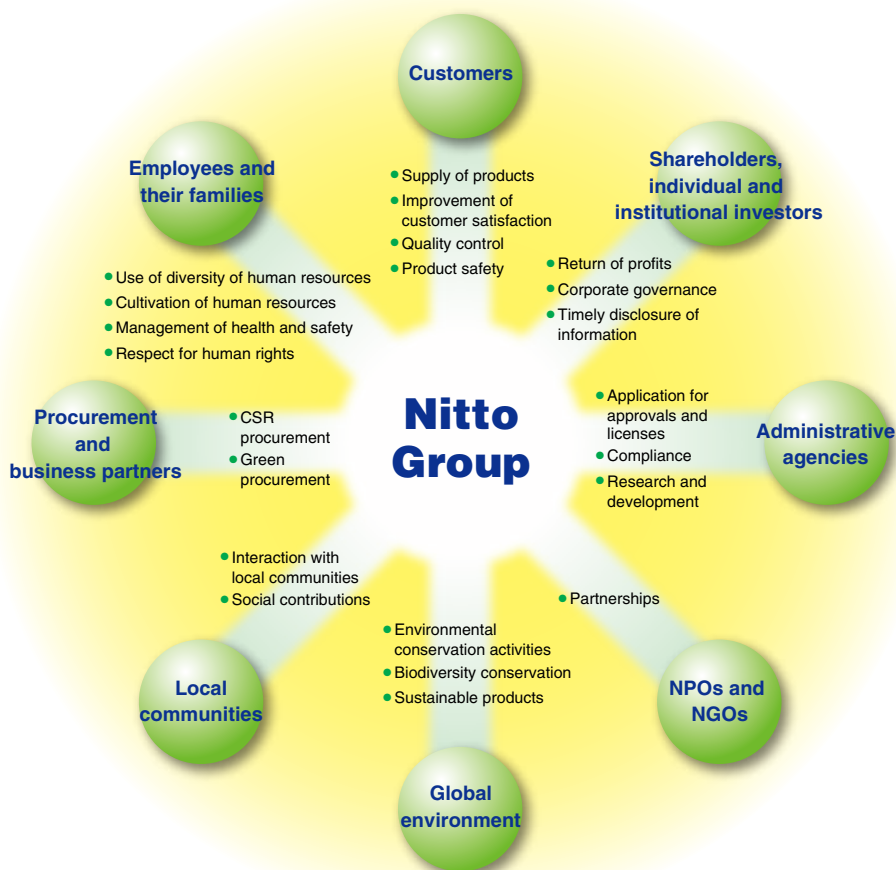




The Nitto Group engages with stakeholders through various activities.



## Corporate Philosophy



## The Nitto Way Concrete Thoughts and Actions

- Amaze and inspire our customers**
  - Have customers say, "This is exactly what we wanted."
  - Work with customers to create new values for society.
  - Start with customer satisfaction and translate that into prosperity for all stakeholders.
- Anticipate and leverage change**
  - Stay at the frontlines where we can sense changes in society and the market.
  - Rapidly link sensed changes to actions.
  - Refine our strengths, and aim to become the company customers want to consult with first.
- Take on challenges for new value creation**
  - Continue to take on challenges, even if we fail in the short-term, rather than do nothing for fear of failure.
  - Embrace change, exercise curiosity and always take a bold step forward.
- Act promptly, and once a decision has been made, be determined to carry it through to completion**
  - Take the first step forward and then think while advancing.
  - Share information openly, have full and frank discussions, and if a decision is made, work together as a team to carry it through to completion.
  - Make a daily effort to ensure frank and open communication beyond organizational boundaries and hierarchies.
- Transform ourselves constantly**
  - Anticipate challenges, implement reforms, and bring about growth in the spirit of Mu-Gen-Dai.
  - Keep on changing ourselves, seeing ongoing change as a starting point for growth.
  - Continue to challenge ourselves and the future, with the conviction that changes in individuals lead to growth of the entire organization.
- Have an attitude of integrity, and understand and respect diversity**
  - Take integrity as a starting point for action, and strive to build relationships of "respect and trust" with stakeholders.
  - Recognize the diversity of our global team, and accept and respect others.

On January 1, 2014, the Nitto Group renewed its "Corporate Philosophy" in order for every employee to achieve the "2nd stage of globalization" and to create further Global Niche Top™ and Area Niche Top™ products with core values. The corporate philosophy consists of our "Mission" and "The Nitto Way," a stance for achieving the mission.



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

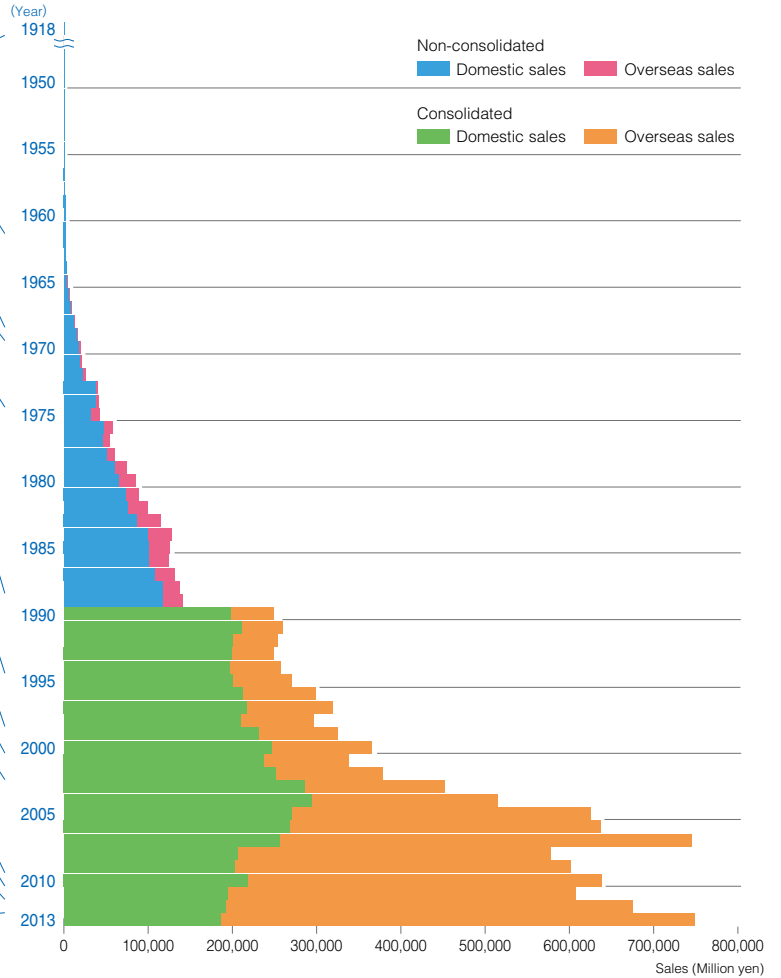
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## History of the Nitto Group

- Nitto Electric Industrial Co., Ltd. forms in Osaki, Tokyo, to produce electrical insulating materials in Japan.
- Company opens its first overseas office in New York.
- Company forms Nitto Denko America, Inc.
- Company forms Nitto Denko Taiwan, its first overseas manufacturing base.
- Company forms Nitto Belgium NV. (now called Nitto Europe NV.)
- Company acquires Hydranautics of the U.S.A.
- Company forms Nitto Denko Materials Malaysia.
- Company forms Nitto Denko (Shanghai Pu Dong New Area) Co., Ltd.
- Company forms Nitto Denko Material (Thailand) Co., Ltd.
- Company forms P.T. Nitto Materials Indonesia.
- Company forms Nitto Denko Vietnam Co., Ltd.
- Company forms Korea Nitto Optical Co., Ltd.
- Company forms Nitto Denko America Latina in Brazil.
- Company forms Nitto Denko (Philippines) Corp.
- Company forms Nitto Denko Asia Technical Center in Singapore.
- Company forms Nitto Denko India Private, Ltd.
- Company acquires Avecia Biotechnology, Inc. of the U.S.A.
- Company acquires Bento of Turkey.
- Company forms Nitto Denko Europe Technical Centre Sarl. in Switzerland.

## Sales Trends

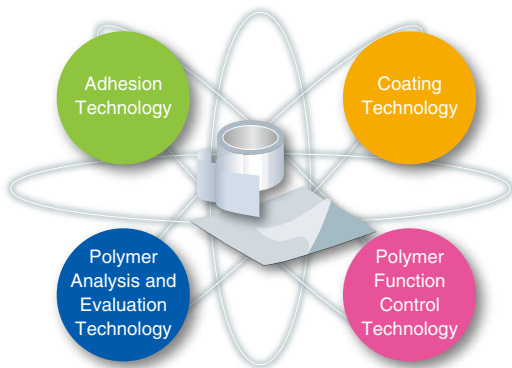


## Strengths of the Nitto Group

### Combined strength of technologies

We have created numerous new technologies based on our four core technologies.

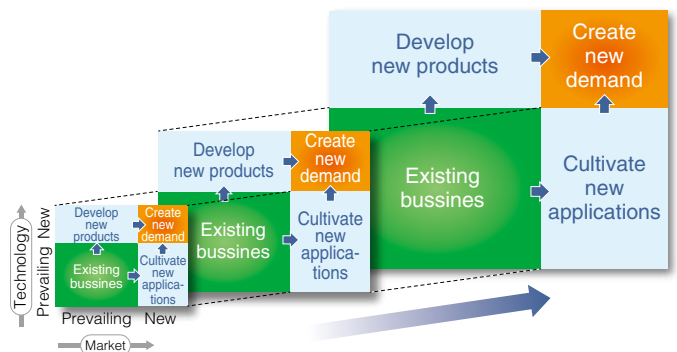
By combining these technologies, we have created a diversity of products adding value to sheeting and film.



### Sanshin Katsudo (Three New Activities)

By developing new applications and creating new products, we stimulate new demand, giving rise to new markets.

The Nitto Group has grown through such activities, what we call *Sanshin Katsudo*.



## Business fields and major products

### Automotive and Transportation Equipment

Our products improve the performance and efficiency, as well as reduce the environmental impact, of transportation equipment such as automobiles and trains.



Steel plate reinforcing materials – NITOHARD™



Internal pressure regulator – TEMISH®

### Housing and Housing Equipment

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



Curing tape



Waterproof and airproof tape – HYPERFLASH™

### Infrastructure

Our products are used in the production, construction and maintenance of equipment essential for everyday life.



Seawater desalination spiral RO membrane element



### Materials Industry

Our products are used by the materials industry to operate more efficiently and reduce the use of materials with a negative environmental impact.



Surface protective materials – E-MASK®



Masking tape

### Home Appliance and Electrical Industries

Our products respond to the evolving home appliance market and its customers' needs while always considering the environmental impact.



Polyimide seamless belts



NITTO EPT SEALER™

### Displays

Our products are used in applications such as TVs, tablet PCs, smartphones and portable gaming devices.



Transparent conductive film – ELECRYSTA™



Transparent double-coated adhesive tape LUCIACS®

### Electronic Devices

Our products are used in electronic components in a wide range of fields, from electronics to the environment and energy.



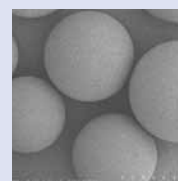
Thin-film metal base board with high resolution circuit – CISFLEX®



ELEP HOLDER™

### Medical Industry

Our products are used to create products gentle on the human body and help with the prevention and treatment of disease and injury.



Oligonucleotide medicine



Yu-Ki Ban™

### Packaging Industry

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



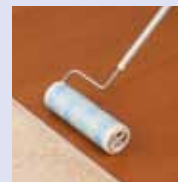
Packaging tape



Carton sealer

### Consumer Products

Our products are used to create comfortable, convenient and innovative solutions for people's lives.



COLOCOLOR®



Energy-saving window insulation film

## FY2013 Highlights

Sales	749,835 million yen
Operating Income	72,254 million yen
Income before Income Taxes	69,641 million yen
Net Income	51,018 million yen
R&D Expenses	28,573 million yen
Capital Investment	75,814 million yen
Depreciation Cost	43,188 million yen

Total Assets	781,352 million yen
Equity	523,391 million yen
ROE	10.1%

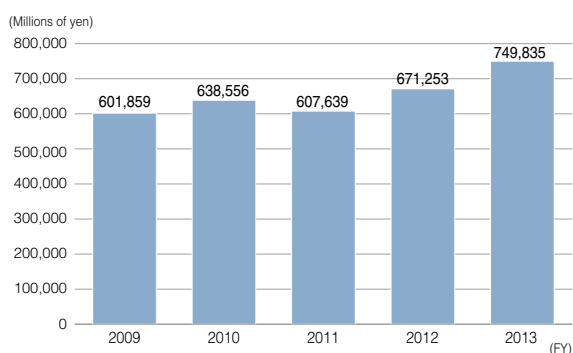
### Amount per Share

Net Income per Share	309.3 yen
Dividends per Share	100 yen

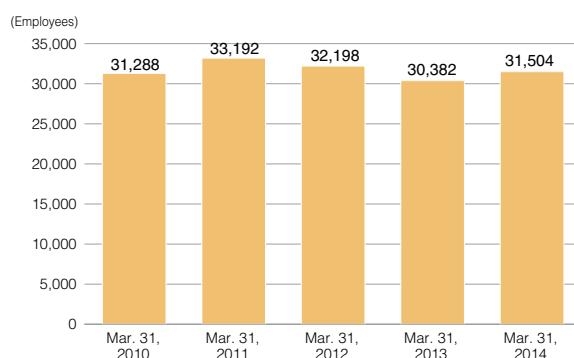
### Regional Breakdown of Sales

Japan	186,320 million yen
The Americas	52,085 million yen
Europe	38,834 million yen
Asia & Oceania	472,594 million yen

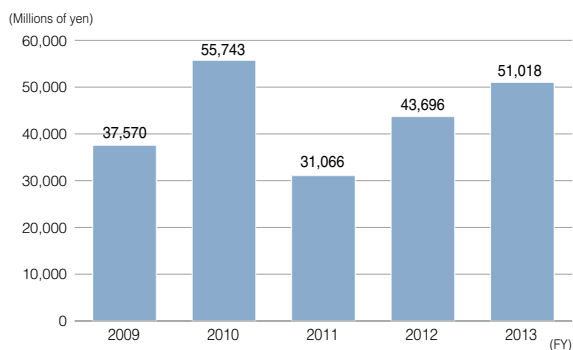
### Sales



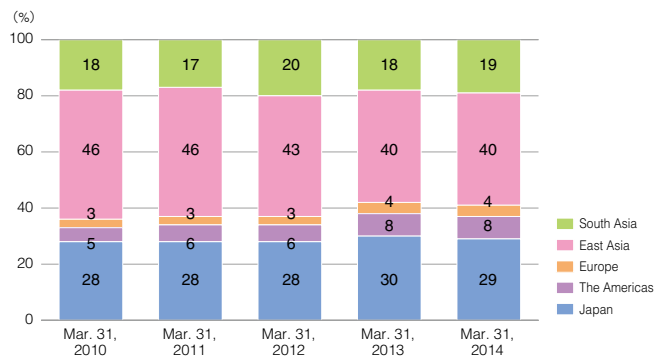
### Number of Employees



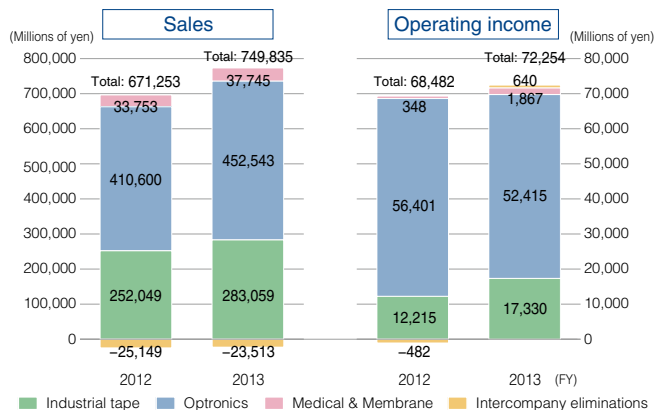
### Net Income



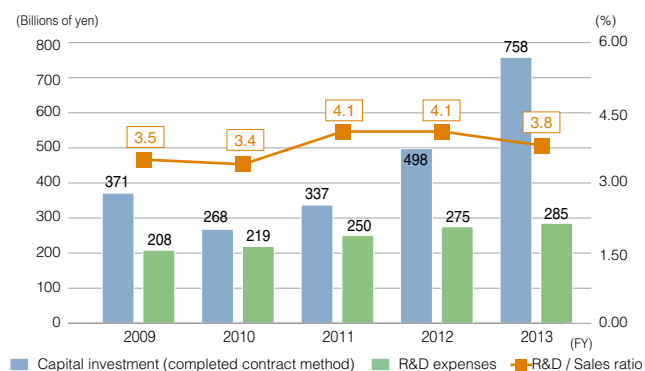
### Breakdown of Employees by Region

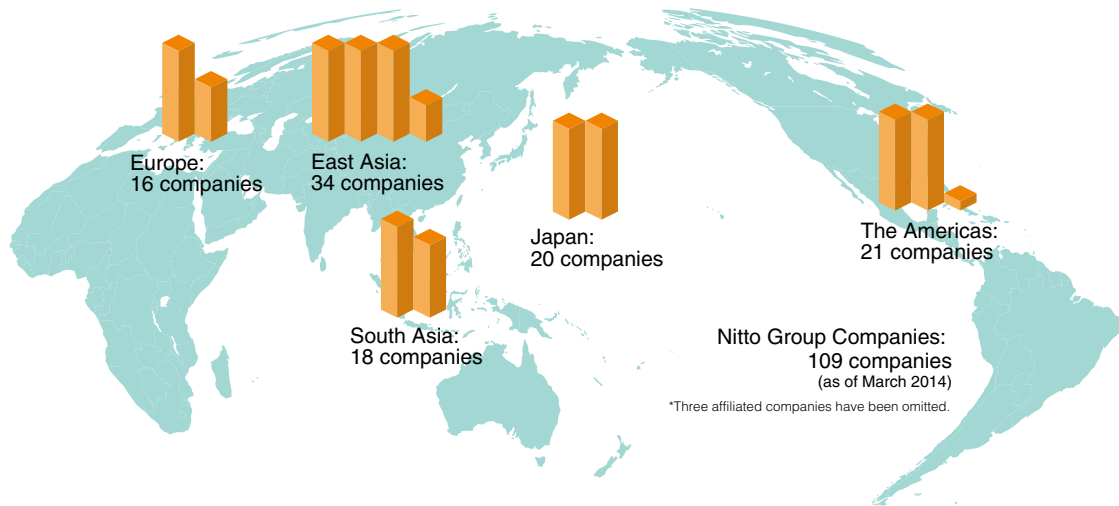


### Business Performance of Each Segment

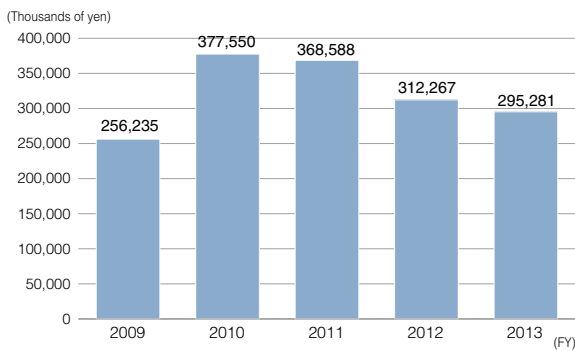


### Capital Investment and R&D Expenses

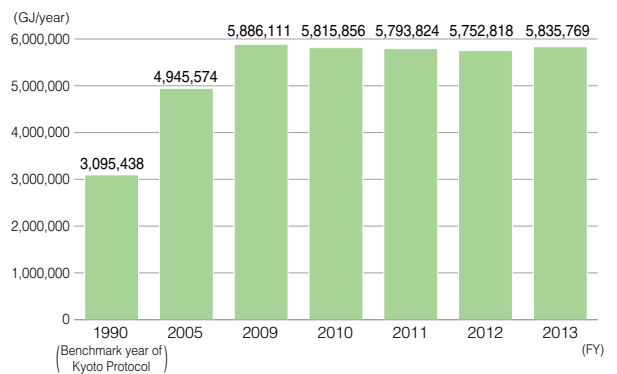




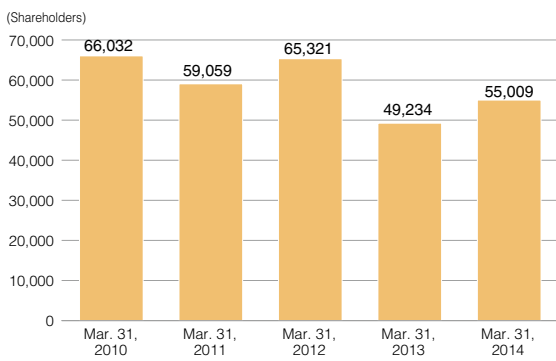
### Total Amount Donated (non-consolidated)



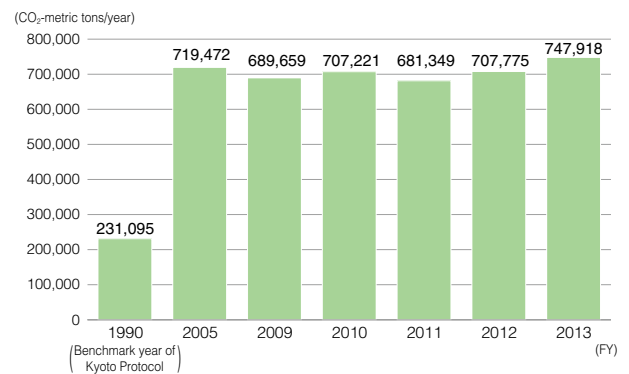
### Fossil Fuels Used



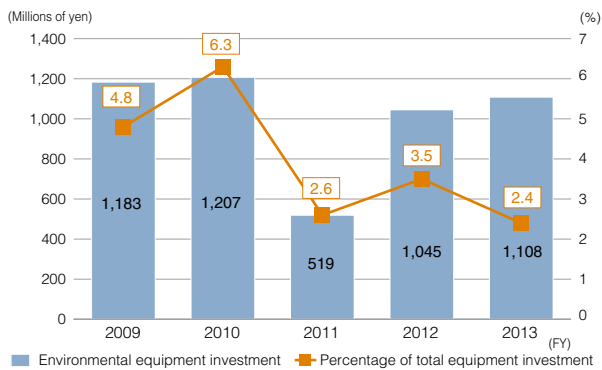
### Number of Shareholders (non-consolidated)



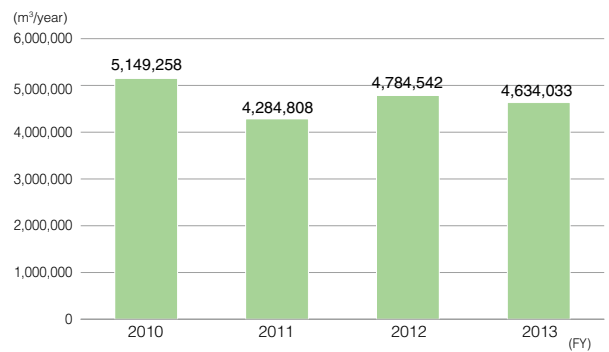
### CO<sub>2</sub> Emissions



### Environmental Equipment Investment (non-consolidated)



### Water Consumption (Nitto and group companies in Japan)



I would like to express my appreciation for the understanding and patronage that the Nitto Group continues to receive from our shareholders, investors, customers, business partners and local communities. On behalf of the Nitto Group, this report will outline our fiscal 2013 activities and present our key policies for fiscal 2014.

## Business Summary of Fiscal 2013

As for the business environment throughout fiscal 2013, the U.S. economy continued on a path to a mild recovery, in line with an increase in private demand, while the European economy also picked up. On the other hand, the Chinese economy weakened further with a decrease in the rate of growth. In the business environment in Japan, the economy showed evidence of a recovery, in line with an improvement in corporate profits and growth in consumer spending.

We at the Nitto Group considered fiscal 2013 the “Year to Enter a New Phase.” Every employee strived unflinchingly, boosting their level of awareness and developed the ability to take on challenges in the world. We implemented activities to develop our corporate value globally towards our 100th anniversary in 2018, enhancing our name recognition by rebranding our company, improving operational efficiency by integrating the Nitto HQ and Osaka BO, and establishing a comprehensive new corporate philosophy illustrating our common philosophy and behavioral norms which every employee of the whole group should share.

As for our business activities, in the electronics industry, where our primary products compete, we introduced new products and increased production of materials for touch panels, in line with growth in the market for smartphones and tablet PCs. In the automotive industry, we enhanced materials adopted by existing customers and found new customers worldwide, while keeping up with the increase in production volume of cars.

Overall, sales increased by 11.7% to 749.8 billion yen and operating income increased 5.5% to 72.2 billion yen, when compared to fiscal 2012.

## Approaches for Fiscal 2014

As for economic forecasts for fiscal 2014, we see the world economy recovering. However, we find the economies of some countries decelerating and others embroiled in political uncertainty. In Europe, the economy is emerging from recession, and in the U.S., growth is forecast to continue, led by personal spending. In emerging countries,

in spite of a predicted improvement in personal spending, growth is seen decelerating. At home, it is predicted that the economy will remain strong in spite of a forecast temporary downturn in economic activity after the rise in the consumption tax.

In such an environment, the Nitto Group considers fiscal 2014 the “Year to Soar.” We will make fiscal 2014 a year when we run swiftly and forcefully like a fleet horse.

Specifically, in our industrial tape business, we will carry forward the establishment of a system which will enable us to consistently manage a range of processes, from the development of products and the procurement of raw materials to the production and sales of products, further creating Area Niche Top™ (ANT) products corresponding to local needs. In particular, as for materials for vehicles, through enhancing the operation of a plant in Brazil which recently commenced production, we will positively respond to the demands of growing markets, including Latin America.

In our optronics business, in spite of the decrease in costs of products in the market for smartphones and tablet PCs, it is expected that our sales will continue to grow. We will supply new products for LCD and touch panels meeting the needs of the market.

In our medical and membrane businesses, in response to an escalation in competition in the market, we will push ahead with entry into new fields, in parallel with enhancement of our operating bases. In particular, in our medical business, we will promote the contract manufacturing of oligonucleotide and expand sales of transdermal drug delivery patches for treatment of hypertension coming onto the market in fiscal 2013. In our membrane business, we will expand our business from water treatment to other fields.

In fiscal 2014, we aim to achieve 780 billion yen in sales and 78 billion yen in operating income.

## Mid-term Management Plan

From fiscal 2014, we have drawn up a three-year mid-term management plan known as “Nitto-2016.” In order to achieve 920 billion yen in sales and 100 billion yen in operating income in fiscal 2016, we will launch a new challenge.

In Nitto-2016, we established a basic concept: “Soar toward the future through structural reform and a growth strategy.” We will simultaneously conduct structural reform,





aiming to adjust to changing circumstances and a growth strategy to generate a new enterprise and evolve a robust business structure. In order to do so, we will continue to address the three business challenges of “Business Growth,” “Qualitative Improvement” and the “Human Resource Development.”

In the first challenge, Business Growth, seeking a balance between expansion of our present business and the creation of new business, we will continue to establish new themes centered on the growth fields of “Green” (environment), “Clean” (energy) and “Fine” (life science). At the same time, we will focus our efforts to “harvest the theme,” which we have tackled in the past. For example, in May 2013 we established a joint venture company to manufacture anticorrosion materials in Qingdao City, China, which will finally commence production and sales in fiscal 2014.

In the second challenge, Qualitative Improvement, we will accomplish an improvement in corporate value for our stakeholders by not only promoting business growth, but by also implementing such policies as “making a safe and ideal workplace,” “pursuing quality and making customers happy,” “providing eco-friendly products,” “reducing environmental impact associated with our business activities” and “engaging in social responsibility.”

In the third challenge, Human Resource Development, we will address human resource development throughout the world and cultivate the “Nitto Person,” who understands our corporate philosophy, corporate culture and DNA, with the aim of supporting further global growth.

### Profit Allotment Policy

We consider the return of profits to our stakeholders to be of the highest priority. As a manufacturer, in order to keep pace with rapid technological innovation and our need to serve our customers in a timely fashion, it is imperative that we make positive prior investments in the fields of research and development and production. When determining cash allotments, we comprehensively assess the financial standing of our accounts, profit levels and dividend payouts.

The year-end dividend for fiscal 2013 was 50 yen per share, whilst the annual dividend per share was 100 yen, equivalent to fiscal 2012. Forthcoming annual dividends are projected to be 100 yen, equivalent to fiscal 2013 and in line with comprehensive calculations regarding future profits and business investment.

### Corporate Social Responsibility

The Nitto Group aims to be “a company that is most admired and trusted, and continues to grow into the future.”

In line with world affairs, the economy, societal values and the constantly changing needs of people, corporations are required to create new value. I believe that corporations’ acting to fulfill their social responsibilities, as well as pursuing business success, leads to sustainable growth.

For instance, in an auto race, to finish in first place, you undoubtedly need not only a powerful engine but also precision in your steering and braking systems. In the same way and in the spirit of our corporate philosophy, “Contribute to customers’ value creation with innovative ideas,” we will approach business activities in conformity with various rules and systems assuming the roles of steering and braking systems, providing safety and peace of mind for every stakeholder.

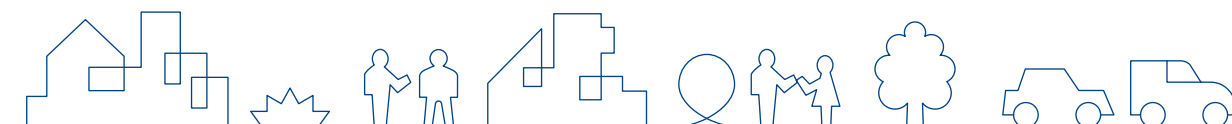
We believe that not only by contributing to society through our business performance, but also by approaching sincerely each of our activities with pride and pluck, we will be successful in realizing the expectations of our stakeholders.

The Nitto Group looks forward to your ever deeper patronage and further guidance.



A handwritten signature in black ink, appearing to read 'H. Takasaki'.

**Hideo Takasaki**  
Board Member and President,  
Nitto Denko Corporation



# Materiality

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

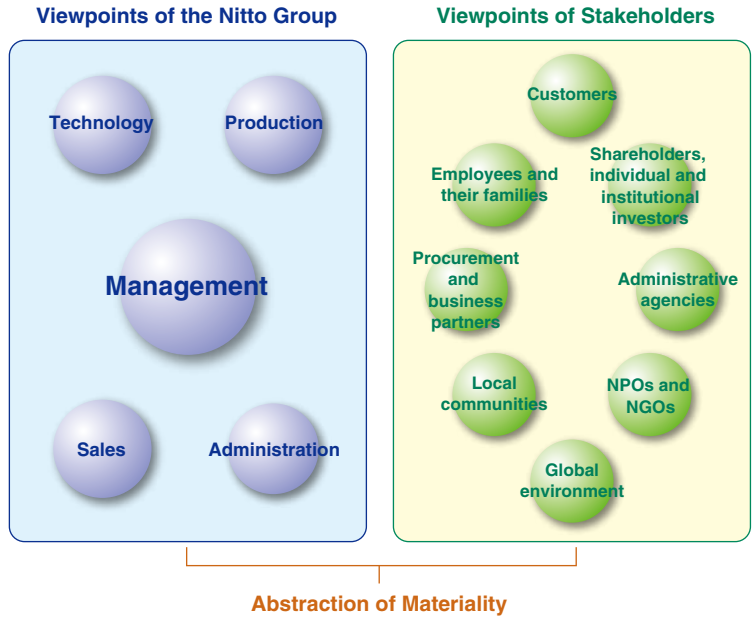
- Abstraction of Materiality**

The Nitto Group abstracts materiality from the viewpoints of both the Nitto Group and its stakeholders. (Refer to chart to the right)
- Identification of Material Issues on Management**

Important business challenges are deliberated at management conferences and incorporated into our "Mid-term Management Plan."
- Identification of Material Issues in Specialized fields**

The important challenges which have been defined in each specialized division and committee obtain approval in budgetary discussions and are reflected in each policy and activity plan.
- Identification of Material Issues for Reporting**

The CSR committee decides items for reporting from the above material issues referring to GRI Guidelines.



# Branding Reform

In order to further expand business, it is essential for the Nitto Group to inform various stakeholders, including customers worldwide, of its products and services. Thus, in an effort to strengthen the Nitto brand, it was decided that the Group would change its trade name to "Nitto" and reinvent its corporate logo, replacing the current combination of the company name and logo.

**"Nitto Denko" to be called "Nitto" and our new logo debuts!**

Nitto Blue as a base color, with Red as a lively accent

**Strengthening the Nitto Brand Worldwide!**

**Brand Concept**

Our new brand is easy to recognize, easy to pronounce, and easy to remember by customers from any country worldwide.

**From now on Nitto Denko will be called Nitto!**

This brand renewal marks our expansion into new business domains without being limited by the word "Denko" (Electrical Company).



**Concept**

**Business Growth**

Structural Reform and Growth Strategy through “Mu Gen Dai”

- Business diversification and early launch
- Strengthening existing business foundation
- Aim for world's No.1 productivity

**Qualitative Improvement**

- Aim for world's No.1 safety
- Continued efforts for the environment and better quality
- Upgrade global HQ functions
- Optimizing regional/group company governance

**HR Growth**

- Developing Nitto Persons worldwide
- Improving/globalizing personnel system

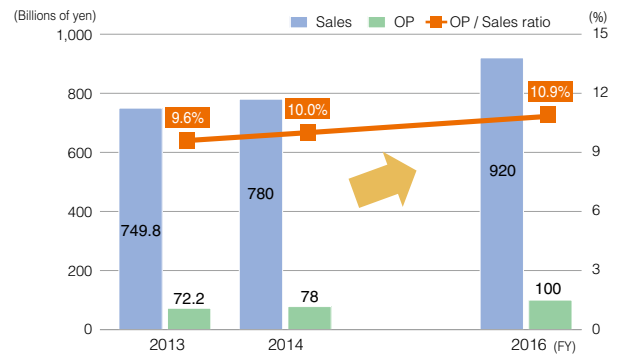
**Platform**

New Corporate Philosophy, Brand Logo, Niche Top Strategy (GNT/ANT), Sanshin Activities, Proximity to Customers

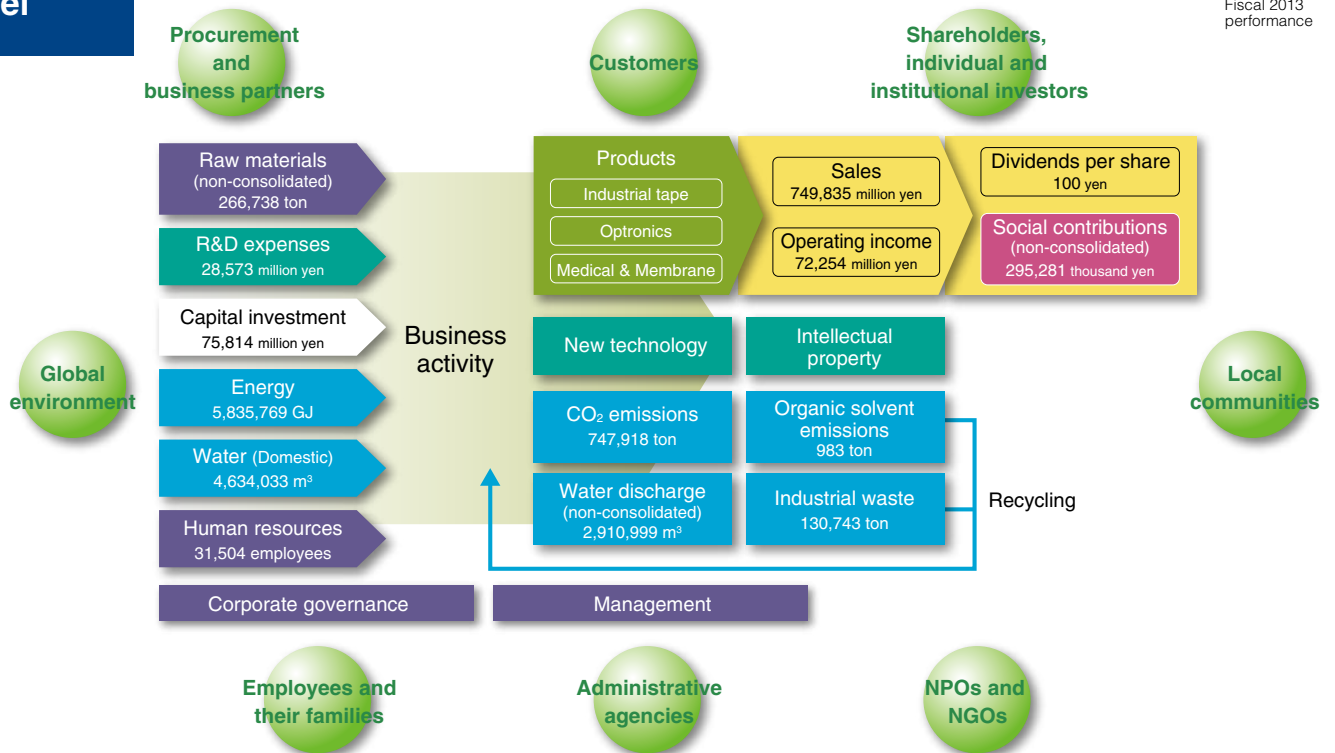
**Performance Plan**

**Performance Target for FY 2016**

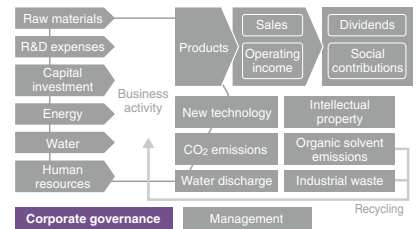
Net sales: 920 billion yen  
Operating profit: 100 billion yen  
(E=10.9%)



**Business Model**



# Aiming to realize sound and transparent management



## Basic Policy

The Nitto Group believes in the importance of profit for all of its stakeholders. In order to maximize shareholder value on a continuous long-term basis, it is very important to uphold corporate governance.

General policies for all employees to follow in order to function effectively as members of a business enterprise and society are outlined in our “Corporate Philosophy” and *Business Conduct Guidelines*. In our Corporate Philosophy, “The Nitto Way” is described, in which “attitude and mindset,” “values” and “code of conduct” are laid out in statutory form, aiming to put into practice the general policies. In this way, we strive for healthy, transparent governance.

In further efforts to achieve fair and transparent management, basic policies have been designed for each field of specialization of our business, and governance is carried out based on these policies.

## Governance System

### Directors, Board of Directors, and Corporate Vice Presidents

The Board of Directors makes decisions on important management-related matters and oversees the business affairs of the directors and corporate vice presidents. The directors and corporate vice presidents undertake business affairs according to the basic policies determined by the Board of Directors. In order to strengthen the health and transparency of management, directors and the corporate vice presidents serve a one-year term, with external directors appointed since 2007.

### Management and Remuneration Advisory Committee

The Management and Remuneration Advisory Committee was formed as an advisory group to the representative directors, consisting of outside experts offering advice on important management issues and director compensation from a different perspective.

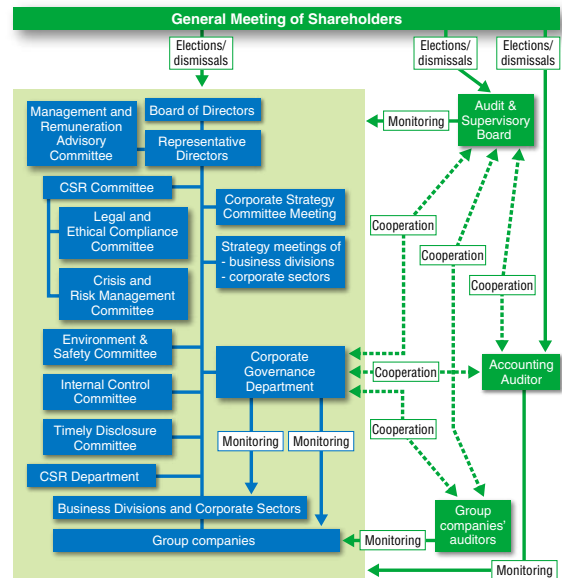
### Audit & Supervisory Board Members and Audit & Supervisory Board

Audit & Supervisory Board members attend Board of Directors meetings to audit the business affairs of the directors. In addition, their tasks include: attending other important meetings; listening to the activity status of directors, corporate vice presidents and employees; viewing approval papers and other formal documents; inspecting the main office, technology and business

divisions, plants and subsidiaries in Japan and overseas; and exchanging opinions and sharing reports and hearings with accounting auditors.

## Corporate Governance System

<July 2014>



## Audits and Internal Controls

In order to meet our social responsibilities as a business, the Nitto Group has independent divisions under a check-and-balance system performing internal audits, which are useful for achieving effective internal controls and management objectives.

### Audits (Internal Audits and QES Audits)

Internal audits are conducted to ensure management activities are being performed accurately, legitimately and reasonably, by all of the companies within the Nitto Group, so as to contribute to improvements in business operations and performance.

In addition, QES audits intended for quality, environmental and safety purposes are also conducted in order to ensure the safety of employees, customers and society.

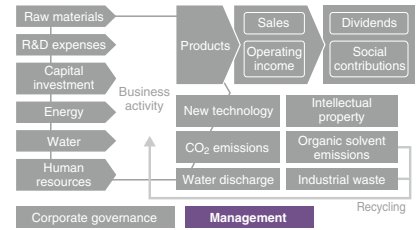
External audits are also conducted periodically.

### Internal Controls

Basic policies on internal controls have been created to ensure suitable business practices. Internal controls for financial reporting have also been developed in an effort to ensure the appropriate maintenance and operation of the control environment, risk evaluation and response, control activities, information and transmission, monitoring, and handling of IT.



The Nitto Group pursues a concept of compliance not limited to obeying the relevant laws, but one that also adheres to broad societal norms and ethical behavior.



### Structure and Implementation of Compliance

With the progress of globalization in business, we continue to observe an increase in the diversity of people employed by the Nitto Group. Even with differing cultures, customs and regions, we believe that it is indispensable for our employees to understand compliance at a certain level. In the Nitto Group we translate our *Business Conduct Guidelines*, starting with a commitment by the CEO, into 16 different languages and distribute and explain them to all employees to enhance their awareness of compliance.



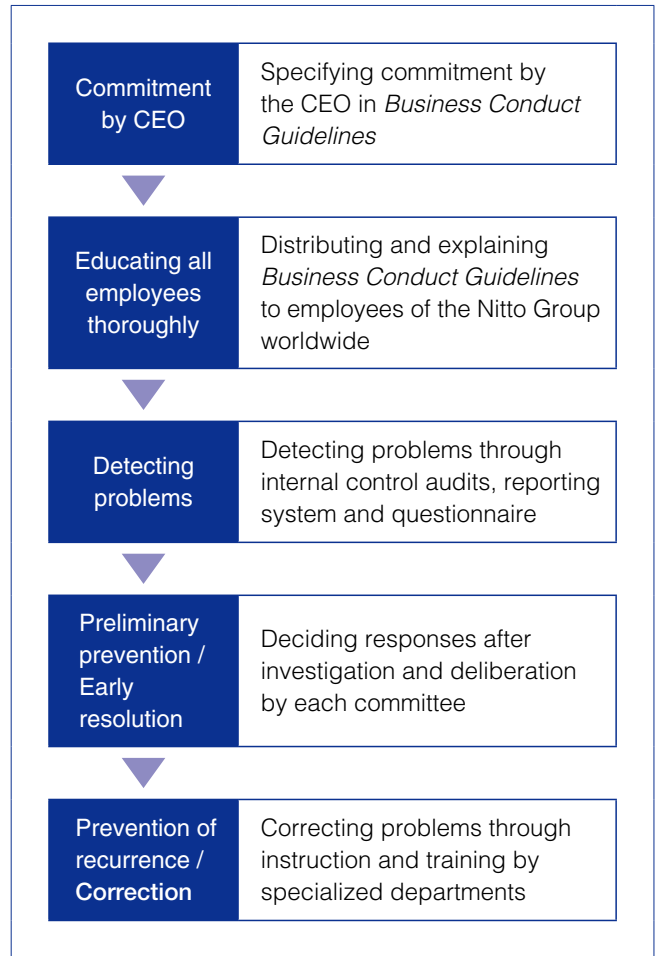
Business Conduct Guidelines

Furthermore, by detecting problems in a timely manner with our reporting system and audits, we attempt to forestall and solve any issues. In addition, we endeavor to take preventive steps through training sessions.

CSR workshops held every year offer a forum for each management level employee to consider compliance issues with regard to the results of and examples in our questionnaire on compliance and business risks. In fiscal 2013, the workshops were held at a total of 128 bases in 29 countries and territories, with 2,120 management level employees participating in them.



Enhancing awareness by sharing information at a workshop in East China



### Reporting and Counseling System on Corporate Ethics

To facilitate the early detection of violations of the law and ethics issues, we have a reporting and counseling system that allows employees to contact the CSR Department directly, and an independent reporting system. In fiscal 2013, we received 14 reports through these systems. We settle issues while ensuring the protection of all whistleblowers.

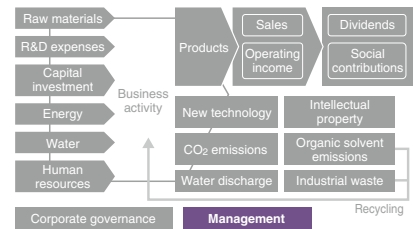
### Approach to compliance with FCPA

The U.S. Foreign Corrupt Practices Act (FCPA) is an anti-bribery provision for foreign government officials. Corporations which have overseas affiliated companies in the U.S. such as the Nitto Group, are also covered, as are individuals.

In the *Nitto Group Business Conduct Guidelines*, some points to keep in mind when associating with government officials are explicitly stated. We approach this issue by conducting study sessions and the like.

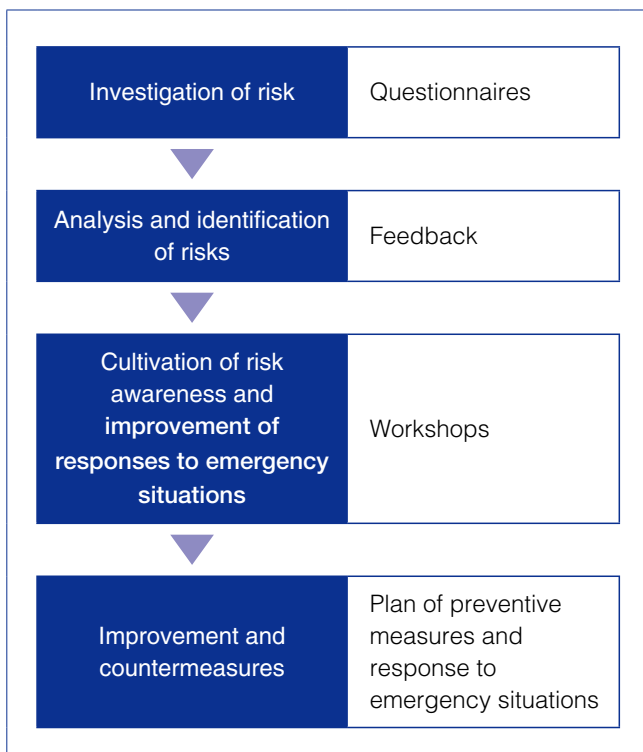


## Broadening risk awareness and addressing the improvement of preventive measures and response to emergency situations



### Risk Management

With the global development of our business, the Nitto Group is exposed to increased risk of labor difficulties, information leaks, law violations, natural disasters, accidents and crime. So far, we have investigated any risk areas that might present as serious concerns to management and business activities. Any potential risk areas have been prioritized and countermeasures aimed at the prevention, avoidance, measurement and transformation of incidents have been taken.



Since fiscal 2011, in order to enhance risk awareness among management-level employees, we have distributed questionnaires on the business risk of 42 items to more than 2,000 such personnel throughout the whole group. With feedback from the questionnaires in CSR workshops for those employees, we discuss unique risks in each base and group company. We expect that we will reduce risk if not only top management and related parties, but also every management-level employee has an awareness of it and small units such as divisions and teams take the

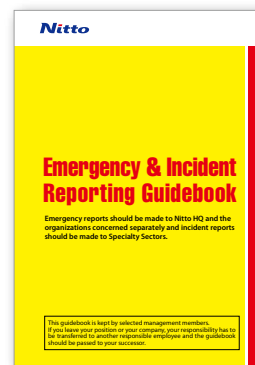
initiative in introducing preventive measures. In workshops, we consider together how to deal with risks and countermeasures for problems by examining case studies in order to cultivate response capabilities. We will continue to raise the skills of more than 2,000 management-level employees in order for them to respond quickly and properly to unexpected problems.

In the fiscal 2014 plan, we will investigate risk through questionnaires and provide opportunities for discussion on the results among all management-level employees.

### Responses to Emergency Situations

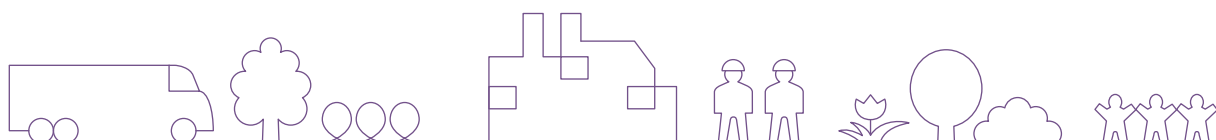
We maintain reporting systems that with a prompt and appropriate initial response, allow a coordinated effort by the entire Group. This includes the Emergency Reporting System, which operates 24 hours a day, every day and immediately contacts top management in the case of an emergency.

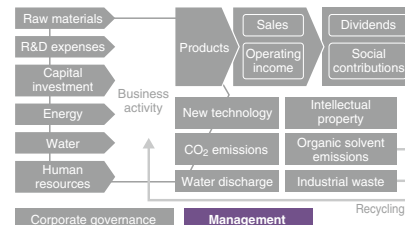
In addition, a copy of our *Emergency & Incident Reporting Guidebook* is distributed to 330 employees in positions of responsibility at every base and group company to allow the Nitto Group to react swiftly. The guidebook clearly describes to whom and when an employee should report in an emergency.



*Emergency & Incident Reporting Guidebook*

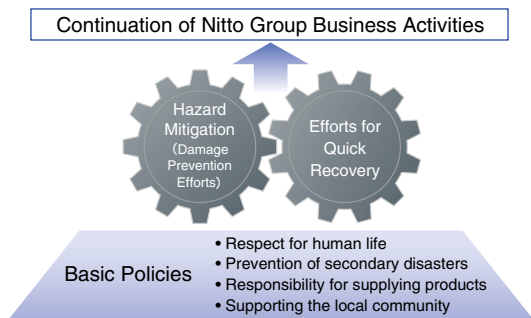
As for earthquakes and pandemics, which are expected to exert considerable influence on our business, we prepare for a contingency by introducing our way of thinking on both business continuity management and risk management. (Refer to the next page.)





### Basic Policy

By following our four basic policies, the Nitto Group performs Business Continuity Management (BCM) with a strong connection between disaster mitigation (disaster prevention and damage minimization) and quick recovery, and takes measures to avoid human-generated calamities.



### Preparation for a Major Earthquake

The Nitto Group has established a Business Continuity Plan in preparation for an earthquake, pandemic or blackout, any of which could exert considerable influence on our business. In particular, as we have several core plants in Japan, an earthquake-prone country, we contribute our energy to Business Continuity Management, dealing with the possibility of a major earthquake.

### The Nitto Group's Approaches

- Earthquake resistance of buildings and facilities: Establishing standards designed to withstand a temblor being comparable with the largest earthquake having recently occurred in Japan
- Securement of IT infrastructure: Increase in the number of data centers
- Securement of electrical power supply: Introduction of storage batteries and emergency power
- Securement of materials: Increase in the number of suppliers; deliberation of overseas routes; and risk management of supply chains
- Dispersion of production bases and alternative production: Coalition with four overseas areas
- Securement of physical distribution: Securement of alternative transportation routes and setting of safety standards for storage warehouses
- Establishment of a disaster response team and support system: Securement of communications systems and relief supplies
- Acquisition of disaster information: Introduction of a system for acquiring timely disaster occurrence information and the distribution of it automatically
- Education and training: Periodical evacuation and safety confirmation drills, making emergency response behavior standards known to everyone

Everyone concerned gathers every three months and exchanges opinions on the progress of these approaches. In addition, by conducting training sessions, we hold reviews and develop measures.

### Collaborative Training Sessions with Group Companies

On February 7, 2014, Nitto Head Office, Nitto Shinko, located in Fukui Prefecture and Nitto LOGI-COM, in charge of logistics, conducted collaborative confirmation training sessions. The question of how the three could collaborate with each other in the event of a contingency, making use of our Emergency Reporting System and emergency communications in consideration of the envisioned circumstances, was examined.

As a result, many issues arose and it was a good opportunity for each entity to review the Business Continuity Plan.



### Training Sessions Dealing with the Possibility of a Disaster Occurring After Hours



Toyohashi Plant, where the possible occurrence of a major earthquake has been a concern for some time, frequently conducts evacuation drills. Recently, the plant conducted specialized drills under the theme of business continuity.

On December 17, 2013, Toyohashi Plant conducted a training session on the assumption that a major earthquake occurred on a weeknight when top officials were absent. Those involved experienced unusual circumstances in which the securement of lighting was indispensable and participants had to set up a necessary disaster response team with limited personnel and respond to such circumstances.

## Associated Business Risks Listed in the Financial Report as of March 2014

Potential risks which can have an adverse effect on our operational results, share price and financial standing are indicated below.

### (1) Optoelectronics Business

Materials produced by our optoelectronics business and used in LCD-related and touch panel products constitute the core of the Group's sales. Many companies participate in this market and competition continues to be stiff. Our relationships with LCD panel manufacturers and touch panel manufacturers (our customers), an imbalance between supply and demand in the industry, declining prices, corporate reorganization and the switching of strategy among panel makers, technical innovation, intensified price competition due to new players entering the market, capacity limitations of materials suppliers and sharp increases in material costs could all negatively affect the performance of the Group.

### (2) Overseas Operations

The Group conducts business in many countries throughout the world, actively pursuing possible future global business opportunities. Depending on the country, there are inherent unavoidable risks that can occur. Such risks include: unanticipated changes to, or discrepancies in the interpretation of laws and ordinances, taxes and regulations; differing business customs; deteriorating employment relationships; labor disputes; increasing labor costs; transportation delays; power outages; social disorder from political disturbances; and war and terrorism. If such an event were to materialize, the performance of the Group could be adversely affected.

### (3) Global Politics and Economic Currents

The Group manufactures and markets its products throughout the world. Therefore, its business is affected by trends in global politics and economics, and financial system instability. Unexpected economic circumstances caused by drastic changes in global politics or fluctuations in exchange rates could have adverse effects on the performance of the Group.

### (4) Mergers and Acquisitions

It is indispensable for the Group to construct relationships with other companies with superior technology in diverse ways such as through acquisitions and affiliations. If such an acquisition did not prove to be as profitable as expected, the performance of the Group could be adversely affected.

### (5) Raw Materials Vendors

For some key raw materials, the Group depends on specific vendors. Although it does endeavor to find multiple raw materials vendors so as to reduce the risk of being unable to procure key materials, for some raw materials we need to depend on specific vendors. Failure to obtain the necessary key raw materials due to a possible disaster, accident or bankruptcy of a vendor, an imbalance between supply and demand, or a cost increase could adversely affect the performance of the Group.

### (6) Financial Standing of Our Customers

The Group deals with customers worldwide who meet its strict financial criteria. However, some customers are in rapidly changing business environments and serious financial problems could occur with such customers with whom the Group has accounts receivable. In particular, LCD-related and touch panel products represent a significantly large source of revenue compared with other products of the Group. If a default were to occur, the amount involved would tend to be quite significant.

### (7) New Product Development

Aiming at meeting high market expectations, the Group strives toward technological innovation and competitive power of costing across all areas of our business. The Group continues to pursue the development of new technologies, products, goals and markets, with research and development investment necessary for production process innovation, as well as plant and equipment investment based on our "Area Niche Top" strategy, in which we supply products meeting specific needs in the area, in addition to our "Global Niche Top" strategy. However, it is not easy to accurately forecast changes in an industry in which market changes are so drastic. It is possible that another company could unexpectedly develop a new technology or a new product that renders a product of the Group obsolete. The occurrence of such an event beyond contingency expectations could affect the management of the company.

### (8) Intellectual Property

The Group owns, maintains and manages valuable intellectual property rights. However, there exists the possibility that a third party could claim these rights to be invalid and the Group might not enjoy complete protection. The Group's property could be imitated in some area, with the Group becoming involved in litigation. Therefore,





intellectual property rights infringements could negatively affect the performance of the Group.

### (9) Product Defects

The Group manufactures products according to ISO 9000 quality standards and carries out quality assurance management, earning the trust of our customers. The business activities of the Group mainly involve the selling of parts to companies engaged in manufacturing. Although the probability of the Group being forced to directly compensate end users for its products or to conduct a product recall is low, the Group cannot completely eliminate the risk of liability associated with product defects. If compensation were to exceed the coverage of product liability insurance, this could negatively affect the performance of the Group.

### (10) Environmental Issues

The Group regards environmental preservation measures as one of its key business policies and acts from a position whereby it accepts its social responsibility, focusing on reducing waste and preventing global warming and air pollution. The Group has not caused any serious environmental problems to date. To protect the global environment, the Group established a voluntary reduction plan, which it duly observes. However, there exists the possibility that unforeseen environmental pollution caused by an accident or natural disaster, or changes in future laws and regulations resulting in significant expenses due to environmental issues could have adverse effects on the performance of the Group.

### (11) Compliance and Legal Regulations

The Group carries out business not only in Japan, but also overseas in various fields. The Group endeavors to abide by the various laws and regulations of different countries pertaining to such business. However, if these laws and regulations were to be strengthened or changed significantly, a temporary deficiency in internal control of these issues could occur and the activities of the Group might be impaired, or the Group might incur additional costs which could adversely affect its performance.

### (12) Lawsuits

In the business activities of the Group, there exists the possibility that the Group could become embroiled in legal proceedings with a customer or third party. In addition, the Group conducts business in various countries and could go

into unexpected litigation. The risk that the outcome of litigation did not properly reflect the opinion of the Group and thus differed from the Group's forecasts might be ineluctable and this could adversely affect the performance of the Group.

### (13) Accidents and Disasters

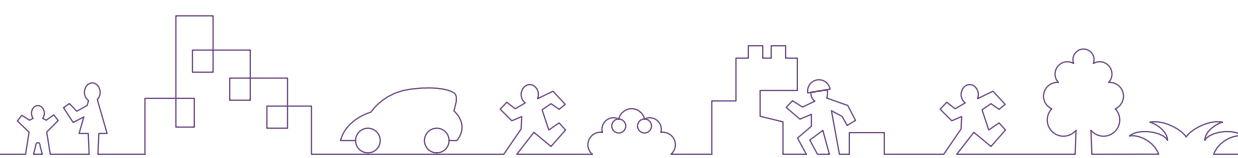
The Group promotes Business Continuity Management (BCM) to protect itself from accidents and disasters by following a safety first policy. In particular, Japan has a high occurrence of earthquakes. If a large-scale earthquake were to occur in a particular area within Japan, direct damage could result or injuries could occur within the production process due to fire or chemicals. The effects of an earthquake, tsunami or flood would not be limited in-house, but would be wide-ranging, with damage to infrastructure such as electricity and gas supplies, damage to supply chains such as interruption to the procurement of raw materials and the distribution of products and loss or inconvenience to our customers, which could cause an interruption to our business. Moreover, if there were to be a massive outbreak of new infections affecting human life, depending on the nature of the outbreak, it could impact on the global economy. Any of these contingencies might influence the business results of the Group.

### (14) Information System

Our information system has a critical role in the Group and is becoming more complex and highly-developed year by year. Against such a background, the risk of a major incident such as a natural disaster, fire, blackout or malicious incident such as cyberterrorism has been rapidly escalating. The group takes various measures with both hardware and software, such as improving security. However, any failure caused by a disaster or cyberterrorism occurring in our information system could negatively affect the performance of the Group.

### (15) Retirement Benefit Liability

Employee accrued benefit costs and liabilities of the Group are calculated on the basis of various experience assumptions used in actual calculations and investment yields of pension assets. In line with the devaluation of pension assets at market price, interest-rate trends and changes in the retirement allowance system and pension system, recognized and calculated liabilities may be affected. This might influence the business results of the Group.



## Employment and Cultivation of Human Resources and Human Rights

**Human resources are the very strength of a corporation. We implement measures and policies respecting diversity and human rights.**

The Nitto Group undertakes business in the growing and changing global market through promoting “Global Niche Top™” and “Area Niche Top™” strategies. Overseas regions now account for more than 70% of our sales and employees. Under such circumstances, the keywords are “diversity” and “respect for human rights.” We address employment and the cultivation of human resources while giving great thought to these keywords.

### Employment

Human resources carrying the future of the Group are asked to play even more active roles than ever before. The Nitto Group promotes employment without making any distinction according to nationality or gender, aiming to utilize our human resources to their maximum abilities.

There is a variety of new employees recruited by Nitto Headquarters in fiscal 2014. Seven out of 28 were foreign nationals, while 7 were female. We continue to make positive efforts to recruit female employees.

### Promoting Females to Play Active Roles

The percentage of female management level employees of the Nitto Group is 12%. However, in each area there are noticeable differences. In Japan, where the percentage is notably small, we have been implementing approaches to improve the situation by implementing a project since fiscal 2012.

### Participating in Diversity Workshops

As opportunities in which females can play active roles are lagging in Japan, proposals for enhancement were made by joint initiatives between the public and private sectors. We, the Nitto Group, also aim to promote females to play active roles, and two female management-level employees from Nitto Head Office participated in “West Japan Diversity Workshops,” exchanging opinions with other corporations.



### Ratio of female management level employees by area

Americas	31%
Europe	14%
South Asia	29%
East Asia	23%
Japan	2%
Entire group	12%

(As of March 2014)

### Diversity of Executive Officers

There are no female executive officers in the Nitto Group. On the other hand, however, foreign executive officers occupy many managerial positions.

### Total number of foreign executive officers by area

Americas (21 companies)	30
Europe (16 companies)	17
South Asia (18 companies)	9
East Asia (34 companies)	21

(As of April 2014)

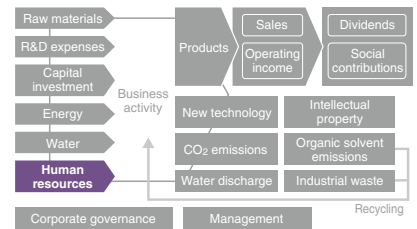
### Global Education of New Employees

In order for employees to acquire the linguistic skills necessary for them to participate in global markets and for them to understand different cultures through international experiences, all new employees of Nitto HQ were asked to participate in overseas training in fiscal 2013. Twenty-eight employees were divided into three courses according to individual linguistic ability. The participants learned mainly foreign languages for four weeks at overseas enterprises or language schools and experienced cultural exchanges.

Not a few took the occasion to widen their circles of acquaintances. We anticipate they will further their ambitions, developing their sense of inquiry and take advantage of opportunities in the future.



At a language school in Vancouver, Canada



## Prohibition of Child Labor and Forced Labor

In global markets, child labor and forced labor are often issues of concern.

The Nitto Group clearly expresses its prohibition of the use of child labor and forced labor in the “Business Conduct Guidelines.” In fiscal 2013, we had no trouble with such issues.

## Cultivation of Human Resources

Global Business Academy (GBA), which cultivates future C-Level executives globally through selection of employees from group companies at home and abroad, is an education system consisting of four courses and launched in July 2011. Management is directly involved in the education, where the “Nitto Person,” who will be able to play an active role in the “2nd stage of globalization,” is cultivated.

In fiscal 2013, seventy-five participants from various countries took part in GBA. In the future, we plan to hold two courses of GBA-F and GBA-C in each region.



Group work

Furthermore, we set up NCS (Nitto Group Cultivation System) as the basic level of education for freshers joining the Nitto Group. NCS consists of the following six themes, which is administered in each group company.

Safety	5S	Quality	CSR	Environment	Corporate Philosophy
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### Number of GBA participants in fiscal 2013

Course	Purpose	Number of participants	Nation of origin	
GBA-E	Development of global business leaders	6	Thailand, U.S.A., Hong Kong, Japan	Twelve (6 foreigners) have finished the course so far, one of them female
GBA-A	Development of and networking opportunities for the next generation of global business leaders in each region and business sector	15	Taiwan, U.S.A., Hong Kong, Belgium, Korea, Singapore, India, Japan	Forty-nine (28 foreigners) have finished the course so far, two of them female
GBA-F	Development of next generation business leaders among globally available candidates	20	Japan, China, Korea	One female out of total participants in 2013
GBA-C	Development of core talent in order to become a learning organization	34	Japan	Five females out of total participants in 2013

## Promotion of Human Rights

We conduct business while respecting human rights under our “Nitto Group Basic Policy on Human Rights.” Since 2004, we have participated in an activity as a member of the Corporate Federation for Dowa and Human Rights Issues, Osaka, where corporations work toward solutions of human rights issues. In fiscal 2013, we actively engaged in their activities as the chair.

As to the handling of conflict minerals in the Democratic Republic of Congo (DRC) and neighboring countries, which has become controversial in recent years, we have enhanced our management according to the introduction of a policy in fiscal 2012.

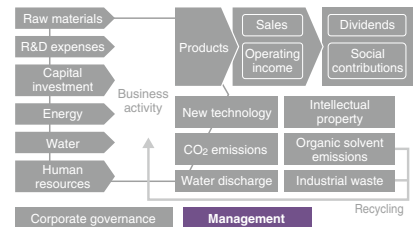
### Nitto Group Policy on the Handling of Conflict Minerals\* (abstract)

- The Nitto Group has adopted the policy of not using any conflict minerals\* that are sources of funds for armed insurgents in the DRC and neighboring countries.
- The Nitto Group shall strive to make on-going specifications of smelters in order to avoid use of conflict minerals.
- The Nitto Group shall respond with integrity to inquiries related to conflict minerals from customers, and provide all information it has on the subject.

\* The term “conflict minerals” refers to those quantities of tantalum (Ta), tungsten (W), tin (Sn), and gold (Au) which are produced in the DRC and neighboring countries and are thought to be sources of funding for armed insurgents perpetrating serious human rights violations.



## Place safety before everything else – For peace of mind for us, the local community and the global community –



### Occupational Health and Safety Policy

We, the Nitto Group, operate our business according to one of our philosophical ideas, “Safety is our first priority above all else.”

We believe that we can ensure safety in all our workplaces when we behave with integrity on the basis of this philosophical idea and that we can establish trust and confidence with relevant people when we continue behaving honestly.

### Occupational Health and Safety Policy

We, the Nitto Group, will work together to:

- Share information about occupational health and safety and promote preventive activities on the basis of the “Open, Fair and Best” mindset, which has been fostered for many years.
- Prevent persons from being injured or suffering ill health by identifying all hazards and carrying out continuous risk reduction.
- Establish and maintain a safe and healthy work environment by identifying the properties of the equipment and substances used in the workplace, continuing to implement inherently safe design, and managing substances appropriately.
- Develop human resources by providing all employees with appropriate training.
- Comply with applicable legal requirements and the spirit of the law in each country, and observe relevant international standards and our own standards.

### Occurrence of Accidents

Under our “Occupational Health and Safety Policy,” we seek to create safe workplaces. On July 15, 2013, however, a person working at Toyohashi Plant died while cleaning a polymerization reactor after a fire occurred at the reactor. Unfortunately, the number of critical and serious accidents has been increasing of late.

In order to arrest such a critical situation, we are promoting the strengthening of safety measures by all of the Group.

### Our Approach to Realizing Proactive Safety Action

We have been shifting the focus of safety from prevention to more proactive activities. Proactive safety activities are to pre-empt risk, thereby eliminating the causes of accidents. This will enable us to build workplaces free from accidents,

where every employee is able to work with peace of mind.

To such an end, we focus on the following three points:

### Enhancing design standards

By setting “Group Regulations on Equipment Safety -Basic Concepts,” incorporating not only a traditional design basis but also an international standard vision as to machine safety and electrical safety, we have adjusted the related technical principles and standards of every piece of equipment.

The new “basic concepts” will be applied to new equipment installed from 2014. We will have implemented safety measures covering existing equipment by 2016.

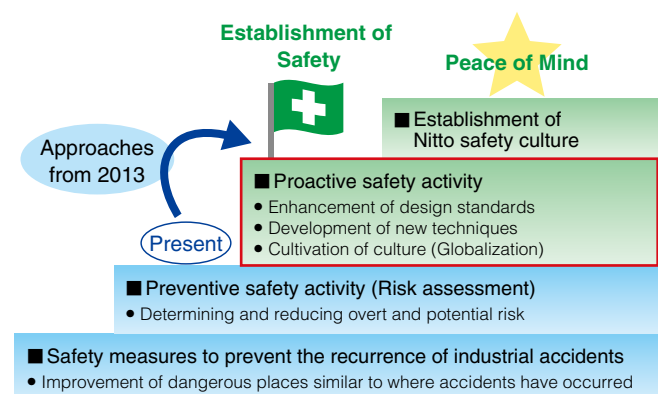
### Developing new technologies

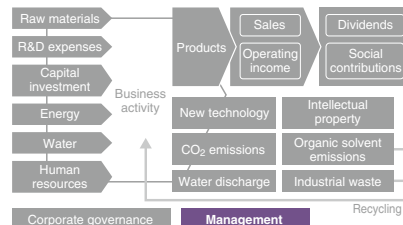
In order to eliminate hazardous operations, we are developing new technologies in production processes. For example, aiming at the prevention of a recurrence of a fire such as the one at the Toyohashi Plant, we have implemented the research and development of polymerization procedures which do not require cleaning.

### Fostering a safety culture globally

In line with the equipment safety measures, we have to further enhance individual awareness of safety. We will make efforts to enlighten every employee working in the Nitto Group so as to act in consideration of our philosophical ideas of “Safety is our first priority above all else.”

The Nitto Group aims to establish safety in every workplace and to be a corporation worthy of our stakeholders’ esteem and peace of mind.





### Chemical Substance Management Policy

In addition to the management of dangerous and hazardous chemical substances, the Nitto Group has been voluntarily controlling the use of substances which have adverse effects on the human body and the environment since the 1990s. We have maintained a specialized department focusing on global management since 2007. On April 1, 2014, we established the Nitto Group's "Chemical Substance Management Policy" in order to work together throughout the entire Group.

### Nitto Group Chemical Substance Management Policy

The Nitto Group strives to fully understand the risks associated with chemical substances and prevent related disasters and accidents from occurring. At the same time, we aim to maintain a healthy work environment and preserve ecosystems and the environment.

### Towards 2020

In line with the international movement "aiming at the minimization of adverse impacts of the production and use of chemical substances on human health and the environment by 2020," we, as a member of society, manage chemical substances from three standpoints.

### Providing Peace of Mind for Our Customers

#### • Construction of Global Regulatory Management System

With the progress of globalization, the activity areas of our customers and partners have expanded. In order to obtain information on the laws and regulations of each country and

area and deal with them in a timely manner, we aim to strengthen our management system in every area and to cooperate with global management teams.

#### • Providing Accurate, Careful and Prompt Information

With the public's heightened concern about chemical substances, opportunities to provide information on the chemical substances contained in our products for our customers are increasing. In order to provide the necessary information for our customers accurately and promptly, we intend to continue to obtain information in cooperation with our partners who are suppliers of raw materials.

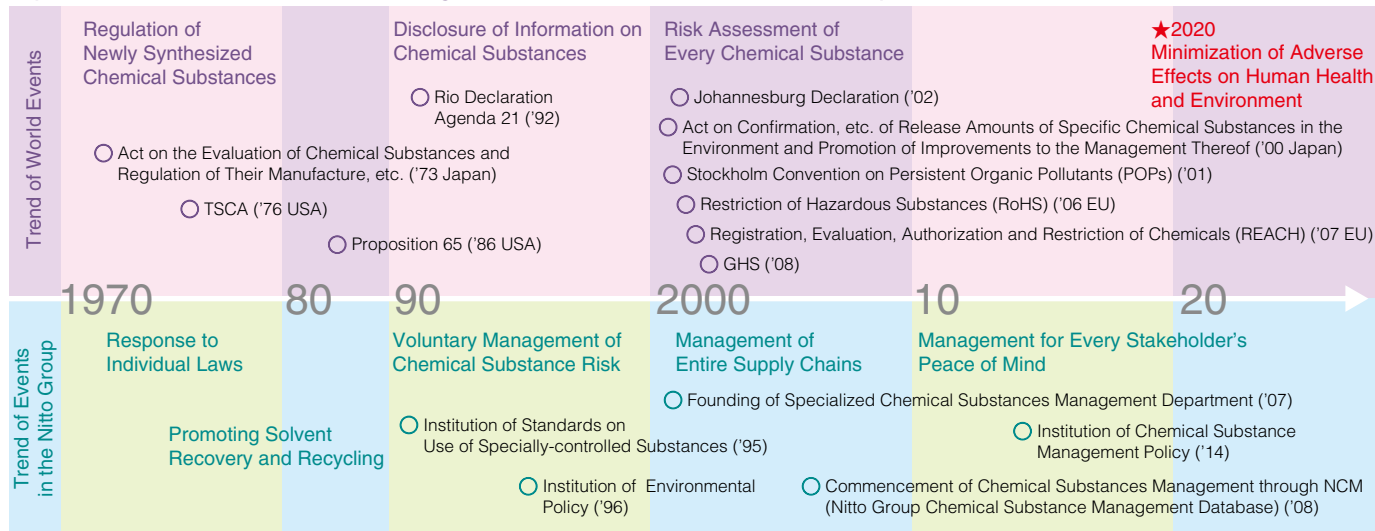
### Providing Peace of Mind for Every Worker

In order to decrease the number of accidents and injuries stemming from the handling of chemical substances, we will disseminate our position on chemical risk assessment throughout the entire Group by fiscal 2015. In particular, as for highly volatile chemical substances, we will take measures such as decreasing the amount used and reviewing the contents of work so that every employee may work with peace of mind.

### Minimization of Impact on the Environment

In the Nitto Group, organic solvents are used in the production of adhesives and the like. With consideration for the environment, we are advancing research and development of adhesives which do not use organic solvents. By creating products with unprecedented new functions, we will reduce the impact on the environment caused by the production and use of chemical substances across entire supply chains.

### Topics related to chemical substance management and trend of events in the Nitto Group



The Nitto Group implements environmental management through two approaches: “minimizing the negative environmental impact of our businesses;” and “providing a positive impact through our products and services.”

**Protecting Our Planet for Future Generations – The Nitto Group’s Environmental Policy**

On April 1, 2014, we reassessed the Nitto Group’s Environmental Policy.

**The Nitto Group’s Environmental Policy**

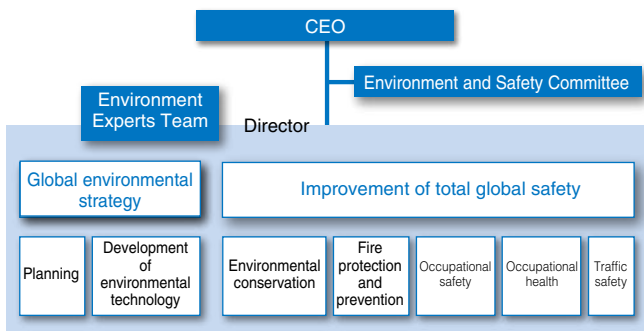
We contribute to the development of a sustainable society by minimizing the negative environmental impact of our businesses and providing a positive impact through our products and services.

Our environmental policy for business activities:

- Integrity with a commitment to environmental preservation both locally and globally
- Helping to create a sustainable society by offering products and services
- Compliance with laws in letter and spirit

**Organization for Environmental Management**

We have an expert team in order to promote environmental management across the entire Nitto Group. The head of the team is a representative director.



**Further Promotion of Environmental Management – Doubling Environmental Efficiency by 2015**

In order to evaluate the status of environmental management of the entire Group, we use an index of

Environmental Impact Value-Added Productivity. The Nitto Group has set fiscal 2005 as the base year and aims to double the index (Index=200) by 2015.

$$\text{Environmental impact value-added productivity} = \frac{\text{Added value (million yen)}}{\text{Environmental Impact (in CO}_2 \text{ equivalent)}}$$

**What Was Learned from the Environmental Impact Value-Added Productivity Index**

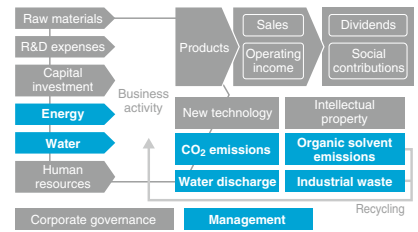
The Environmental Impact Value-Added Productivity Index is an index which indicates the added value (after eliminating material and other costs from revenue) created from corporate activity divided by the negative environmental impact from that activity. A higher index indicates the same added value has been created with a lower negative environmental impact.

**The Three Major Factors in the Negative Environmental Impact of the Nitto Group and our Approach to Reducing Them**

We expend a lot of energy in our business activities and use raw materials containing chemical substances such as organic solvents. As there is a possibility that could have an impact on climate change and air pollution, the Nitto Group manages the three major factors of negative environmental impact, along with industrial waste, and is working towards a reduction of them.

Three Major Factors in Negative Environmental Impact	Approaches to Reduction
Amount of Energy Consumed	<ul style="list-style-type: none"> <li>• Reduction in energy consumed in production through modification of production processes and conditions</li> <li>• Promotion of energy saving activities</li> </ul>
Amount of Industrial Waste Generated	<ul style="list-style-type: none"> <li>• Reduction of loss by utilizing MFCA* methods</li> <li>• Conversion to valuable resources with a change of waste form</li> </ul>
Amount of Organic Solvents Used	<ul style="list-style-type: none"> <li>• Development of adhesives without the use of organic solvents</li> <li>• Reduction of amount of organic solvents used through change of production process</li> </ul>





## Creating Added Value by Providing Products and Services Contributing to Environmental Conservation

To improve the Environmental Impact Value-Added Productivity Index, we work towards creating more added value as well as a reduction of negative environmental impact. One way is by providing sustainable products contributing to environmental conservation.

### • Providing products and services useful to solving global environmental problems

By setting a new theme concerning the growing fields of “Green (environment)” and “Clean (new energy),” we engage in research and development aimed at the industrialization of those fields, as well as improving existing business.

### • Providing sustainable products in our existing business

In our existing business, we also improve the development and refinement of products contributing to environmental conservation. We will continue to improve products contributing to negative environmental impact in our customers’ production processes.

\* MFCA (Material Flow Cost Accounting): One method of environmental accounting. By focusing on the loss of resources and energy in the production process, we can visualize waste from both physical and monetary sides. Yoshikuni Furukawa, belonging to Nitto’s Sustainability Promotion Group, works in the diffusion of MFCA and had it ISO 14051 in 2011.

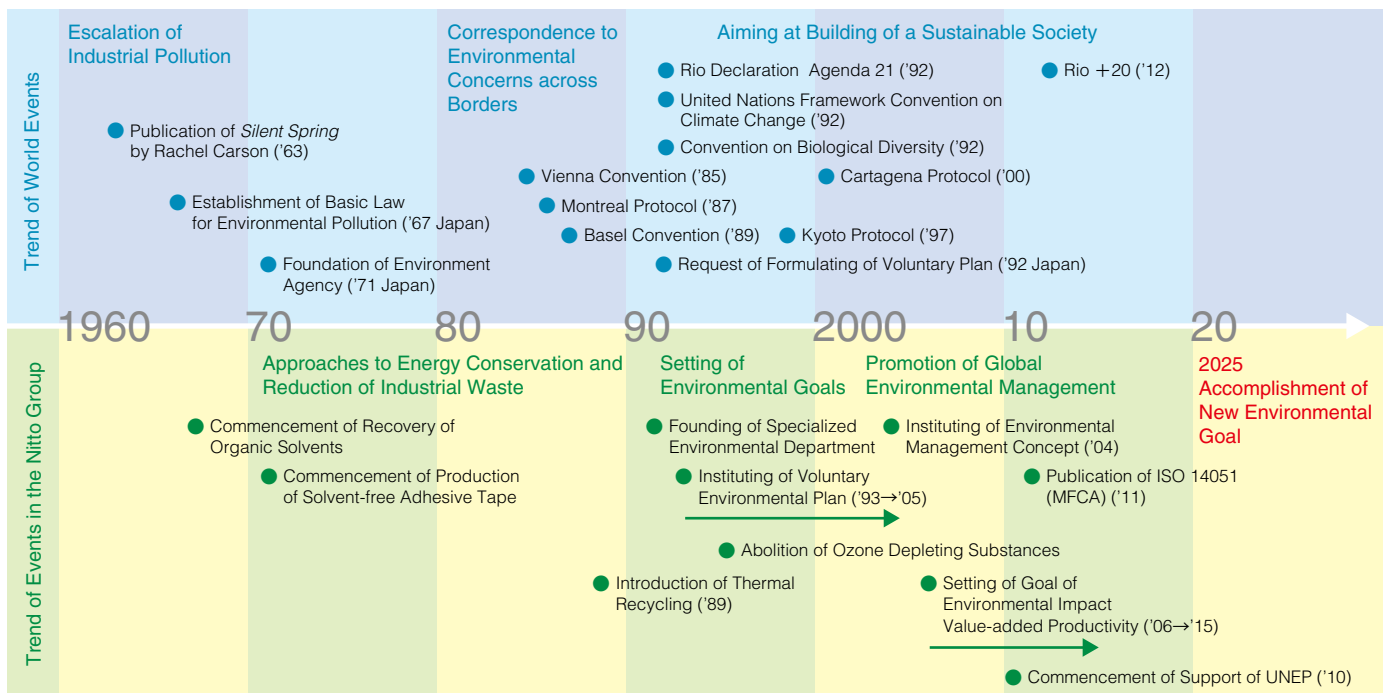
## The Next 10 Years

Since 1993, we have been promoting environmental conservation activities by setting goals every 10 years. In 2015, a milestone of the present active period will be reached. However, it will be difficult for us to accomplish our goal of doubling the Environmental Impact Value-Added Productivity Index. Though we have steadily implemented activities to reduce negative environmental impact, production volumes have increased in response to changes in business circumstances. (Refer to next page) We consider that not having been able to create added-value consistent with the change has been a factor in the lack of improvement in the Environmental Impact Value-Added Productivity Index.

In the next decade, by making use of methods improving resource efficiency and management efficiency, such as Material Flow Cost Accounting (MFCA), we will continue to reduce the three aspects of negative environmental impact: the “amount of energy used,” the “amount of industrial waste generated;” and the “amount of organic solvents used.” Furthermore, we aim for minimization of environmental impact in not only within the Group, but also across whole supply chains. In addition, in order to increase added value, we will construct a mechanism for promoting the provision of products and services contributing to environmental conservation.

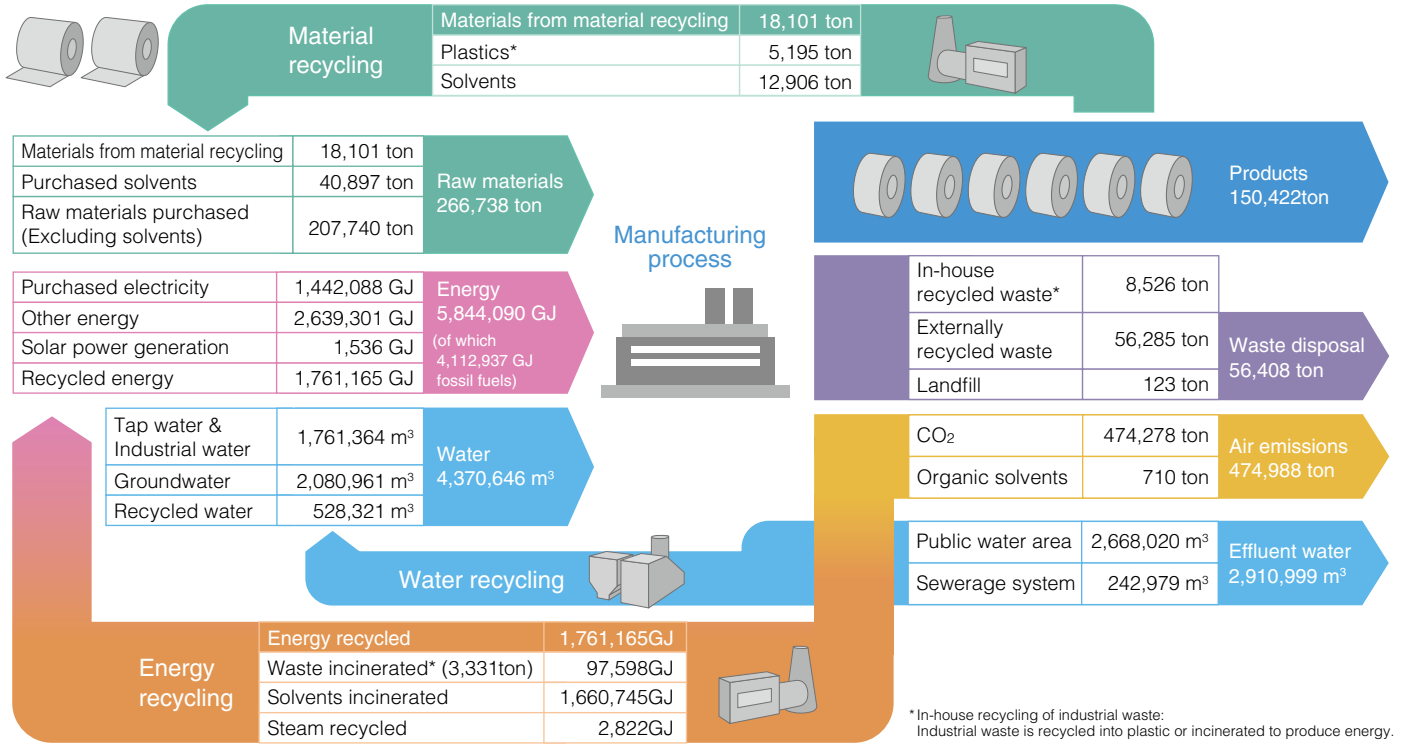
Aiming to contribute to the realization of a sustainable society, we will embark on a new theme from 2015.

## Topics related to environmental conservation and trend of events of the Nitto Group



# Environmental Conservation Activities

## Environmental Impact of Our Business Activities – Material Flow of Business Activities (non-consolidated)



## Environmental Impact Value-Added Productivity

Environmental Impact Value-Added Productivity in fiscal 2013

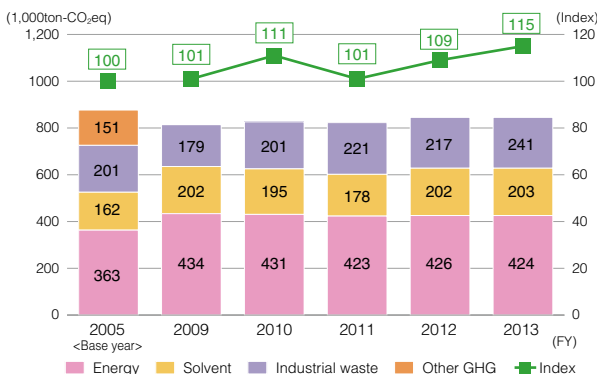
**0.418 million yen/ton-CO<sub>2</sub>eq Index\*: 115**

In fiscal 2013, the Environmental Impact Value-Added Productivity Index rose to its highest level of the past five years. This result was achieved because we were able to more than offset an increase in Environmental Impact (converting energy consumed, industrial waste generated and organic solvents used into CO<sub>2</sub> equivalent) in fiscal 2013 with greater Added Value.

However, an index reading of 115 still seems a long way removed from our target of 200, or a doubling of the index by 2015. In order to achieve our goals, more reductions in Environmental Impact and greater generation of Added Value will be necessary.

For some years, our priority has been to reduce Environmental Impact, which has been increasing year by year. A reduction in the amount of energy used is the key to dealing with climate change, one of the major environmental issues. We will implement further reductions of energy used with a focus on changing of production processes, and an improvement in energy-saving activities.

### Environmental Impact Value-added Productivity (Environmental impact and Relative index) (consolidated)



\* Index shows variation in Environmental Impact Value-Added Productivity by setting the index at 100 as of fiscal 2005.

### Environmental Impact Value-Added Productivity (consolidated)

FY	2005	2009	2010	2011	2012	2013
Added Value (million yen)	318,098	298,890	332,153	300,365	332,860	362,594
Environmental Impact (ton-CO <sub>2</sub> eq)	876,846	814,210	826,178	822,979	845,349	867,878
Productivity	0.363	0.367	0.402	0.365	0.394	0.418
Relative Index	100	101	111	101	109	115



## Our Approach to Climate Change Issues

### Our Policy on Climate Change

We are implementing reductions in CO<sub>2</sub> emissions in conformity with our Environmental Policy: "Helping to create a sustainable society by offering products and services."

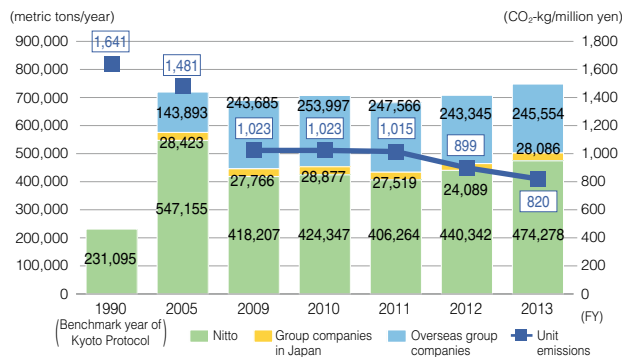
### CO<sub>2</sub> Emissions (Scopes 1+2)

Total CO<sub>2</sub> emissions in fiscal 2013:  
**747,918 metric tons** (consolidated)

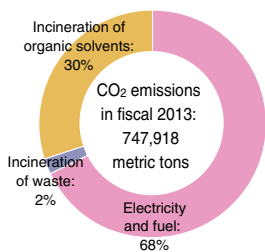
In fiscal 2013, our unit CO<sub>2</sub> emissions (CO<sub>2</sub> emissions per 1 million yen of production output) decreased to 820 CO<sub>2</sub>-kg/million yen compared to the previous year, whereas total CO<sub>2</sub> emissions increased mainly because the amount of energy used, which accounts for 68% of CO<sub>2</sub> emissions, did not decline.

In the future, we will implement the development of products and processes which are energy-efficient at the time of manufacture.

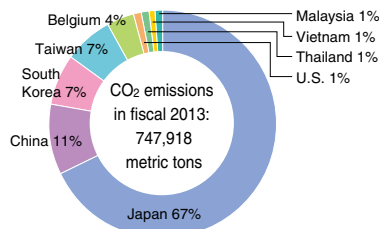
#### Total and Unit CO<sub>2</sub> Emissions (Scopes 1+2) (consolidated)



#### CO<sub>2</sub> Emissions by Source (consolidated)



#### CO<sub>2</sub> Emissions by Country (consolidated)



Scopes 1 and 2 described on this page indicate the scope of the GHG Protocol. The Nitto Group releases information on climate change through the CDP.

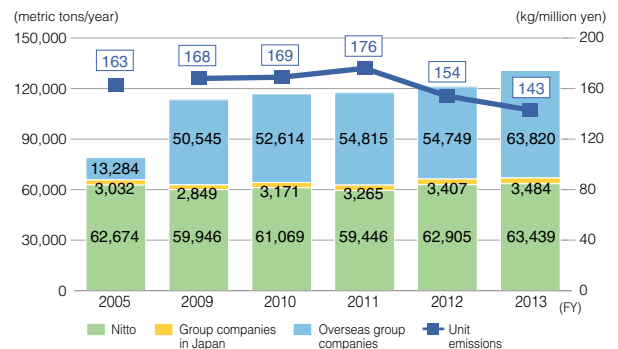
## Amount of Waste\* Generated

Unit generation of waste in fiscal 2013:  
**143kg/million yen** (consolidated)

Waste is generated from corporate activity. Waste within the Nitto Group is mainly log roll edges of tape and offcuts of film generated from the cutting process. We try to reduce such loss through changing the production process. Furthermore, we recycle as much waste generated as possible.

\*Waste: Total of industrial waste, general waste and scrap materials.

#### Total and Unit Generation of Waste (consolidated)

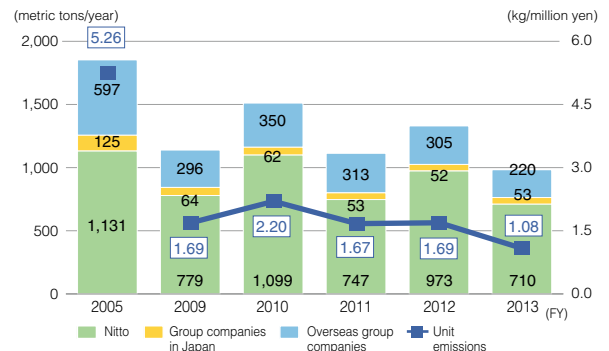


## Amount of Organic Solvent Emissions

Amount of organic solvent emissions in fiscal 2013:  
**983 metric tons** (consolidated)

Large amounts of organic solvents are used in the production of tape and adhesives. In order to reduce our environmental impact, we install incineration equipment used for solvent gasses or solvent recovery units, on every line as needed. In addition, we are engaged in developing adhesives without the use of organic solvents and in modifying the production process.

#### Total and Unit Organic Solvent Emissions (consolidated)

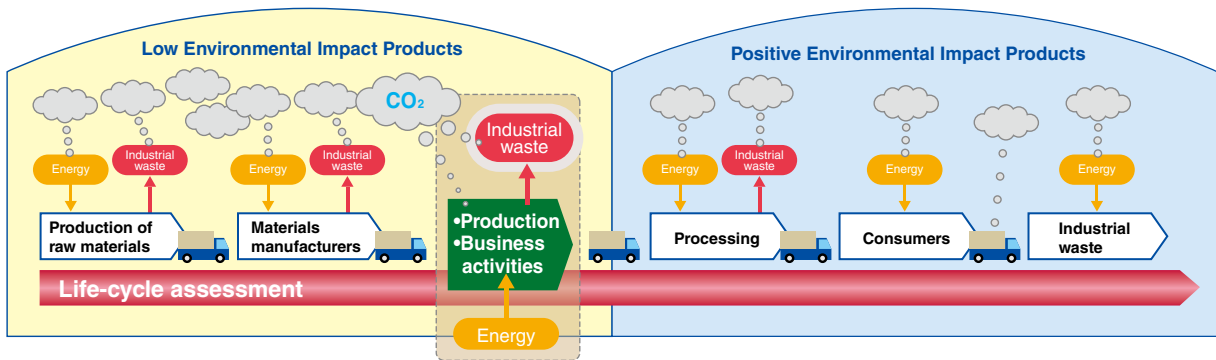


## Contribution by Sustainable Products

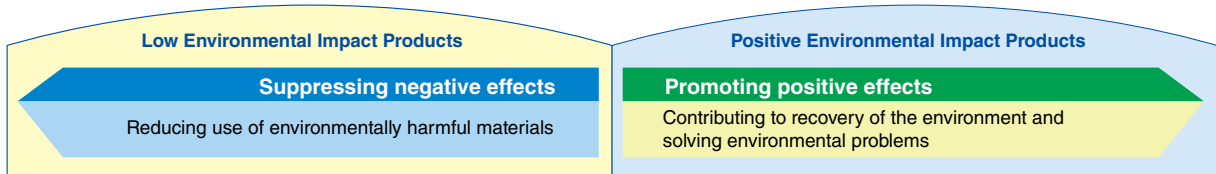
Products contributing to environmental conservation are referred to as “sustainable products” in the Nitto Group. We implement the development and provision of them.

By evaluating products according to the two criteria of “effectively utilizing resources throughout the life-cycle of products” and “being useful for solving global environmental problems,” we classify our products as “low environmental impact products” or “positive environmental impact products,” using our unique definition.

### 1 Life Cycle Assessment



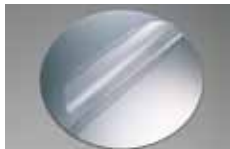
### 2 Global Environmental Problems



## Examples of Sustainable Products



Brightness enhancing system for LCDs



Cleaning wafer



Polyimide seamless belt



Energy-saving desalination membrane for seawater and brine water



Highly-functional damping material



Halogen-free FPC



Non-halogen & non-phosphorous sealing foam



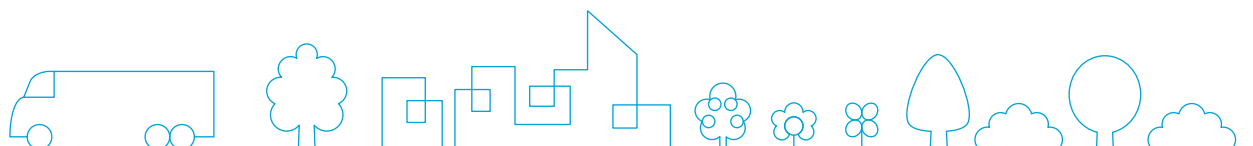
Non-halogen adhesive vinyl tape



Low-VOC, solvent-free, double-sided tape



Double-faced adhesive tape with removability

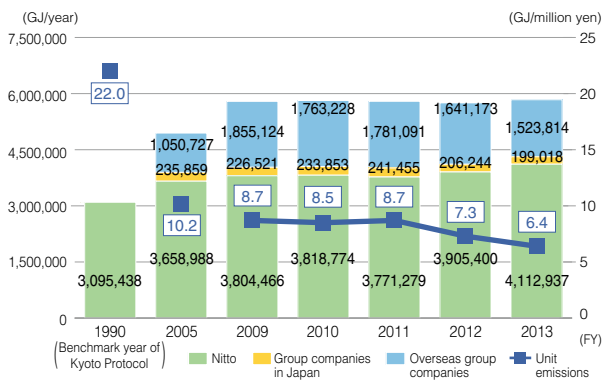


## Effective Utilization of Fossil Fuels

Amount of energy from fossil fuels used in fiscal 2013:  
**5,835,769 GJ** (consolidated)

The exhaustion of fossil fuels used as raw materials or energy in business activity is a serious problem. With the aim of sustainable development, we put effort into the effective utilization of materials and energy by means of saving energy and reducing waste. In addition, we promote the introduction of raw materials from non-fossil fuels and renewable energy.

### Total and Unit Fossil Fuels Used (consolidated)



## Biodiversity Conservation

In order to contribute towards a sustainable society, Nitto has been involved in biodiversity conservation activities as a driving partner of Declaration of Biodiversity by Nippon Keidanren since 1997.

In conformity with the basic standpoint of this declaration, we approach business activities with due consideration to biodiversity.



An entry in the Environment Photo Exhibition, Green Design Action 2013

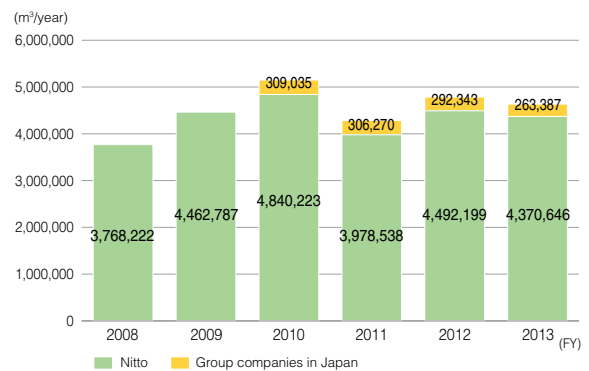


## Management of Water Resources

Amount of water consumption in fiscal 2013:  
**4,634,033 m<sup>3</sup>** (domestic bases)

Large amounts of water are used in the production of display materials and electronic devices. We tackle the effective utilization of water resources by utilizing our membrane products and recycling drainage water. As much water is necessary in the production process, we do not manufacture our products in areas that suffer from physical and economic water scarcity (where consumption exceeds 75% of water resources). In discharging water used in the production process, we adequately process then drain it before it is released into the environment.


### Water Consumption (including water recycled at bases in Japan)



## Supporting UNEP Activities

The Nitto Group cooperates with the United Nations Environment Programme (UNEP) in playing an active role to realize a sustainable society and has been a supporting company since fiscal 2010. We support the publication and distribution of the Japanese version of *Our Planet* and *TUNZA*, which are official UNEP magazines.

## Aiming at sustainable society

We support the work of  UNEP



Based on our core expertise of adhesion and coating technologies, we will continue to create various functional products.

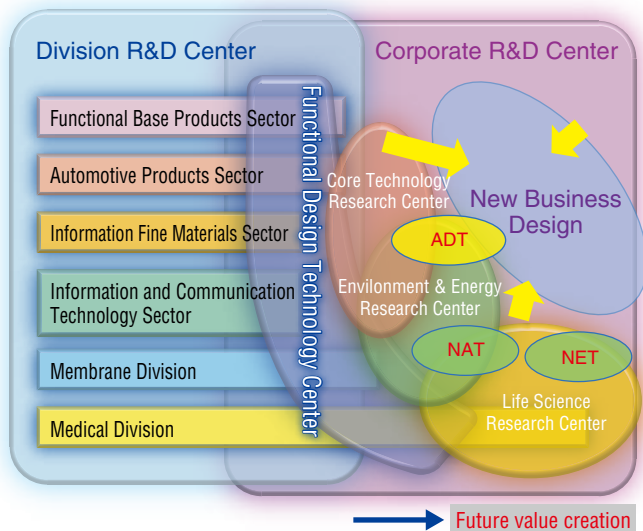
### Research and Development Strategy

Our Business Division R&D Center and Corporate R&D Center work together as one to perform research and development activities with the goal of growing existing business fields and creating future value.

The mission of our Business Division R&D Center is to quickly create products and services that offer new functions to satisfy our customers, while our Corporate R&D Center works to create value that can be offered to all types of customers. In addition, in order for us to continue as a viable business, it is essential to create major new projects.

Aiming for project-creating R&D, we continuously work to build basic technologies by performing groundbreaking innovative technological development.

### Research and Development System



ADT : Advanced Technology Center, USA  
 NAT : Nitto Denko Asia Technical Centre, Singapore  
 NET : Nitto Denko Europe Technical Centre, Switzerland

### Global R&D Network

The Nitto Group's global R&D system comprises four bases, located in Japan, U.S.A., Europe (Switzerland) and Asia (Singapore), and promotes locally-headed R&D activities taking advantage of each area's special features. We aim to create unique technologies and the seeds of new business by combining a wide range of knowledge, technologies and methods, to generate a chain of new value.

In October 2013, we established Nitto Innovations, Inc. in Silicon Valley, U.S.A. In line with a search for new technologies and projects around the area, we aim to commence new business in union with venture companies, as part of our strategy of the "creation of ample business opportunities."

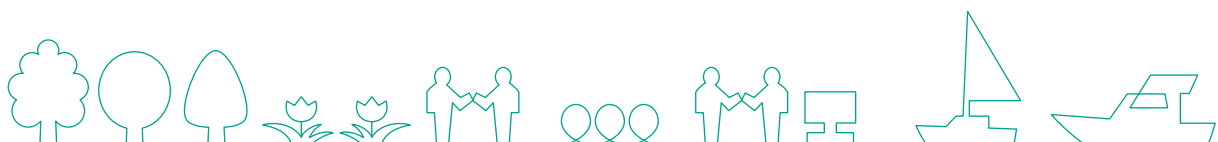


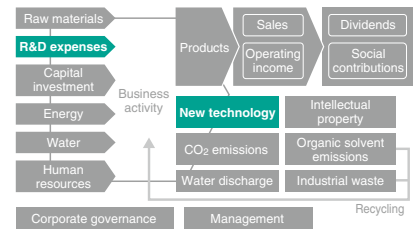
### RAYCREA® - Encapsulating Sheets - improving the electricity generation performance of solar panels

Considering CO<sub>2</sub> emissions and the reduction of dependence on single energy sources (energy mix), photovoltaic electricity generation has recently become very popular, and various research and development to improve the performance of it is being carried out.

Encapsulating sheets are inserted into a solar panel between the surface glass and backing on the reverse side to fix the PV cells in place. Encapsulating sheets need to allow sunlight to efficiently penetrate the PV cells while still protecting both the PV cells and materials contained in the solar panels. In addition, as they are exposed to the elements for more than 20 years, high endurance and reliability are also required.

Nitto has succeeded in developing RAYCREA® - Encapsulating Sheets, that are highly reliable and improve electricity generating performance. The encapsulating sheets have wavelength conversion additives which Nitto has uniquely developed. The sheets absorb close to 100%

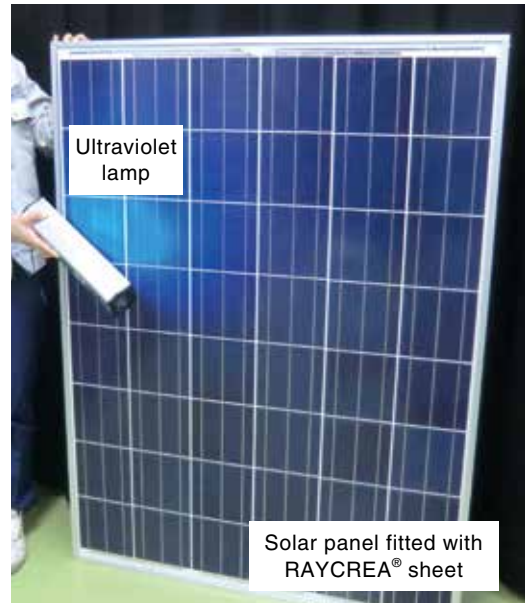
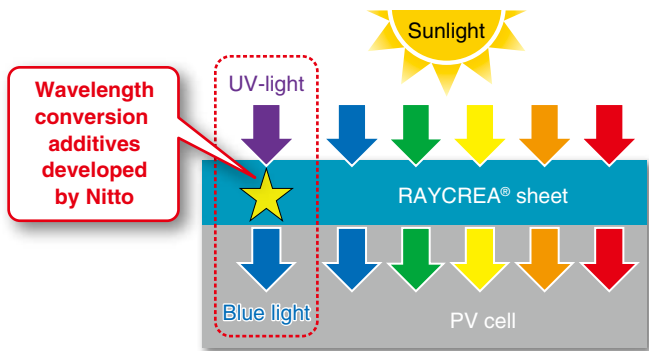




of the UV-light contained in sunlight and produce blue light. UV-light is generally considered to be harmful to solar panels, so it is typically cut by ultraviolet absorbers. However, it has been verified that converting UV-light into visible-light enables the more effective use of energy and increases electricity generation by approximately 2 % compared to conventional sheets. When applied to 200-watt solar panels, the electricity produced increases by approximately 4 watts. When stable operation is maintained for a long period of time, an appreciable effect can be anticipated. RAYCREA® sheets are used in the same way as conventional sheets and are easily fitted to existing solar panel manufacturing equipment.

At present, we are dedicated to marketing RAYCREA® in 2015.

**Diagrammatic illustration of cross-section of solar panel fitted with RAYCREA® - Encapsulating Sheets**



**Development of Gecko Tape Using Carbon Nanotubes**  
Expansion of Gecko Adhesion Technology to Fixing Material for Analysis Measurement

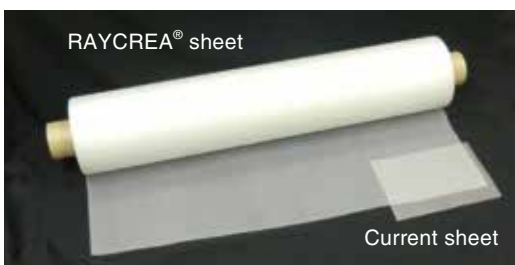
The Gecko Tape which Nitto developed jointly with Professor Yoshikazu Nakayama of Osaka University evolved from biomimicry technology, applying technologies inspired by the natural world.

The gecko is able to walk across a wall, because fine hairs which grow abundantly on its toepads establish close contact with the surface of the wall or ceiling, even if it is uneven. Contact can then be easily broken by altering the angle between the hair and the wall surface. We have reproduced this gecko hair artificially using carbon nanotubes (CNT) to create a tape to provide strong adhesion and easy de-adhesion.

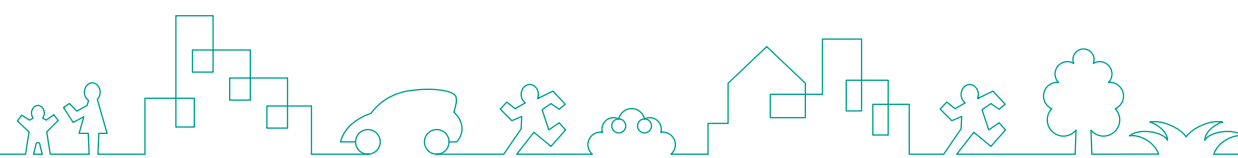
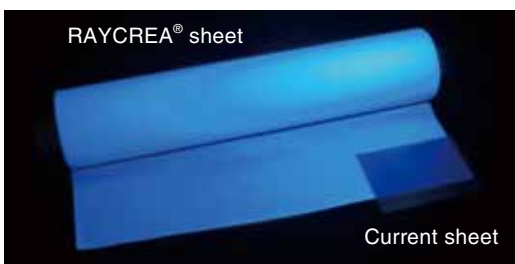
Focusing attention on the material properties of carbon nanotubes, we promote the use of Gecko Tape in analysis. The use of Gecko Tape as an attaching material minimizes contamination and enables analysis in high or low temperature environments, something which is difficult with conventional conductive tapes and pastes, realizing unprecedentedly accurate analysis data.

**Advantages of Gecko Tape**

- 1) No temperature restrictions: Analysis in high and low temperature environments (a wider range of temperatures acceptable for analysis) is possible.

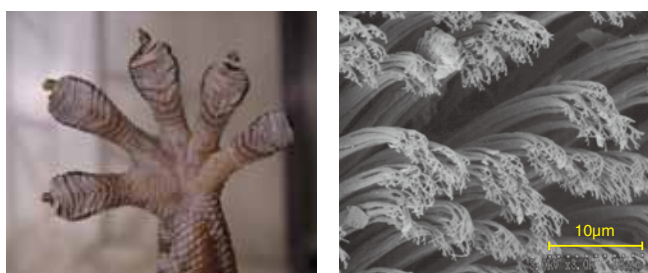


UV-light

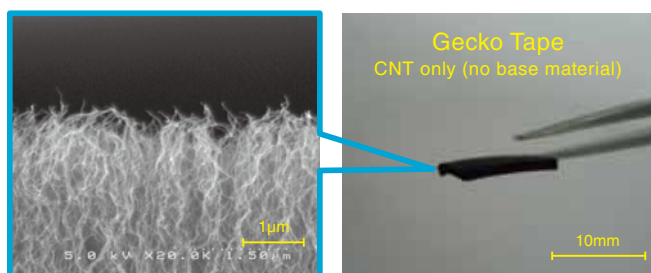


- 2) No displacement (anti-drift): Accurate data that is free from the effects of adhesives is obtainable.
- 3) No contamination: Accurate data that is free from the effects of outgassing is obtainable since no solvents are used.
- 4) No static buildup: The conductivity of CNT inhibits static buildup, preventing any degradation of analysis images.

For details, please visit the following website:  
<http://www.nitto.com/jp/en/products/group/semicon/yamori/>



Toepads of a gecko



Gecko Tape made of carbon nanotubes

## Development of Anti-fibrosis Drug with Molecular Targeting DDS Technology Platform

Clinical studies ongoing

In June 2013, Nitto initiated clinical studies of a drug for treating liver and other organ fibrosis in the US.

Liver cirrhosis, which is one of the organ fibrotic diseases, is known to be intractable, with 6 million current sufferers throughout the world. Fibrosis is caused by deposition of excess amounts of collagen, which is produced by stellate cells. In the case of liver cirrhosis, when the liver is

chronically inflamed, collagen secreted by hepatic stellate cells is deposited in the liver in excess and consequently, function of the liver is impaired.

Nitto has developed a revolutionary and safe drug which leads to resolution of fibrosis by combining the discovery of a method for targeted delivery to hepatic stellate cells by Professor Yoshiro Niitsu of Sapporo Medical University and Nitto's DDS technologies, with the technical collaboration of Hokkaido University. In order to suppress collagen synthesis, we employed siRNA (oligonucleotide) as a drug component, then designed a unique drug formulation. The siRNA (drug) is encapsulated in a special drug carrier (vessel) with vitamin A moiety (navigator), which is known to be taken up specifically by stellate cells.

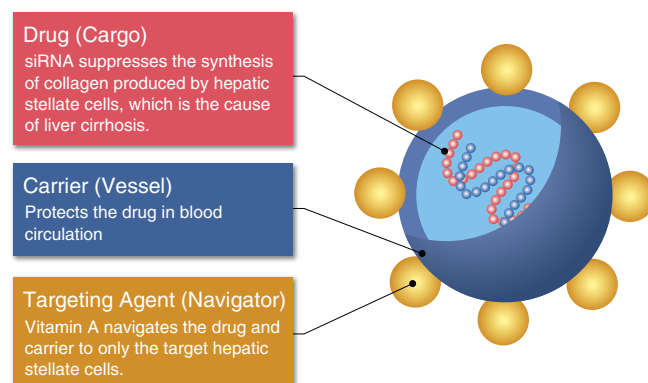
Basic patents covering this new drug have been granted in Japan, the US, Europe, China, Australia and Korea. In addition, patent of the drug composition was also granted in the US in 2014.

The clinical study phase-1a was completed in normal healthy volunteers in the US, providing conclusive evidence of tolerance even at high doses. We are now ready to enter the next stage.

This drug will be applicable to not only liver cirrhosis but also other organ fibrosis and cancer. We will continue to conduct research activities to develop other new drugs.

### An overview of the new drug

<The vessel and navigator deliver the drug.>

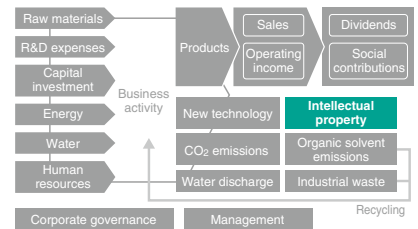


The carrier (vessel) delivers the siRNA drug (cargo) exclusively to the hepatic stellate cells by means of the vitamin A targeting agent (navigator).



# Intellectual Property

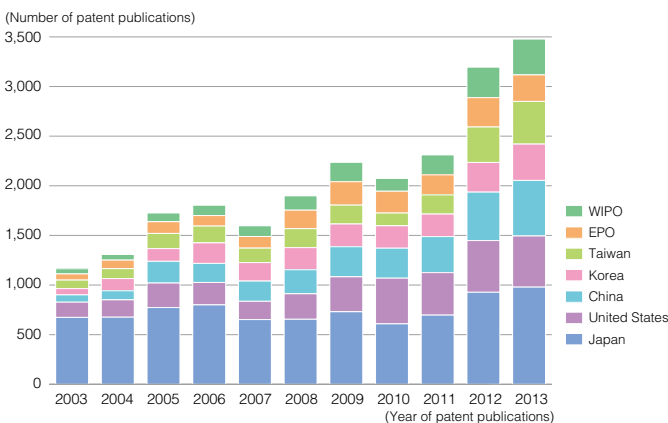
## Intellectual property strategy aligned with management and business



The Nitto Group wishes to create new industries and contribute to the development of society by acting in accordance with the law and ethics and by achieving practical use of the fruits of our research. To this end, we will promote business, paying regard to intellectual property. C-level executives will also have an intimate involvement in intellectual property strategy and approach it in unison with the business unit.

Furthermore, while respecting other corporations' intellectual property, we will maximize the benefits of, as well as achieve stable management by acquiring high-quality intellectual property and utilizing it. We are now making the transition from acquiring intellectual property which protects only our products to acquiring intellectual property which will also involve protecting our business model.

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



rights governing it. In order to protect our business, we consulted the Japan Patent Office on screening business methods collectively, and sought a new screening system. This became the prototype of the "Collective Examination for Business Strategy" which the Japan Patent Office implemented in fiscal 2013. We received recognition for "contributing to the development of an industrial intellectual property rights system," which led to our earning of the prize.



Midori Matsushima, State Minister of Economy, Trade and Industry (right) and Yukio Nagira, Chairman of Nitto (left)

### Nitto Receives Thomson Reuters Top 100 Global Innovator Award for Third Consecutive Year

Nitto received the Thomson Reuters Top 100 Global Innovator Award for the third consecutive year in 2013.

This award is given to "Top 100 Global Corporations" selected by Thomson Reuters Professional KK, according to the following criteria: volume; success; global; and influence.

Twenty-eight of this year's award winners were Japanese corporations, and seventeen of those twenty-eight corporations received the award for a third year in succession.

### Nitto Receives 2014 Intellectual Property Achievement Award (Ministry of Economy, Trade and Industry Awards)

On April 18, 2014, Nitto received a 2014 Intellectual Property Achievement Award (Ministry of Economy, Trade and Industry Awards). The award is given to a corporation which makes effective use of the industrial intellectual property rights system and contributes to development of the system. We won approval of our property rights activities which saw a collaboration between our management and business units. In pursuit of radical cost-cutting, our Information Fine Materials Unit created a new business model known as "Roll to Panel," in which our traditional inspection and cutting processes, previously conducted in our plants, were automated and conducted by our customers in their own plants. It meant, however, our unique technology entered the public domain. As a result, we considered how to protect the intellectual property

### Inaugural Intellectual Property Award Aimed at Boosting Awareness of Intellectual Property

In April 2013, the Nitto Group newly set up a system for giving awards in-house, named the Intellectual Property Award. The award is given in order to boost awareness by employees engaged in research and development of the importance of creativity and inventiveness. There are four levels of the award, with the highest known as the "Nitto Best Inventor."

A round-table talk by the winners, CTO and Intellectual Property Manager will be introduced in a company magazine, with which we will encourage an improvement in awareness by other employees.



**Contributing to society with “Green, Clean and Fine” products produced according to our creed of creating new value**

**Industrial Tape Business (Functional Base Products)**

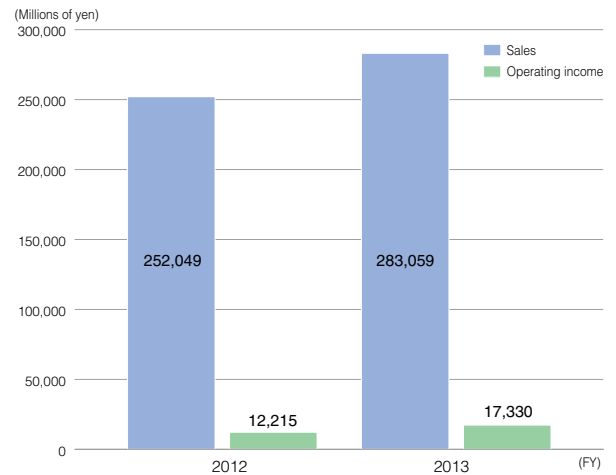
In our tapes for the automobile industry, sales remained strong, in line with a reversal of the appreciation of the yen, a global increase in production volume of automobiles, and an improvement in productivity at overseas production bases.

With regard to tapes for the electronics industry, sales of double-coated adhesive tapes and sealing materials remained strong because of the growing market for smartphones and tablet PCs and adoption by new customers.

Sales of double-coated adhesive tapes with high general versatility and fluoroplastic products with high temperature resistance used in general industrial applications remained strong as a whole. With regard to tapes for the housing industry, protective films were strong because of a surge in demand prior to the consumption tax hike in Japan.

	Fiscal 2012	Fiscal 2013	Year-on-year comparison
Sales	252,049	283,059	112.3%
Operating income	12,215	17,330	141.9%

Millions of Yen



**Establishment of New Company Dealing with Materials for the Treatment of Corrosion in Qingdao City, China**

Forming an alliance with Qingdao Hailan Material Technology, where Professor Hou Baoying, a doyen of the study of corrosion in China and belonging to the Institute of Oceanology, Chinese Academy of Science serves as a head, Nitto established a new company for the production and sale of materials for the treatment of corrosion of social infrastructure in Qingdao City, Shandong, China. At the new company, Nitto’s technology, actual performance and know-how cultivated over a long time are used to advantage.

In China, the corrosion of infrastructure installations has come to the fore. The economic loss caused by the problem is said to amount to 4.5% of GDP (Chinese Academy of Sciences) and repairs are an urgent necessity. Nitto tackles corrosion with the tape construction method, which is excellent in terms of its corrosion protection performance, repair time in man-hours, economic efficiency and environment safety. This method is expected to decrease the economic loss caused by corrosion in complexes and thermal power stations.

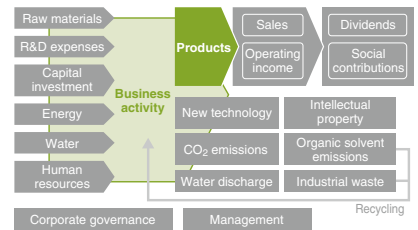
We will investigate the actual state of corrosion in China, and aim to be a company offering solutions, able to suggest optimum corrosion-resistant construction methods for every scenario.

**General Overview of New Company**

- Name: Qingdao Hailan Nitto Technology Co., Ltd.
- Location: Qingdao National High-Tech Industrial Development Zone
- Capital: 20,500,000 yuan (approximately 350,000,000 yen)
- Employees: 30 (at launch)
- Production items: Corrosion treatments, waterproofing, dust capturing materials







## Release of Shimon COLOCOLO<sup>®</sup>, Sebum Remover for Tablet PCs

In September 2013, Nitoms released “Shimon COLOCOLO<sup>®</sup>,” a touch panel cleaner for tablet PCs. Since 1983, the “COLOCOLO<sup>®</sup>” series has become an essential cleaning item in conformity with an expansion in its applications, such as the removal of hair and dust from carpets, wooden floors, tatami mats, clothes and car seats. We have developed a new “COLOCOLO<sup>®</sup>” product exclusively for touch panels by evolving adhesive technology cultivated from the original “COLOCOLO<sup>®</sup>.” The new technology means that sebum dirt absorbed at the surface of a sheet gradually soaks into the sheet with the aid of an adhesive, restoring the removal effectiveness of the surface, so one sheet is able to be used approximately 40 times. The complaint that sebum dirt is not removed thoroughly with a tissue or cloth is solved with “Shimon COLOCOLO<sup>®</sup>.” We will supply not only our own brand, “Shimon COLOCOLO<sup>®</sup>,” but also OEM, to stationery manufacturers and manufactures of PC-related goods.



Shimon COLOCOLO<sup>®</sup>



Shimon COLOCOLO<sup>®</sup> in use

## New Development of Surface Protective Film for Fiber Laser Processing

Nitto newly developed FIBERGUARD SPV-310GH5, which absorbs fiber laser waves from a new type of laser cutting machine, enabling processing with a surface protective film attached. We also newly developed LASERGUARD LIGHT GREY SPV-3100H3 for traditional CO<sub>2</sub> laser cutting machines. This is a moderate adhesive type and is in addition to the traditional strong adhesive type, enhancing our lineup of surface protection film for metal plate.

In the processing of stainless-steel or aluminum plate, punch

processing used to be the norm. Recently, however, laser processing has become mainstream. Laser processing enables cutting of complex shapes and changes in geometry by programming. Fiber laser means faster processing and lower electricity consumption, compared to CO<sub>2</sub> laser processing and promises to become more popular in the future.

With a wide-ranging lineup of surface protective films for laser processing, we will offer a total solution.

## Release of New PENJEREX<sup>®</sup>, Energy-saving Window Film with Solar Control and Thermal Insulating Properties

In March 2014, Nitto began sales of PENJEREX<sup>®</sup> PX-7060S and PX-8080S, improved versions of PENJEREX<sup>®</sup>, offering improved thermal insulation, transparency and scratch resistance compared to the previous product, PX-7000A.

Since its release in 2013, PENJEREX<sup>®</sup> has gained recognition for its high thermal insulation, transparency and solar energy

rejection. It has been used in government offices, schools, hospitals, and office buildings. Furthermore, we received a Monozukuri (Manufacturing) Award from Toyohashi Chamber of Commerce & Industry and an Industrial Technology Award from Osaka Industrial Research Association.

### Features of PENJEREX<sup>®</sup>

<p><b>Summer (Shielding and Insulation)</b></p> <p>Cuts solar radiation by 51%*, keeping rooms cool</p> <p>*PX-7000A, PX-7060S</p>	<p><b>Winter (Insulation)</b></p> <p>Reduction in heat loss of up to 40%*</p> <p>*PX-7060S</p>	<p><b>Transparency</b></p> <p>Admits more than 70% of visible light to maintain brightness</p>	<p><b>Durability</b></p> <p>Scratch-resistant hard coating</p>	<p><b>UV rejection</b></p> <p>Minimizes sunburn and skin cancer Prevents fading of furniture and carpets</p>
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## Optronics Business

In our information fine materials, sales of panels for LCD televisions were affected by the conclusion of a subsidy scheme for energy-efficient home appliances in China. From the end of the year, however, demand recovered and there was no easily discernible departure from normal seasonal fluctuations evident. In addition, sales were affected by an unexpected fall in the value of panels for televisions. On the other hand, sales of panel materials for smartphones and PC tablets remained strong, in correlation with an increase of production volumes. As for our transparent conductive film for touch panels, recognition of their “thinner, lighter and durable” properties led to an increase in their adoption. At the same time, differentiation from competing transparent conductive manufacturers was achieved by an aggressive increase in production capacity.

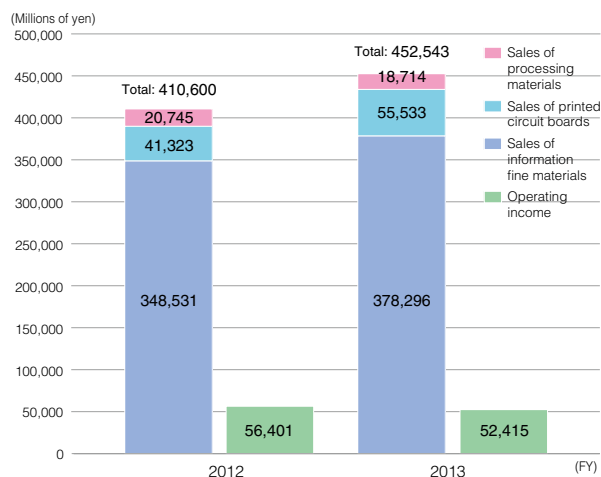
In our printed circuit boards, because of an increase in demand for smartphones, in line with an expansion in customer numbers throughout the fiscal year and of recovery in demand for HDD because of replacement need owing to the end of support for Windows XP in the second half of the fiscal year, sales remained strong.

In processing materials, as the market for semiconductors used in smartphones and tablet PC terminals was strong, sales of tapes for process materials and integrated construction materials remained strong. In addition, we assigned our semiconductor encapsulating materials business, excluding that part for optical semiconductors, to

Hitachi Chemical Co., Ltd, for the full year ending March 2013, resulting in a fall in income compared to the previous fiscal year.

		Fiscal 2012	Fiscal 2013	Year-on-year comparison
Sales	Information fine materials	348,531	378,296	108.5%
	Printed circuit boards	41,323	55,533	134.4%
	Processing materials	20,745	18,714	90.2%
	Total	410,600	452,543	110.2%
Operating income	Total	56,401	52,415	92.9%

Millions of Yen



Transparent conductive film – ELECRYSTA™



ELEP HOLDER™



## Medical and Membrane Businesses

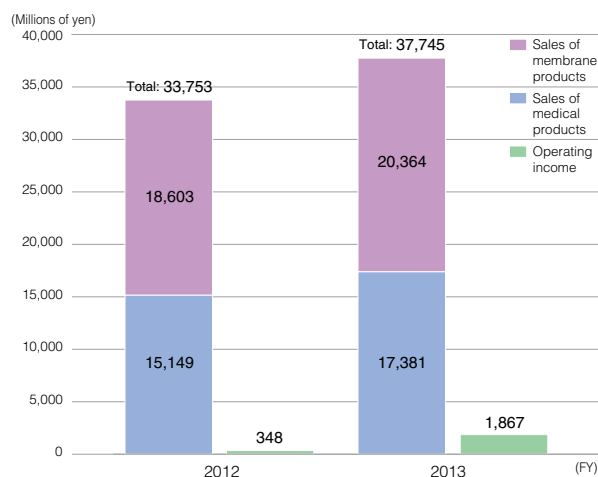
In our medical business, Bisono Tape for the treatment of hypertension, one of our transdermal drug delivery patches, received manufacturing and marketing authorization in Japan before going on sale. In addition, one of our group companies which manufactures oligonucleotide medicine received an order for a small amount of synthesis of oligonucleotide medicine and sales remained strong.

Our membrane business was strong as a whole, in line with

		Fiscal 2012	Fiscal 2013	Year-on-year comparison
Sales	Medical	15,149	17,381	114.7%
	Membrane	18,603	20,364	109.5%
	Total	33,753	37,745	111.8%
Operating income	Total	348	1,867	536.1%

Millions of Yen

both the effects of a correction to the appreciation of the yen and receipt of orders in new markets such as Mexico. However, the business environment was difficult in emerging countries such as China and India, markets which hitherto had continued to grow, witnessing a deceleration in demand.



## Release of Bisono Tape 4mg and Bisono Tape 8mg, World's First Transdermal $\beta$ 1-Blocker\* Patch

On September 10, 2013, Bisono Tape 4mg and Bisono Tape 8mg (hereinafter both referred to as Bisono Tape; generic name: bisoprolol) went on sale, marketed by Toa Eiyo, Ltd. and Astellas Pharma, Inc.

Bisono Tape is a transdermal patch jointly-developed by Nitto and Toa Eiyo, containing 4mg or 8mg of bisoprolol, which is the world's first transdermal patch with  $\beta$ 1-blocking activity, and the first transdermal patch for the treatment of hypertension in Japan. It maintains a stable antihypertensive effect for 24 hours with

once-a-day administrations, is able to control blood pressure in a dose-dependent fashion for lengthy periods of time, and can be administered to patients with essential hypertension who have difficulty taking oral drugs.

(Bisono Tape is a registered brand of Toa Eiyo, Ltd.)

\*  $\beta$ 1-blocker:  $\beta$ 1-acceptor, one of the switches of the sympathetic nervous system which resides mainly in the heart, has the capacity to elevate the heart rate and the force of cardiac contraction.  $\beta$ 1-blocker inhibits operation of this acceptor and exerts an antihypertensive effect.

## Penles® Tape 18mg, Local Anesthetic Patch Preparation

Our local anesthetic patch preparation, Penles® Tape 18mg (generic name: lidocaine), for which Nitto holds manufacturing and marketing approval, and is sold by Maruho Co., Ltd., obtained approval for "pain relief in laser irradiation treatment of the skin" from the Japanese Ministry of Health, Labour and Welfare. This was in addition to the previous approval it received for "pain relief in insertion of venous indwelling needles" and "relief of pain following removal of molluscum contagiosum."

Since its launch in 1994, Penles® Tape 18mg has been marketed as a transdermal local anesthetic containing lidocaine in an easy-to-use patch form.

Laser irradiation is commonly used to treat patients, including many children, with such conditions as pigmented skin lesions

(birthmarks, etc.) and hemangiomas, and often causes pain, which led to a demand for a local anesthetic that can be safely and conveniently used with reliable efficacy in clinical settings.

With the approval of this additional application, we expect that easy-to-use Penles® Tape 18 mg will contribute in facilitating pain relief in laser irradiation treatment of the skin.



## Consolidated Financial Statements Consolidated Balance Sheet

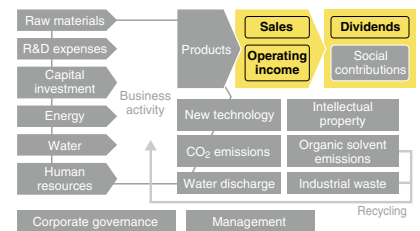
(Yen in Millions)

Assets	Amount	
	As of March 31, 2014	As of March 31, 2013
<b>Current assets:</b>	<b>484,468</b>	<b>483,022</b>
Cash and deposits	208,816	217,095
Notes and accounts receivable-trade	167,939	160,786
Merchandise and finished Goods	26,374	23,057
Work in process	41,301	43,176
Raw materials and supplies	18,646	17,337
Deferred tax assets	9,742	10,722
Other	12,092	11,672
Allowance for doubtful accounts	-444	-825
<b>Noncurrent assets:</b>	<b>296,883</b>	<b>257,926</b>
<b>Property, plant and equipment</b>	<b>247,835</b>	<b>213,391</b>
Buildings and structures	105,443	93,860
Machinery, equipment and vehicles	97,524	72,038
Tools, furniture and fixtures	8,538	7,799
Land	19,822	19,647
Construction in progress	16,506	20,045
<b>Intangible assets:</b>	<b>18,347</b>	<b>13,963</b>
Goodwill	3,504	3,052
Software	6,322	6,450
Other	8,520	4,460
<b>Investments and other assets:</b>	<b>30,701</b>	<b>30,572</b>
Investments securities	7,799	8,040
Deferred tax assets	18,491	8,583
Prepaid pension cost	—	10,424
Other	4,531	3,655
Allowance for doubtful accounts	-121	-131
<b>Total assets</b>	<b>781,352</b>	<b>740,949</b>

(Yen in Millions)

Liabilities	Amount	
	As of March 31, 2014	As of March 31, 2013
<b>Current liabilities:</b>	<b>212,441</b>	<b>175,683</b>
Notes and accounts payable-trade	86,651	88,101
Short-term loans payable	6,694	11,137
Current portion of bonds	50,000	—
Accrued expenses	24,381	22,537
Income taxes payable	7,513	13,915
Other	37,200	39,990
<b>Noncurrent liabilities:</b>	<b>41,611</b>	<b>74,161</b>
Bond payable	—	50,000
Long-term loans payable	3,510	987
Provision for retirement benefits	—	19,757
Net defined benefit liability	33,723	—
Provision for directors' retirement benefits	267	374
Deferred tax liabilities	2,082	1,256
Other	2,026	1,785
<b>Total liabilities</b>	<b>254,052</b>	<b>249,844</b>
(Net assets)		
<b>Shareholders' equity</b>	<b>523,033</b>	<b>490,198</b>
Capital stock	26,783	26,783
Capital surplus	56,164	56,170
Retained earnings	471,831	439,650
Treasury stock	-31,746	-32,405
<b>Accumulated other comprehensive income</b>	<b>358</b>	<b>-2,019</b>
Valuation difference on available-for-sale securities	2,533	1,901
Deferred gains or losses on hedges	-52	-1,638
Foreign currency translation adjustment	13,884	-2,282
Remeasurements of defined benefit plans	-16,006	—
Subscription rights to shares	750	773
<b>Minority interests</b>	<b>3,157</b>	<b>2,152</b>
<b>Total net assets</b>	<b>527,299</b>	<b>491,105</b>
<b>Total liabilities and net assets</b>	<b>781,352</b>	<b>740,949</b>





## Consolidated Financial Statements Consolidated Statement of Income

(Yen in Millions)

	April 1, 2013 - March 31, 2014	April 1, 2012 - March 31, 2013
<b>Net sales</b>	<b>749,835</b>	<b>671,253</b>
Cost of sales	539,051	480,014
<b>Gross profit</b>	<b>210,784</b>	<b>191,239</b>
Selling, general and administrative expenses	138,529	122,757
<b>Operating income</b>	<b>72,254</b>	<b>68,482</b>
<b>Non-operating income:</b>	<b>6,726</b>	<b>4,983</b>
Interest and dividends income	401	851
Miscellaneous income	6,324	4,132
<b>Non-operating expenses:</b>	<b>7,322</b>	<b>6,284</b>
Interest expenses	986	966
Equity in losses of affiliates	302	635
Foreign exchange losses	4,131	2,489
Miscellaneous loss	1,901	2,193
<b>Ordinary income</b>	<b>71,658</b>	<b>67,182</b>
<b>Extraordinary income:</b>	<b>106</b>	<b>969</b>
Gain on sales of noncurrent assets	106	86
Other	—	883
<b>Extraordinary loss:</b>	<b>2,123</b>	<b>4,886</b>
Loss on sales and retirement of noncurrent assets	1,515	1,307
Impairment loss	380	627
Special retirement expenses	184	343
Loss on sales of stocks of subsidiaries and affiliates	—	2,154
Other	43	453
<b>Income before income taxes</b>	<b>69,641</b>	<b>63,265</b>
Income taxes-current	19,043	21,709
Income taxes-deferred	-708	-2,642
<b>Income before minority interests</b>	<b>51,306</b>	<b>44,198</b>
Minority interests in income	288	501
<b>Net income</b>	<b>51,018</b>	<b>43,696</b>

## Consolidated Financial Statements Consolidated Statement of Cash Flows

(Yen in Millions)

	April 1, 2013 - March 31, 2014	April 1, 2012 - March 31, 2013
<b>I. Net cash provided by (used in) operating activities</b>		
Income before income taxes	69,641	63,265
Depreciation and amortization	43,188	36,467
Impairment loss	380	627
Loss on sales of stocks of subsidiaries and affiliates	—	2,154
Loss (gain) on liquidation of subsidiaries and affiliates	—	-377
Decrease (increase) in notes and accounts receivable-trade	1,910	-18,791
Decrease (increase) in inventories	658	-9,426
Increase (decrease) in notes and accounts payable-trade	-2,628	7,731
Interest expenses paid	-942	-971
Income taxes (paid) refund	-25,664	-8,735
Other, net	-8,256	-3,791
<b>Net cash provided by (used in) operating activities</b>	<b>78,286</b>	<b>68,152</b>
<b>II. Net cash provided by (used in) investing activities</b>		
Decrease (increase) in time deposits	60,277	62
Purchase of noncurrent assets	-74,250	-52,869
Proceeds from sales of noncurrent assets	728	420
Purchase of stocks of subsidiaries and affiliates	-234	-299
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-2,162	-7,703
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	3,536
Other, net	-93	582
<b>Net cash provided by (used in) investing activities</b>	<b>-15,735</b>	<b>-56,269</b>
<b>III. Net cash provided by (used in) financing activities</b>		
Increase (decrease) in short-term loans payable	701	-140
Proceeds from long-term loans payable	3,000	834
Repayment of long-term loans payable	-6,000	—
Decrease (increase) in treasury stock	497	965
Cash dividends paid	-16,488	-16,450
Cash dividends paid to minority shareholders	-43	-31
Other, net	201	—
<b>Net cash provided by (used in) financing activities</b>	<b>-18,131</b>	<b>-14,822</b>
<b>IV. Effect of exchange rate change on cash and cash equivalents</b>	<b>6,143</b>	<b>8,496</b>
<b>V. Net increase (decrease) in cash and cash equivalents</b>	<b>50,562</b>	<b>5,556</b>
<b>VI. Cash and cash equivalents at the beginning of period</b>	<b>152,275</b>	<b>145,712</b>
<b>VII. Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation</b>	<b>608</b>	<b>1,006</b>
<b>VIII. Cash and cash equivalents at the end of period</b>	<b>203,446</b>	<b>152,275</b>

## Consolidated Financial Statements Consolidated Statement of Changes in Net Assets

April 1, 2013 through March 31, 2014

(Yen in Millions)

	Shareholders' equity				
	Paid-in capital	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
Balance as of April 1, 2013	26,783	56,170	440,173	-32,405	490,722
Cumulative effect of changes in accounting policies			-2,871		-2,871
Balance at the beginning of current year reflected changes in accounting policies	26,783	56,170	437,301	-32,405	487,850
Changes of items during the period					
Dividends from surplus			-16,488		-16,488
Net income			51,018		51,018
Purchase of treasury stock				-2	-2
Disposal of treasury stock		-6		662	656
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	-6	34,529	659	35,182
Balance as of March 31, 2014	26,783	56,164	471,831	-31,746	523,033

(Yen in Millions)

	Accumulated other comprehensive income					Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of April 1, 2013	1,901	-1,638	-2,282	—	-2,019	773	2,152	491,628
Cumulative effect of changes in accounting policies				-18,462	-18,462			-21,334
Balance at the beginning of current year reflected changes in accounting policies	1,901	-1,638	-2,282	-18,462	-20,481	773	2,152	470,294
Changes of items during the period								
Dividends from surplus								-16,488
Net income								51,018
Purchase of treasury stock								-2
Disposal of treasury stock								656
Net changes of items other than shareholders' equity	631	1,585	16,166	2,456	20,840	-22	1,004	21,822
Total changes of items during the period	631	1,585	16,166	2,456	20,840	-22	1,004	57,005
Balance as of March 31, 2014	2,533	-52	13,884	-16,006	358	750	3,157	527,299



## Business Results 10-Year Summary (consolidated)

April 1 - March 31

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2013
	Yen in Millions										U.S. dollars in Thousands (Note 2)
<b>Statement of income</b>											
Net sales	514,867	626,316	679,822	745,259	577,922	601,859	638,556	607,639	671,253	749,835	7,285,610
Operating income	70,018	89,224	69,037	77,954	13,838	56,086	85,245	56,491	68,482	72,254	702,040
ratio to net sales	13.6%	14.2%	10.2%	10.5%	2.4%	9.3%	13.3%	9.3%	10.2%	9.6%	9.6%
Ordinary income	71,828	90,196	67,319	74,468	14,807	58,833	85,143	58,436	67,182	71,658	696,250
ratio to net sales	14.0%	14.4%	9.9%	10.0%	2.6%	9.8%	13.3%	9.6%	10.0%	9.6%	9.6%
Net income	41,842	55,306	41,201	46,634	267	37,570	55,743	31,066	43,696	51,018	495,705
ratio to net sales	8.1%	8.8%	6.1%	6.3%	0.0%	6.2%	8.7%	5.1%	6.5%	6.8%	6.8%
<b>Segment information by geographic area</b>											
Japan.....Net sales	295,115	271,186	268,364	256,288	207,263	203,982	218,528	194,636	192,600	186,320	1,810,338
Operating income	65,918	76,888	52,535	44,969	3,305	34,897	64,376	39,571	44,338	43,263	420,356
The Americas ..... Net sales	35,836	38,580	42,349	45,054	39,002	37,766	36,116	35,739	40,014	52,085	506,073
Operating income	-2,479	-1,078	-663	338	-1,298	2,012	-289	-1,363	1,768	1,198	11,640
Europe..... Net sales	17,392	19,395	23,787	29,172	25,519	26,933	23,245	21,189	31,057	38,834	377,322
Operating income	246	693	1,587	2,178	-20	1,147	1,471	480	898	3,104	30,159
Asia & Oceania..... Net sales	166,522	297,153	345,321	414,743	306,136	333,177	360,665	356,074	411,942	472,594	4,591,858
Operating income	5,936	12,575	12,382	27,614	8,368	17,952	19,032	15,514	20,258	22,158	215,293
<b>Per share information</b>										Yen	U.S. dollars
Net assets per share	1,583.8	1,943.7	2,192.3	2,297.1	2,148.2	2,320.9	2,540.3	2,635.9	2,961.9	3,172.0	30.82
Net income per share	252.7	332.3	248.3	280.1	1.6	225.5	337.4	188.9	265.5	309.3	3.01
Dividends per share	50.0	60.0	70.0	80.0	80.0	40.0	90.0	100.0	100.0	100.0	0.97
Shares outstanding (thousands)	173,758	173,758	173,758	173,758	173,758	173,758	173,758	173,758	173,758	173,758	—
Number of shareholders	16,725	16,057	35,224	41,309	63,479	66,032	59,059	65,321	49,234	55,009	—
<b>Balance sheet</b>											
Total assets	443,264	556,934	604,208	595,972	558,258	624,992	653,961	651,908	740,949	781,352	7,591,838
Equity	261,090	321,464	364,942	382,627	357,839	386,664	417,606	433,541	488,179	523,391	5,085,416
ROA	10.0%	11.1%	7.1%	7.8%	0.0%	6.4%	8.7%	4.8%	6.3%	6.7%	—
ROE	17.3%	19.0%	12.0%	12.5%	0.1%	10.1%	13.9%	7.3%	9.5%	10.1%	—
Equity to total assets	58.9%	57.7%	60.4%	64.2%	64.1%	61.9%	63.9%	66.5%	65.9%	67.0%	—
Capital investment	40,101	60,889	75,324	59,406	55,926	37,147	26,882	33,758	49,807	75,814	736,630
Depreciation cost	24,681	31,470	40,169	49,617	50,556	44,810	39,940	36,806	36,467	43,188	419,627
R&D expenses	16,739	20,489	21,733	22,096	21,716	20,876	21,949	25,003	27,573	28,573	277,623
Number of employees (Note 1)	22,454	27,865	32,101	33,663	28,640	31,288	33,192	32,198	30,382	31,504	—

Note 1. Part-time employees are included.

2. The exchange rate of Japanese yen and US dollars is the rate at March 31, 2014, which was JPY102.92 to USD1.00.

3. Effective from FY2013, the Company and some of its consolidated subsidiaries changed the method of recognition of revenue to the one based on the time of delivery to customers from the prior one based mainly on the time of shipment. The new accounting basis was applied retroactively to the figures of FY2012. But no retroactive adjustment is applied to result of Segment information by geographic area for FY2012.

**Contributing to Local Communities**

**Supporting Disaster Victims of Typhoon in the Philippines**

On November 8, 2013, the most powerful typhoon on record (internationally known as Typhoon Hayan, and Typhoon Yorand in the Philippines) directly hit the central Philippines, causing enormous damage across Leyte Island.

Nitto Denko Philippines, located in the suburbs of Manila, embarked on relief efforts immediately, purchasing basic necessities for 300 families with donations from both the company and employees. On November 16, the items were taken in emergency transportation vehicles of an NGO and shipped by air to disaster areas. The company and employees continue to support disaster victims through their participation in volunteer activities, engaging in sorting donated items.



Donated items



Volunteers sort items

Subsequently on November 27, the Nitto Group also donated 10,000,000 yen to the Philippine Red Cross. Nitto Denko Singapore donated SGD 3,000 to the Singapore Red Cross in the form of a contribution from the company, matching a donation made by employees, while Nitto Denko Automotive Virginia donated USD 666 to the U.S. Red Cross.

We are eager for the reconstruction of disaster areas without further delay.



Donating to the Philippine Red Cross

**Participating in Run for Think Pink, Breast Cancer Campaign in Belgium**

The Belgian government holds a breast cancer campaign known as Run for Think Pink in the major city runs held throughout the country.

Thirty-nine employees of Nitto Europe and their families participated in the city run in Hasselt on October 13, 2013. The runners could elect to run 5, 10 or 15 kilometers of their choice and achieved solid results.

A donation of 2,000 euros raised by Nitto Europe in the run will be used for the support of breast cancer patients.



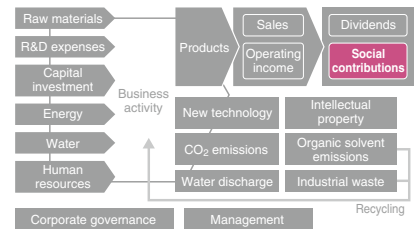
**Visiting Care Home in Singapore**

Lyons Home, set up in 1980, is an NPO which provides medical and nursing care for the elderly and young adults who are both physically and financially disadvantaged.

On January 27, 2014, the Managing Director and some staff of Nitto Denko Singapore visited the home and donated groceries and sundry goods to satisfy residents' requests. Ushering in the Lunar New Year celebrations, they brought *Ang Pow* (red packets) and mandarin oranges, signifying good health and prosperity, for all.







## Promoting Education and International Interaction

### Technology Exchange between Switzerland and Japan

For three days from December 2, 2013, as part of events to celebrate the 150th anniversary of the founding of diplomatic relations between Switzerland and Japan, “EPFL- Osaka University - Nitto Joint Workshop” was held by École Polytechnique Fédérale de Lausanne, Osaka University, the Swiss Embassy and Nitto.

At the international symposium and under the theme of life science, several findings were presented. On the final day, participants were invited to Ibaraki Plant, where they deepened interchanges by looking around our prototype room and were introduced to our technology through a demonstration. We also consulted on how to carry on an academic-industrial alliance. It was a good opportunity to discover common ground.

A Nitto employee giving a presentation at the international symposium



Participants gazing at a demonstration

### Donating Student Supplies to a Junior High School in Virginia

In August 2013, a box was placed in a staff cafeteria at Nitto Denko Automotive Virginia (AVA) to support

economically-challenged students of Truitt Intermediate, a local school.

Furthermore, the CSR/Moral Committee held a game called a cake walk in order to warm up their activities. Combining participation fees for the game and a generous donation by AVA staff, the company was able to donate a lot of supplies. They plan to continue such worthwhile support in the future.

### Providing a Better Learning Environment for Children in China

In consort with 27 companies of the Nitto Group in China, we donated what were useful items for childrens' learning.

First of all, on May 13, 2013, in addition to 625 books donated by employees, we donated stationery, gymnastic equipment, and used computers to NiuniuBaPain Area Central Primary School in Meigu, Sichuan Province.

On December 20, 2013, “Nitto Personal Computer Room” was established at Shanghai Songjiang Shanrong Primary School, which is a school for children of migrant workers. It is a classroom using recycled personal computers from each group company.



Children of Sichuan Central Primary School



Nitto Personal Computer Room



**Supporting Sports**

**33rd Osaka International Ladies Marathon**

This year is a milestone for us. It is the tenth year that we have cosponsored the Osaka International Ladies Marathon since our commencement in 2005, in line with the theme “We Support the Challengers with Shared Enthusiasm!” In October 2013, we changed our brand name from Nitto Denko to Nitto. In conformity with that, set a new mood for the event with the catchphrase “Let’s start running with Nitto!”

Again this year, we cosponsored the Osaka Half Marathon and the Osaka Enjoy Run, held simultaneously. The number of entrants in the Osaka Half Marathon reached a record 5,630.

More than 2,000 employees and their families from the Nitto Group at home and abroad visited the stadium, with 185 employees participating in the event as volunteers. Some offered a taping service and water service to the runners in the Osaka Half Marathon whilst others helped clean the site.

The Nitto Group supports each runner striving hard towards his or her goal.



The start (Photo credit – Sankei Shimbun)



A Volunteer cleans the site



Volunteers drape towels over runners in the Osaka Half Marathon

**Idea Contest**

This year we again held the Idea Contest, this being the third time. The event is linked to our cosponsoring of the Osaka International Ladies Marathon. We received a total of 887 submissions, more than last year. The highest award was given to “Kondate Kangae Reizouko,” from which we get meal ideas using only the food in the refrigerator.

At the event site, we exhibited a piece of demonstration equipment illustrating the idea of “Kimochi Tebukuro,” which received the highest award last year.



Idea contest award ceremony



Exhibit of “Kimochi Tebukuro,” with which we understand the feelings of people and things by touching them.

**Nitto Dream Flower Earth**

We set up a sponsor’s booth which introduced our technology and production techniques on the very day of the marathon. Coined Nitto Dream Flower Earth, we held an event in which we had visitors post stickers and masking tape to terrestrial balloons, on which each visitor wrote down his or her dream or wish. Later, the balloons with their many dreams and wishes were brought to Sumiyoshi Shrine, with the aim of bringing good luck.



A balloon from Nitto Dream Flower Earth bearing many dreams and wishes



The Nitto Group presents *Nitto Group Report 2014*. In order to inform every stakeholder about the Nitto Group and our fiscal 2013 business activities in their entirety, we have amalgamated our financial and non-financial information.

As space is limited, please refer to our website for more details.

The Nitto Group looks forward to your continued patronage and understanding.

This report relates to the business activities of the 112 companies of the Nitto Group as of 31 March 2014, of which 106 are consolidated subsidiaries and the remaining 5 consist of non-consolidated subsidiaries and affiliated companies. We consulted the *Sustainability Reporting Guidelines 2006* issued by the Global Reporting Initiative and used them for guidance on the disclosure of non-financial related information. We also referred to the principles of the International Integrated Reporting Committee (IIRC).

## Disclaimer

This report contains future projections as well as past and present facts related to Nitto Denko Corporation (non-consolidated) and the Nitto Group (consolidated). These statements are based on information at the time of creation and may not be completely accurate at the time of reading.

Please be advised that actual business activity results may differ materially from those described in the projections.

All chapters of this report are also available in Japanese. In the event of any discrepancies between the two versions, the Japanese version will prevail.

## About Sales and Operating Income Figures

As we decided to arbitrarily apply International Financial Reporting Standards (IFRS) from fiscal 2014, sales and operating income figures from fiscal 2014 described in this report are numerical values on the basis of IFRS.

## About Our Trademarks

All logos, product names, and other related names are the trademarks and the registered trademarks of Nitto and its respective companies in Japan and/or other countries.

## About Data Related to the Environment

Figures for past years have been partly altered to reflect the increase or decrease in number of group companies covered or changes in calculational procedures. Consolidated data is calculated by summing the actual performance of representative bases.



## About the Front Cover

A gentle yet dynamic river current is expressed by the design encompassing curved lines with a blue tone. Images suggest people's thinking and technologies flow like a water stream from the past to the present and the future.

Illustrator Takashi Yamasaki

## Printing and Binding

This *Nitto Group Report 2014* was printed by Nitto Denko Himawari Co., Ltd., a member of the Nitto Group.

Nitto Denko Himawari was established with the principle that disabled persons who have the will to stand on their own feet and elderly persons with a positive view of them can work together and engage in unlimited possibilities. Nitto Denko Himawari operates a business centering around the printing, cleaning, cutting, wrapping and packaging of various tapes, computerized documentation, recycling and reusing, tree planting and the sorting and management of documents.

URL : <http://www.nitto.co.jp/himawari/>



## Nitto Group Report 2014

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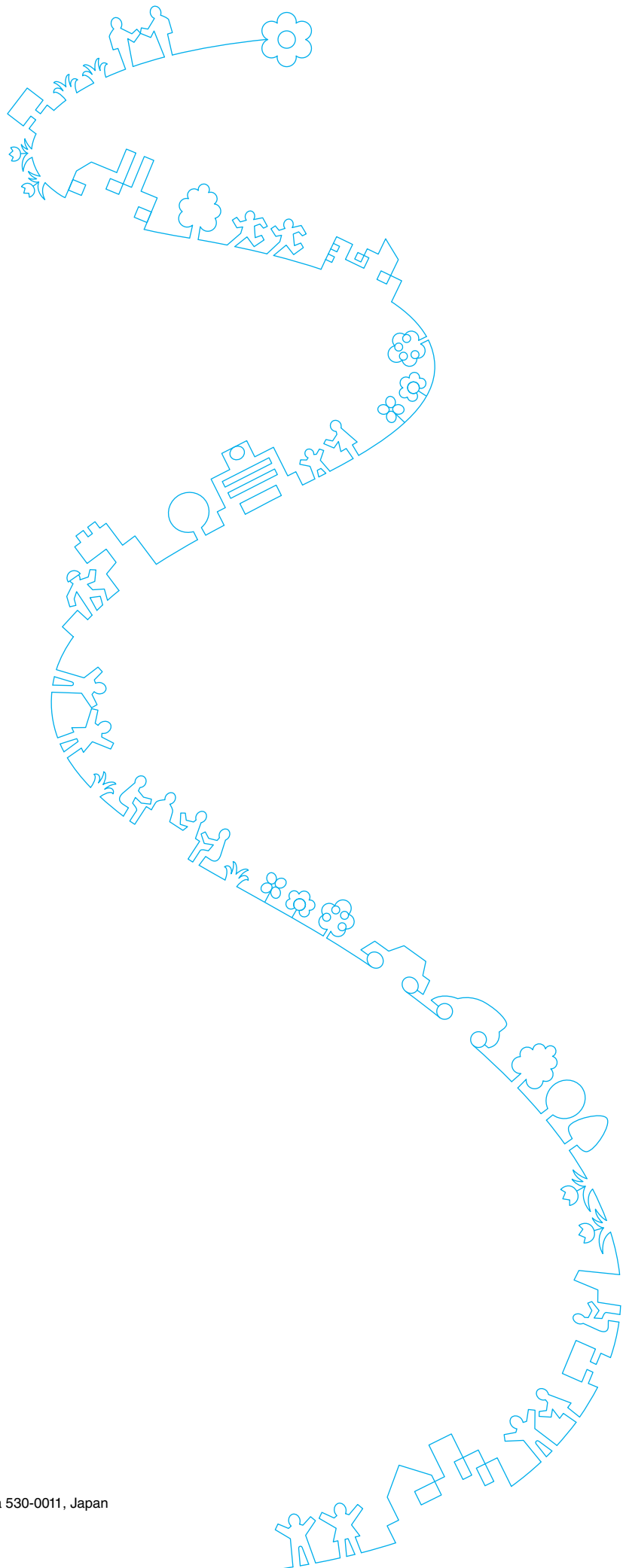
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