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.

June 1, 2018

NOTICE OF
THE 153RD ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Shareholders:

It is our pleasure to invite you to the 153rd 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 22, 2018 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 153rd term (from April 1, 2017 to March 31, 2018)
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	Determination of compensation for Directors (excluding Outside Directors) relating to restricted share remuneration and performance-linked share-based remuneration

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

□ This English translation of this notice can be referred on our Investor Relations website (English version).
- Investor Relations website (Japanese): https://www.nitto.com/jp/ja/ir/
- Investor Relations website (English): https://www.nitto.com/jp/en/ir

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

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

How to Exercise Voting Rights

I. Exercising your voting rights

1 Voting at the general meeting of shareholders

Please present the Voting Rights Exercise Form at the reception of the venue.

Meeting date/time: Friday, June 22, 2018 from 10:00 AM (JST)

2 Mailing the Voting Rights Exercise Form

Please mail the Voting Rights Exercise Form after indicating your approval or disapproval of each item.*

Deadline for mail arrival: Thursday, June 21, 2018 at 5:00 PM (JST)

3 Internet voting (PC or mobile phone)

Please indicate your approval or disapproval of each item on the Exercise of Voting Rights Website: https://evote.tr.mufg.jp/ (Japanese only). [Please refer to the next page for details.]

Deadline for voting: Thursday, June 21, 2018 at 5:00 PM (JST)

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

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

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

If nominal owners, including trust and custody services banks (including standing proxies), apply for use of this platform beforehand, it may be used in addition to the abovementioned Internet method as an electronic means of exercising voting rights for the general meeting of shareholders of the Company. Please note that the deadline for voting is Thursday, June 21, 2018 at 5:00 PM (JST), which is the same as the deadline for voting via the Internet.

III. Treatment of multiple exercises of voting rights

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

How to Exercise Voting Rights via the Internet

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

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

■ If you have any questions regarding the exercise of voting rights via the Internet, please call the following number.
Mitsubishi UFJ Trust and Banking Corporation Securities Agency Division (Help Desk)
Tel: 0120-173-027 (toll-free)
Hours: 9:00 AM to 9:00 PM (JST)

Reference Materials for the General Meeting of Shareholders

Item 1: Approval of the proposed dividends from surplus

We consider the stable return of our profits to shareholders to be one of our most important management issues and, before providing dividends, we comprehensively assess profit conditions and the dividend payout ratio, and also consider improvement of financial conditions, prior investments for technical innovation and business development, and retained earnings. Proposed year-end dividends for the 153rd term are as described below. Since we have paid interim dividends of 80 yen per share, the amount of annual dividend per share will be 160 yen, an increase of 10 yen compared to the previous term.

Matters concerning year-end dividends

(1) Type of dividend property
Cash

(2) Matters concerning distribution of dividend property and its total amount
80 yen per share of our common stock: 12,813,280,400 yen in total

(3) Effective date of distribution of dividends
June 25, 2018

Item 2: Approval of the payment of bonus for Directors

We propose providing the total amount of 329 million yen as a bonus based on the results of this business year for the six Directors (excluding the three Outside Directors) serving 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 members of the Board of Directors will expire and Director Hiroshi Sato will retire. We hereby propose the election of nine Directors, three of whom are Outside Directors. The following are the candidates, with eight being nominated for reelection and one nominated for new election.

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

* All of the Director candidates meet the “Criteria for Election of Board Members” provided on page 19 of this document.
* For the reasons for election of candidates for Directors, please refer to their Brief Profiles. For the candidates for Outside Directors, please refer to the Notes on the Candidates for Outside Director as well.

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

For reelection

Number of Company shares owned: 12,800

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

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

Attendance at Board meetings: 12 out of 12

Brief Profile

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

Candidate number
2 Toshiyuki Umehara (Date of birth: September 3, 1957)

For reelection

Number of Company shares owned: 2,000

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 3 years

Attendance at Board meetings: 12 out of 12

Brief Profile

April 1984	Joined Nitto Denko Corporation
June 2010	Vice President, General Manager of Optical Sector
June 2013	Senior Vice President
April 2014	Senior Vice President, General Manager of Corporate Strategy Management Division, Corporate Sector, and General Manager of Procurement Business Division
June 2014	Senior Vice President, CIO (Chief Information Officer) of the Group
April 2015	Senior Vice President, General Manager of Automotive Products Sector
June 2015	Director, Executive Vice President
April 2017	Director, Executive Vice President, CTO
June 2017	Director, Senior Executive Vice President, CTO
April 2018	Director, Senior Executive Vice President, CTO, concurrently CIO (present)

Candidate number
3 Toru Takeuchi (Date of birth: January 1, 1959)

For reelection

Number of Company shares owned: 6,100

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 7 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 Yasushi Nakahira (Date of birth: December 3, 1957)

For reelection

Number of Company shares owned: 15,185

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): 3 years
Attendance at Board meetings: 12 out of 12

Brief Profile

April 1981	Joined Nitto Denko Corporation
June 2013	Vice President, General Manager of Membrane Division
October 2013	Vice President, General Manager of Functional Base Products Sector
June 2015	Director, Senior Vice President, General Manager of Functional Base Products Sector, concurrently General Manager of Sales Management Sector
June 2017	Director, Executive Vice President (present)

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

For reelection

Number of Company shares owned: 1,000

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 1 year
Attendance at Board meetings: 10 out of 10

Brief Profile

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

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

For reelection

Number of Company shares owned: 1,100

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: None

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 1 year
Attendance at Board meetings: 10 out of 10

Brief Profile

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

General Manager of Information and Communication Technology Sector, concurrently Deputy General Manager of Corporate Technology Sector and General Manager of New Business Development Division (present)

Candidate number

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

For reelection

Independent Director

Candidate for Outside Director

Number of Company shares owned: 2,000

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 3

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 11 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)
January 2006	Representative Director, Evanston Corporation (present)
June 2007	Outside Director, Nitto Denko Corporation (present)
September 2010	Non-Executive & Independent Director, Global Logistic Properties Limited
July 2015	Chairman of Japan, Permira Advisers KK (present)
October 2015	Director, Sushiro Global Holdings Ltd. (retired in December 2016)
March 2016	Outside Director, Nasta Co., Ltd. (present)
January 2018	Consultant of GLP Pte. Ltd. (present)

[Important concurrent positions held at] Evanston Corporation, Permira Advisers KK, and GLP Pte. 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 proposes his appointment as an Outside Director.
2) Limited Liability Agreement
   The Company has executed an agreement with Mr. Furuse to limit his compensation liability to the degree stipulated in laws and regulations, and the Company intends to extend the agreement when he is reelected.
3) Base of judgment on independence
   The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 19 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Furuse as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

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

For reelection

Independent Director

Candidate for Outside Director

Number of Company shares owned: 0

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 2

Length of service (as of the close of this Ordinary General Meeting of Shareholders): 3 years
Attendance at Board meetings: 12 out of 12

Brief Profile

April 1970	Joined Hitachi, Ltd.
June 2003	Vice President and Executive Officer, Hitachi, Ltd.
April 2004	Senior Vice President and Executive Officer, Hitachi, Ltd.
April 2006	Representative Executive Officer, Executive Vice President, and Executive Officer, Hitachi, Ltd. (retired in March 2007)
June 2007	President and Representative Director, Hitachi Research Institute (retired in March 2009)
April 2009	Representative Executive Officer, Executive Vice President, and Executive Officer, Hitachi, Ltd. (retired in March 2011)
April 2011	Chairman of the Board, Hitachi America, Ltd. (retired in March 2015)
June 2011	Director, Hitachi, Ltd. (retired in June 2015)
June 2015	Advisor, Hitachi, Ltd. (retired in June 2016)
June 2015	Outside Director, Nitto Denko Corporation (present)
June 2017	External Audit & Supervisory Board Member, Marubeni Corporation (present)
June 2017	Outside Director, Konica Minolta, Inc. (present)

[Important concurrent positions held at] Marubeni Corporation and Konica Minolta, Inc.

Notes on the Candidate for Outside Director

1) Reason for nomination as a candidate for Outside Director
In this fiscal year, Mr. Hatchoji participated in all of the Board of Directors meetings (12) and made useful comments based on his deep insight into management, which was cultivated through his service as representative executive officer and director of listed companies, and his extensive experience.
The Company believes that his insight and experience can continue to be reflected in the management of the Company. Hence, the Company proposes his appointment as an Outside Director.
2) Limited Liability Agreement
The Company has executed an agreement with Mr. Hatchoji to limit his compensation liability to the degree stipulated in laws and regulations and the Company intends to extend the agreement when he is reelected.
3) Base of judgment on independence
The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 19 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Hatchoji as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Candidate number

9 Tamio Fukuda (Date of birth: June 19, 1948)

For new election

Independent Director

Candidate for Outside Director

Number of Company shares owned: 200

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): －

Attendance at Board meetings: －

Brief Profile

April 1989	Design Advisor of Samsung Electronics Co., Ltd., South Korea (retired in March 1999)
April 1999	Professor, Graduate School of Science and Technology, Kyoto Institute of Technology
April 2013	Professor Emeritus, Kyoto Institute of Technology (present)

[Important concurrent positions held at] Kyoto Institute of Technology

Notes on the Candidate for Outside Director

1) Reason for nomination as a candidate for Outside Director

As a university professor specializing in design, Mr. Fukuda has contributed valuable suggestions regarding establishment of the corporate brand of the Company and has also been involved in business management as a corporate advisor. The Company believes that such experiences will be instrumental in providing advice and opinions on the Company's management in general, and thus proposes his appointment as an Outside Director.

2) Limited Liability Agreement

When Mr. Fukuda is appointed, the Company intends to execute an agreement with him to limit his compensation liability to the degree stipulated in laws and regulations.

3) Base of judgment on independence

The Company stipulates "Criteria for Election of Independent Outside Directors and Outside Corporate Auditors" (please refer to page 19 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company intends to designate Mr. Fukuda as an Independent Director as stipulated by the Tokyo Stock Exchange and will report such designation to the Exchange.

Item 4: Determination of compensation for Directors (excluding Outside Directors) relating to restricted share remuneration and performance-linked share-based remuneration

At present, compensation for Directors of the Company has three components, namely, fixed compensation in cash, a bonus for Directors based on short-term performance, and an equity-based compensation stock option in the form of mid- and long-term performance-linked remuneration (introduced in 2004).
With the aim of even more strongly incentivizing the Company's Directors (excluding Outside Directors; hereinafter, "Targeted Directors") to contribute to mid- and long-term performance improvement and sustainable improvement of corporate value, the Company wishes to realign the compensation scheme of the Targeted Directors as follows:

1) Fixed compensation in cash (unchanged)
2) Bonus for Directors based on short-term performance (unchanged)
3) Introduction of, in lieu of an equity-based compensation stock option, a "restricted share remuneration" as a mid- and long-term performance-linked remuneration that allocates the Company's common shares subject to a specified transfer restriction period and provisions on reasons for non-contributing acquisition by the Company (hereinafter, "Restricted Shares")
4) Introduction of a "performance-linked share-based remuneration" as a new mid-term performance-linked remuneration that provides the Company's common shares in accordance with the achievement of mid-term numerical targets for the Company's performance, etc., which are predetermined by the Company's Board of Directors

Outside Directors and Corporate Auditors will still be compensated only by fixed compensation after taking into consideration their roles and other matters.
With the abovementioned realignment of the compensation scheme for Targeted Directors, the Company also wishes to revise remuneration, etc. of the Targeted Directors as follows.

By taking into consideration each Director's contributions to the Company and other matters, the Company wishes to set the maximum annual remuneration of monetary receivables to be provided to the Targeted Directors as remuneration, etc. in lieu of warrants currently offered as an equity-based compensation stock option under the restricted share remuneration plan described in 3) above at JPY243 million in total, which is separate from the maximum monthly remuneration of "not more than JPY30 million (including "not more than JPY3 million" for Outside Directors)" that was approved at the 150th Ordinary General Meeting of Shareholders held on June 19, 2015. The Company also wishes to set the maximum annual remuneration of the new mid-term performance-linked remuneration to be provided to the Targeted Directors in the form of monetary remuneration receivables as remuneration, etc. under the performance-linked share-based remuneration plan described in 4) above at JPY364 million in total.
Payment of compensation, etc. relating to restricted share remuneration and performance-linked share-based remuneration has been determined by taking into consideration each Targeted Director's contributions to the Company and other matters, and the Company has deemed this appropriate.
The Company now has nine Directors (including three Outside Directors) and this number shall remain the same irrespective of approval of Item 3.

[Details of this item]

I. Overview of Restricted Share Remuneration

1. Allotment and Payment of Restricted Shares

Based on the resolution of its Board of Directors, the Company shall provide to the Targeted Directors monetary receivables as remuneration for restricted shares within the maximum annual amount of remuneration, etc. under the abovementioned restricted share remuneration plan, and each of the Targeted Directors will have restricted shares allotted by paying in such monetary remuneration receivables in full amount in the form of property contributed in kind.

The amount of restricted shares to be paid shall be the amount decided by the Company’s Board of Directors within a range not specially advantageous to the Targeted Directors that receive such restricted shares, based on the closing price of the common shares of the Company in the Tokyo Stock Exchange on the business day immediately prior to the date of each resolution of the Board of Directors regarding issuance or disposal of said restricted shares (in the case that the transaction has not been established on that day, the closing price on the most recent trading day preceding that day shall be used).

The abovementioned monetary remuneration receivables shall be provided on the condition that the Targeted Directors have consented to abovementioned contributions in kind and have signed a restricted share allotment agreement that contains the details stipulated in 3. below.

2. Total Number of Restricted Shares

The upper limit of restricted shares to be allotted in each fiscal year shall be 32,000 shares, which is the total number of restricted shares to be allotted to the Targeted Directors.

Notwithstanding the above, the total number of said restricted shares may be adjusted within a reasonable scope when it becomes necessary to adjust the total number of restricted shares to be allotted in the event of share splits of the Company’s common shares (including allotment of the Company’s common shares without contribution), reverse share splits, etc. after the date of resolution on this item.

3. Details of the Restricted Share Allotment Agreement

When allotting restricted shares, the following details shall be contained in the restricted share allotment agreement that, based on the resolution of the Company’s Board of Directors, is concluded between the Company and the Targeted Directors to whom restricted shares are allotted.

(1) Details of Transfer Restriction

Targeted Directors to whom restricted shares have been allotted may not dispose of such restricted shares in any way, including transfer to third parties, establishment of right of pledge, establishment of a mortgage by transfer, advancement, or bequest, for thirty years (hereinafter, the “Transfer Restriction Period”).

(2) Cancellation of Transfer Restrictions

The Company shall cancel transfer restrictions for all of the restricted shares allotted to the Targeted Directors (hereinafter, “Allotted Shares”) upon the completion of the transfer restriction period, on the condition that said Targeted Directors have maintained the status of either Director, Vice President, or employee of the Company up until the date of the first Shareholders’ Meeting of the Company after the transfer restriction period’s commencement date.

Notwithstanding the above, in the event said Targeted Directors have deceased or stepped down or retired from the position of Director, Vice President, or employee of the Company before the expiration of the transfer restriction period and there are legitimate reasons otherwise deemed justifiable by the Company’s Board of Directors, the number of Allotted Shares for which transfer restriction is cancelled and the timing of such cancellation shall be adjusted within a reasonable scope as necessary.

(3) Acquisition of Restricted Shares without Contribution

i) The Company will naturally acquire without contribution the Allotted Shares in the event that the Targeted Directors to whom restricted shares have been allotted have stepped down or retired from the position of Director, Vice President, or employee of the Company by the day prior to the first Shareholders' Meeting of the Company after the transfer restriction period's commencement date, except when there are legitimate reasons otherwise deemed justifiable by the Company's Board of Directors.

ii) The Company will naturally acquire without contribution any and all Allotted Shares for which transfer restriction has not been cancelled pursuant to the reasons for such cancellation described in (2) above when the transfer restriction period stipulated in (1) above has expired.

iii) Other reasons for acquisition of restricted shares without contribution shall be stipulated in the restricted share allotment agreement based on the resolution of the Board of Directors of the Company.

(4) Treatment in the Event of Organizational Restructuring, Etc.

During the transfer restriction period, in the event that approval is given at the Shareholders' Meeting of the Company (or at a meeting of the Board of Directors of the Company in the case that approval by the Shareholders' Meeting of the Company is not required regarding organizational restructuring, etc.) on matters regarding merger agreements under which the Company becomes the disappearing company, share exchange agreements or share transfer plans under which the Company becomes a wholly owned subsidiary of another company, or any other agenda items regarding organizational restructuring, etc., the Company will, by resolution of the Board of Directors of the Company and prior to the date on which such organizational restructuring, etc. enters into force, cancel transfer restrictions for the Allotted Shares in the number reasonably determined by taking into account the period from the commencement day of the transfer restriction period to the day on which such organizational restructuring, etc. is approved.

In such cases, the Company will naturally acquire without contribution any and all Allotted Shares for which transfer restrictions are not cancelled immediately after the transfer restrictions have been cancelled pursuant to the provisions above.

(Reference) Application of the Restricted Share Remuneration Plan to Vice Presidents of the Company

The Company plans to allot restricted share remunerations like those above to its Vice Presidents after the close of the Shareholders' Meeting.

II. Overview of Performance-Linked Share-Based Remuneration

1. Structure of Performance-Linked Share-Based Remuneration

The structure of performance-linked share-based remuneration is as follows.

i) The Company will decide at its Board of Directors meeting the numerical targets that are required to specifically calculate the number of the Company's common shares to be provided to each Targeted Director (hereinafter, the "Number of Shares Provided"), which are set based on operating income, ROE, etc., including consolidated indicators, methods of calculating payment rates in accordance with achievement of such numerical targets, and other information.

ii) After three consecutive fiscal years (hereinafter, the "Applicable Term"; The first Applicable Term shall be three fiscal years from that ending March 31, 2019 to that ending March 31, 2021; Thereafter, the Company plans to offer performance-linked share-based remunerations in each fiscal year after that ending March 31, 2019 for a new Applicable Term of three consecutive fiscal years, in which each fiscal year is the first fiscal year of the term, within the range approved at the Shareholders' Meeting), the Company will decide at its Board of Directors meeting the Number of Shares Provided to each Targeted Director based on payment rates, etc. to be calculated in accordance with the achievement of each numerical target in the Company's performance, etc. during the Applicable Term.

iii) The Company will provide monetary remuneration receivables to be contributed in kind to each Targeted Director in accordance with the Number of Shares Provided to each Targeted Director as determined in ii) above. The amount of the Company's common shares to be paid per share shall be the amount decided by the Company's Board of Directors within a range not specifically advantageous to the Targeted Directors that receive such common shares, based on the closing price of the common shares of the Company in the Tokyo Stock Exchange on the last business day of the last fiscal year during the Applicable Term (in the case that the transaction has not been established on that day, the closing price on the most recent trading day preceding that day shall be used).

iv) The Company's common shares shall be allotted to each Targeted Director by contributing all monetary remuneration receivables in kind that were provided as described in iii) above for the purpose of making contributions in kind when the Company issues new shares or disposes of treasury shares.

2. Calculation Methods for the Number of Shares Provided based on Performance-Linked Share-Based Remuneration

The Company calculates the Number of Shares Provided by using the following formula.

[Formula for calculating the Number of Shares Provided]

Number of Shares Provided*1 = Standard Number of Shares Provided to each Targeted Director*2 x Payment rate*3

*1 Fractions less than 100 shares resulting from the calculation will be rounded down to 100 shares.

*2 To be decided by the Company's Board of Directors after taking the individual's position, etc. into account

*3 To be calculated within the scope of 0% to 150% based on the method decided by the Company's Board of Directors in accordance with the achievement of each numerical target of the Company's performance, etc.

The maximum total number of the Company's common shares allotted to the Targeted Directors as in 1. iv) above shall be 48,400 shares in each Applicable Term; provided, however, that if the total number of shares issued by the Company increases or decreases due to reverse share splits, share splits, allotment of shares without contributions, etc. after the date of resolution on this item, then the maximum total number of common shares thus allotted and the Number of Shares Provided to each Targeted Director will be adjusted according to the percentage of such increase or decrease.

Furthermore, if there is a possibility that the maximum total amount of monetary remuneration receivables stipulated above or the maximum total number of the Company's common shares thus allotted will be exceeded if the Company's common shares are allotted in the numbers calculated using the above formula, then the Number of Shares Provided to each Targeted Director will be decreased by a reasonable method as determined by the Company's Board of Directors on a pro-rata basis, etc. to the extent that the maximum total amount of such monetary remuneration receivables and the maximum total number of the Company's common shares thus allotted are not exceeded.

3. Requirements for Providing the Company's Common Shares to the Targeted Directors

Under the performance-linked share-based remuneration plan, the Company's common shares will be provided to each Targeted Director if the following requirements for providing the shares are met after the Applicable Term has ended. The Company's common shares will be provided to the Targeted Directors through the issuance of new shares or disposal of treasury shares by the Company. The Targeted Directors to whom the Company's common shares will be provided and the Number of Shares Provided will be determined at the Company's Board of Directors meeting after the Applicable Term has ended and in accordance with the requirements for providing the shares stipulated in i) or iii) below and calculation method stipulated in 2. above.

i) The Targeted Director continuously served as a Director of the Company (excluding Outside Directors) during the Applicable Term.

ii) The Targeted Director has not committed any illegal acts as defined by the Company's Board of Directors.

iii) The Targeted Director fulfills any other requirements stipulated by the Company's Board of Directors in order to achieve the objective of the performance-linked share-based remuneration plan.

Performance-linked share-based remunerations for the Applicable Term will not be provided to individuals who resigned from the position of Director of the Company (excluding Outside Directors) during the Applicable Term or who assumed the position of Director of the Company (excluding Outside Directors) during the Applicable Term. During the Applicable Term, in the event that approval is given at the Shareholders' Meeting of the Company (or at a meeting of the Board of Directors of the Company in the case that approval by the Shareholders' Meeting of the Company is not required regarding organizational restructuring, etc.) on matters regarding merger agreements under which the Company becomes the disappearing company, share exchange agreements or share transfer plans under which the Company becomes a wholly owned subsidiary of another company, or any other agenda items regarding organizational restructuring, etc., the performance-linked share-based remunerations for the said Applicable Term will not be provided.

(Reference) Nomination and Compensation of Directors and Corporate Auditors

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

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

<Criteria for Election of Board Members>

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

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

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

<Criteria for “Important Concurrent Positions”>

Concurrent positions are deemed “important” if:

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

Business Report for the 153rd Fiscal Term

For the 2017 fiscal year (April 1, 2017 to March 31, 2018)

1. Overview of business operations of the Nitto Group

(1) Operating progress and results

During the fiscal year ended March 31, 2018, real economic growth trends could be observed across the globe, as the economy continued to expand since the previous fiscal year and key economic indicators were also favorable. Likewise, the Japanese economy continued to grow, albeit moderately, as the employment situation remained favorable and enterprises continued to invest in efficiency on the back of the labor shortage. Since entering calendar year 2018, however, the stock markets in developed countries underwent a major adjustment from their high plateau due to concerns that the favorable employment situation in the U.S. might accelerate the pace of interest-rate hikes and a growing wariness of protectionist moves by such countries as the U.S. and China.

Under these economic circumstances, the Nitto Group successfully achieved significant year-on-year earnings growth in its mainstay Optronics segment by launching high-value-added products in response to major changes in display demands in the rapidly changing smartphone market. For the Industrial Tape segment as well, revenue expanded for a broad range of industrial applications, including those for electronics. Meanwhile, the Life Science segment exhibited a performance slowdown due to customers' termination of new drug development programs in the oligonucleotide contract manufacturing business that had been successfully driving the segment. Nonetheless, steady progress was able to be made in drug discovery and development of oligonucleotides.

As a result of the above, revenue increased by 11.5% from the same period of the previous year (changes hereafter are given in comparison with the same period of the previous year) to 856,262 million yen. Operating income increased by 35.8% to 125,722 million yen, and net income attributable to owners of the parent company increased by 37.7% to 87,377 million yen.

(2) Summary of operations by segment

[Industrial Tape] Composition of revenue: 38.1%

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

For automotive products, the Group made greater efforts to take orders for brand new products used in electric vehicles and other automobiles, while structural parts and other lines experienced setbacks as automobile unit production declined in their main market. For functional base products, performance was driven significantly by electronics-related products, such as structural double-coated adhesive tapes for smartphones and process materials for precision electronic component production processes, while fluoroplastic porous films and protective materials for air filters and other applications achieved steady revenue growth, thereby improving profitability of the entire segment.

As a result of the above, revenue increased by 9.3% to 339,195 million yen and operating income increased by 25.2% to 34,357 million yen.

[Optronics] Composition of revenue: 55.0%

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

For information fine materials, performance was boosted significantly by new offerings for smartphones using organic light-emitting diode (OLED) screens, such as transparent conductive films and transparent adhesive sheets for touch panels, which are modified to meet changes in products' material compositions and production processes. Profitability of this segment was further raised through the supply of high-value-added flexible printed circuit boards and process materials, as well as through structural reform. After entering calendar year 2018, in addition to normal seasonal adjustments, this segment experienced a slowdown in smartphone-related demands but was able to achieve a significant revenue expansion over the previous fiscal year.

As a result of the above, revenue increased by 17.0% to 490,632 million yen and operating income increased by 91.0% to

92,548 million yen.

[Life Science] Composition of revenue: 4.1%

Main products: Medical-related products

The Life Science Business experienced a setback in its revenue from contract manufacturing of oligonucleotides following customers' decisions to terminate development of new drugs. Although a part of the payments under the contracts in question was recognized as revenue, the revenue of this segment nevertheless dropped sharply year-on-year. With regard to discovery and development of oligonucleotides, both the Company's liver cirrhosis drug, which has been licensed out, and pulmonary fibrosis drug, which the Company is developing independently, are making steady progress and have moved on to the next phases of clinical trials.

As a result of the above, revenue decreased by 18.6% to 36,171 million yen and operating income decreased by 71.8% to 5,985 million yen.

[Others] Composition of revenue: 2.8%

Main products: Membrane products, other products

For the membrane products (polymer separation membranes) business, constant efforts were made to implement structural reform throughout the fiscal year under review, with the aim of focusing on growth market segments and improving profitability of the business. The Company intends to expand the environment-related business by introducing new products capable of efficiently recycling water resources in regions with strict environmental regulations. Please note that this segment includes new businesses that have yet to generate sufficient levels of revenue.

As a result of the above, revenue decreased by 2.9% to 25,279 million yen and operating loss amounted to 140 million yen (operating income of 61 million yen was reported in the same period of the previous year).

(Yen in Millions)

Business segment	FY2017 (153rd term)		FY2016 (152nd term)
	Revenue (year-on-year change)		Revenue
Industrial Tape	339,195	(up 9.3%)	310,416
Optronics	490,632	(up 17.0%)	419,187
Life Science	36,171	(down 18.6%)	44,459
Others	25,279	(down 2.9%)	26,039
Eliminations and corporate	-35,016	－	-32,392
Total	856,262	(up 11.5%)	767,710

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

(3) Capital expenditure

During the fiscal year under review, the Group expended a total of 47,193 million yen in capital spending.

Below is the breakdown of such spending by segment.

For the Industrial Tape segment, 18,356 million yen was spent, which included the costs of capacity ramp-up for fluoroplastic porous films at the Kanto Plant. For the Optronics segment, 16,994 million yen was spent, which included the costs of constructing a plant in China to produce new polarizing films. For the Life Science segment, 5,476 million yen was spent mainly on capacity ramp-up in North America. For the Others segment, 2,277 million yen was spent, which included the costs of introducing automated production equipment for membranes (polymer separation membranes) in North America.

Capital expenditures not directly related to any business segment amounted to 4,087 million yen.

(4) Financing

It is the Group's policy to reduce as much interest-bearing debt as possible by putting its funds to efficient use. This policy resulted in a decrease in interest-bearing debts by 48 million yen from the end of the previous fiscal year to 4,049 million yen.

(5) Issues to be addressed by the Group

The Group will celebrate its first centennial in October of this year. In order to sustain business growth beyond this auspicious occasion and further accelerate it into the next 100 years, the Group recognizes that it is crucial to take advantage of rapid changes by contributing to customers' value creation with its unique technological prowess.

As dramatic innovations occur in information technology and other areas, the Group intends to create new value by creating convergences of a wide range of technologies and information from both within and outside the organization. The Group will also remain flexible in adopting new techniques and approaches without being limited by conventional business models and manufacturing methods, thereby realizing "Innovation for Customers" in a variety of domains across the globe into the next 100 years as well.

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

- Industrial Tape

For functional base products, while carrying out structural reform of existing businesses, the Group expanded its high-value-added product lines by ramping up capacity for process materials and fluoroplastic porous materials in a bid to quickly respond to market changes and customer needs. The Group will also proactively seek new business opportunities by creating new products through collaboration with other business segments. For the Transportation Business, which includes automotive products, the Group will make a bid to respond to market changes and needs by further optimizing each site's supply system within the respective geographical regions of the world to stimulate revenue and pouring its resources into development of new products in such areas as advanced automobiles and mobility management.

- Optronics

For information fine materials, the Group will hone its industry-leading technological prowess, while at the same time aiming to maintain and expand profitable businesses by thoroughly streamlining its operations. The Group will also expand its new business models by licensing technologies of existing businesses and tapping into its intellectual properties associated with materials and manufacturing technology. With regard to flexible printed circuit boards and process materials, the Group will shake up its portfolio by increasing market shares of existing businesses for hard disk drives (HDDs) and semiconductor memory and by developing new applications for micro circuits.

- Life Science

For the Life Science Business, the Group will increase its efforts to seek out new customers in the oligonucleotide drug discovery area, which is gathering momentum now that some drugs have entered late-stage clinical trials or received approval, in order to increase penetration into the contact manufacturing market. For the Drug Discovery Business, the Group will forge ahead with research and development of drugs in such fields as fibrosis and intractable cancer in an attempt to develop them into new core businesses.

- Others

For membrane products, the Group will reform its business foundations by tightening quality management and carrying out other activities in order to supply quality products for existing applications, while at the same time improving the profitability of the segment by expanding business in energy and other high-growth market segments. For new businesses, the Group will also aim to bring products currently under development, including plastic optical cables, to the market as soon as possible.

(6) Trends in operating results and assets

Item	Japan GAAP	IFRS				
	FY2013 (149th term)	FY2013 (149th term)	FY2014 (150th term)	FY2015 (151st term)	FY2016 (152nd term)	FY2017 (153rd term)
Revenue (million yen)	749,835	749,504	825,243	793,054	767,710	856,262
Operating income (million yen)	72,254	72,503	106,734	102,397	92,589	125,722
Ordinary income (million yen)	71,658	—	—	—	—	—
Net income attributable to owners of the parent company (million yen)	51,018	51,892	77,876	81,683	63,453	87,377
Basic earnings per share (yen)	309.29	314.59	471.75	495.23	390.94	538.99
Dividend payout ratio (%)	32.3	31.8	25.4	28.2	38.4	29.7
ROA (Ratio of profit attributable to owners of the parent company to total assets) (%)	6.7	6.8	9.5	9.7	7.4	9.6
ROE (Return on equity attributable to owners of the parent company) (%)	10.1	10.5	13.7	13.3	10.0	13.0
Operating income to revenue (%)	9.6	9.7	12.9	12.9	12.1	14.7
Total assets (million yen)	781,352	783,583	855,433	825,905	879,899	937,796
Total equity (million yen)	527,299	524,552	615,776	617,891	654,421	693,995
Equity attributable to owners of the parent company per share (yen)	3,172.03	3,159.87	3,705.96	3,785.91	4,027.57	4,328.50
Ratio of equity attributable to owners of the parent company to total assets (%)	67.0	66.5	71.5	74.4	74.3	73.9
Depreciation and amortization (million yen)	43,188	43,223	45,662	48,537	48,556	49,283
Capital investment (million yen)	75,814	75,814	56,721	60,420	36,538	47,193
Research and development costs (million yen)	28,573	28,444	28,240	32,120	30,366	31,243
Exchange rate (average rate) (yen/1 US dollar)	99.93	99.93	109.00	120.17	108.88	110.83

Notes:

1. 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.
2. Trends in operating results and assets are presented based on the International Financial Reporting Standards (IFRS).
3. “Dividend payout ratio” is calculated based on a tentative dividend amount whose payment is subject to approval of Item 1 as proposed for the 153rd Ordinary General Meeting of Shareholders.

(7) Principal offices and status of major subsidiaries (as of March 31, 2018)

<1> Principal offices of the Group

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

<2> Status of major subsidiaries

Corporate name	Capital	Company's stake	Main business
Nissho Corporation	in million yen 500	% 100.0	Production, processing, and sales of industrial tapes
Nitto EMEA NV	in thousand euro 212,282	100.0	Administration of Group companies in Europe
Nitto, Inc.	in thousand U.S. dollars 0	100.0	Administration of Group companies in the Americas Production, processing, sales, etc. of industrial tapes
Nitto Denko (China) Investment Co., Ltd.	in thousand RMB 925,394	100.0	Administration of the Group companies in China
Taiwan Nitto Optical Co., Ltd.	in thousand NT$ 568,003	100.0	Production, processing, and sales of optronics
Korea Nitto Optical Co., Ltd.	in million won 84,365	100.0	Production, processing, and sales of optronics
Korea Optical High Tech Co., Ltd.	in million won 22,000	100.0	Production, processing, and sales of optronics
Nitto Denko (HK) Co., Ltd.	in thousand HK$ 13,826	100.0	Sales of industrial tapes and optronics
Shanghai Nitto Optical Co., Ltd.	in thousand RMB 89,981	100.0 (24.5)	Production, processing, and sales of optronics
Shenzhen Nitto Optical Co., Ltd.	in thousand RMB 568,925	100.0	Production, processing, and sales of optronics
Nitto (China) New Materials Co., Ltd.	in thousand RMB 50,000	100.0 (100.0)	Sales of industrial tapes, optronics, and others

Nitto Denko (Singapore) Pte. Ltd.	in thousand U.S. dollars 55,770	100.0	Administration of Group companies in South Asia Sales of industrial tapes
Nitto Denko Material (Thailand) Co., Ltd.	in thousand Thai Baht 460,000	100.0 (100.0)	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, 2018)

	Number of employees	Changes from the end of the previous fiscal year
Group	26,310	-349
Company	5,269	+105

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, 2018)

Details of major creditors are omitted here because the borrowing amounts are immaterial.

2. Shareholders’ equity (as of March 31, 2018)

(1) Number of shares authorized to be issued 400,000,000 shares

(2) Number of shares issued 173,758,428 shares

(Amount of treasury stock held 13,592,423 shares)

(3) Number of shareholders 35,847

(4) Major shareholders (top 10)

Name	Number of shares held	Ownership percentage
	Thousands of shares	%
The Master Trust Bank of Japan, Ltd. (Trust Account)	24,774	15.47
Japan Trustee Services Bank, Ltd. (Trust Account)	14,234	8.89
JPMorgan Chase Bank 380055	7,043	4.40
State Street Bank and Trust Company	3,250	2.03
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,097	1.93
State Street Bank West Client – Treaty 505234	3,057	1.91
JPMorgan Chase Bank 380634	2,921	1.82
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,886	1.80
Japan Trustee Services Bank, Ltd. (Trust Account 7)	2,532	1.58
State Street Bank and Trust Company 505223	2,476	1.55

Notes: 1. The Company holds a total treasury stock of 13,592,423 shares, but it is not included among the major shareholders above.

2. The ownership percentage has been calculated based on the number of shares issued, excluding treasury stock.

3. Although the reports on large-scale shareholdings have been submitted as follows, the Company lists the major shareholders above according to the shareholder register as of March 31, 2018.

A total of three shareholders comprising Sumitomo Mitsui Trust Bank, Limited and its joint holders
11,964,700 shares (as of March 15, 2017)
A total of three shareholders comprising The Bank of Tokyo-Mitsubishi UFJ Ltd. and its joint holders
8,699,710 shares (as of July 24, 2017)
Nomura Asset Management Co., Ltd.
13,537,000 shares (as of February 15, 2018)
A total of ten shareholders comprising BlackRock Japan Co., Ltd. and its joint holders
14,524,891 shares (as of April 30, 2018)

3. Matters concerning warrants

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

Subject	Equity-based compensation stock options
Number of warrants	761 units (100 shares of common stock per unit)
Class and number of underlying shares subject to warrants	Company's common stock: 76,100 shares
Exercise value (payment amount per unit at time of exercise)	100 yen
Exercise period	・ 30 years from the day following the issuing date ・ 10 days from the day following the day from which they no longer serve as Directors
Number of owners and units	6 Directors 761 units

Note: The abovementioned warrants were allocated to Directors as equity-based compensation in place of retirement benefits for officers. Outside Directors and Corporate Auditors are not eligible for warrants.

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

Subject	Equity-based compensation stock options issued in August 2017
Number of warrants	94 units (100 shares of common stock per unit)
Class and number of underlying shares subject to warrants	Company's common stock: 9,400 shares
Exercise value (payment amount per unit at time of exercise)	100 yen
Exercise period	August 2, 2017 through August 1, 2047 10 days from the day following the day from which the Vice President of the Company no longer serves in that position ("Right Exercise Starting Day"); however, if the warrant owner is the Vice President of the Company and has an employment contract with the Company, the later of the day following the day from which the warrant owner no longer serves as Vice President or the day following the day on which the said employment contract expires shall be the Right Exercise Starting Day.
Number of persons and units issued	11 employees of the Company 94 units

Note: The abovementioned warrants were allocated to employees of the Company (Vice Presidents) as equity-based compensation in place of retirement benefits for officers. "Employees of the Company" does not include those who are concurrently officers of the Company.

4. Executives

(1) Directors and Corporate Auditors (as of March 31, 2018)

Name	Positions, duties, and significant concurrent positions	
Hideo Takasaki	President Representative Director, B.O.D.	CEO (Chief Executive Officer), concurrently COO (Chief Operating Officer), of the Group
Toshiyuki Umehara	Director	Senior Executive Vice President, CTO (Chief Technology Officer) of the Group General Manager of Corporate Technology Sector
Toru Takeuchi	Director	Executive Vice President, CFO (Chief Financial Officer) of the Group
Yasushi Nakahira	Director	Executive Vice President General Manager of Functional Base Products Sector, concurrently General Manager of Sales Management Sector
Nobuhiro Todokoro	Director	Senior Vice President General Manager of Information Fine Materials Sector
Yosuke Miki	Director	Vice President, Deputy CTO General Manager of Information and Communication Technology Sector, concurrently Deputy General Manager of Corporate Technology Sector and General Manager of New Business Development Division
Yoichiro Furuse	Outside Director	Representative Director of Evanston Corporation Chairman of Japan of Permira Advisers KK Consultant of GLP Pte. Ltd.
Takashi Hatchoji	Outside Director	External Audit & Supervisory Board Member of Marubeni Corporation Outside Director of Konica Minolta, Inc.
Hiroshi Sato	Outside Director	Senior Adviser of Kobe Steel, Ltd. Vice Chairman of Kansai Economic Federation Outside Director of Sumitomo Dainippon Pharma Co., Ltd. Outside Director of Sumitomo Electric Industries, Ltd.
Masami Kanzaki	Corporate Auditor (full-time service)	
Kageshi Maruyama	Corporate Auditor (full-time service)	
Masashi Teranishi	Outside Corporate Auditor	Honorary Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd. Outside Director of Tsukishima Kikai Co., Ltd.
Masakazu Toyoda	Outside Corporate Auditor	Outside Director of Murata Manufacturing Co., Ltd. Chairman & CEO of The Institute of Energy Economics, Japan Outside Director of Canon Electronics Inc.
Mitsuhide Shiraki	Outside Corporate Auditor	Professor, Faculty of Political Science and Economics, Waseda University

Notes: 1. Directors' "positions and duties" were changed as follows on April 1, 2018.

Name	Positions and duties	
Toshiyuki Umehara	Director	Senior Executive Vice President, CTO, concurrently CIO (Chief Information Officer) of the Group General Manager of Corporate Technology Sector
Yasushi Nakahira	Director	Executive Vice President General Manager of Functional Base Products Sector

2. Kageshi Maruyama, the full-time Corporate Auditor, has gained experience in the Company's corporate strategy, business development, and auditing departments over the years, and possesses a broad range of knowledge in finance and accounting.
3. The Company has designated all of the Outside Directors and Outside Corporate Auditors as Independent Directors/Corporate Auditors as stipulated by Tokyo Stock Exchange and reported them to the Exchange.
4. The Company has no special relationship with any of the organizations at which the Outside Directors and Outside Corporate Auditors hold important concurrent positions.
5. At the close of the 152nd Ordinary General Meeting of Shareholders held on June 16, 2017, the full-time Corporate Auditor Yoshihiro Taniguchi retired from office due to resignation.

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

Name	Major activities
1. Outside Directors	
Yoichiro Furuse	Participation Board of Directors meetings: 100% (12 out of 12 times) Major comments He mainly makes comments from the viewpoint of an experienced corporate executive.
Takashi Hatchoji	Participation Board of Directors meetings: 100% (12 out of 12 times) Major comments He mainly makes comments from the viewpoint of an experienced corporate executive.
Hiroshi Sato	Participation Board of Directors meetings: 80% (8 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 out of 12 times) Board of Corporate Auditors meetings: 100% (13 out of 13 times) Major comments He mainly makes comments based on his many years of experience at financial institutions and deep financial knowledge.
Masakazu Toyoda	Participation Board of Directors meetings: 100% (12 out of 12 times) Board of Corporate Auditors meetings: 100% (13 out of 13 times) Major comments He mainly makes comments based on his broad insight and extensive experience in the fields of economy, trade, and industry.
Mitsuhide Shiraki	Participation Board of Directors meetings: 100% (12 out of 12 times) Board of Corporate Auditors meetings: 100% (13 out of 13 times) Major comments He mainly makes comments based on his broad insight as a person with relevant knowledge and experience.

(3) Summary of liability limitation agreement

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

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

(Yen in Millions)

Position	Total amount of compensation, etc.	Compensation by type			Number of eligible Directors and Corporate Auditors
		Compensation in cash	Bonus paid to Directors	Warrants (equity-based compensation stock options)	
Directors (excluding Outside Directors)	688	248	329	110	7
Outside Directors	36	36	-	-	4
Corporate Auditors (excluding Outside Corporate Auditors)	67	67	-	-	3
Outside Corporate Auditors	32	32	-	-	3

Notes:

1. The table above includes two Directors (including one Outside Director) and one Corporate Auditor (not an Outside Corporate Auditor) who retired during the fiscal year under review.
2. The amount of employee salary (including bonus) for a Director who also holds an employee position is paid separately from the abovementioned compensation, but such employee salary was not paid for the current term.
3. The limit of compensation for Directors is 30 million yen per month (of which up to 3 million yen is allocated to Outside Directors) since approval at the 150th Ordinary General Meeting of Shareholders, and that for Corporate Auditors is 12 million yen per month since approval at the 139th Ordinary General Meeting of Shareholders.
4. Bonus for Directors is a tentative amount and its payment is subject to the approval of proposed Item 2 at the 153rd Ordinary General Meeting of Shareholders.
5. Matters related to warrants (equity-based compensation stock options) were approved at the 152nd Ordinary General Meeting of Shareholders.

6. Aside from the compensation described in the table above, 46 million yen was paid. This includes 44 million yen paid as adjusted retirement benefits (following the discontinuation of retirement benefits for officers based on a resolution at the 139th Ordinary General Meeting of Shareholders) to one Director (not an Outside Director) who retired during the fiscal year under review and 2 million yen (as a part of warrants allocated based on a resolution at the 152nd Ordinary General Meeting of Shareholders) paid to one Director (not an Outside Director) who retired during the previous fiscal year, but whose payment has been brought forward to the fiscal year under review for accounting purposes.

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

<1> Compensation paid to Directors

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

In order to increase the objectivity and transparency of such compensation, 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.

<2> Compensation paid to Corporate Auditors

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

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

(Reference) Status of Vice Presidents

The Company has adopted the executive officer system. The current positions and responsibilities of executive officers as of April 1, 2018 are as follows.

(Those with an asterisk are Directors.)

Name	Positions and responsibilities	
* Hideo Takasaki	CEO and COO	
Toshihiko Omote	Senior Executive Vice President	
Michio Yoshimoto	Senior Executive Vice President	General Manager of Legal and Corporate Affairs Division, concurrently Deputy General Manager of Nucleic Acid Medicine Business Division
* Toshiyuki Umehara	Senior Executive Vice President CTO and CIO	General Manager of Corporate Technology Sector
* Toru Takeuchi	Executive Vice President CFO	
* Yasushi Nakahira	Executive Vice President	General Manager of Functional Base Products Sector
Yukihiro Iizuka	Senior Vice President	President, Nitto, Inc.
Yasuhito Ohwaki	Senior Vice President	
Sam Strijckmans	Senior Vice President	Deputy General Manager of Corporate Accounting & Finance Division President & CEO, Nitto EMEA NV
Jun Yamashita	Senior Vice President	General Manager of Global Corporate Strategy Management Division
* Nobuhiro Todokoro	Senior Vice President	General Manager of Information Fine Materials Sector
Toshihiko Takayanagi	Vice President	General Manager of Sales Management Sector, concurrently General Manager of Sales Management Sector Tokyo Sales Branch
Seungjung Yoon	Vice President	Management Adviser, Korea Nitto Denko Co., Ltd.
Hiroshi Fukuhara	Vice President	General Manager of Human Resources Management Division
Seiji Fujioka	Vice President	General Manager of Medical Division, concurrently General Manager of Nucleic Acid Medicine Business Division
Kazuki Tsuchimoto	Vice President Deputy CTO	General Manager of Corporate Global Monozukuri Sector, concurrently Deputy General Manager of Corporate Technology Sector
* Yosuke Miki	Vice President Deputy CTO	General Manager of Information and Communication Technology Sector, concurrently Deputy General Manager of Corporate Technology Sector and General Manager of New Business Development Division
Atsushi Ukon	Vice President	President, Nissho Corporation
Bae-Won Lee	Vice President	President, Korea Nitto Optical Co., Ltd.
Shin Tokuyasu	Vice President	
Yasuhiro Iseyama	Vice President	General Manager of Corporate Accounting & Finance Division

Note: Mr. Seungjung Yoon passed away on May 5, 2018, thus concluding his position with the Company.

(Reference) Findings of the Nitto Board Effectiveness Evaluation

March 30, 2018

Findings of the Nitto Board Effectiveness Evaluation

Please find below the executive summary of the findings of the FY2017 Nitto Board effectiveness analysis/evaluation, which has been conducted based on Japan's Corporate Governance Code stipulated by Tokyo Stock Exchange, Inc.

1. Analysis/evaluation method

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

2. Executive summary of the analysis/evaluation findings of the Board's effectiveness

Based on the results of the analysis, Nitto's Board has concluded that the effectiveness of the Board is largely ensured.

With regard to the evaluation of individual issues, the Board verified that, as in the previous year, each member engaged in free discussion of the agenda items, which is one of the strengths of Nitto's Board meetings (Please see the "Findings of the Nitto Board Effectiveness Evaluation," dated March 31, 2017.). In order to further ensure the effectiveness of its meetings, the Board discussed how it could increase opportunities to discuss issues concerning the entire company, including mid- and long-term themes.

3. Future action

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

End

5. Accounting auditors

(1) Name of Accounting Auditor: KPMG AZSA LLC

(2) Amount of compensation for the Accounting Auditor

(Yen in Millions)

1)	Amount of compensation as an accounting auditor for this business year	164
2)	Total amount of money and other asset interests to be paid by the Company and the subsidiaries of the Company	181

Notes: 1. The Board of Corporate Auditors conducts necessary verification of the contents of the Accounting Auditor's audit plans, the status of their execution of duties, and the validity of the basis for estimation of their compensation, before agreeing to such compensation and other matters.

2. The compensation for auditing as an accounting auditor under the Companies Act and the compensation for auditing under the Financial Instruments and Exchange Act have not been differentiated in the auditing agreement between the Accounting Auditor and the Company, and also cannot be materially differentiated, so the above figure is the total of these compensations.

3. The Company has paid compensation to the Accounting Auditor for advisory services, which are services other than those stipulated in Paragraph 1, Article 2 of the Certified Public Accountants Act (non-auditing work). The amount of such compensation is included in the figure stated above.

(3) Policy to determine dismissal or non-reelection of the Accounting Auditor

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

6. Internal control system and policies of the Company

(1) Basic policy on internal control and status of its implementation

<1> Basic policy on internal control

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

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

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

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

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

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 officer 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, an officer 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 officers (Directors or Vice Presidents) of the Company are assigned as chief officers of matters concerning engineering, information technology, and financing so that such matters may be performed both appropriately and efficiently within the Group.

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

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

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

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

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

When Corporate Auditors of the Company demand from the Company advance payment or reimbursement of expenses that are incurred in the execution of their duties, such expenses or liabilities shall be processed promptly after deliberations by the division in charge, unless it is proven that the expenses or liabilities thus demanded were unnecessary for the execution of duties by the Corporate Auditors in question.

10) Other systems for ensuring that auditing by Corporate Auditors is performed effectively

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

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

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

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

The CSR Committee chaired by the officer 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 the code of business conduct, including compliance, both in and outside of Japan.

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

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

(2) Policy on corporate dominance

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

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

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

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

Consolidated Financial Statements

Consolidated Statements of Financial Position

(Yen in Millions)

	Amount	
	As of March 31, 2018	As of March 31, 2017 (Reference)
(Assets)		
Current assets	**622,027**	**563,798**
Cash and cash equivalents	304,709	280,343
Trade and other receivables	192,120	173,362
Inventories	95,068	88,701
Other financial assets	8,815	5,455
Other current assets	15,398	15,936
Subtotal	616,112	563,798
Assets held for sale	5,914	—
Non-current assets	**315,768**	**316,100**
Property, plant and equipment	248,417	249,541
Goodwill	6,927	7,300
Intangible assets	12,355	13,829
Investments accounted for using equity method	338	326
Financial assets	9,361	8,799
Deferred tax assets	28,295	27,087
Other non-current assets	10,073	9,215
Total assets	**937,796**	**879,899**

Consolidated Statements of Financial Position

(Yen in Millions)

	Amount	
	As of March 31, 2018	As of March 31, 2017 (Reference)
(Liabilities)		
Current liabilities	**187,436**	**174,557**
Trade and other payables	110,114	110,840
Bonds and borrowings	4,049	1,097
Income tax payables	19,270	15,978
Other financial liabilities	13,362	9,660
Other current liabilities	40,379	36,980
Subtotal	187,175	174,557
Liabilities directly associated with assets classified as held for sale	260	—
Non-current liabilities	**56,364**	**50,920**
Bonds and borrowings	—	3,000
Other financial liabilities	1,183	1,449
Defined benefit liabilities	46,227	42,838
Deferred tax liabilities	612	847
Other non-current liabilities	8,339	2,784
Total liabilities	**243,800**	**225,477**
(Equity)		
Equity attributable to owners of the parent company	**693,278**	**653,772**
Share capital	26,783	26,783
Capital surplus	55,981	56,139
Retained earnings	665,561	603,886
Treasury stock	-69,867	-50,876
Other components of equity	14,819	17,839
Non-controlling interests	**716**	**648**
Total equity	**693,995**	**654,421**
Total liabilities and equity	**937,796**	**879,899**

Consolidated Statements of Income

(Yen in Millions)

	Amount	
	April 1, 2017 – March 31, 2018	**April 1, 2016 – March 31, 2017 (Reference)**
Revenue	**856,262**	**767,710**
Cost of sales	574,879	528,592
Gross profit	**281,382**	**239,118**
Selling, general and administrative expenses	118,421	109,317
Research and development expenses	31,243	30,366
Other income	5,709	6,773
Other expenses	11,703	13,618
Operating income	**125,722**	**92,589**
Financial income	1,185	1,065
Financial expenses	752	1,848
Equity in profits (losses) of affiliates	12	-13
Income before income taxes	**126,168**	**91,791**
Income tax expenses	38,704	28,101
Net income	**87,463**	**63,690**
Net income attributable to:		
Owners of the parent company	87,377	63,453
Non-controlling interests	85	236

Consolidated Statements of Cash Flows (Reference)

(Yen in Millions)

		Amount	
		April 1, 2017 – March 31, 2018	April 1, 2016 – March 31, 2017
I	**Cash flows from operating activities**		
	Income before income taxes	126,168	91,791
	Depreciation and amortization	49,283	48,556
	Impairment losses	52	2,341
	Increase (decrease) in defined benefit liabilities	2,338	944
	Decrease (increase) in trade and other receivables	-18,493	-25,161
	Decrease (increase) in inventories	-6,860	-1,328
	Increase (decrease) in trade and other payables	-4,471	15,382
	Interest and dividend income	1,047	829
	Interest expenses paid	-419	-385
	Income taxes (paid) refunded	-35,153	-13,742
	Others	9,059	710
	Net cash provided by operating activities	**122,551**	**119,939**
II	**Cash flows from investing activities**		
	Purchase of property, plant and equipment and intangible assets	-48,466	-43,178
	Proceeds from sale of property, plant and equipment and intangible assets	99	537
	Decrease (increase) in time deposits	-2,811	2,550
	Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	-4,796
	Payments for transfer of business	—	-4,752
	Others	963	-99
	Net cash provided by investing activities	**-50,215**	**-49,739**
III	**Cash flows from financing activities**		
	Net increase (decrease) in short-term loans payable	74	-1,973
	Decrease (increase) in treasury stock	-19,354	-0
	Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	-3,224
	Cash dividends paid	-25,166	-23,533
	Others	-472	-151
	Net cash provided by financing activities	**-44,919**	**-28,884**
IV	**Effect of exchange rate changes on cash and cash equivalents**	**-270**	**-1,864**
V	**Cash and cash equivalents included in assets held for sale**	**-2,780**	**—**
VI	**Net increase (decrease) in cash and cash equivalents**	**24,365**	**39,451**
VII	**Cash and cash equivalents at the beginning of the period**	**280,343**	**240,891**
VIII	**Cash and cash equivalents at the end of the period**	**304,709**	**280,343**

Consolidated Statements of Changes in Equity

April 1, 2017 – March 31, 2018 (Yen in Millions)

	Share capital	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance at the beginning of current year	**26,783**	**56,139**	**603,886**	**-50,876**	**17,839**	**653,772**	**648**	**654,421**
Net income			87,377			87,377	85	87,463
Other comprehensive income					-3,556	-3,556	0	-3,555
Total comprehensive income	**–**	**–**	**87,377**	**–**	**-3,556**	**83,820**	**86**	**83,907**
Share-based payment transactions		-174				-174		-174
Dividends			-25,166			-25,166	-18	-25,185
Changes in treasury stock		17		-18,990		-18,973		-18,973
Transfers from other components of equity to retained earnings			-536		536	–		–
Total transactions with owners	**–**	**-157**	**-25,702**	**-18,990**	**536**	**-44,315**	**-18**	**-44,333**
Balance at the end of current year	**26,783**	**55,981**	**665,561**	**-69,867**	**14,819**	**693,278**	**716**	**693,995**

Non-Consolidated Financial Statements

Non-Consolidated Balance Sheets

(Yen in Millions)

	Amount	
	As of March 31, 2018	As of March 31, 2017 (Reference)
(Assets)		
Current assets	**382,419**	**339,550**
Cash and deposits	189,209	141,541
Notes receivable-trade	5,177	4,347
Accounts receivable-trade	114,112	126,828
Merchandise and finished goods	7,578	6,811
Work in process	24,731	19,784
Raw materials and supplies	11,395	10,073
Short-term loans receivable	2,497	1,458
Deferred tax assets	5,555	4,497
Other	22,212	24,206
Allowance for doubtful accounts	-51	―
Non-current assets	**279,996**	**275,274**
Property, plant and equipment	**135,450**	**142,436**
Buildings	65,228	67,212
Structures	3,891	3,715
Machinery and equipment	44,010	49,249
Vehicles	423	460
Tools, furniture and fixtures	5,172	5,235
Land	13,778	13,796
Construction in progress	2,945	2,765
Intangible assets	**5,626**	**6,788**
Software	3,841	4,350
Other	1,784	2,438
Investments and other assets	**138,919**	**126,049**
Investments securities	6,160	5,712
Stocks of subsidiaries and affiliates	99,697	97,282
Long-term loans receivable	9,801	2,511
Deferred tax assets	13,142	9,296
Prepaid pension cost	8,165	9,990
Other	1,983	1,295
Allowance for doubtful accounts	-32	-38
Total assets	**662,416**	**614,825**

Non-Consolidated Balance Sheets

(Yen in Millions)

	Amount	
	As of March 31, 2018	As of March 31, 2017 (Reference)
(Liabilities)		
Current liabilities	**182,982**	**172,085**
Accounts payable-trade	70,271	73,868
Short-term loans payable	21,561	17,414
Accounts payable-other	25,631	22,361
Accrued expenses	13,058	10,871
Income taxes payable	13,690	11,342
Deposits received	34,552	33,181
Other	4,216	3,044
Non-current liabilities	**29,435**	**24,180**
Long-term loans payable	—	3,000
Provision for retirement benefits	23,106	20,817
Guarantee deposits received	262	235
Other	6,066	127
Total liabilities	**212,418**	**196,266**
(Net assets)		
Shareholders' equity	**446,806**	**415,434**
Capital stock	**26,783**	**26,783**
Capital surplus	**56,140**	**56,123**
Legal capital surplus	50,482	50,482
Other capital surplus	5,658	5,641
Retained earnings	**433,671**	**383,403**
Legal retained earnings	4,095	4,095
Other retained earnings	429,576	379,308
Reserve for special depreciation	25	29
Reserve for advanced depreciation of non-current assets	1,983	2,260
General reserve	185,000	185,000
Retained earnings brought forward	242,567	192,018
Treasury stock	**-69,789**	**-50,876**
Valuation and translation adjustments	**2,514**	**2,271**
Valuation difference on available-for-sale securities	2,514	2,271
Subscription rights to shares	**677**	**852**
Total net assets	**449,998**	**418,558**
Total liabilities and net assets	**662,416**	**614,825**

Non-Consolidated Statements of Income

(Yen in Millions)

	Amount	
	April 1, 2017 – March 31, 2018	April 1, 2016 – March 31, 2017 (Reference)
Net sales	**519,000**	**476,325**
Cost of sales	365,136	350,113
Gross profit	**153,864**	**126,212**
Selling, general and administrative expenses	86,971	82,394
Operating income	**66,893**	**43,818**
Non-operating income	**33,312**	**30,780**
Interest and dividends income	25,529	23,742
Other	7,782	7,038
Non-operating expenses	**4,526**	**4,267**
Interest expenses	377	260
Foreign exchange losses	1,330	1,842
Other	2,817	2,164
Ordinary income	**95,679**	**70,332**
Extraordinary income	**2**	**209**
Gain on sales of non-current assets	2	162
Gain on sales of investment securities	0	46
Extraordinary loss	**3,247**	**5,090**
Loss on sales and retirement of non-current assets	3,074	2,968
Loss on valuation of stocks of subsidiaries and affiliates	—	126
Special retirement expenses	134	1,891
Other	38	104
Income before income taxes	**92,434**	**65,450**
Income taxes-current	22,010	14,901
Income taxes-deferred	-5,010	-3,425
Net income	**75,434**	**53,974**

Non-Consolidated Statements of Changes in Equity

April 1, 2017 – March 31, 2018 (Yen in Millions)

	Shareholders' equity											
		Capital surplus			Retained earnings							
						Other retained earnings						
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for special depreciation	Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current year	**26,783**	**50,482**	**5,641**	**56,123**	**4,095**	**29**	**2,260**	**185,000**	**192,018**	**383,403**	**-50,876**	**415,434**
Net changes of items during the period												
Dividends from surplus									-25,166	-25,166		-25,166
Provision of reserve for special depreciation						11			-11	–		–
Reversal of reserve for special depreciation						-15			15	–		–
Reversal of reserve for advanced depreciation of non-current assets							-277		277	–		–
Net income									75,434	75,434		75,434
Acquisition of treasury stock											-19,276	-19,276
Disposal of treasury stock			17	17							363	381
Net change of items other than shareholders' equity during the period												
Total changes of items during the period	**–**	**–**	**17**	**17**	**–**	**-3**	**-277**	**–**	**50,548**	**50,267**	**-18,912**	**31,372**
Balance at the end of current year	**26,783**	**50,482**	**5,658**	**56,140**	**4,095**	**25**	**1,983**	**185,000**	**242,567**	**433,671**	**-69,789**	**446,806**

	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	**2,271**	**2,271**	**852**	**418,558**
Net changes of items during the period				
Dividends from surplus				-25,166
Provision of reserve for special depreciation				–
Reversal of reserve for special depreciation				–
Reversal of reserve for advanced depreciation of non-current assets				–
Net income				75,434
Acquisition of treasury stock				-19,276
Disposal of treasury stock				381
Net change of items other than shareholders' equity during the period	242	242	-174	67
Total changes of items during the period	**242**	**242**	**-174**	**31,439**
Balance at the end of current year	**2,514**	**2,514**	**677**	**449,998**

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: 95

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

<2>Increase/decrease of consolidated subsidiaries

Increase: 2 (due to establishment)
Decrease: 6 (due to merger, etc.)

(3) Fiscal year of consolidated subsidiaries

Number of subsidiaries that close books on the same date as the Company: 67
Number of subsidiaries that do not close books on the same date as the Company: 28
For the above 28 subsidiaries, provisional settlement of accounts as of March 31, 2018 are used.

(4) Accounting policies

<1>Valuation basis and method for principal assets

1) Financial assets:

(i) Non-derivative financial assets

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

(a) Financial assets measured at amortized cost

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

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

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

(b) Financial assets measured at fair value

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

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

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

(c) Derecognition of financial assets

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

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

<2> Depreciation method of major depreciable assets

1) Property, plant and equipment (excluding lease assets):
Straight-line method
2) Intangible assets (excluding lease assets):
Straight-line method (software for in-house use is depreciated using the straight-line method over its useful life of 5 years)
3) Lease assets:
Lease assets related to finance lease transactions that do not transfer ownership of the leased property to the lessee are depreciated over the lease terms by the straight-line method with no residual value.

<3> Accounting criteria for major provisions

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

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

1) Foreign currency transactions

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

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

2) Foreign operations

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

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

<5> Derivative financial instruments and hedge accounting

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

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

Cash flow hedges

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

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

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

<6> Employee benefits

1) Short-term employee benefits

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

2) Long-term employee benefits

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

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

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

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

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

<7> Assets held for sale

Assets or disposal groups to be recovered not by continuous use but by sale transactions that are quite likely to be sold within one year, while remaining available for immediate sale in their present condition, and for which the management of the Group is committed to such sale, shall be classified as assets or disposal groups held for sale. While being classified as held for sale or part of disposal groups classified as being held for sale, no assets shall be depreciated nor amortized, and assets or disposal groups classified as being held for sale shall be measured at book value or fair value less cost to sell, whichever is lower.

<8> 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) 591,512 million yen

(2) Guarantees on liabilities and contracts for future guarantees on liabilities (including notes on management guidance, etc.)
Guarantees on liabilities 9 million yen

3. Notes to the consolidated statements of changes in equity

(1) Type and total number of shares issued as of the end of the fiscal year under review
Common stock 173,758 thousand shares

(2) Dividends

1) Dividend payments

Resolution	Type of shares	Total dividends (Yen in Millions)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 16, 2017	Common stock	12,174	75	March 31, 2017	June 19, 2017
Board of Directors meeting held on October 31, 2017	Common stock	12,992	80	September 30, 2017	November 24, 2017
Total	―	25,166	―	―	―

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 22, 2018.

Total dividends	12,813 million yen
Dividend per share	80 yen
Record date	March 31, 2018
Effective date	June 25, 2018

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 145,200 shares

(4) Matters concerning treasury stock

Class of shares	At the beginning of the fiscal year under review	Increase	Decrease	At the end of the fiscal year under review
Common stock	11,434,124	2,240,099	81,800	13,592,423

(Outline of reasons for change)
The breakdown of the increase/decrease is as follows.
Increase due to acquisition of treasury stock based on resolution of the Board of Directors 2,240,000 shares

4. Notes to financial instruments

1. Matters relating to the status of financial instruments

(1) Capital risk management

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

(2) Financial risk management

Risk management policies

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

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

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

(3) Financial risks

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

(a) Market risks

(i) Foreign exchange risk

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

(ii) Price risk

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

(iii) Interest rate risk

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

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

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

(b) Credit risk

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

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

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

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

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

(c) Liquidity risk

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

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

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

2. Matters relating to the fair values of financial instruments

Estimation of fair values

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.

5. Notes on information per share

Equity attributable to owners of the parent company per share	4,328.50 yen
Basic earnings per share	538.99 yen

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

Notes to the Non-Consolidated Financial Statements

1. Notes regarding significant accounting policies

(1) Valuation basis and method for securities

Other securities:

Securities with available fair value:

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

Securities with no available fair value:

Stated at cost based on the moving average method

Stocks issued by subsidiaries and affiliates:

Stated at cost based on the moving average method

(2) Valuation basis and method for derivatives

Stated at fair value

(3) Valuation basis and method for inventories

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

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

(4) Depreciation method of major depreciable assets

Property, plant and equipment (excluding lease assets):

Straight-line method

Intangible assets (excluding lease assets):

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

Lease assets:

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

(5) Accounting criteria for allowances and provisions

Allowance for doubtful accounts

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

Allowance for investment loss

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

Provision for directors' bonuses

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

Provision for retirement benefits

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

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

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

(6) Method of hedge accounting

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

2) Hedging instruments and hedged items
Hedging instruments: Forward exchange contracts, Currency swaps, Interest rate swaps

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

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

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

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

2. Notes to the non-consolidated balance sheets

(1) Accumulated depreciation of property, plant and equipment 409,902 million yen

(2) Short-term receivables from affiliates 77,874 million yen
Long-term receivables from affiliates 9,800 million yen
Short-term payables to affiliates 60,305 million yen

(3) Guarantees on liabilities
The Company offers the following guarantee on the fulfillment of a contract.

Hydranautics	831 million yen
	(7,828 thousand US dollars)
Nitto, Inc.	253 million yen
	(2,387 thousand US dollars)

3. Notes to the non-consolidated statements of income

Sales to subsidiaries and affiliates	384,379 million yen
Purchases from subsidiaries and affiliates	35,325 million yen
Transactions other than business deals with subsidiaries and affiliates	30,113 million yen

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

Matters concerning treasury stock

Class of shares	At the beginning of the fiscal year under review	Increase	Decrease	At the end of the fiscal year under review
Common stock	11,434,124	2,240,099	81,800	13,592,423

(Outline of reasons for change)

The breakdown of the increase/decrease is as follows.

Increase due to acquisition of treasury stock based on resolution of the Board of Directors 2,240,000 shares

5. **Notes on deferred tax accounting**

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

6. **Notes on transaction with the relevant parties**

Type	Name of company, etc.	Ratio of voting rights owned by (in) the Company	Relationship with the relevant parties	Nature of transaction	Transaction amount	Account item	Balance at end of period
Subsidiary	Shenzhen Nitto Optical Co., Ltd.	Direct: 100%	Concurrent position as officer Sale of semi-finished products Lending of loans	Lending of loans Receipt of interest	in million yen 9,800 20	Long-term loans receivable Other current assets	in million yen 9,800 5

Note: Terms of transaction, policy on determining terms of transaction, etc.

The interest rate for transactions of funds is determined rationally by taking market rates into account.

7. Notes on information per share

Net assets per share	2,805.35 yen
Net income per share	465.32 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.