

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 31, 2016

**NOTICE OF
THE 151ST ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

It is our pleasure to invite you to the 151st 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 24, 2016 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 151st term (from April 1, 2015 to March 31, 2016)
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 three Corporate Auditors

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 (<http://www.nitto.com/ir/>).
- ◆ This English translation of this notice can be referred on our Investor Relations website (English version).
 - Investor Relations website (Japanese): <http://www.nitto.com/jp/ja/ir/>
 - Investor Relations website (English): <http://www.nitto.com/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 24, 2016 from 10:00 a.m.
- 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 23, 2016 at 5:00 p.m.
- 3 Voting by Internet (Personal computer or mobile phone)
Please input approval or disapproval of each item on the Site for the Exercise of Voting Rights: <http://www.evotep.jp/> (Japanese only). [Please refer to the next page for details.]
Deadline for voting: Thursday, June 23, 2016 at 5:00 p.m.

* If you do not indicate your approval or disapproval of any items when exercising your voting rights through the Voting Rights Exercise Form, it will be assumed that such items have been approved.

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

We currently make use of the electric voting rights exercise 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 on Thursday, June 23, 2016 at 5:00 p.m., 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 voting by the Voting Rights Exercise Form or by electronic means (via the Internet, etc.), the final vote shall be considered as 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 following Site for Exercise of Voting Rights designated by the Company by using a personal computer or mobile phone.

URL of the Site for the Exercise of Voting Rights: <http://www.evote.jp/> (Japanese only)

The site will be unavailable between the hours of 2:00 a.m. and 5:00 a.m. each day.

Please note that any costs arising from using the Site for the Exercise of Voting Rights, including connection fees to Internet providers and telecom rates charged by telecommunications carriers, will be the burden of the shareholder.

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

Mitsubishi UFJ Trust and Banking Corporation Securities Agency Division (Help Desk)

Tel: 0120-173-027 (toll-free)

Hours: 9:00 a.m. to 9:00 p.m.

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 151st term are as described below. Since we have paid interim dividends of 70 yen per share, the amount of annual dividend per share will be 140 yen, an increase of 20 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

70 yen per share of our common stock: 11,360,501,950 yen in total

(3) Effective date of distribution of dividends

June 27, 2016

Item 2: Approval of payment of bonus for Directors

We propose providing the total amount of 229.0 million yen as a bonus based on the results of this business year for six of the nine Directors, excluding three Outside Directors, as of the end of this business year. 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 nine current Board of Directors members will expire. We hereby propose the election of nine Directors, three of whom are Outside Directors.

The following are the candidates, with all nine being nominated for reelection.

Candidate number	Name	Current position and areas of responsibility in the Company
1	Yukio Nagira	Representative Director, Chairman Reelection
2	Hideo Takasaki	Representative Director, President Reelection
3	Toru Takeuchi	Director, Executive Vice President, Chief Financial Officer (CFO) of the Group General Manager of Corporate Strategy Sector and General Manager of Corporate Accounting & Finance Division Areas of responsibility Corporate Strategy (Corporate Strategy/Finance and Accounting/Legal and General Affairs) Regional Business [East Asia/South Asia] CSR, Corporate Governance, and Export Control Reelection
4	Toshiyuki Umehara	Director, Executive Vice President General Manager of Transportation Business Sector Areas of responsibility Transportation Business, Information Fine Materials Business, Corporate Business Development Reelection
5	Tsutomu Nishioka	Director, Senior Vice President, Chief Technology Officer (CTO) of the Group General Manager of Corporate Technology Sector Areas of responsibility Corporate Technology/Technology Information (Technology Planning, Intellectual Property) Tajiku (New Business) Creation: Information and Communications Technology (ICT) Business, and Medical & Membrane Business Reelection
6	Yasushi Nakahira	Director, Senior Vice President General Manager of Functional Base Products Sector, concurrently General Manager of Sales Management Sector Areas of responsibility Functional Base Products Business: Sales Management and Sales Innovation Support Reelection
7	Yoichiro Furuse	Outside Director Reelection Independent Director Candidate for Outside Director
8	Koushi Mizukoshi	Outside Director Reelection Independent Director Candidate for Outside Director
9	Takashi Hatchoji	Outside Director Reelection Independent Director Candidate for Outside Director

* All of the Director candidates meet the “Criteria for Election of Board Members” provided on page 18 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

Yukio Nagira

(Date of birth: January 28, 1948)

For reelection

Number of Company shares owned: 25,400

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): 18 years

Attendance at Board meetings: 12 out of 12

Brief Profile

April 1971 Joined Nitto Denko Corporation
June 1998 Director
June 2001 Executive Managing Director
June 2003 Director, Executive Vice President
June 2007 Director, Senior Executive Vice President
April 2008 Representative Director, President
April 2014 Representative Director, Chairman (present)

Candidate number

2

Hideo Takasaki

(Date of birth: August 11, 1953)

For reelection

Number of Company shares owned: 11,200

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): 8 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 (present)

Candidate number

3

Toru Takeuchi

(Date of birth: January 1, 1959)

For reelection

Number of Company shares owned: 5,700

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): 5 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

4

Toshiyuki Umehara

(Date of birth: September 3, 1957)

For reelection

Number of Company shares owned: 1,600

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): 1 year

Attendance at Board meetings: 10 out of 10

Brief Profile

April 1984 Joined Nitto Denko Corporation

April 2008 General Manager of Optical Division, Optical Business Headquarters

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, Chief Information Officer (CIO) 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
(present)

Candidate number

5

Tsutomu Nishioka

(Date of birth: December 16, 1962)

For reelection

Number of Company shares owned: 1,915

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): 1 year

Attendance at Board meetings: 9 out of 10

Brief Profile

April 1985 Joined Nitto Denko Corporation

July 2011 General Manager of Information and Communication Technology Division

June 2012 Vice President, General Manager of Information and Communication Technology Sector

April 2013 Vice President, Deputy CTO, Deputy General Manager of Corporate Technology Sector

June 2014 Vice President, CTO, General Manager of Corporate Technology Sector

April 2015 Vice President, CTO, General Manager of Corporate Technology Sector and General Manager of Tajiku (New Business) Creation Management Division

June 2015 Director, Senior Vice President, CTO, General Manager of Corporate Technology Sector, concurrently General Manager of Tajiku (New Business) Creation Management Division

April 2016 Director, Senior Vice President, CTO, General Manager of Corporate Technology Sector (present)

Candidate number

6

Yasushi Nakahira

(Date of birth: December 3, 1957)

For reelection

Number of Company shares owned: 14,985

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): 1 year

Attendance at Board meetings: 10 out of 10

Brief Profile

April 1981 Joined Nitto Denko Corporation

July 2005 General Manager of Large Projects, Optical Division

July 2007 President of Nitto Europe NV

April 2011 General Manager of Membrane Division

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)

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: 4

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 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. (present)
March 2016	Outside Director, Nasta Co., Ltd. (present)

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

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 propose 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 18 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.

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: 3

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 5 years

Attendance at Board meetings: 12 out of 12

Brief Profile

April 1961	Joined Kobe Steel, Ltd.
June 1989	Director, Kobe Steel, Ltd.
April 1999	President, Kobe Steel, Ltd.
April 2004	Chairman, Kobe Steel, Ltd.
November 2004	Chairman, Kobe Chamber of Commerce and Industry (retired in November 2010)
May 2005	Vice Chairman, Kansai Economic Federation (retired in May 2010)
June 2009	Senior Adviser, Kobe Steel, Ltd.
April 2011	Honorary Adviser, Kobe Steel, Ltd. (present)
June 2011	Representative Director, K·S Building KK (present)
June 2011	Outside Director, Nitto Denko Corporation (present)
June 2011	Representative Director, The Kobe International House Inc. (present)

[Important concurrent positions held at] Kobe Steel, Ltd., K·S Building KK, and The Kobe International House Inc.

Notes on the Candidate for Outside Director

1) Reason for nomination as a candidate for Outside Director

In this fiscal year, Mr. Mizukoshi 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 director at listed companies and as Chairman of the Kobe Chamber of Commerce and Industry, 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 propose his appointment as an Outside Director.

2) Limited Liability Agreement

The Company has executed an agreement with Mr. Mizukoshi 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 18 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Mizukoshi as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Candidate number

9

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: 1

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 1 year

Attendance at Board meetings: 10 out of 10

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.
June 2015	Advisor, Hitachi, Ltd. (present)
June 2015	Outside Director, Nitto Denko Corporation (present)

[Important concurrent positions held at] Hitachi, Ltd.

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 (10) 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 propose 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 18 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.

Item 4: Election of three Corporate Auditors

At the close of this Ordinary General Meeting of Shareholders, the terms of office of three of the five Corporate Auditors will expire. Accordingly, we propose the election of three Corporate Auditors.

The following are the candidates, and all three are candidates for reelection. The consent of the Board of Corporate Auditors has been obtained for the submission of this item.

Candidate number	Name	Current position and areas of responsibility in the Company			
1	Yoshihiro Taniguchi	Corporate Auditor (full-time service) <table border="1"><tr><td>Reelection</td></tr></table>	Reelection		
Reelection					
2	Masashi Teranishi	Outside Corporate Auditor <table border="1"><tr><td>Reelection</td></tr><tr><td>Independent Corporate Auditor</td></tr><tr><td>Candidate for Outside Corporate Auditor</td></tr></table>	Reelection	Independent Corporate Auditor	Candidate for Outside Corporate Auditor
Reelection					
Independent Corporate Auditor					
Candidate for Outside Corporate Auditor					
3	Mitsuhide Shiraki	Outside Corporate Auditor <table border="1"><tr><td>Reelection</td></tr><tr><td>Independent Corporate Auditor</td></tr><tr><td>Candidate for Outside Corporate Auditor</td></tr></table>	Reelection	Independent Corporate Auditor	Candidate for Outside Corporate Auditor
Reelection					
Independent Corporate Auditor					
Candidate for Outside Corporate Auditor					

* All of the candidates for Corporate Auditors meet the “Criteria for Election of Board Members” provided on page 18 of this document.

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

Candidate number

1

Yoshihiro Taniguchi

(Date of birth: August 25, 1956)

For reelection

Number of Company shares owned: 4,664

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): 4 years

Attendance at Board meetings: 12 out of 12

Attendance at Board of Corporate Auditors meetings: 13 out of 13

Brief Profile

April 1980 Joined Nitto Denko Corporation

April 1999 Assistant Manager of Accounting Department

May 2005 Manager of Corporate Secretarial Department, Corporate Planning Division

June 2008 General Manager of Corporate Governance Department

June 2012 Full-time Corporate Auditor (present)

Candidate number

2

Masashi Teranishi

(Date of birth: February 6, 1947)

For reelection

Independent Corporate Auditor

Candidate for Outside Corporate Auditor

Number of Company shares owned: 0

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 2

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 8 years

Attendance at Board meetings: 12 out of 12

Attendance at Board of Corporate Auditors meetings: 13 out of 13

Brief Profile

April 1969	Joined The Sanwa Bank, Ltd.
January 2002	President and Representative Director of UFJ Bank Limited
June 2002	Director of UFJ Holdings, Inc. (retired in June 2004)
May 2004	Representative Director of UFJ Bank Limited (retired in May 2004)
July 2004	Honorary Adviser of UFJ Bank Limited
January 2006	Honorary Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (present)
June 2008	Outside Corporate Auditor of Nitto Denko Corporation (present)
June 2011	Outside Director of Tsukishima Kikai Co., Ltd. (present)

[Important concurrent positions held at] The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Tsukishima Kikai Co., Ltd.

Notes on the Candidate for Outside Corporate Auditor

1) Reason for nomination as a candidate for Outside Corporate Auditor

In this fiscal year, Mr. Teranishi participated in all of the Board of Directors meetings (12) and Board of Corporate Auditors meetings (13), and his deep insight and extensive experience in the fields of finance are reflected to the auditing of the Company.

The Company believes that his insight and experience can continue to be reflected in the auditing of the Company. Hence, the Company propose his appointment as an Outside Corporate Auditor.

2) Limited Liability Agreement

The Company has executed an agreement with Mr. Teranishi 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 18 for the content of these criteria) and selects candidates for Outside Corporate Auditors based on the said criteria. The Company designated Mr. Teranishi as an Independent Corporate Auditor as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Mr. Teranishi now serves as an Honorary Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd., and has working experience within that banking group. We have stated in the Business Report that The Bank of Tokyo-Mitsubishi UFJ, Ltd. is one of our largest lenders, but the amount borrowed totals

3,172 million yen, which is a mere 0.4% of the Group's total assets. Because this satisfies the criterion stipulated in item 5 of the aforementioned "Criteria for Election of Independent Outside Directors and Outside Corporate Auditors," we recognize his ability to audit the Company properly from an independent perspective. Please note that the borrowings in question were made by some of the overseas subsidiaries of the Group, and that the Company does not have any borrowings from said bank.

For reelection

Independent Corporate Auditor

Candidate for Outside Corporate Auditor

Number of Company shares owned: 0

Conflicts of interest between the Company and candidate: None

Important position concurrently held outside of the Company: 1

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 4 years

Attendance at Board meetings: 12 out of 12

Attendance at Board of Corporate Auditors meetings: 13 out of 13

Brief Profile

April 1990	Professor, Faculty of Political Science and Economics, Kokushikan University
April 1999	Professor, School of Political Science and Economics, Waseda University
April 2005	Professor, Faculty of Political Science and Economics, Waseda University (present)
October 2009	Vice President of Japan Academy of International Business Studies
June 2012	Outside Corporate Auditor of Nitto Denko Corporation (present)
October 2012	Permanent Director of Japan Academy of International Business Studies
August 2013	President of Japan Society of Human Resource Management (retired in August 2015)
October 2015	Chairperson of Japan Academy of International Business Studies (present)

[Important concurrent positions held at] Faculty of Political Science and Economics, Waseda University

Notes on the Candidate for Outside Corporate Auditor

1) Reason for nomination as a candidate for Outside Corporate Auditor

In this fiscal year, Dr. Shiraki participated in all of the Board of Directors meetings (12) and Board of Corporate Auditors meetings (13). As a professor at a prestigious university, he is a specialist in labor issues and development of global-minded human resources and his deep insight is reflected to the auditing of the Company. He has not been directly involved in business management, but for the reasons given above, it is believed that he will be able to audit the Company properly as an Outside Corporate Auditor.

The Company believes that his insight and experience can continue to be reflected in the auditing of the Company. Hence, the Company propose his appointment as an Outside Corporate Auditor.

2) Limited Liability Agreement

The Company has executed an agreement with Dr. Shiraki 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) Basis of judgment on independence

The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 18 for the content of these criteria) and selects candidates for Outside Corporate Auditors based on the said criteria. The Company designated Dr. Shiraki as an Independent Corporate Auditor as stipulated by the Tokyo Stock Exchange and reported such designation to the Exchange.

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 141 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 223 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: 22,300)

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 candidates who meet these criteria as suitable 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 candidates who meet these criteria as suitable 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 is appropriate.

<Criteria for Election of Board Members>

Successful candidates must, in addition to possessing deep insight and high expertise based on previous experience, be able to comprehend and live up to the Company's Corporate Philosophy, deliver results, and continue taking 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 donation (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 does not have a kinship (being a relative within the third degree of kinship or a relative living together) with an 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 is reasonably considered to give rise to any doubt on the independence as an independent outside director or independent outside corporate auditor or to a 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 (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; 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 amount of each of the three components is 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 151st Fiscal Term

For the 2015 fiscal year (April 1, 2015 to March 31, 2016)

1. Overview of business operations of the Nitto Group

(1) Operating progress and results

During the fiscal year ended March 31, 2016, the U.S. and European economies remained firm, chiefly underpinned by a solid recovery of consumer demand. Toward the end of the period, however, a strong sense of stagnation loomed as U.S. monetary authorities raised interest rates, the Chinese economy slowed down, and resource prices dropped. Likewise, the Japanese economy experienced a steady increase in corporate capital expenditure and improvement in its employment situation, yet the rapid appreciation of the yen since the beginning of calendar year 2016 affected corporate earnings, leaving consumer spending at a standstill.

Under these economic circumstances, the Nitto Group sought to maximize its sales and income in its mainstay optronics sector, while at the same time maintaining the competitive position that it enjoys, despite sales of optical films for LCDs and printed circuit boards (PCBs) being affected by the output decline of smartphones and hard disk drives (HDDs). For the industrial tape business, the Group continued to focus on the creation of Area Niche Top™ (ANT) and Global Niche Top™ (GNT) products and made a series of proactive moves, including capacity ramp-up of PVC tapes for holding automotive wire harnesses in Taiwan and establishment of a new car electronics site in Munich, Germany, in preparation for the next stage of growth.

In addition, the Group promoted the creation of ample business that will sustain business growth in the emerging domains of Green (environmental concerns), Clean (new energy), and Fine (life sciences) in a bid to redesign its business portfolio. In the medical business, a drug for liver cirrhosis using a molecular targeting drug delivery system (DDS) technology made steady progress, as clinical studies began in Japan and Europe (Bulgaria), and a Food and Drug Administration (FDA) Fast Track designation was granted in the U.S., which is leading others in clinical studies, based on the interim results of such studies. In January 2016, a new company that focuses on drug discovery (Nitto BioPharma, Inc.) was established in the U.S. in a bid to accelerate the pace toward a commercial launch for early delivery of the drug to patients.

As a result, revenue decreased by 3.9% from the same period of the previous year (changes hereafter are given in comparison with the same period of the previous year) to 793,054 million yen. Operating income decreased by 4.1% to 102,397 million yen, and net income attributable to owners of the parent company increased by 4.9% to 81,683 million yen.

* “Global Niche Top™” and “Area Niche Top™” are registered trademarks of the Company.

(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

The electronics sector experienced a major inventory adjustment in the second half of the period in response to a surge in customers' inventory of double-sided adhesive tapes for smartphones in the first half of the same period. Dust-proof, impact-absorption thin foams were also affected by this trend. Some products, such as waterproof/sound-passing functional products, continued to enjoy brisk demand, but they were unable to compensate for the drop in double-sided adhesive tapes for smartphones overall.

In the automotive sector, despite global unit production remaining almost flat from the previous fiscal year, the industrial tape business did well in the growing North American market thanks to the successful implementation of *San-shin* activities (three "new" activities, which constitute the Group's proprietary marketing strategy for discovering new applications, developing new products, and creating new demands) and an increase in operational efficiency in that market. Meanwhile, general-purpose, double-sided adhesive tapes, which are used in a broad range of industrial applications, performed strongly among home electronics and office automation equipment, and protection/masking materials sold well in the construction materials market.

As a result of the above, revenue grew by 1.8% to 322,155 million yen and operating income grew by 34.9% to 28,614 million yen.

[Optronics] Composition of revenue: 54.8%

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

Among information fine materials, optical films for smartphones and televisions started off the year on a good note, but the onset of LCD panel production adjustments from the beginning of calendar 2016 affected their sales. In response, an attempt was made to sustain orders by launching new polarizing films for televisions, in addition to smartphones. Meanwhile, demand for transparent electro-conductive films for tablet PC touch panels remained sluggish. Overall, the optronics business fared well in the first half of the period, but began to decelerate toward the fiscal year end. PCB sales were affected by the drop in HDD unit production on the back of the weak PC market, and remained low overall as the demand for smartphones made by Chinese manufacturers continued to flag. Process materials, which include tapes used mainly for downstream processing in semiconductor fabrication, performed strongly as the demand for tapes increased in tandem with higher-speed communications using smartphones and sales of laminating equipment expanded.

As a result of the above, revenue decreased by 10.5% to 455,831 million yen and operating income decreased by 25.2% to 65,444 million yen.

[Medical & Membrane] Composition of revenue: 6.4%

Main products: Medical-related products and polymer separation membranes

For the medical products business, while the development of oligonucleotides is becoming increasingly active globally, the Group launched contract manufacturing services in Japan, as well as the U.S., and favorable business has been experienced overall. Membrane products (polymer separation membranes) also fared well, as focus was placed on taking new and replacement orders for industrial waste recycling projects and receiving profitable orders for offshore oil fields and other applications.

As a result of the above, revenue increased by 30.7% to 53,367 million yen and operating income increased by 364.5% to 11,179 million yen.

(Millions of yen)

Business segment	FY2015 (151st term)		FY2014 (150th term)
	Revenue (year-on-year change)		Revenue
Industrial Tape	322,155	(up 1.8%)	316,608
Optronics	455,831	(down 10.5%)	509,285
Medical & Membrane	53,367	(up 30.7%)	40,829
Eliminations and corporate	-38,299	—	-41,479
Total	793,054	(down 3.9%)	825,243

Note: The breakdown of composition of revenue stated above is calculated by excluding eliminations and corporate.

(3) Capital expenditure

The Group used a total of 60,420 million yen for capital spending during the fiscal year under review.

In Japan, 43,003 million yen of this total amount was spent mainly for environment-related projects and inspection equipment improvement for the information fine materials lines at the Onomichi Plant and production equipment improvement and environment-related projects for the industrial tape lines at the Toyohashi Plant and Kanto Plant.

Overseas, a total of 17,417 million yen was spent mainly for improvement of industrial tape production equipment in East Asia, including capacity ramp-up of PVC tapes for holding automotive wire harnesses in Taiwan.

(4) Financing

The business momentum experienced in the previous year continued into the first half of the period under review. As the global economy became increasingly uncertain and the yen appreciated further, however, business in the electronics sector began to decelerate during the second half of the same period. Although the level of net income remained almost flat year-on-year, working capital did not grow and capital expenditure ended up lower than originally planned.

Since the amount of cash increased accordingly on a consolidated basis, overseas subsidiaries of the Group were able to repay their borrowings. As a result, interest-bearing debts decreased by 2,790 million yen from the end of the previous fiscal year to 6,395 million yen on a consolidated basis.

(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 into the next 100 years, the Group recognizes that it is crucial to take advantage of rapid changes by staying one step ahead to cater to market demands.

It is with this recognition that the Group will continue to create value that goes beyond customers' expectations by placing itself in the middle of the market to be the first in capturing any changes and by integrating a diverse range of technologies and information both within and outside of the Group. It will also stay close to each geographic region to create business models customized to their specific needs.

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

- Industrial Tape

In the functional base products business, the Group will put its key technologies to diverse applications and thereby create new businesses in broad growth areas. With the establishment of the Transportation Business Sector in April 2016, the Group will tap into its collective strength to expand coverage of the automotive-related business to meet advanced demands for transportation equipment in general, such as aircraft, trains, and marine vessels, as well as automobiles.

- Optronics

In the information fine materials business, the Group will aggressively pursue opportunities in emerging areas such as information devices for automobiles and healthcare, while at the same time maintaining a high penetration into the existing markets for mobile equipment, televisions, and so forth. With regard to semiconductor related products, PCBs, and process materials, the Group will capture new demands promptly by forecasting progress in the IoT (Internet of Things) field, i.e., products and services that assume everything is connected to the Internet.

- Medical & Membrane

In the medical products business, the Group will further expand the already strong oligonucleotide business and pour more resources in the pharmaceutical products and medical and sanitary materials businesses outside of Japan. In the membrane (polymer separation membrane) business, the Group will continue to build a strong business foundation while also developing new applications, such as gas separation, to roll out the business globally.

(6) Trends in operating results and assets

Item	Japan GAAP			IFRS		
	FY2011 (147th term)	FY2012 (148th term)	FY2013 (149th term)	FY2013 (149th term)	FY2014 (150th term)	FY2015 (151st term)
Revenue (million yen)	607,639	671,253	749,835	749,504	825,243	793,054
Operating income (million yen)	56,491	68,482	72,254	72,503	106,734	102,397
Ordinary income (million yen)	58,436	67,182	71,658	—	—	—
Net income attributable to owners of the parent company (million yen)	31,066	43,696	51,018	51,892	77,876	81,683
Basic earnings per share (yen)	188.90	265.48	309.29	314.59	471.75	495.23
Dividend payout ratio (%)	52.9	37.7	32.3	31.8	25.4	28.2
ROA (Ratio of profit attributable to owners of the parent company to total assets) (%)	4.8	6.3	6.7	6.8	9.5	9.7
ROE (Return on equity attributable to owners of the parent company) (%)	7.3	9.5	10.1	10.5	13.7	13.3
Operating income to revenue (%)	9.3	10.2	9.6	9.7	12.9	12.9
Total assets (million yen)	651,908	740,949	781,352	783,583	855,433	825,905
Total equity (million yen)	435,935	491,105	527,299	524,552	615,776	617,891
Equity attributable to owners of the parent company per share (yen)	2,635.91	2,961.90	3,172.03	3,159.87	3,705.96	3,785.91
Ratio of equity attributable to owners of the parent company to total assets (%)	66.5	65.9	67.0	66.5	71.5	74.4
Depreciation and amortization (million yen)	36,806	36,467	43,188	43,223	45,662	48,537
Capital investment (million yen)	33,758	49,807	75,814	75,814	56,721	60,420
Research and Development Costs (million yen)	25,003	27,573	28,573	28,444	28,240	32,120
Exchange rate (average rate) (yen/1 US dollar)	78.89	82.42	99.93	99.93	109.00	120.17

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 151st Ordinary General Meeting of Shareholders.

(7) Principal offices and status of major subsidiaries (as of March 31, 2016)

<1> Principal offices of the Group

Nitto Denko Corporation	Head office	Kita-ku, Osaka
	Offices (Plants/ Laboratory)	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)
	Branches	Tokyo Sales Branch (Shinagawa-ku, Tokyo), Nagoya Sales Branch (Naka-ku, Nagoya), Osaka Sales Branch (Kita-ku, Osaka), Kyushu Sales Branch (Hakata-ku, Fukuoka)
Nissho Corporation	Kita-ku, Osaka, Japan	
Nitto Europe NV	Genk, Belgium	
Nitto, Inc.	Lakewood, NJ, U.S.	
Taiwan Nitto Optical Co., Ltd.	Taichung, Taiwan	
Korea Nitto Optical Co., Ltd.	Pyeongtaek, South Korea	
Korea Optical Hightech Co., Ltd.	Gumi, South Korea	
Nitto Denko (HK) Co., Ltd.	Hong Kong, China	
Shanghai Nitto Optical Co., Ltd.	Shanghai, China	
Shenzhen Nitto Optical Co., Ltd.	Shenzhen, China	
Nitto Denko Material (Thailand) Co., Ltd.	Ayutthaya, Thailand	

Notes:

1. The Company's Osaka Sales Branch was relocated to Chuo-ku, Osaka, on May 9, 2016.
2. Effective April 1, 2016, Nitto Europe NV has been renamed as Nitto Belgium NV, with the regional administrative function over Group companies in Europe being divided.
3. As of March 30, 2016, Nitto Americas, Inc. was liquidated, with the regional administrative function over Group companies in the U.S. being transferred to Nitto Denko Automotive New Jersey, Inc. (Effective January 4, 2016, Nitto Denko Automotive New Jersey, Inc. has been renamed as Nitto, Inc.)

<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 Europe NV	in thousand euro 101,416	100.0	Production, processing and sales of industrial tapes
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	97.6	Production, processing and sales of optronics
Korea Optical Hightech Co., Ltd.	in million won 22,000	89.1	Production, processing and sales of optronics
Nitto Denko (HK) Co., Ltd.	in thousand HK\$ 13,826	100.0	Sales of industrial tapes, 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 304,697	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, 2016)

	Number of employees	Changes from the end of the previous fiscal year
Group	26,837	-323
Company	5,093	+34

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, 2016)

(Millions of yen)

Creditor	Balance at the end of the fiscal year
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,172
Nippon Life Insurance Company	3,000

2. Shareholders' equity (as of March 31, 2016)

- | | |
|---|--------------------|
| (1) Number of shares authorized to be issued: | 400,000,000 shares |
| (2) Number of shares issued | 173,758,428 shares |
| (Number of treasury stock held) | 11,465,543 shares |
| (3) Number of shareholders | 37,694 |
| (4) Major shareholders (Top 10) | |

Name	Number of shares held	Ownership percentage
	Thousands of shares	%
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,127	11.79
Japan Trustee Services Bank, Ltd. (Trust Account)	13,840	8.53
JP MORGAN CHASE BANK 380055	9,564	5.89
STATE STREET BANK AND TRUST COMPANY	3,835	2.36
JP MORGAN CHASE BANK 380634	3,635	2.24
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,263	2.01
BNP Paribas Securities (Japan) Limited	2,573	1.59
STATE STREET BANK WEST CLIENT - TREATY 505234	2,368	1.46
Japan Trustee Services Bank, Ltd. (Trust Account 7)	2,228	1.37
Nippon Life Insurance Company	2,082	1.28

Notes:

- The Company holds a total treasury stock of 11,465,543 shares, but is not included among the major shareholders above.
- The ownership percentage has been calculated based on the number of shares issued, excluding treasury stock.
- 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, 2016.
 - A total of three shareholders comprising Sumitomo Mitsui Trust Bank, Limited and its joint holders
11,614,200 shares (as of October 30, 2015)
 - A total of nine shareholders comprising BlackRock Japan Co., Ltd. and its joint holders
12,038,651 shares (as of October 30, 2015)
 - A total of three shareholders comprising Nomura Securities Co., Ltd. and its joint holders
11,415,868 shares (as of February 15, 2016)
 - Capital Research and Management Company
14,334,200 shares (as of April 15, 2016)

(5) Other significant matters concerning shareholders' equity

In order to carry out capital management policy with agility in response to changes in the business environment, the Company has repurchased its own shares as shown below during the period under review upon the resolution at the Board of Directors meeting pursuant to the provisions of Article 165, Paragraph 2 of the Companies Act of Japan and Article 7 of the Company's Articles of Incorporation.

Date of resolution	Aggregate number of shares repurchased	Aggregate amount of repurchase	Period of share repurchase
February 29, 2016	2,912,000	19,999,632,100 yen	March 1-22, 2016 (contract-date basis)

3. Matters concerning the 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 the warrants: 1,180 units (100 shares of common stock per unit)
- Class and number of underlying shares: Company's common stock: 118,000 shares
- Classified total of warrants held by Directors

Classification	Type 1	Type 2
Exercise value (payment amount per unit at the time of exercise)	100 yen	100 yen
Exercise period	<ul style="list-style-type: none"> • 20 years from the day following the issuing date • 6 years from the day following the day they no longer serve as either of Directors, Corporate Vice Presidents, Corporate Auditors, Advisers or specific staff members (in principle) 	<ul style="list-style-type: none"> • 30 years from the day following the issuing date • 10 days from the day following the day they no longer serve as Directors
Number of owners and units by classification		
Directors	1 person 63 units	6 persons 1,117 units

Notes:

1. Following the discontinuation of traditional retirement benefit 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 at 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 at the 141st ordinary general meeting of shareholders and onward.
3. Outside Directors and Corporate Auditors are not eligible for the warrants.

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

Name	Warrants issued in August 2015
Number of the warrants issued	122 units (100 shares of common stock per unit)
Class and number of underlying shares that are the subject to the warrants	Company's common stock: 12,200 shares
Exercise value (payment amount per unit at the time of exercise)	100 yen
Exercise period	August 4, 2015 through August 3, 2045 10 days from the day following the day when the Corporate Vice President of the Company no longer serves as Corporate Vice President ("Right Exercise Starting Day"). Provided, however, that 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 the warrant owner no longer serves as Corporate Vice President or the day following 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)	13 persons 122 units

Note: Following the discontinuation of traditional retirement benefit in cash approved at the 139th ordinary general meeting of shareholders, the warrants were approved to be granted to the Directors and the Corporate Vice Presidents as its replacement by the Board of Directors of the Company.

4. Executives

(1) Directors and Corporate Auditors (as of March 31, 2016)

Name	Position, duties and significant concurrent positions	
Yukio Nagira	Representative Director Chairman	
Hideo Takasaki	Representative Director President	CEO (Group Chief Executive Officer), COO (Group Chief Operating Officer)
Toru Takeuchi	Director	Executive Vice President, CFO of the Group General Manager of Corporate Strategy Sector and General Manager of Corporate Accounting & Finance Division Corporate Strategy (Corporate Strategy/Finance and Accounting/Legal and General Affairs) Regional Business [East Asia/South Asia] CSR, Corporate Governance, and Export Control
Toshiyuki Umehara	Director	Executive Vice President General Manager of Automotive Products Sector Automotive Products Business, Information Fine Materials Business, Corporate Business Development
Tsutomu Nishioka	Director	Senior Vice President, CTO of the Group General Manager of Corporate Technology Sector, concurrently General Manager of Tajiku (New Business) Creation Management Division Corporate Technology/Technology Information (Technology Planning, Intellectual Property) Tajiku (New Business) Creation: ICT Business, and Medical & Membrane Business
Yasushi Nakahira	Director	Senior Vice President General Manager of Functional Base Products Sector, concurrently General Manager of Sales Management Sector Functional Base Products Business: Sales Management and Sales Innovation Support
Yoichiro Furuse	Outside Director	Evanston Corporation (Representative Director) Global Logistic Properties Limited (Non-Executive & Independent Director) Permira Advisers KK (Chairman of Japan) Sushiro Global Holdings Ltd. (Director & Chairman)
Koushi Mizukoshi	Outside Director	Kobe Steel, Ltd. (Honorary Adviser) K·S Building KK (Representative Director) The Kobe International House Inc. (Representative Director)
Takashi Hatchoji	Outside Director	Hitachi, Ltd. (Advisor)
Masami Kanzaki	Corporate Auditor (full-time service)	
Yoshihiro Taniguchi	Corporate Auditor (full-time service)	
Masashi Teranishi	Outside Corporate Auditor	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Honorary Adviser) Tsukishima Kikai Co., Ltd. (Outside Director)
Masakazu Toyoda	Outside Corporate Auditor	Murata Manufacturing Co., Ltd. (Outside Statutory Auditor) The Institute of Energy Economics, Japan (Chairman & CEO) Canon Electronics Inc. (Outside Director)
Mitsuhide Shiraki	Outside Corporate Auditor	Faculty of Political Science and Economics, Waseda University (Professor)

Notes:

1. Directors' "position and duties" were changed as follows on April 1, 2016.

Name	Position and Duties	
Toshiyuki Umehara	Director	Executive Vice President General Manager of Transportation Business Sector Transportation Business, Information Fine Materials Business, Corporate Business Development
Tsutomu Nishioka	Director	Senior Vice President, CTO of the Group General Manager of Corporate Technology Sector Corporate Technology/Technology Information (Technology Planning, Intellectual Property) Tajiku (New Business) Creation: Information and Communications Technology (ICT) Business, and Medical & Membrane Business

2. Yoshihiro Taniguchi, the full-time Corporate Auditor, has had experiences in the Company's accounting and auditing departments over the years, having a broad range of knowledge in finance and accounting.
3. The Company 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. At the close of the 150th Ordinary General Meeting of Shareholders held on June 19, 2015, Mr. Kenji Ueki retired from his position as full-time Corporate Auditor.

(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 times 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: 100% (12 times 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% (10 times out of 10 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 times out of 12 times) Board of Corporate Auditors meetings: 100% (13 times out of 13 times)
	Major comments	He mainly makes comments based on his experience at financial institutions over many years and deep financial knowledge.
Masakazu Toyoda	Participation	Board of Directors meetings: 100% (12 times out of 12 times) Board of Corporate Auditors meetings: 92% (12 times out of 13 times)
	Major comments	He mainly makes comments based on his broad insight and extensive experience in the field of economy, trade and industry.
Mitsuhide Shiraki	Participation	Board of Directors meetings: 100% (12 times out of 12 times) Board of Corporate Auditors meetings: 100% (13 times 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

(Millions of yen)

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)	580	248	229	103	8
Outside Directors	32	32	—	—	3
Corporate Auditors (excluding Outside Corporate Auditors)	67	67	—	—	3
Outside Corporate Auditors	29	29	—	—	3

Notes:

1. The above includes two Directors and one Corporate Auditor who retired upon adjournment of the 150th Ordinary General Meeting of Shareholders.
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 151st Ordinary General Meeting of Shareholders.
5. Matters related to warrants (equity-based compensation stock options) were approved at the 150th 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 amount of each of the three components is 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. In addition to the aforementioned Directors, the following 15 individuals have taken on duties as shown below. Positions and responsibilities are current as of April 1, 2016.

Name	Position and responsibilities	
Yoichiro Sakuma	Senior Executive Vice President	Regional Management (North and South America)
Toshihiko Omote	Senior Executive Vice President	CIO of the Group Management Infrastructures (IT, Procurement, Logistics, HR & Training)
Hongin Kim	Executive Vice President	General Business in South Korea, Information Fine Materials Business
Michio Yoshimoto	Executive Vice President	Legal Affairs, General Affairs, Export Control
Toshio Yamamoto	Senior Vice President	HR & Training, Plant Management
Kageshi Maruyama	Senior Vice President	Corporate Business Development
Yukihiro Iizuka	Senior Vice President	Information Fine Materials Business
Yasuhito Ohwaki	Vice President	Quality Assurance, Environmental Protection, Total Safety, Environmental Management Strategy
Tomoo Sakamoto	Vice President	Production Engineering
Tatsuya Osuka	Vice President	Regional Management [South Asia]
Sam Strijckmans	Vice President	Global Financing and Auditing, Regional Management [Europe]
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

5. Accounting auditors

(1) Name of accounting auditor: KPMG AZSA LLC

(2) Amount of compensation for accounting auditor

(Millions of yen)

1)	Amount of compensation as an accounting auditor for this business year	166
2)	Total amount of money and other asset interests to be paid by the Company and the subsidiaries of the Company	197

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.
4. Other than the above, the Company has paid 10 million yen as an additional compensation for unscheduled auditing during the previous fiscal year.

(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 the 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 does not reelect the Accounting Auditor, and instead elects another appropriate audit corporation and brings the Accounting Auditor election agenda to the general meeting of shareholders. The Board of Corporate Auditors also determines 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 at the department in charge of internal control and auditing in order to assist corporate auditors of the Company in their duties.
 - ii) Election, transfer, and evaluation of a corporate auditor assistant shall be determined with consent from full-time corporate auditors in order to ensure their independence from directors.
 - iii) A corporate auditor assistant shall not hold a concurrent position that concerns the execution of duties.
 - iv) 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: In the amounts of money and the number of shares in the Business Report, fractions below the shown figures are omitted. Percentages (%) are rounded to the nearest decimal point.

Consolidated Financial Statements

Consolidated Statements of Financial Position

(Millions of yen)

	Amount	
	As of March 31, 2016	As of March 31, 2015 (Reference)
(Assets)		
Current assets	502,253	519,246
Cash and cash equivalents	240,891	214,559
Trade and other receivables	149,305	191,074
Inventories	88,499	93,448
Other financial assets	8,662	7,726
Other current assets	14,894	12,437
Non-current assets	323,651	336,186
Property, plant and equipment	263,645	268,601
Goodwill	2,663	2,966
Intangible assets	10,634	12,837
Investments accounted for using equity method	319	284
Financial assets	7,869	12,737
Deferred tax assets	29,146	30,231
Other non-current assets	9,372	8,527
Total assets	825,905	855,433

Consolidated Statements of Financial Position

(Millions of yen)

	Amount	
	As of March 31, 2016	As of March 31, 2015 (Reference)
(Liabilities)		
Current liabilities	153,817	197,420
Trade and other payables	96,145	108,110
Bonds and borrowings	3,395	6,185
Income tax payables	3,753	20,337
Other financial liabilities	12,477	20,445
Other current liabilities	38,044	42,340
Non-current liabilities	54,196	42,236
Bonds and borrowings	3,000	3,000
Other financial liabilities	722	1,364
Defined benefit liabilities	47,594	34,042
Deferred tax liabilities	349	566
Other non-current liabilities	2,530	3,262
Total liabilities	208,014	239,656
(Equity)		
Equity attributable to owners of the parent company	614,425	612,016
Share capital	26,783	26,783
Capital surplus	56,681	56,761
Retained earnings	559,351	508,564
Treasury stock	(51,016)	(31,232)
Other components of equity	22,624	51,139
Non-controlling interests	3,465	3,760
Total equity	617,891	615,776
Total liabilities and equity	825,905	855,433

Consolidated Statements of Income

(Millions of yen)

	Amount	
	April 1, 2015 – March 31, 2016	April 1, 2014 – March 31, 2015 (Reference)
Revenue	793,054	825,243
Cost of sales	548,354	579,009
Gross profit	244,700	246,234
Selling, general and administrative expenses	115,040	114,939
Research and development expenses	32,120	28,240
Other income	8,714	12,684
Other expenses	3,855	9,004
Operating income	102,397	106,734
Financial income	1,140	700
Financial expenses	1,527	1,021
Equity in profits (losses) of affiliates	(13)	(465)
Income before income taxes	101,996	105,947
Income tax expenses	20,006	27,918
Net income	81,989	78,028
Net income attributable to:		
Owners of the parent company	81,683	77,876
Non-controlling interests	306	152

Consolidated Statements of Cash Flows (Reference)

(Millions of yen)

	Amount	
	April 1, 2015 – March 31, 2016	April 1, 2014 – March 31, 2015
I Cash flows from operating activities		
Income before income taxes	101,996	105,947
Depreciation and amortization	48,537	45,662
Increase (decrease) in defined benefit liabilities	(742)	(5,713)
Decrease (increase) in trade and other receivables	32,082	(4,911)
Decrease (increase) in inventories	542	(2,068)
Increase (decrease) in trade and other payables	(9,181)	(418)
Interest and dividend income	985	537
Interest expenses paid	(534)	(804)
Income taxes (paid) refunded	(34,146)	(17,495)
Others	1,119	(1,254)
Net cash provided by (used in) operating activities	140,658	119,481
II Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(63,047)	(53,329)
Proceeds from sale of property, plant and equipment and intangible assets	2,823	562
Decrease (increase) in time deposits	395	(1,301)
Proceeds from sales of investment securities	3,009	480
Others	(266)	(268)
Net cash provided by (used in) investing activities	(57,085)	(53,857)
III Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,767)	(1,423)
Redemption of bonds	—	(50,000)
Decrease (increase) in treasury stock	(20,007)	392
Cash dividends paid	(22,297)	(17,328)
Repayment of long-term loans payable	(581)	(540)
Others	(247)	(67)
Net cash provided by (used in) financing activities	(44,902)	(68,966)
IV Effect of exchange rate changes on cash and cash equivalents	(12,339)	14,456
V Net increase (decrease) in cash and cash equivalents	26,332	11,113
VI Cash and cash equivalents at the beginning of period	214,559	203,446
VII Cash and cash equivalent at the end of period	240,891	214,559

Consolidated Statements of Changes in Equity

April 1, 2015 – March 31, 2016

(Millions of yen)

	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	56,761	508,564	(31,232)	51,139	612,016	3,760	615,776
Net income			81,683			81,683	306	81,989
Other comprehensive income					(37,113)	(37,113)	(324)	(37,437)
Total comprehensive income	—	—	81,683	—	(37,113)	44,569	(17)	44,552
Share-based payment transactions		(21)				(21)		(21)
Dividends			(22,297)			(22,297)	(247)	(22,545)
Changes in treasury stock		(1)		(19,783)		(19,784)		(19,784)
Transfers from other components of equity to retained earnings			(8,598)		8,598	—		—
Other increase or decrease		(57)				(57)	(28)	(86)
Total transactions with owners	—	(80)	(30,896)	(19,783)	8,598	(42,160)	(276)	(42,437)
Balance at the end of current year	26,783	56,681	559,351	(51,016)	22,624	614,425	3,465	617,891

Non-Consolidated Financial Statements

Non-Consolidated Balance Sheets

(Millions of yen)

	Amount	
	As of March 31, 2016	As of March 31, 2015 (Reference)
(Assets)		
Current assets	267,380	284,152
Cash and deposits	98,810	89,930
Notes receivable-trade	6,483	6,749
Accounts receivable-trade	98,799	119,672
Merchandise and finished goods	6,410	6,770
Work in process	23,192	27,135
Raw materials and supplies	10,634	7,755
Short-term loans receivable	1,083	5,029
Deferred tax assets	3,351	7,609
Income tax refund receivable	3,449	—
Other	15,165	14,007
Allowance for doubtful accounts	—	(507)
Non-current assets	276,766	281,722
Property, plant and equipment	152,359	149,011
Buildings	68,038	61,481
Structures	3,882	3,498
Machinery and equipment	57,142	53,193
Vehicles	476	400
Tools, furniture and fixtures	5,644	4,489
Land	13,927	13,935
Construction in progress	3,248	12,012
Intangible assets	7,899	9,135
Software	5,393	6,418
Other	2,506	2,716
Investments and other assets	116,507	123,575
Investments securities	4,566	7,553
Stocks of subsidiaries and affiliates	84,880	84,530
Long-term loans receivable	4,945	14,906
Deferred tax assets	7,307	7,607
Prepaid pension cost	13,582	15,606
Other	1,264	1,870
Allowance for doubtful accounts	(38)	(8,498)
Total assets	544,147	565,874

Non-Consolidated Balance Sheets

(Millions of yen)

	Amount	
	As of March 31, 2016	As of March 31, 2015 (Reference)
(Liabilities)		
Current liabilities	132,454	164,012
Accounts payable-trade	61,383	68,502
Accounts payable-other	26,505	33,521
Accrued expenses	9,904	15,473
Income taxes payable	—	15,066
Deposits received	32,027	28,014
Other	2,633	3,434
Non-current liabilities	24,465	24,401
Long-term loans payable	3,000	3,000
Provision for retirement benefits	20,520	19,625
Guarantee deposits received	227	414
Other	718	1,361
Total liabilities	156,920	188,414
(Net assets)		
Shareholders' equity	384,888	373,415
Capital stock	26,783	26,783
Capital surplus	56,157	56,153
Legal capital surplus	50,482	50,482
Other capital surplus	5,675	5,671
Retained earnings	352,962	321,710
Legal retained earnings	4,095	4,095
Other retained earnings	348,867	317,615
Reserve for special depreciation	114	194
Reserve for advanced depreciation of non-current assets	2,386	1,337
General reserve	185,000	185,000
Retained earnings brought forward	161,366	131,083
Treasury stock	(51,016)	(31,232)
Valuation and translation adjustments	1,600	3,285
Valuation difference on available-for-sale securities	1,600	3,285
Subscription rights to shares	738	759
Total net assets	387,227	377,460
Total liabilities and net assets	544,147	565,874

Non-Consolidated Statements of Income

(Millions of yen)

	Amount	
	April 1, 2015 – March 31, 2016	April 1, 2014 – March 31, 2015 (Reference)
Net sales	485,044	514,460
Cost of sales	354,897	379,453
Gross profit	130,147	135,007
Selling, general and administrative expenses	84,190	83,133
Operating income	45,956	51,873
Non-operating income	19,141	18,161
Interest and dividends income	12,677	9,076
Foreign exchange gains	—	2,282
Other	6,463	6,802
Non-operating expenses	2,529	1,850
Interest expenses	283	243
Interest on bonds	—	108
Foreign exchange losses	755	—
Other	1,491	1,498
Ordinary income	62,568	68,184
Extraordinary income	3,802	432
Gain on sales of non-current assets	2,191	29
Gain on sales of investment securities	1,500	252
Other	110	150
Extraordinary loss	2,296	7,564
Loss on sales and retirement of non-current assets	1,133	1,009
Loss on valuation of stocks of subsidiaries and affiliates	898	4,567
Other	263	1,987
Income before income taxes	64,075	61,052
Income taxes-current	5,114	18,473
Income taxes-deferred	5,411	(1,398)
Net income	53,549	43,977

Non-Consolidated Statements of Changes in Equity

April 1, 2015 – March 31, 2016

(Millions of yen)

	Shareholders' equity											
	Capital stock	Capital surplus			Retained earnings						Treasury stock	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings		
						Reserve for special depreciation	Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings brought forward			
Balance at the beginning of current year	26,783	50,482	5,671	56,153	4,095	194	1,337	185,000	131,083	321,710	(31,232)	373,415
Net changes of items during the period												
Dividends from surplus									(22,297)	(22,297)		(22,297)
Provision of reserve for special depreciation						4			(4)	—		—
Reversal of reserve for special depreciation						(84)			84	—		—
Provision of reserve for advanced depreciation of non-current assets							1,141		(1,141)	—		—
Reversal of reserve for advanced depreciation of non-current assets							(92)		92	—		—
Net income									53,549	53,549		53,549
Purchase of treasury stock											(20,007)	(20,007)
Disposal of treasury stock			4	4							224	228
Net change of items other than shareholders' equity during the period												
Total changes of items during the period	—	—	4	4	—	(80)	1,049	—	30,283	31,251	(19,783)	11,473
Balance at the end 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

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of current year	3,285	3,285	759	377,460
Net changes of items during the period				
Dividends from surplus				(22,297)
Provision of reserve for special depreciation				—
Reversal of reserve for special depreciation				—
Provision of reserve for advanced depreciation of non-current assets				—
Reversal of reserve for advanced depreciation of non-current assets				—
Net income				53,549
Purchase of treasury stock				(20,007)
Disposal of treasury stock				228
Net change of items other than shareholders' equity during the period	(1,685)	(1,685)	(21)	(1,706)
Total changes of items during the period	(1,685)	(1,685)	(21)	9,766
Balance at the end of current year	1,600	1,600	738	387,227

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: 102

Major subsidiaries: Nissho Corporation, Nitto, Inc., NITTO EUROPE NV
NITTO DENKO (HK) CO., LTD., KOREA NITTO OPTICAL CO., LTD.
NITTO DENKO (CHINA) INVESTMENT CO., LTD., KOREA OPTICAL HIGHTECH CO., LTD.
TAIWAN NITTO OPTICAL 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: 3 (due to establishment of new subsidiaries)

Decrease: 4 (due to liquidation, merger, etc.)

(3) Fiscal year of consolidated subsidiaries

Number of subsidiaries that close books on the same date as the Company: 73

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, 2016 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, except for 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) 557,076 million yen
- (2) Pledged assets and secured liabilities
Pledged assets:
Investments securities 28 million yen
Secured liabilities:
Trade and other payables 8 million yen

3. Notes to the consolidated statements of income

- Other income
Other income includes gains on sales of non-current assets of 2,276 million yen, most of which was generated by sales of land.

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 (in millions of yen)	Dividend per share (in yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 19, 2015	Common stock	10,734	65	March 31, 2015	June 22, 2015
Board of Directors meeting held on October 30, 2015	Common stock	11,563	70	September 30, 2015	November 27, 2015
Total	—	22,297	—	—	—

- 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 24, 2016.

Total dividends	11,360 million yen
Dividend per share	70 yen
Record date	March 31, 2016
Effective date	June 27, 2016

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 203,000 shares

(4) Treasury stock

Type of shares	At the beginning of the fiscal year under review	Increase	Decrease	At the end of the fiscal year under review
Common stock (shares)	8,614,484	2,912,859	61,800	11,465,543

(Reasons for the change)

Details regarding the increase/decrease are as follows.

Increase due to acquisition of treasury stock based on a resolution at the Board of Directors meeting:

2,912,000 shares

5. 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, purchases of treasury stock, etc., 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 mainly arises from the changes in exchange rates with US dollars.

Although the Group's trade receivables and trade payables denominated in foreign currencies, in particular, are exposed to the 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, the balances of which are monthly monitored 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. Those shares are held from a viewpoint 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 a counterparty to a financial instrument held will default on its contractual obligation resulting in financial loss to the Group due to the uncollectibility of the respective financial instruments.

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," and other (Medical & Membrane). 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.

(Millions of yen)

	As of March 31, 2016	
	Carrying amount	Fair value
Bonds and loans payable	3,000	3,039

6. Notes on information per share

Equity attributable to owners of the parent company per share	3,785.91 yen
Basic earnings per share	495.23 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 on the change in method of presentation

(Statements of Income)

“Gain on sales of investment securities,” which had been reported under “Other” of “Extraordinary income” up until the previous fiscal year, has been separated and is reported as a separate item from this fiscal year because the amount has become significant.

“Gain on sales of investment securities” for the previous fiscal year amounted to 252 million yen.

3. Notes to the non-consolidated balance sheets

(1) Accumulated depreciation of property, plant and equipment	383,904 million yen
(2) Short-term receivables from affiliates	66,011 million yen
Long-term receivables from affiliates	4,943 million yen
Short-term payables to affiliates	38,195 million yen

(3) Guarantees on liabilities

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

NITTO DENKO (TIANJIN) CO., LTD.	260 million yen (15,000 thousand Chinese yuan)
NITTO DENKO (SHANGHAI SONGJIANG) CO., LTD.	1,138 million yen (10,105 thousand US dollars)
SHANGHAI NITTO OPTICAL CO., LTD.	1,201 million yen (8,000 thousand US dollars)
	(300 million yen)
SHENZHEN NITTO OPTICAL CO., LTD.	563 million yen (5,000 thousand US dollars)

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

HYDRANAUTICS	857 million yen (7,587 thousand US dollars)
	(21 thousand euro)
Nitto, Inc.	269 million yen (2,387 thousand US dollars)

4. Notes to the non-consolidated statements of income

(1) Transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates	363,441 million yen
Purchases from subsidiaries and affiliates	36,897 million yen
Transactions other than business deals with subsidiaries and affiliates	16,968 million yen

(2) Extraordinary income

(Gain on sales of non-current assets)

Gain on sales of land is mainly reported under extraordinary income.

(Gain on sales of investment securities)

Gain on sales of listed shares is mainly reported under extraordinary income.

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

Treasury stock

Type of share	At the beginning of the fiscal year under review	Increase	Decrease	At the end of the fiscal year under review
Common stock (shares)	8,614,484	2,912,859	61,800	11,465,543

(Reasons for the change)

Details regarding the increase/decrease are as follows.

Increase due to acquisition of treasury stock based on a resolution at the Board of Directors meeting:

2,912,000 shares

6. 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.

7. Notes on transactions with affiliated parties

Relationship	Company name	Location	Capital	Business	Holding ratio of voting rights (holders)
Subsidiary	NITTO AMERICAS, INC.	Teaneck, NJ, U.S.A.	Thousand US dollars —	Holding company	Direct, 100%

Details of relationship		Transaction type	Transaction amount	Category	Balance as of fiscal year-end
Concurrent responsibility as Director, etc.	Actual role				
Applicable	Supervisory function in the US	Collection of funds Receipt of interests	Million yen 8,490 53	—	Million yen —

8. Notes on information per share

Net assets per share 2,381.43 yen

Net income per share 324.66 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.