. Representative Director of K・S Building KK Representative Director of The Kobe International House Inc.
Takashi Hatchoji	Outside Director	
Masami Kanzaki	Corporate Auditor (full-time service)	
Yoshihiro Taniguchi	Corporate Auditor (full-time service)	
Masashi Teranishi	Outside Corporate Auditor	Honorary Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd. Outside Director of Tsukishima Kikai Co., Ltd.
Masakazu Toyoda	Outside Corporate Auditor	Outside Statutory Auditor of Murata Manufacturing Co., Ltd. Chairman & CEO of The Institute of Energy Economics, Japan Outside Director of Canon Electronics Inc.
Mitsuhide Shiraki	Outside Corporate Auditor	Professor, Faculty of Political Science and Economics, Waseda University

Notes:

1. Directors' "positions and duties" were changed as follows on April 1, 2017.

Name	Positions and duties	
Hideo Takasaki	President Representative Director, B.O.D.	CEO, concurrently COO
Toru Takeuchi	Director	Executive Vice President, CFO General Manager of Corporate Strategy Sector and General Manager of Corporate Accounting & Finance Division
Toshiyuki Umehara	Director	Executive Vice President, CTO General Manager of Corporate Technology Sector, concurrently General Manager of Transportation Business Sector

2. Yoshihiro Taniguchi, the full-time Corporate Auditor, has gained experience in the Company's accounting and auditing departments over the years, and possesses a broad range of knowledge in finance and accounting.
3. The Company has designated all of the Outside Directors and Outside Corporate Auditors as Independent Directors/Corporate Auditors as stipulated by Tokyo Stock Exchange and reported them to the Exchange.
4. The Company has no special relationship with any of the organizations at which the Outside Directors and Outside Corporate Auditors hold important concurrent positions.
5. Aside from the above, the following Director retired from his position during the current term. His positions and duties are current as of the time of retirement.

Name	Positions and duties		Others
Tsutomu Nishioka	Director	Senior Vice President, CTO General Manager of Corporate Technology Sector	Retired on October 31, 2016

(2) Major activities of Outside Directors and Outside Corporate Auditors

Name		Major activities
1. Outside Directors		
Yoichiro Furuse	Participation	Board of Directors meetings: 100% (12 out of 12 times)
	Major comments	He mainly makes comments from the viewpoint of an experienced corporate executive.
Koushi Mizukoshi	Participation	Board of Directors meetings: 92% (11 out of 12 times)
	Major comments	He mainly makes comments from the viewpoint of an experienced corporate executive.
Takashi Hatchoji	Participation	Board of Directors meetings: 100% (12 out of 12 times)
	Major comments	He mainly makes comments from the viewpoint of an experienced corporate executive.
2. Outside Corporate Auditors		
Masashi Teranishi	Participation	Board of Directors meetings: 100% (12 out of 12 times) Board of Corporate Auditors meetings: 100% (13 out of 13 times)
	Major comments	He mainly makes comments based on his many years of experience at financial institutions and deep financial knowledge.
Masakazu Toyoda	Participation	Board of Directors meetings: 100% (12 out of 12 times) Board of Corporate Auditors meetings: 100% (13 out of 13 times)
	Major comments	He mainly makes comments based on his broad insight and extensive experience in the fields of economy, trade, and industry.
Mitsuhide Shiraki	Participation	Board of Directors meetings: 100% (12 out of 12 times) Board of Corporate Auditors meetings: 100% (13 out of 13 times)
	Major comments	He mainly makes comments based on his broad insight as a person with relevant knowledge and experience.

(3) Summary of liability limitation agreement

The Company has executed agreements with all of the Outside Directors and Outside Corporate Auditors in accordance with the Articles of Incorporation to limit the compensation liability provided in Paragraph 1, Article 423 of the Companies Act, and the compensation limitation amount under these agreements are the minimum amount determined under laws and regulations.

(4) Compensation, etc. paid to Directors and Corporate Auditors

(Yen in Millions)

Position	Total amount of compensation, etc.	Compensation by type			Number of eligible Directors and Corporate Auditors
		Compensation in cash	Bonus paid to Directors	Warrants (equity-based compensation stock options)	
Directors (excluding Outside Directors)	546	231	204	111	6
Outside Directors	36	36	—	—	3
Corporate Auditors (excluding Outside Corporate Auditors)	64	64	—	—	2
Outside Corporate Auditors	32	32	—	—	3

Notes:

1. The above includes one Director who retired during the period under review.
2. The amount of employee salary (including bonus) for a Director who also holds an employee position is paid separately from the abovementioned compensation, but such employee salary was not paid for the current term.
3. The limit of compensation for Directors is 30 million yen per month (of which up to 3 million yen is allocated to Outside Directors) since approval at the 150th Ordinary General Meeting of Shareholders, and that for Corporate

Auditors is 12 million yen per month since approval at the 139th Ordinary General Meeting of Shareholders.

4. Bonus for Directors is a tentative amount and its payment is subject to the approval of proposed Item 2 at the 152nd Ordinary General Meeting of Shareholders.
5. Matters related to warrants (equity-based compensation stock options) were approved at the 151st Ordinary General Meeting of Shareholders.

(5) Summary of the policy to determine the amount or calculation method of compensation for Directors and Corporate Auditors

<1> Compensation paid to Directors

Compensation for Directors of the Company has three components: fixed compensation in cash, a bonus for Directors based on short-term performance, and compensation in the form of warrants as mid- and long-term incentives. The amounts of each of the three components are determined within the range of the total amount approved at the general meetings of shareholders.

In order to increase the objectivity and transparency of such compensation, Representative Directors determine the specific amount of compensation paid to each Director in accordance with their duties, responsibilities, and performance after consulting the Management and Remuneration Advisory Committee on their views regarding compensation paid to Directors.

<2> Compensation paid to Corporate Auditors

In light of the nature of Corporate Auditors' duties, which is to audit and otherwise examine the execution of duties by Directors, the compensation paid to Corporate Auditors of the Company does not include any performance-based components including equity-related compensation, and instead consists of only fixed compensation in cash. The amount of their compensation is determined within the range of the total amount approved at the general meetings of shareholders.

The specific amount of compensation paid to each Corporate Auditor is determined through consultation among Corporate Auditors in accordance with their respective duties and responsibilities.

(Reference) Status of Vice Presidents

The Company has adopted the executive officer system. The current positions and responsibilities of executive officers as of April 1, 2017 are as follows.

(Those with an asterisk are Directors.)

Name	Positions and responsibilities	
* Hideo Takasaki	CEO and COO	
Yoichiro Sakuma	Senior Executive Vice President	Special Assignments
Toshihiko Omote	Senior Executive Vice President and CIO (Chief Information Officer) of the Group	Management Infrastructures (IT / Procurement / Logistics / HR & Training)
Michio Yoshimoto	Executive Vice President	Legal Affairs and General Affairs, Oligonucleotide Business, Export Control
* Toshiyuki Umehara	Executive Vice President and CTO	Corporate Technology, Transportation Business, Information Fine Materials Business
* Toru Takeuchi	Executive Vice President and CFO	Corporate Strategy (Finance and Accounting / Legal and General Affairs) Regional Management [East Asia / South Asia] Internal Control and Audit, CSR, Export Control
Kageshi Maruyama	Senior Vice President	Internal Control and Audit
* Yasushi Nakahira	Senior Vice President	Functional Base Products Business, Sales Management and Sales Innovation Support, Membrane Business
Yukihiro Iizuka	Senior Vice President	Regional Management [North/South Americas]
Yasuhito Ohwaki	Vice President	Special Assignments (India Business)
Tatsuya Osuka	Vice President	Nitto Analytical Techno-Center Co., Ltd.
Sam Strijckmans	Vice President	Regional Management [Europe], Global Financing and Auditing
Toshihiko Takayanagi	Vice President	Regional Management [East Asia]
Seungjung Yoon	Vice President	General Business in South Korea
Jun Yamashita	Vice President	Management Strategy
Nobuhiro Todokoro	Vice President	Information Fine Materials Business
Hiroshi Fukuhara	Vice President	HR & Training and Plant Management
Seiji Fujioka	Vice President	Medical Business and Oligonucleotide Business
Kazuki Tsuchimoto	Vice President Deputy CTO	Production Engineering, Corporate Technology, QES (Quality, Environment, and Safety)
Yosuke Miki	Vice President Deputy CTO	ICT Business, Corporate Technology

(Reference) Findings of the Nitto Board Effectiveness Evaluation

March 31, 2017

Findings of the Nitto Board Effectiveness Evaluation

Please find below the executive summary of the findings of the FY2016 Nitto Board effectiveness analysis/evaluation, which has been conducted based on Japan’s Corporate Governance Code stipulated by Tokyo Stock Exchange, Inc.

1. Analysis/evaluation method
We have collected questionnaires from each member of our Board (including Corporate Auditors) concerning the Board’s effectiveness. Based on the findings of the questionnaire survey, our Board met to discuss such topics as its structure, operations, and decision-making processes and analyzed and evaluated whether the Board functions effectively and whether it fulfills its roles.

2. Executive summary of the analysis/evaluation findings of the Board’s effectiveness
Based on the results of the analysis, Nitto’s Board has concluded that the effectiveness of the Board is largely ensured.
While evaluating individual issues, the Board deepened its understanding that one of the strengths of Nitto’s Board meetings is the fact that appropriate members engage in free discussions of the agenda items presented for deliberation at such meetings. The Board also agreed that there are some issues requiring improvement, such as ways of further enhancing deliberations on business policies and other mid- and long-term business issues.

3. Future action
As per the analysis/evaluation findings above, Nitto’s Board will remain committed to further enhancing the effectiveness of the Board as a whole.

End

5. Accounting auditors

(1) Name of Accounting Auditor: KPMG AZSA LLC

(2) Amount of compensation for accounting auditor

(Yen in Millions)

1)	Amount of compensation as an accounting auditor for this business year	153
2)	Total amount of money and other asset interests to be paid by the Company and the subsidiaries of the Company	168

Notes:

1. The Board of Corporate Auditors conducts necessary verification of the contents of the Accounting Auditors' audit plans, the status of their execution of duties, and the validity of the basis for estimation of their compensation, before agreeing to such compensation and other matters.
2. The compensation for auditing as an accounting auditor under the Companies Act and the compensation for auditing under the Financial Instruments and Exchange Act have not been differentiated in the auditing agreement between the Accounting Auditor and the Company, and also cannot be materially differentiated, so the above figure is the total of these compensations.
3. The Company has paid compensation to the Accounting Auditor for advisory services, which are services other than those stipulated in Paragraph 1, Article 2 of the Certified Public Accountants Act (non-auditing work). The amount of such compensation is included in the figure stated above.

(3) Policy to determine dismissal or non-reelection of the accounting auditor

In addition to dismissal of the Accounting Auditor in accordance with the provision of Article 340 of the Companies Act of Japan, when appropriate execution of duties by the Accounting Auditor is deemed to be difficult or when problems are found regarding the eligibility or creditworthiness of the Accounting Auditor in light of auditing standards, the Board of Corporate Auditors resolves, in principle, that it will not reelect the Accounting Auditor, and will instead elect another appropriate audit corporation and bring the Accounting Auditor election agenda to the general meeting of shareholders. The Board of Corporate Auditors will also determine reelection or non-reelection of the Accounting Auditor based on the number of continuous years of auditing, in addition to the factors mentioned above.

6. Internal Control System and Policies of the Company

(1) Basic Policy on Internal Control and Status of its Implementation

<1> Basic policy on internal control

The Company, in accordance with the provisions of Article 362 of the Companies Act and of Article 100 of the Ordinance for Enforcement of the Companies Act, defines the Company's basic policy on internal control as follows:

1) A system necessary to ensure that the execution of duties by directors/employees of the Group complies with laws/regulations and the Company's articles of incorporation, and other systems necessary to ensure the appropriateness of operations as a business group

i) As the basis of a compliance system for the Group, a corporate philosophy and Nitto Group Business Conduct Guidelines that express that philosophy in concrete terms to ensure that employees make lawful and ethical decisions shall be established and communicated to all officers and employees of the Group to familiarize them with the same, and the Company's directors shall take the lead in complying with legal and ethical norms to set an example for others to follow.

ii) In order to enhance transparency of management practices in general, including the decision-making process, the Company's Board of Directors shall adopt an outside director system.

iii) In order to promote CSR activities, including the establishment of compliance and risk management systems for the Group, a director in charge of CSR shall be appointed and a CSR Committee shall be set up and chaired by that director.

iv) A system shall be established that ensures the appropriateness, validity, and efficiency of the operational process and operations in general, including internal control necessary to ensure the reliability of financial reporting.

v) An internal audit department in charge of internal control and auditing shall be established to internally audit the appropriateness and other aspects of the operational process and operations in general at each division of the Company and Group companies. Departments specializing in safety, the environment, quality, and export control shall be established in order to conduct audits in collaboration with the department in charge of internal control and auditing.

vi) As part of the internal reporting system for ensuring compliance with applicable laws/regulations and ethical norms, an internal hotline shall be set up, in addition to a whistleblowing system in which an external specialized institution directly receives such information to protect the anonymity of whistleblowers. A Legal and Ethical Compliance Committee that includes the director in charge of CSR and corporate auditors shall also be established to handle the process and develop a recurrence prevention system.

2) A system for safekeeping and management of information on the execution of duties by the Company's directors

All documents associated with the execution of duties by the Company's directors, including, but not limited to, the minutes of general meetings of shareholders, Board of Directors meetings, Corporate Strategic Committee meetings, and *ringi* collective decision-making documents, shall be safekept and managed in a manner that is appropriate and reliable for the chosen storage medium, such as printed paper or electromagnetic media, in accordance with the regulations on control and safekeeping of documents, and kept in a condition that allows inspection as necessary.

3) Regulations and other systems on management of risks of loss for the Group

i) As a fundamental risk management system for the entire Group, the Company's Board of

Directors, Corporate Strategic Committee, and individual operating entities shall constantly manage risks associated with business mix and business operation outside of Japan, risks arising from external factors, such as currency fluctuations and country risks, and risks associated with technological competitiveness, such as capabilities to develop new technologies and intellectual property rights, and respond to them as necessary.

ii) With regard to risks associated with safety, the environment, disasters, and product quality/defects, and risks associated with protection of information security, responses to demands from antisocial forces, and compliance with the Antimonopoly Act, Pharmaceutical Affairs Act, Export Control Act, and other acts, a competent department shall be designated to identify significant risks periodically. Each risk thus identified shall be monitored and prevented by the relevant departments and committees, and project teams that may be formed as necessary.

iii) An arrangement shall be in place to immediately inform the President, a director in charge of CSR, and corporate auditors of the Company of any unforeseen situation that may have developed, and to prevent any damage from expanding and minimize the same by setting up a crisis countermeasures headquarters under the President, thereby ensuring continuity and early restoration of business.

4) A system for ensuring the efficient execution of duties by the Company’s directors

i) As a basis for a system to ensure the efficient execution of duties by the Company’s directors, Board of Directors meetings shall, in principle, be held periodically once a month and extraordinarily as necessary.

ii) Corporate decision-making rules shall be developed that demand significant matters concerning the Company’s concrete management policies and strategies be subject to resolution of the Board of Directors, the Corporate Strategic Committee consisting of directors and vice presidents (which convenes once a month, in principle), or other meetings organized by each operating entity, or be subject to the *ringi* collective decision-making process, depending on the importance of such matters.

iii) Who is responsible for the execution of what duties and to what extent and the details of procedures for the execution of duties shall be defined by an organization designated by the Board of Directors, in Group Decision-Making Regulations and elsewhere.

iv) An operational system utilizing information technology shall be proactively introduced in order to ensure that a system for the efficient execution of duties is in place.

5) A system for reporting to the Company matters concerning execution of duties by directors and other members of the Group

i) Group Decision-Making Regulations/Rules shall be developed to ensure that Group companies properly consult, report to, or otherwise contact the Company concerning their decisions on management issues and other significant matters.

ii) A system shall be established whereby directors and vice presidents of the Company are briefed on businesses under their supervision by the relevant Group companies and are involved in their decision-making processes, if necessary, in accordance with the Group Decision-Making Regulations/Rules, thereby ensuring the appropriateness of duties within the entire Group.

iii) A system shall be developed whereby directors or vice presidents of the Company are assigned as chief officers of matters concerning engineering, information technology, and financing so that such matters may be performed both appropriately and efficiently within the Group.

6) A system for ensuring the efficient execution of duties by directors and other members of the Group

i) Who is responsible for the execution of what duties of the Group and to what extent and the details of procedures for the execution of duties shall be stipulated in Group Decision-Making Regulations/Rules and elsewhere.
ii) Should the execution of duties by individual Group companies be deemed as constituting significant matters of the Company, the same shall be subject to resolution by the Board of Directors or other committees of the Company, depending on their importance.

7) Matters concerning employees whose appointment is requested by corporate auditors of the Company to assist them in their duties, matters concerning independence of such employees from directors, and matters concerning assurance of the effectiveness of instructions given by corporate auditors to such employees
i) A corporate auditor assistant position shall be established in order to assist corporate auditors of the Company in their duties.
ii) A corporate auditor assistant shall be affiliated with an independent organization and perform his/her duties under the direct command of corporate auditors..
iii) Election and transfer of a corporate auditor assistant shall be determined with consent from full-time corporate auditors.
iv) Evaluation of a corporate auditor assistant shall be determined by full-time corporate auditors.
v) A corporate auditor assistant shall not hold a concurrent position that concerns the execution of duties.
vi) Directors of the Company shall recognize and comprehend the importance and usefulness of auditing by corporate auditors, make such recognition and comprehension known throughout the Group, and strive to enhance the department in charge of internal control and auditing and other internal audit organizations, which include corporate auditor assistants.

8) A system for directors and employees of the Company, directors of Group companies, and others to report to (the board of) corporate auditors of the Company and a system for ensuring that those who have made such a report are not unfavorably treated for having done so
i) Directors and employees of the Company shall report significant matters that may affect the operations and/or performance of the Group to corporate auditors of the Company in accordance with the auditing plan determined by (the board of) corporate auditors.
ii) Notwithstanding the above, corporate auditors of the Company may, whenever necessary, demand reports from directors and employees of the Company, their attendance at important meetings, and access to the minutes of such meetings or *ringi* collective decision-making documents and other reports.
iii) Directors of the Company shall ensure that the Company’s corporate auditors are reported to promptly and adequately by developing a whistleblowing system and a system for reporting emergencies and incidents concerning compliance and by maintaining their appropriate implementation.
iv) A system shall be established for ensuring that whistleblowers are not unfavorably treated for having made a report by developing a whistleblowing system in which an external specialized institution directly receives such information.

9) Matters concerning accounting policies on procedures for advance payment or reimbursement of expenses that may be incurred with regard to the execution of duties by corporate auditors of the Company, and other accounting practices for expenses or liabilities that may be incurred with regard to the execution of duties by the corporate auditors.
When corporate auditors of the Company demand from the Company advance payment or

reimbursement of expenses that are incurred in the execution of their duties, such expenses or liabilities shall be processed promptly after deliberations by the division in charge, unless it is proven that the expenses or liabilities thus demanded were unnecessary for the execution of duties by the corporate auditors in question.

10) Other systems for ensuring that auditing by corporate auditors is performed effectively

i) Corporate auditors of the Company shall establish a system that allows them to conduct audits efficiently in collaboration with accounting auditors, the department in charge of internal control and auditing, and others concerned, or by exchanging opinions and information with corporate auditors of Group companies. They shall audit Group companies as appropriate in accordance with an auditing plan and in cooperation with the department in charge of internal control and auditing.

ii) In addition to the auditing described above, a system shall be established whereby corporate auditors may demand a report from corporate auditors, directors, and senior executives of Group companies whenever necessary.

<2> Status of implementation of basic policies on internal control

The Group ensures the appropriateness and efficiency of its operations by having the Board of Directors and other decision-making organs (hereinafter, “Decision-Making Organs”) make decisions in accordance with Group Decision-Making Regulations/Rules, depending on the importance of individual cases. During the fiscal year under review, the Decision-Making Organs were each convened as necessary and records of decisions thus made are managed appropriately.

The CSR Committee chaired by the director in charge of CSR and other committees, specialized departments, project teams, and others managed compliance and risks appropriately.

In order to address individual cases, a highly anonymous whistleblowing system and emergency reporting system have been developed.

During the fiscal year under review, officers and employees of the Group were given training on compliance and the business conduct guidelines in general both in and outside of Japan.

Corporate auditors and the department in charge of internal control and auditing conducted internal audits appropriately in accordance with the auditing plan.

As described above, it has been confirmed that the internal system of the Company has been built and implemented appropriately during the fiscal year under review in accordance with the basic policy on internal control.

(2) Policy on Corporate Dominance

The basic views of the Company on acquisition of substantial shares of the Company are as follows:

In case acquisition aimed at substantial shareholdings is to be made, the Company is in the opinion that the decision on whether or not to accept the acquisition should ultimately be left to the judgment of its shareholders. On the other hand however, the Company cannot deny the existence of corporate takeovers with unjust objectives such as sell-offs at high prices, and realize that it is obviously the responsibility of the management of the Company, to secure the basic principles and the brand of the Company and protect the interests of our shareholders and other stakeholders from such unjust parties.

At present, neither is the Company placed under any specific threat for acquisition of substantial shareholdings nor does the Company intend to define explicit defense measures against the advent of such a buyer (so-called takeover defense measures). Yet the Company, having assumed the management responsibility entrusted from its shareholders, is committed at all times to keep close watch over its stock transactions and shareholder movements, and will immediately take measures deemed most appropriate should there be any sign of a party with the intention to acquire substantial shares of Nitto Denko stocks.

Note: Fractions below the figures shown are omitted in the amounts of money and the number of shares described in the Business Report. Percentages (%) are rounded to the nearest decimal point.

Consolidated Financial Statements

Consolidated Statements of Financial Position

(Yen in Millions)

	Amount	
	As of March 31, 2017	**As of March 31, 2016 (Reference)**
(Assets)		
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**

Consolidated Statements of Financial Position

(Yen in Millions)

	Amount	
	As of March 31, 2017	As of March 31, 2016 (Reference)
(Liabilities)		
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)		
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 Statements of Income

(Yen in Millions)

	Amount	
	April 1, 2016 – March 31, 2017	April 1, 2015 – March 31, 2016 (Reference)
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 Statements of Cash Flows (Reference)

(Yen in Millions)

	Amount	
	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 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 sale 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 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 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 the period	**240,891**	**214,559**
VII Cash and cash equivalents at the end of the period	**280,343**	**240,891**

Consolidated Statements of Changes in Equity

April 1, 2016 – 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**

Non-Consolidated Financial Statements

Non-Consolidated Balance Sheets

(Yen in Millions)

	Amount	
	As of March 31, 2017	As of March 31, 2016 (Reference)
(Assets)		
Current assets	**339,550**	**267,380**
Cash and deposits	141,541	98,810
Notes receivable-trade	4,347	6,483
Accounts receivable-trade	126,828	98,799
Merchandise and finished goods	6,811	6,410
Work in process	19,784	23,192
Raw materials and supplies	10,073	10,634
Short-term loans receivable	1,458	1,083
Deferred tax assets	4,497	3,351
Income tax refund receivable	—	3,449
Other	24,206	15,165
Non-current assets	**275,274**	**276,766**
Property, plant and equipment	**142,436**	**152,359**
Buildings	67,212	68,038
Structures	3,715	3,882
Machinery and equipment	49,249	57,142
Vehicles	460	476
Tools, furniture and fixtures	5,235	5,644
Land	13,796	13,927
Construction in progress	2,765	3,248
Intangible assets	**6,788**	**7,899**
Software	4,350	5,393
Other	2,438	2,506
Investments and other assets	**126,049**	**116,507**
Investments securities	5,712	4,566
Stocks of subsidiaries and affiliates	97,282	84,880
Long-term loans receivable	2,511	4,945
Deferred tax assets	9,296	7,307
Prepaid pension cost	9,990	13,582
Other	1,295	1,264
Allowance for doubtful accounts	-38	-38
Total assets	**614,825**	**544,147**

Non-Consolidated Balance Sheets

(Yen in Millions)

	Amount	
	As of March 31, 2017	As of March 31, 2016 (Reference)
(Liabilities)		
Current liabilities	**172,085**	**132,454**
Accounts payable-trade	73,868	61,383
Short-term loans payable	17,414	—
Accounts payable-other	22,361	26,505
Accrued expenses	10,871	9,904
Income taxes payable	11,342	—
Deposits received	33,181	32,027
Other	3,044	2,633
Non-current liabilities	**24,180**	**24,465**
Long-term loans payable	3,000	3,000
Provision for retirement benefits	20,817	20,520
Guarantee deposits received	235	227
Other	127	718
Total liabilities	**196,266**	**156,920**
(Net assets)		
Shareholders' equity	**415,434**	**384,888**
Capital stock	**26,783**	**26,783**
Capital surplus	**56,123**	**56,157**
Legal capital surplus	50,482	50,482
Other capital surplus	5,641	5,675
Retained earnings	**383,403**	**352,962**
Legal retained earnings	4,095	4,095
Other retained earnings	379,308	348,867
Reserve for special depreciation	29	114
Reserve for advanced depreciation of non-current assets	2,260	2,386
General reserve	185,000	185,000
Retained earnings brought forward	192,018	161,366
Treasury stock	**-50,876**	**-51,016**
Valuation and translation adjustments	**2,271**	**1,600**
Valuation difference on available-for-sale securities	2,271	1,600
Subscription rights to shares	**852**	**738**
Total net assets	**418,558**	**387,227**
Total liabilities and net assets	**614,825**	**544,147**

Non-Consolidated Statements of Income

(Yen in Millions)

	Amount	
	April 1, 2016 – March 31, 2017	**April 1, 2015 – March 31, 2016 (Reference)**
Net sales	**476,325**	**485,044**
Cost of sales	350,113	354,897
Gross profit	**126,212**	**130,147**
Selling, general and administrative expenses	82,394	84,190
Operating income	**43,818**	**45,956**
Non-operating income	**30,780**	**19,141**
Interest and dividends income	23,742	12,677
Other	7,038	6,463
Non-operating expenses	**4,267**	**2,529**
Interest expenses	260	283
Foreign exchange losses	1,842	755
Other	2,164	1,491
Ordinary income	**70,332**	**62,568**
Extraordinary income	**209**	**3,802**
Gain on sales of non-current assets	162	2,191
Gain on sales of investment securities	46	1,500
Other	—	110
Extraordinary loss	**5,090**	**2,296**
Loss on sales and retirement of non-current assets	2,968	1,133
Loss on valuation of stocks of subsidiaries and affiliates	126	898
Special retirement expenses	1,891	34
Other	104	229
Income before income taxes	**65,450**	**64,075**
Income taxes-current	14,901	5,114
Income taxes-deferred	-3,425	5,411
Net income	**53,974**	**53,549**

Non-Consolidated Statements of Changes in Equity

April 1, 2016 – March 31, 2017 (Yen in Millions)

	Shareholders' equity											
		Capital surplus			Retained earnings							
						Other retained earnings						
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for special depreciation	Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current year	**26,783**	**50,482**	**5,675**	**56,157**	**4,095**	**114**	**2,386**	**185,000**	**161,366**	**352,962**	**-51,016**	**384,888**
Net changes of items during the period												
Dividends from surplus									-23,533	-23,533		-23,533
Provision of reserve for special depreciation						4			-4	–		–
Reversal of reserve for special depreciation						-89			89	–		–
Reversal of reserve for advanced depreciation of non-current assets							-126		126	–		–
Net income									53,974	53,974		53,974
Disposal of treasury stock			-34	-34							139	105
Net change of items other than shareholders' equity during the period												
Total changes of items during the period	**–**	**–**	**-34**	**-34**	**–**	**-84**	**-126**	**–**	**30,652**	**30,441**	**139**	**30,546**
Balance at the end of current year	**26,783**	**50,482**	**5,641**	**56,123**	**4,095**	**29**	**2,260**	**185,000**	**192,018**	**383,403**	**-50,876**	**415,434**

	Valuation and translation adjustments			
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	Subscription rights to shares	Total net assets
Balance at the beginning of current year	**1,600**	**1,600**	**738**	**387,227**
Net changes of items during the period				
Dividends from surplus				-23,533
Provision of reserve for special depreciation				–
Reversal of reserve for special depreciation				–
Reversal of reserve for advanced depreciation of non-current assets				–
Net income				53,974
Disposal of treasury stock				105
Net change of items other than shareholders' equity during the period	671	671	114	785
Total changes of items during the period	**671**	**671**	**114**	**31,331**
Balance at the end of current year	**2,271**	**2,271**	**852**	**418,558**

Notes to the Consolidated Financial Statements

1. Notes regarding significant accounting policies for the preparation of the consolidated financial statements and others

(1) Basis of the consolidated financial statements

The Group’s consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as “IFRS”) under the provisions of Paragraph 1, Article 120 of the Ordinance on Accounting of Companies. As per the provisions of the second sentence of the same paragraph of the same Ordinance, some disclosure items required by IFRS are omitted here.

(2) Scope of consolidation

<1> Number of consolidated subsidiaries: 99

Major subsidiaries: Nissho Corporation, Nitto EMEA NV, Nitto, Inc.,
Nitto Denko (China) Investment Co., Ltd., Taiwan Nitto Optical Co., Ltd.,
Korea Nitto Optical Co., Ltd., Korea Optical High Tech Co., Ltd.,
Nitto Denko (HK) Co., Ltd., Shanghai Nitto Optical Co., Ltd.,
Shenzhen Nitto Optical Co., Ltd., Nitto Denko Material (Thailand) Co., Ltd.

<2>Increase/decrease of consolidated subsidiaries

Increase: 2 (due to establishment and share acquisition)
Decrease: 5 (due to merger, etc.)

(3) Fiscal year of consolidated subsidiaries

Number of subsidiaries that close books on the same date as the Company: 70
Number of subsidiaries that do not close books on the same date as the Company: 29
For the above 29 subsidiaries, provisional settlement of accounts as of March 31, 2017 are used.

(4) Accounting policies

<1>Valuation basis and method for principal assets

1) Financial assets:

(i) Non-derivative financial assets

The Group initially recognizes trade and other receivables on the dates when they are originated. The Group recognizes all other non-derivative financial assets on the trade dates when the Group becomes a contracting party of the financial instruments in question.

(a) Financial assets measured at amortized cost

Financial assets are classified as “financial assets measured at amortized cost” only when the following two requirements are met:

- The foregoing financial assets are held within a business model of the Group whose objective is to collect the contractual cash flows.
- The contractual terms of the foregoing financial assets give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially recognized at fair value, which includes transaction costs directly attributable to the acquisition of such financial assets. Financial assets are measured at amortized cost after the fact using the effective interest method, and the amount after deducting impairment losses is recorded as the carrying amount.

(b) Financial assets measured at fair value

Financial assets that fail to satisfy either of the two requirements above are classified as financial assets measured at fair value. Please note that the Group has made an irreversible choice where changes in fair value of investments in any other equity instruments are recognized via other comprehensive income, not via net profit or loss.

Financial assets measured at fair value are initially recognized at fair value. The Group includes in fair value any transaction costs directly attributable to the acquisition of such financial assets, with the exception of financial assets measured at fair value via net profit or loss.

With regard to financial assets measured at fair value via other comprehensive income, gains or losses attributable to changes in realized fair value and recognized impairment losses are not reclassified to net profit or loss. However, dividend income from the foregoing investments is recognized as “financial income” as a part of net profit or loss, except in cases where it is clear that such dividends are repaying the investment principal.

(c) Derecognition of financial assets

The Group derecognizes a financial asset when the rights to the cash flows from the financial asset expire or when the financial asset is handed over and the Group transfers nearly all of the risks and rewards of ownership of the financial asset.

2) Inventories:
Inventories are stated at the lower of cost and net realizable value. Cost of inventories is calculated using the average method. The cost of finished goods and work in process comprises the raw material costs, direct labor costs, other direct costs, and related production overhead (based on normal production capacity). Net realizable value represents the estimated selling price for inventories in the ordinary course of business less the related variable selling cost.

<2> Depreciation method of major depreciable assets

1) Property, plant and equipment (excluding lease assets):
Straight-line method

2) Intangible assets (excluding lease assets):
Straight-line method (software for in-house use is depreciated using the straight-line method over its useful life of 5 years)

3) Lease assets:
Lease assets related to finance lease transactions that do not transfer ownership of the leased property to the lessee are depreciated over the lease terms by the straight-line method with no residual value.

<3> Accounting criteria for major provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A provision is measured as the present value of cash outflows that are deemed necessary to settle obligations using a pre-tax discount rate that reflects the market valuation of the time value of money and the risks specific to the obligations. Any increases in provisions that may have taken place over time are recognized as financial expenses.

<4> Translation criteria of major assets or liabilities denominated in foreign currencies into Japanese yen

1) Foreign currency transactions

Items in financial statements of each entity within the Group are measured using the currencies in the primary economic environment in which each entity engages in operating activities (the “functional currency”).

Foreign currency transactions are translated into functional currencies using the exchange rates prevailing on the dates of transactions or, when remeasuring any items in financial statements, the exchange rate prevailing on the dates of remeasurement. Exchange differences arising from such transactions and any exchange differences that may arise when translating monetary assets and liabilities denominated in foreign currencies using the prevailing exchange rates on the reporting date are recognized as net profit or loss.

2) Foreign operations

For foreign operations that use functional currencies different from the Group's presentation currency, assets and liabilities (including goodwill arising from acquisitions and adjustment of fair value) are translated into Japanese yen at the prevailing exchange rates on the reporting date, and the income and expenses are translated into Japanese yen at the average exchange rate of the period.

Exchange differences arising from translating the financial statements of foreign operations are included in other components of equity.

<5> Derivative financial instruments and hedge accounting

The Group designates certain derivative instruments as cash flow hedges in order to hedge foreign exchange risk, interest rate risk, etc. in the future.

At the inception of a transaction, the Group formally documents the relationship between the hedging instrument and the hedged item, and the risk management objective and strategies for undertaking various hedges. At the inception of the hedge, as well as on an ongoing basis, the Group formally documents its assessment of whether derivatives used for hedge transactions can be highly effective in offsetting changes in cash flows of the hedged item. The Group also verifies that forecast transactions are highly probable, in order to apply cash flow hedges to such forecast transactions.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges and satisfy relevant requirements is recognized in other components of equity. The ineffective portion is recognized in net profit or loss in the consolidated statements of income.

Any amount incurred with respect to hedging instruments that is recognized in other components of equity is reclassified to net profit or loss in the period when hedged items affect profit or loss. When forecast transactions to be hedged can give rise to recognition of non-financial assets, any amount that has been recognized as other comprehensive income is reclassified and included in initial measurement of the acquisition cost of the respective assets.

Hedge accounting is discontinued prospectively for the future when the hedging instrument expires or is sold, or the hedge no longer meets the criteria for hedge accounting. Any amount incurred with respect to hedging instruments that have already been recognized under other components of equity is further recognized until forecast transactions are eventually recognized in net profit or loss. When forecast transactions are no longer expected to occur, the amount incurred with respect to hedging instruments that is recognized in other components of equity is immediately recognized in net profit or loss.

<6> Employee benefits

1) Short-term employee benefits

Short-term employee benefits are expensed at the undiscounted amount when the related service is provided. For bonus and paid absence costs, a liability is recognized for the amount expected to be paid in accordance with the relevant systems if the Group has a legal or constructive obligation to pay this amount and the obligation can be estimated reliably.

2) Long-term employee benefits

The Group provides its employees and retirees with post-employment benefit plans, which comprise defined benefit plans and defined contribution plans.

Obligations for defined benefit plans are recognized as the present value of defined benefit obligations at the end of each reporting period less the fair value of any plan assets. Qualified actuaries use the projected unit credit method to calculate defined benefit obligations annually. The present value of defined benefit obligations is calculated by discounting estimated future cash outflows based on the market yields of high quality corporate bonds that have a maturity approximating the estimated dates for payments of obligations and are denominated in the currencies in which such payments are made.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise, and immediately reclassified to retained earnings.

Prior service costs of pension plans are recognized as gains/losses of the period in which they are incurred.

With regard to defined contribution plans, the Group pays contributions to publicly or privately managed pension insurance plans. So long as the Group pays contributions, the Group will not be obliged to make additional payments. Such contributions are recognized as employee benefit expenses when they are due.

<7> Other important items for compiling the consolidated financial statements

Consumption taxes are excluded from the transaction amounts.

2. Notes to the consolidated statements of financial position

(1) Accumulated depreciation of property, plant and equipment (including accumulated impairment losses) 579,745 million yen

(2) Guarantees on liabilities and contracts for future guarantees on liabilities (including notes on management guidance, etc.)

Guarantees on liabilities 10 million yen

3. Notes to the consolidated statements of income

Other expenses

(1) Other expenses include 2,341 million yen in early retirement bonuses.

(2) Other expenses also include 2,341 million yen in impairment losses.

A major component of impairment losses relates to property, plant and equipment and intangible assets, such as buildings, structures, and machinery and equipment for the flexible printed circuit business in China in the Optronics segment. Such impairment losses are reported because their recoverable amounts have fallen below book value, owing primarily to the lowering of their earnings prospects. The recoverable amounts are measured at fair value (estimated sales price, etc.) after deducting disposition costs.

4. Notes to the consolidated statements of changes in equity

(1) Type and total number of shares issued as of the end of the fiscal year under review

Common stock 173,758 thousand shares

(2) Dividends

1) Dividend payments

Resolution	Type of shares	Total dividends (Yen in Millions)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 24, 2016	Common stock	11,360	70	March 31, 2016	June 27, 2016
Board of Directors meeting held on October 31, 2016	Common stock	12,173	75	September 30, 2016	November 25, 2016
Total	—	23,533	—	—	—

2) Of the dividends for which the record date falls during the fiscal year under review, items for which the effective date arrives during the following fiscal year

The following proposal on dividends for common stock will be presented for resolution at the Ordinary General Meeting of Shareholders scheduled on June 16, 2017.

Total dividends	12,174 million yen
Dividend per share	75 yen
Record date	March 31, 2017
Effective date	June 19, 2017

Dividends are to be paid out of retained earnings.

(3) Type and number of shares to be issued upon exercise of the subscription rights to shares (excluding items for which the initial date of the rights exercise period has not arrived) as of the end of the fiscal year under review

Common stock 206,400 shares

5. Notes related to business combination

(Acquisition of nolax Airbag AG.)

(1) Outline of the business combination

On July 13, 2016, the Group acquired 100% of the shares of nolax Airbag AG. of Switzerland (renamed as Nitto Switzerland AG in July 2016). By acquiring a new business for functional film used in automotive side curtain airbags, the Group hopes to enter the promising curtain airbag market, accelerate the expansion of domains of the Group’s growing transportation business, and implement its business portfolio reform.

(2) Breakdown of fair value of acquired assets and liabilities and consideration for acquisition on the acquisition date

	Yen in Millions Amount
Cash and cash equivalents	355
Trade and other receivables	105
Inventories	12
Other current liabilities	20
Intangible assets	4,763
Trade and other payables	-86
Other current liabilities	-2
Non-current liabilities	-649
Goodwill	1,671
Total	6,191
Cash	5,152
Contingent consideration	1,039
Total consideration for acquisition	6,191

Acquisition-related costs for this business combination amounted to 123 million yen, all of which was expensed under “Selling, general and administrative expenses.”
Goodwill has arisen primarily in association with expected future earning power. The goodwill in question cannot be recognized as loss under tax law.
According to the contract, contingent consideration for the business combination shall be paid additionally depending on the level of achievement of selected performance indicators of the acquired company, etc., and its amount shall be calculated by taking time value of money into account. The total amount of payment that the Company may be required to make pursuant to the contingent consideration contract is 2,156 million yen (before discount).

(3) Expenditures for the acquisition of a subsidiary

	Yen in Millions Amount
Total consideration for acquisition	6,191
Contingent consideration included in consideration for acquisition	-1,039
Cash and cash equivalents in the acquired subsidiary	-355
Expenditures for the acquisition of a subsidiary	4,796

(4) Impact on the Group’s financial results

The Consolidated Statements of Income include revenue (896 million yen) and net loss (238 million yen) generated by Nitto Switzerland AG after the acquisition date. Had the business combination taken place at the start of the year, the amounts of such revenue and net loss would have been 1,378 million yen and 232 million yen, respectively. These estimates have yet to be certified by an audit.

(Acquisition of Irvine Pharmaceutical Services and Avrio Biopharmaceuticals)

(1) Outline of the business combination

As of October 17, 2016, the Group acquired the assets of Irvine Pharmaceutical Services, an analytical development services provider, and Avrio Biopharmaceuticals, an aseptic fill and finish services provider, via Nitto Denko Avecia Inc. to form the newly established company Nitto Avecia Pharma Services. The Group intends to make the most of the analytical and production capabilities that this acquisition has brought in order to further expand its oligonucleotide drug business, whose market appears set to expand going forward.

(2) Breakdown of fair value of acquired assets and liabilities and consideration for acquisition on the acquisition date

	Yen in Millions Amount
Trade and other receivables	295
Other current liabilities	16
Property, plant and equipment	1,886
Intangible assets	160
Trade and other payables	-95
Other current liabilities	-286
Goodwill	2,899
Total	4,875
Cash	4,752
Contingent consideration	123
Total consideration for acquisition	4,875

The acquisition-related cost on this business combination is 172 million yen, all of which is expensed under "Selling, general, and administrative expenses."

Goodwill has arisen primarily in association with expected future earning power. The goodwill amount is 2,899 million yen, which is to be included in deductible expenses for tax purposes.

According to the contract, contingent consideration for the business combination shall be paid additionally depending on the level of achievement of selected performance indicators of the acquired company, etc., and its amount shall be calculated by taking time value of money into account. The total amount of payment that the Company may be required to make pursuant to the contingent consideration contract is 504 million yen (before discount).

(3) Expenditures for business transfer

	Yen in Millions Amount
Total consideration for acquisition	4,875
Contingent consideration included in consideration for acquisition	-123
Expenditures for business transfer	4,752

(4) Impact on the Group's financial results

The Consolidated Statements of Income include revenue (1,153 million yen) and net loss (98 million yen) generated by Nitto Avecia Pharma Services after the acquisition date. Had the business combination taken place at the start of the year, the amounts of such revenue and net loss would have been 2,478 million yen and 166 million yen, respectively. These estimates have yet to be certified by an audit.

6. Notes to financial instruments

1. Matters relating to the status of financial instruments

(1) Capital risk management

The Group's basic policy on capital risk management is to build and maintain a stable financial base in order to ensure sound and efficient operations and to achieve sustainable growth of the Group. In accordance with this policy, investments in businesses, returns to shareholders through dividends and purchases of treasury stock, and repayments of debts are made based on the sound operational cash flows generated through development and sales of competitive products.

(2) Financial risk management

Risk management policies

The Group conducts a risk management to mitigate the financial risks arising from the business activity processes. The Group's risk management approach is to eliminate the sources of those risks to avoid the occurrence of the risk or to mitigate the risks that are not avoidable.

Derivative transactions are entered into within the actual demands to hedge the risks described below in compliance with the internal regulations governing the scope and the selection of financial institutions etc. for derivative transactions.

For details of the Group's major financial risks and the management policies thereon, reference is made to (3) Financial risks.

(3) Financial risks

Business activities of the Group are affected by the environment of businesses and of financial market. The financial instruments owned by the Group in the course of its business activities are exposed to their inherent risks including (a) market risks ((i) foreign exchange risk, (ii) price risk, and (iii) interest rate risk), (b) credit risk, and (c) liquidity risk.

(a) Market risks

(i) Foreign exchange risk

The Group's businesses are operated globally and the products manufactured by the Company and its subsidiaries are sold in the overseas markets. Consequently, the Group is exposed to the risk of changes in foreign currency exchange rates (hereinafter: "foreign exchange risk") arising from the translation of the balances of foreign-currency-denominated trade receivables and trade payables resulted from the transactions by the Company and its subsidiaries denominated in currencies other than the Group's functional currency into the Group's functional currency at the rates of exchange prevailing at the end of the reporting period. The Group's foreign exchange risk arises mainly from changes in the exchange rate with US dollars. Although the Group's trade receivables and trade payables denominated in foreign currencies are exposed to foreign exchange risk, the Group uses forward exchange contracts to hedge its foreign exchange risk in principle for the net exposure of such trade receivables and trade payables whose balances are monitored monthly by currency.

(ii) Price risk

Equity instruments held by the Group mainly are the shares of the companies with which the Group has business relationships. Such shares are held from the perspective of business strategies and for maintenance and enhancement of business relationships, and not for short-term trading purposes. The Group periodically reviews the holding status of those equity instruments by monitoring the fair values for listed shares and the financial conditions of investees (counterparty companies) for unlisted shares.

Therefore, the Group considers its current price risk as not material.

(iii) Interest rate risk

Interest rate risk is defined as the risk arising from the changes in fair values of financial instruments or in future cash flows generated from financial instruments due to the fluctuation of market interest rates. The Group's exposure to interest rate risk is mainly related to liabilities such as loans payable and bonds and to assets such as time deposits and loans receivable. As the interest amount is affected by the fluctuation of market interest rates, the future cash flows from interests are exposed to the interest rate risk.

The Group raises funds by issuing fixed-rate bonds primarily to curb the increase of future interest payments due to rising interest rates. In addition, the Group invests surplus funds exceeding the interest-bearing debts in short-term deposits etc. to enable the Group, in the future, to curb the future funding costs by reducing the interest-bearing debts through redemption with such surplus funds in case of rising interest rate due to the changes in financial market environment.

Therefore, the Group considers its current interest rate risk as immaterial.

(b) Credit risk

The Group is exposed to the risk that the counterparty to a financial instrument held could default on its contractual obligation, resulting in financial loss to the Group due to that financial instrument becoming uncollectible.

The Group's credit risk arises principally from its trade receivables that consist of a large number of customers in the Group's business segments such as "Industrial Tape," "Optronics," "Life Science," and others. Credit risk of customers is managed by establishing the payment terms and credit limits for customers. Through regular monitoring of collection status, reasons for overdue trade receivables are clarified and the respective measures are appropriately taken. Credit evaluation is also regularly performed by analyzing the ongoing information gathered and the actual credit reports of counterparties obtained from external institutions as needed together with the historical payment performance of customers.

If, as a result, the credit standing of a customer is judged as changed or abnormal, or if no payment is performed by a customer within a certain period of time after the payment due date contractually agreed upon, preventive measures for respective trade receivable is appropriately taken such as change of credit limit amount, change of payment terms, credit guarantee insurance cover, factoring, etc. Those measures are subject to approval of the respective responsible persons in charge.

The Group establishes an allowance for doubtful accounts with respect to trade and other receivables by considering collectability and using historical information regarding default rates of the respective customers and credit reports, etc. provided by external institutions.

Furthermore, the Group deposits surplus funds at financial institutions and uses derivative financial instruments provided by financial institutions to mitigate the business related risks. Since the transactions regarding deposits and derivative financial instruments are engaged in only with financial institutions with high credit rating, the Group considers its current credit risk regarding such transactions as immaterial.

(c) Liquidity risk

The Group uses short-term loans payable principally for funding the working capital and long-term loans payable and bonds payable for funding capital investments. Those liabilities together with trade notes and accounts payables are exposed to the liquidity risk that the Group will encounter difficulties in meeting the obligation associated with such liabilities. The Group manages liquidity risk by adequately preparing the cash planning based on the cash flow forecast to meet its liabilities when they are due.

Liquidity risk of short-term loans payable is managed by timely preparing and updating the cash management plan based on the reports from respective departments and by maintaining adequate level of liquidity in hand. In addition, surplus funds generated in the subsidiaries are managed within the Group for efficient cash management.

As to long-term loans payable for purposes of long-term financing, cash planning is prepared prior to the execution of long-term fund raising that is subject to the approval of the Board of Directors.

2. Matters relating to the fair values of financial instruments

Estimation of fair values

(i) Measurement method of fair values

The Group determines fair values of financial assets and financial liabilities as follows. Market prices are used, if available, for the estimation of fair values of financial instruments. For financial instruments whose market prices are not available, their fair values are estimated by an appropriate valuation method.

[Cash and cash equivalents, trade and other receivables, trade and other payables, and short-term loans payable]
Since they are settled in a short time, their fair values approximate the carrying amounts.

[Bonds and long-term loans payable]
The fair values of bonds issued by the Company are estimated based on market prices. The fair values of long-term loans payable are calculated by discounting the total of principal and interest by the interest rate on similar new loans.

[Other financial assets and other financial liabilities]
The fair values of marketable securities out of other financial assets are estimated based on market prices, etc. while the fair values of unlisted equity securities are estimated using valuation techniques.

The fair values of derivatives are estimated based on forward exchange markets, prices quoted by contracting financial institutions, etc.

The valuation techniques used in measuring the fair values of financial instruments include followings:

- Quoted market prices of similar financial instruments or broker quotes
- The fair values of foreign currency forward contracts are calculated based on the values calculated using the forward exchange rates at the end of the reporting period.
- In calculating the fair values of financial instruments other than those listed above, other valuation techniques are used such as discounted cash flow analysis, etc.

(ii) Carrying amounts and fair values of financial instruments

The carrying amounts and the fair values of financial instruments as of the consolidated balance sheet date are as follows. The list below does not include the financial instruments that are measured at fair value and whose carrying amounts closely approximate the fair values.

(Yen in Millions)

	As of March 31, 2017	
	Carrying amount	Fair value
Bonds and loans payable	3,000	3,015

7. Notes on information per share

Equity attributable to owners of the parent company per share	4,027.57 yen
Basic earnings per share	390.94 yen

In the consolidated statements of financial position, the consolidated statements of income, and the consolidated statements of changes in equity, the amounts presented are rounded down to the nearest million yen.

Notes to the Non-Consolidated Financial Statements

1. Notes regarding significant accounting policies

(1) Valuation basis and method for securities

Other securities:

Securities with available fair value:

Carried at fair value, as of the end of the fiscal year (valuation adjustments are reported in the net assets section, and selling costs are calculated using the moving average method)

Securities with no available fair value:

Stated at cost based on the moving average method

Stocks issued by subsidiaries and affiliates:

Stated at cost based on the moving average method

(2) Valuation basis and method for derivatives

Stated at fair value

(3) Valuation basis and method for inventories

Merchandise and finished goods, work in process, and raw materials and supplies

Stated at gross average cost (for balance sheet valuation, in the event that an impairment is determined: impairment write down is calculated based on inventory net realizable value)

(4) Depreciation method of major depreciable assets

Property, plant and equipment (excluding lease assets):

Straight-line method

Intangible assets (excluding lease assets):

Straight-line method (software for in-house use is depreciated using the straight-line method over its useful life of 5 years)

Lease assets:

Lease assets related to finance lease transactions that do not transfer ownership of the leased property to the lessee are depreciated over the lease terms by the straight-line method with no residual value.

(5) Accounting criteria for allowances and provisions

Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover probable losses on collection. It is the sum of the probable uncollectable amount estimated using the rate of actual collection losses for normal receivables and a review of the individual collectability of the specific receivables.

Allowance for investment loss

A potential loss amount is stated by taking into account the Company’s financial conditions, etc., in accordance with the Company’s criteria, to prepare for losses related to investments in subsidiaries and affiliates.

Provision for directors’ bonuses

The Company makes provisions for the amount of bonuses for Directors deemed to accrue during the fiscal year, based on the Company’s estimated payment obligation for the fiscal year under review.

Provision for retirement benefits

The Company makes provisions for the necessary amount of allowance for employees’ severance and retirement benefits deemed to accrue during the term based on the Company’s expected retirement benefit obligation and the balance of the pension assets at the term-end.

Past service cost is amortized from the year in which the gain or loss is recognized by the straight-line method for a given number of years (12 years) within employees’ average remaining years of service.

Actuarial gains and losses are amortized from the year following the year in which the gains or losses are recognized by the straight-line method for a given number of years (12 years) within employees' average remaining years of service.

(6) Method of hedge accounting

1) Method of hedge accounting

Deferred hedging is used for forward exchange contracts applied to forecast transactions. For currency swaps that qualify for hedge accounting, gain or loss is translated at the exchange rate stipulated in the contract under the allocation process. Interest rate swaps that qualify for hedge accounting and meet specific criteria are not measured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

2) Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts, Currency swaps, Interest rate swaps

Hedged items: Foreign currency-denominated receivables and payables, etc.

3) Hedge policy

The Company adopts a policy aimed at averting the risks associated with exchange fluctuations and interest rate fluctuations.

4) Method of assessing the effectiveness of the hedges

The effectiveness is assessed by comparing a market change in a hedged item or cumulative change in its cash flows with a market change in a hedging instrument or cumulative change in its cash flow to observe a ratio of those changes. However, the assessment of the effectiveness is omitted for interest rate swaps that are handled under special rules.

(7) The consumption taxes are excluded from the transaction amount.

2. Notes to the non-consolidated balance sheets

(1) Accumulated depreciation of property, plant and equipment	398,360 million yen
(2) Short-term receivables from affiliates	97,359 million yen
Long-term receivables from affiliates	2,510 million yen
Short-term payables to affiliates	56,705 million yen

(3) Guarantees on liabilities

The Company offers guarantees on liabilities for loans from banks as follows:

Shenzhen Nitto Optical Co., Ltd.	560 million yen (5,000 thousand US dollars)

The Company offers the following guarantee on the fulfillment of a contract.

Hydranautics	889 million yen (7,930 thousand US dollars)
Nitto, Inc.	267 million yen (2,387 thousand US dollars)

3. Notes to the non-consolidated statements of income

(1) Transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates	354,406 million yen
Purchases from subsidiaries and affiliates	36,026 million yen
Transactions other than business deals with subsidiaries and affiliates	27,391 million yen

(2) Extraordinary loss

(Special retirement expenses)

The main component of extraordinary loss comprises expenses related to early retirement bonuses.

4. Notes to the non-consolidated statements of changes in equity

Type and number of treasury stock as of the end of the fiscal year under review

Common stock	11,434 thousand shares

5. Notes on deferred tax accounting

The main reasons why deferred tax assets arise are excess of the limit of inclusion in depreciation expenses and disallowed provision for retirement benefits, while deferred tax liabilities are mainly caused by prepaid pension costs and valuation differences on available-for-sale securities.

6. Notes on information per share

Net assets per share	2,573.28 yen
Net income per share	332.54 yen

In the non-consolidated balance sheets, the non-consolidated statements of income, and the non-consolidated statements of changes in equity, the amounts presented are rounded down to the nearest million yen.