

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

May 29, 2020

**NOTICE OF
THE 155TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

We would like to hereby inform you that the 155th Ordinary General Meeting of Shareholders of Nitto Denko Corporation (hereinafter “the Company”) will be held as indicated below.

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

Sincerely,

Hideo Takasaki, President

Nitto Denko Corporation

1-1-2, Shimohozumi, Ibaraki, Osaka, Japan 567-0041

(Head Office: 4-20, Ofuka-cho, Kita-ku, Osaka, Japan 530-0011)

Date/time: Friday, June 19, 2020 from 10:00 a.m. (Reception desk opens at 9:00 a.m.)

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

Meeting Agenda

Items to be reported:

1. Business Report, Consolidated and Non-Consolidated Financial Statements for the 155th term (from April 1, 2019 to March 31, 2020)
2. Auditing results of Consolidated Financial Statements by Accounting Auditors and the Board of Corporate Auditors

Items to be resolved:

- Item 1 Approval of the proposed dividends from surplus
 - Item 2 Approval of the payment of bonus for Directors
 - Item 3 Election of eight Directors
 - Item 4 Election of two Corporate Auditors
 - Item 5 Revision of compensation for Directors
- ◆ Any revisions of reference materials for the general meeting of shareholders, Business Report, Consolidated Financial Statements, and Non-Consolidated Financial Statements will be disclosed on our Investor Relations website.
 - ◆ This English translation of this notice can be referred on our Investor Relations website (English version).
 - Investor Relations website (Japanese): <https://www.nitto.com/jp/ja/ir/>
 - Investor Relations website (English): <https://www.nitto.com/jp/en/ir/>
 - When attending, it is necessary to present the enclosed Voting Rights Exercise Form at the reception of the venue. To conserve resources, we ask that you kindly bring this Notice with you to the meeting. Your cooperation is appreciated.
 - The casual dress code will be followed at the meeting. Shareholders are encouraged to dress casually as well.

How to Exercise Voting Rights

Voting rights at the general meeting of shareholders is an important right for shareholders.

Please read carefully the reference materials for the general meeting of shareholders below before you exercise your voting rights.

You may exercise your voting rights by doing one of the following:

Exercising your voting rights

- 1 Voting at the general meeting of shareholders
Please present the Voting Rights Exercise Form at the reception of the venue.
Meeting date/time: Friday, June 19, 2020 from 10:00 AM (JST)
- 2 Mailing the Voting Rights Exercise Form
Please mail the Voting Rights Exercise Form after indicating your approval or disapproval of each item.
Deadline for mail arrival: Thursday, June 18, 2020 at 5:00 PM (JST)
- 3 Internet voting
Please indicate your approval or disapproval of each item by following the guidance on the next page.
Deadline for voting: Thursday, June 18, 2020 at 5:00 PM (JST)

In the event of multiple votes cast using the Voting Rights Exercise Form and via the Internet, etc., the vote cast via the Internet, etc. shall be considered to be the effective exercise of your voting rights. If you exercise your voting rights more than once via the Internet, etc., the last vote shall be considered the effective exercise of your voting rights.

How to Fill in the Voting Rights Exercise Form

Please indicate your approval or disapproval of the following items.

Items 1, 2, and 5

- If you approve >> Put a circle mark in the “Approve” box.
- If you disapprove >> Put a circle mark in the “Disapprove” box.

Items 3 and 4

- If you approve all >>> Put a circle mark in the “Approve” box.
- If you disapprove all >>> Put a circle mark in the “Disapprove” box.
- If you disapprove of some candidates >>> Put a circle mark in the “Approve” box and indicate the number(s) of candidate(s) that you disapprove of.

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

How to Exercise Voting Rights via the Internet

- Entering log-in ID and provisional password

Exercise of Voting Rights Website: <https://evote.tr.mufg.jp/> ([Japanese text only](#))

* The site will be unavailable between the hours of 2:00 AM and 5:00 AM (JST) each day.

1. Access the Exercise of Voting Rights Website.
2. Enter your “log-in ID and provisional password” indicated in your Voting Rights Exercise Form and click.
3. Register a new password.
4. Follow the onscreen instructions and indicate your approval/disapproval.

- How to scan a QR code

By using your electronic device to scan a QR code, you can log in to the Exercise of Voting Rights Website without having to enter the log-in ID and provisional password indicated in your Voting Rights Exercise Form.

1. Use your electronic device to scan the QR code on the right hand side of the Voting Rights Exercise Form.
- * “QR code” is a registered trademark of Denso Wave Incorporated.
2. Follow the onscreen instructions to indicate your approval/disapproval.

You may log in only once by using the QR code.

(You may still exercise your voting rights again by using your log-in ID and provisional password.)

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

■ If you have any questions regarding the use of computers, smartphones, and mobile phones when exercising your voting rights via the Internet, please call the following number:

Help Desk, Securities Agency Division, Mitsubishi UFJ Trust and Banking Corporation

Tel: 0120-173-027 (toll free)

(Hours: 9:00 AM to 9:00 PM [JST])

Institutional investors can use the electronic voting platform operated by ICJ, Inc., in addition to exercising voting rights via the Internet described above. Please note that the deadline for voting is Thursday, June 18, 2020 at 5:00 PM (JST), which is the same as the deadline for voting via the Internet.

Reference Materials for the General Meeting of Shareholders

Item 1: Approval of the proposed dividends from surplus

We consider the stable return of our profits to shareholders to be one of our most important management issues and, before providing dividends, we comprehensively assess profit conditions and the dividend payout ratio, and also consider improvement of financial conditions, prior investments for technical innovation and business development, and retained earnings. Proposed year-end dividends for the 155th term are as described below. Since we have paid interim dividends of 100 yen per share, the amount of annual dividend per share will be 200 yen, an increase of 20 yen compared to the previous term.

Matters concerning year-end dividends

- (1) Type of dividend property
Cash
- (2) Matters concerning distribution of dividend property and its total amount
100 yen per share of our common stock: 15,391,867,300 yen in total
- (3) Effective date of distribution of dividends
June 22, 2020

(Reference) Trends in annual dividends and consolidated dividend payout ratio

■ Annual dividends (yen/share) Consolidated dividend payout ratio (%)

FY	Annual dividends	Consolidated dividend payout ratio
FY2015 (151st term)	140	28.2
FY2016 (152nd term)	150	38.4
FY2017 (153rd term)	160	29.7
FY2018 (154th term)	180	42.5
FY2019* (155th term)	200	66.4

* The Company purchased treasury stock in fiscal 2019, bringing the total distribution ratio to 101.7%.

Item 2: Approval of the payment of bonus for Directors

We propose providing the total amount of 127 million yen as a bonus based on the results at the end of the fiscal year under review for the five Directors (excluding the three Outside Directors) serving as of the end of the fiscal year under review and one Director who retired during the fiscal year under review. We would like to ask our shareholders to leave the specific amount for each person and payment date and method to be decided by the Board of Directors.

Item 3: Election of eight Directors

At the close of this Ordinary General Meeting of Shareholders, the terms of office of all eight current members of the Board of Directors will expire, and Director Toshiyuki Umehara (Representative Director) and Director Toru Takeuchi will retire.

With a view to strengthening the management structure and corporate governance, we hereby propose the appointment of eight Directors, a decrease in the number of Full-time (corporate) Directors by one and an increase in the number of Outside Directors by one. This will bring the number of Outside Directors to four out of eight Directors, which will result in Outside Directors accounting for half of the Directors.

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

Candidate number	Name	Gender	Length of service (as of the close of this Ordinary General Meeting of Shareholders):	Attendance at Board meetings	Current position and areas of responsibility, etc. in the Company		
1	Hideo Takasaki	Male	12 years	100% 13 out of 13	Representative Director, President CEO, COO Chairperson, Internal Control Committee	Supervisor of management in general	Reelection
2	Nobuhiro Todokoro	Male	3 years	100% 13 out of 13	Director, Executive Vice President	Supervisor of functional base products business and management of East Asian region	Reelection
3	Yosuke Miki	Male	3 years	100% 13 out of 13	Director, Senior Vice President Deputy CTO General Manager of Information and Communication Technology Sector, concurrently Deputy General Manager of Corporate Technology Sector	Supervisor of transportation business and management of South Asia/Oceania and India In charge of ICT business and corporate technology (new technology)	Reelection
4	Yasuhiro Iseyama	Male	-	-	Vice President General Manager of Corporate Accounting & Finance Division	In charge of accounting & finance	New election
5	Yoichiro Furuse	Male	13 years	100% 13 out of 13	Outside Director		Reelection Independent Outside
6	Takashi Hatchoji	Male	5 years	92% 12 out of 13	Outside Director		Reelection Independent Outside
7	Tamio Fukuda	Male	2 years	100% 13 out of 13	Outside Director		Reelection Independent Outside
8	Wong Lai Yong	Female	-	-			New election Independent Outside

Reelection: Candidate for reelected Director

New election: Candidate for newly elected Director

Independent: Independent Director who is registered or to be registered with Tokyo Stock Exchange

Outside: Outside Director or Candidate for Outside Director

* CEO: Chief Executive Officer, COO: Chief Operating Officer, CTO: Chief Technology Officer

Candidate number

1

Hideo Takasaki

(Date of birth: August 11, 1953)

Number of Company shares owned: 28,600

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 0

Brief Profile

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

Reason for nomination as a candidate for Director
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Mr. Hideo Takasaki has led the Nitto Group as a member of the management team and fulfilled his responsibilities as Representative Director, President of the Company by making decisions on material issues for management, among others, thus increasing the corporate value of the Company.

As it is expected that he will continue to contribute his services as a Nitto Person, Mr. Takasaki has been nominated as a candidate for Director this year again.

Candidate number

2

Nobuhiro Todokoro

(Date of birth: June 1, 1965)

Number of Company shares owned: 5,600

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 0

Brief Profile

April 1989	Joined Nitto Denko Corporation
June 2015	Vice President, General Manager of Information Fine Materials Unit, Information Fine Materials Sector
April 2017	Vice President, General Manager of Information Fine Materials Sector
June 2017	Director, Senior Vice President, General Manager of Information Fine Materials Sector
June 2019	Director, Executive Vice President (present)

Reason for nomination as a candidate for Director

Mr. Nobuhiro Todokoro has been involved in the information fine materials business, one of the mainstay businesses of the Nitto Group, for many years. As a manager who knows that business inside out and then as a Director of Nitto Denko Corporation, he has dedicated himself to enhancing the corporate value of the Group from a holistic perspective.

As it is expected that he will continue to contribute his services as a Nitto Person, Mr. Todokoro has been nominated as a candidate for Director this year again.

Candidate number

3

Yosuke Miki

(Date of birth: June 19, 1965)

Number of Company shares owned: 3,500

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 0

Brief Profile

April 1993	Joined Nitto Denko Corporation
June 2016	Vice President, General Manager of Information and Communication Technology Sector
April 2017	Vice President, Deputy CTO General Manager of Information and Communication Technology Sector, concurrently Deputy General Manager of Corporate Technology Sector and General Manager of New Business Development Division
June 2017	Director, Vice President, Deputy CTO General Manager of Information and Communication Technology Sector, concurrently Deputy General Manager of Corporate Technology Sector and General Manager of New Business Development Division
June 2019	Director, Senior Vice President
April 2020	Director, Senior Vice President, Deputy CTO General Manager of Information and Communication Technology Sector, concurrently Deputy General Manager of Corporate Technology Sector (present)

Reason for nomination as a candidate for Director
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Mr. Yosuke Miki has been involved in the information and communication technology business for many years. As a manager who knows that business inside out and then as a head of the technology department - the core of any manufacturing business - he has dedicated himself to enhancing the corporate value of the Nitto Group.

As it is expected that he will continue to contribute his services as a Nitto Person, Mr. Miki has been nominated as a candidate for Director this year again.

Candidate number

4

Yasuhiro Iseyama

(Date of birth: April 19, 1962)

Number of Company shares owned: 2,800

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 0

Brief Profile

June 1991	Joined Nitto Denko Corporation
October 2009	General Manager of Accounting Department, Strategic Administration Division, Optical Sector
July 7, 2013	General Manager of Accounting Department, Strategic Administration Division, Functional Base Products Sector
July 10, 2013	General Manager of Accounting Department, Strategic Administration Division, Functional Base Products Sector concurrently General Manager of Accounting Department, Planning & Management Department, Automotive Products Sector
April 2016	Deputy General Manager of Corporate Accounting & Finance Division, Corporate Strategy Sector
June 2017	Vice President, General Manager of Corporate Accounting & Finance Division (present)

Reason for nomination as a candidate for Director

Mr. Yasuhiro Iseyama has assumed key positions at accounting & finance in each business. At present, he dedicates himself to enhancing the corporate value and corporate governance of the Nitto Group as the General Manager of Corporate Accounting & Finance Division.

As it is expected that he will utilize his knowledge and experiences gained from these positions to help the Company to enhance the functions of its Board of Directors as a Nitto Person, Mr. Iseyama has been nominated as a candidate for new Director.

Number of Company shares owned: 2,000

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 3

Brief Profile

April 1964	Joined Sumitomo Bank, Ltd.
June 1989	Director, Sumitomo Bank, Ltd.
October 1993	Executive Director, Sumitomo Bank, Ltd. (retired in June 1996)
June 1996	Senior Managing Director, Mazda Motor Corporation (retired in June 2000)
June 2001	Director, Sanyo Electric Co., Ltd.
June 2002	Representative Director and Vice President, Sanyo Electric Co., Ltd. (retired in October 2005)
January 2006	Representative Director, Evanston Corporation (present)
June 2007	Outside Director, Nitto Denko Corporation (present)
September 2010	Non-Executive & Independent Director, Global Logistic Properties Limited (retired in December 2017)
July 2015	Chairman of Japan, Permira Advisers KK (present)
October 2015	Director, Sushiro Global Holdings Ltd. (retired in December 2016)
March 2016	Outside Director, Nasta Co., Ltd. (present)
January 2018	Consultant of GLP Pte. Ltd. (present)

[Important concurrent positions held at] Evanston Corporation, Permira Advisers KK, and GLP Pte. Ltd.

Notes on the Candidate for Outside Director

1) Reason for nomination as a candidate for Outside Director

In this fiscal year, Mr. Yoichiro Furuse participated in all of the Board of Directors meetings (13) and made useful comments based on his deep insight into management, which was cultivated through his service as director and representative director at listed companies, and extensive experience.

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

2) Limited Liability Agreement

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

3) Base of judgment on independence

The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 20 and 21 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Furuse as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange. Mr. Furuse also currently serves as an important executing person of Evanston Corporation and Permira Advisers KK, with both of which the Company does not engage in transactions.

Number of Company shares owned: 0

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 2

Brief Profile

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

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

Notes on the Candidate for Outside Director

1) Reason for nomination as a candidate for Outside Director

In this fiscal year, Mr. Takashi Hatchoji participated in 12 out of 13 Board of Directors meetings and made useful comments based on his deep insight into management, which was cultivated through his service as representative executive officer and director of listed companies, and his extensive experience.

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

2) Limited Liability Agreement

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

3) Base of judgment on independence

The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 20 and 21 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Hatchoji as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

He was an important executing person of Hitachi, Ltd. in the past, which held about 15% of shares in

Nitto through a subsidiary. Hitachi, Ltd., however, sold most of its shares in Nitto in July 2003 (and has sold all of its shares in Nitto to date). It has been 15 years or more since a group relation between Hitachi, Ltd. and Nitto was dissolved.

The Company engages in transactions with Hitachi, Ltd., most of which relate to the development, maintenance, etc. of Nitto's system, with annual transaction amount accounting for less than 0.07% of Nitto's consolidated revenue. Thus, the Company's relationship with Hitachi, Ltd. does not affect his independence.

Number of Company shares owned: 500

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 1

Brief Profile

April 1989	Design Advisor of Samsung Electronics Co., Ltd., South Korea (retired in September 1999)
October 1999	Professor, Graduate School of Science and Technology, Kyoto Institute of Technology
April 2013	Professor Emeritus, Kyoto Institute of Technology (present)
June 2018	Outside Director, Nitto Denko Corporation (present)

[Important concurrent positions held at] Kyoto Institute of Technology

Notes on the Candidate for Outside Director

1) Reason for nomination as a candidate for Outside Director

In this fiscal year, Mr. Tamio Fukuda participated in all of the Board of Directors meetings (13). As a university professor specializing in design management, he has contributed valuable suggestions regarding establishment of the corporate brand of the Company and made useful comments based on his experience in business management as a corporate advisor.

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

2) Limited Liability Agreement

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

3) Base of judgment on independence

The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 20 and 21 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Fukuda as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Mr. Fukuda also currently serves as a professor emeritus of Kyoto Institute of Technology. The Company makes a donation to the university. However, the annual donation amount, accounting for less than 0.0005% of Nitto’s consolidated revenue, does not affect his independence.

Number of Company shares owned: 0

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 1

Brief Profile

September 2013 Founder and Chief, Principal Trainer and Consultant, First Penguin Sdn. Bhd. (present)

July 2018 Director, Penang Women's Development Corporation (present)

October 2019 Adjunct Professor, Shizenkan University Graduate School of Leadership & Innovation
Deputy Center Leader, Center for Sustainability and Innovation (present)

[Important concurrent positions held at] First Penguin Tours & Training Sdn. Bhd.

(the name changed from First Penguin Sdn. Bhd.)

Notes on the Candidate for Outside Director

1) Reason for nomination as a candidate for Outside Director

Ms. Wong Lai Yong has provided advice on human resource development and CSR activities to corporations and educational institutions in various locations in Asia through activities of First Penguin Tours & Training Sdn. Bhd., etc. She was selected as one of the "Asia Pacific women entrepreneurs" by the Cabinet Office of Japan in 2016. In addition, she is well versed in the management of Japanese corporations through about 16 years of living in Japan, with MBA degree at Graduate School of Business Administration, Keio University, a master's degree at Graduate School, Yokohama National University, and working experience at a Japanese childcare-related company. The Company believes that she can provide advice and suggestions on the overall management of the Company based on such experience and achievements. Hence, the Company proposes her appointment as an Outside Director.

2) Limited Liability Agreement

The Company has executed an agreement with Ms. Wong to limit her compensation liability to the degree stipulated in laws and regulations, and the Company intends to extend the agreement when she is reelected.

3) Base of judgment on independence

The Company stipulates "Criteria for Election of Independent Outside Directors and Outside Corporate Auditors" (please refer to page 20 and 21 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Ms. Wong as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Also, Ms. Wong currently serves as an important executing person of First Penguin Tours & Training Sdn. Bhd. The Company engaged in a transaction with First Penguin Tours & Training Sdn. Bhd., which is a remuneration paid when inviting her as a training instructor to the Company, with annual transaction amount accounting for less than 0.0001% of Nitto's consolidated revenue. Thus, the Company's transaction with First Penguin Tours & Training Sdn. Bhd. does not affect her independence.

Item 4: Election of two Corporate Auditors

At the close of this Ordinary General Meeting of Shareholders, the terms of office of two of the five current members of the Board of Corporate Auditors will expire. We hereby propose the election of two Corporate Auditors.

The following are the candidates for Corporate Auditors and the structure of the Board of Corporate Auditors (plan), and the consent of the Board of Corporate Auditors has been given to this proposal.

Candidate number	Name	Gender	Length of service	Attendance at Board meetings	Attendance at Board of Corporate Auditors meetings	Current position and areas of responsibility in the Company		
*	Masami Kanzaki	Male	5 years	100% 13 out of 13	100% 12 out of 12	Corporate Auditor (full-time service)	-	
*	Shin Tokuyasu	Male	1 year	100% 11 out of 13	100% 10 out of 10	Corporate Auditor (full-time service)	-	
1	Masashi Teranishi	Male	12 years	100% 13 out of 13	100% 12 out of 12	Outside Corporate Auditor	-	Reelection Independent Outside
*	Masakazu Toyoda	Male	9 years	92% 12 out of 13	100% 12 out of 12	Outside Corporate Auditor	-	Independent Outside
2	Mitsuhide Shiraki	Male	8 years	100% 13 out of 13	100% 12 out of 12	Outside Corporate Auditor	-	Reelection Independent Outside

Reelection: Candidate for reelected Corporate Auditor

Independent: Independent Director who is registered or to be registered with Tokyo Stock Exchange

Outside: Outside Corporate Auditor or Candidate for Outside Corporate Auditor

* The term of office of Corporate Auditors of the Company is four years. Messrs. Masami Kanzaki, Shin Tokuyasu, and Masakazu Toyoda were elected and assumed the position at the 154th Ordinary General Meeting of Shareholders held in June 2019.

Number of Company shares owned: 0

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 1

Brief Profile

April 1969	Joined The Sanwa Bank Limited
January 2002	President and Representative Director, UFJ Bank Limited
June 2002	Director, UFJ Holdings, Inc. (retired in June 2004)
May 2004	Representative Director, UFJ Bank Limited (retired in May 2004)
July 2004	Honorary Adviser, UFJ Bank Limited
January 2006	Honorary Adviser, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (present)
June 2008	Outside Corporate Auditor, Nitto Denko Corporation (present)
June 2011	Outside Director, Tsukishima Kikai Co., Ltd. (retired in June 2018)

[Important concurrent positions held at] MUFG Bank, Ltd. (the name changed from The Bank of Tokyo-Mitsubishi UFJ, Ltd.)

Notes on the Candidate for Candidate for Outside Corporate Auditor
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1) Reason for nomination as a candidate for Outside Corporate Auditor

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

Mr. Teranishi possesses a broad range of knowledge in finance and accounting.

The Company believes that he will be able to execute his duties as an Outside Corporate Auditor of the Company appropriately for the aforementioned reason.

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

2) Limited Liability Agreement

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

3) Base of judgment on independence

The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 20 and 21 for the content of these criteria) and selects candidates for Outside Corporate Auditors based on the said criteria. The Company designated Mr. Teranishi as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Mr. Teranishi also serves as Honorary Adviser of MUFG Bank, Ltd. He was an important executing person of the group in the past, but it has been ten years or more since then. Hence, it does not affect his independence. Further, there is no borrowing from MUFG Bank, Ltd.

Number of Company shares owned: 0

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 1

Brief Profile

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

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

Notes on the Candidate for Candidate for Outside Corporate Auditor

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

In this fiscal year, Mr. Mitsuhide Shiraki participated in all of the Board of Directors meetings (13) and Board of Corporate Auditors meetings (12). He is an expert in labor issues and global human resource development as a university professor, and his such deep insight has been reflected in the auditing of the Company. Although he does not have experience of being directly involved in corporate management, the Company believes that he will be able to execute his duties as an Outside Corporate Auditor of the Company appropriately for the aforementioned reason.

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

2) Limited Liability Agreement

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

3) Base of judgment on independence

The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 20 and 21 for the content of these criteria) and selects candidates for Outside Corporate Auditors based on the said criteria. The Company designated Mr. Shiraki as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Mr. Shiraki also currently serves as a professor of Faculty of Political Science and Economics, Waseda University. The Company does not make any donation to Waseda University.

Item 5: Revision of compensation for Directors

The current amount of total compensation for Directors has remained unchanged “up to 30 million yen per month (out of which up to 3 million yen is allocated to Outside Directors)” since it was so approved at the 150th Ordinary General Meeting of Shareholders in 2015. Subject to the approval of Item 3 as proposed, however, the number of Outside Directors will increase. Hence, we propose to revise the amount of monthly compensation for Outside Directors to “up to 4 million yen.” The total amount of compensation for Directors will remain unchanged “up to 30 million yen per month.”

The number of Directors is currently eight (including three Outside Directors). If Item 3 is approved as proposed, the number of Directors will be eight (including four Outside Directors). The above-proposed compensation amount does not include the amount of employees’ salaries for Directors who are also employees, as before.

(Reference) Nomination of Directors and Corporate Auditors

[Appropriate structure of the Board of Directors and Board of Corporate Auditors]

Given the current scale of business, the need to facilitate substantial discussions at Board of Directors meetings and Board of Corporate Auditors meetings and to ensure an appropriate number of Outside Directors, and so forth, the Company believes that the appropriate size of the Board of Directors is not more than ten (10) Directors (two [2] or more of whom are Independent Outside Directors). Likewise, the Articles of Incorporation set an upper limit of ten (10). The Company also believes that the appropriate size of the Board of Corporate Auditors is not more than five (5) members (half or more of whom are Independent Outside Corporate Auditors), who are individuals having appropriate experience and ability as well as necessary knowledge in finance, accounting, and legal affairs, with at least one (1) Corporate Auditor who has sufficient expertise in finance and accounting. Likewise, the Articles of Incorporation set an upper limit of five (5).

[Appointment and Dismissal of Directors and Corporate Auditors]

The Officer Appointment Standards and the Officer Dismissal Standards have been established as described below and are applied when appointing or dismissing a Director or Corporate Auditor. In addition, in order to further enhance fairness and transparency in appointment and dismissal of Directors, the Management, Nomination and Remuneration Advisory Committee meets and reports the results of its deliberations to the Board of Directors, and the Board of Directors makes the final decision by taking such report into account.

<Officer Appointment Standards>

In addition to the basic requirement of having profound insights and high levels of expertise acquired from past experience, successful candidates should comprehend and live up to the Company's Corporate Philosophy, deliver results, and continue to take on new challenges. (At Nitto, those meeting such requirements are called "Nitto Persons.")

<Officer Dismissal Standards>

1. An act was committed that was contrary to public order and morality;
2. A violation of the laws and ordinances, the Articles of Incorporation, or any other regulations of the Group was committed, and Nitto suffered a substantial loss or hindrance to Group business operations due to such violation;
3. A material inconvenience was caused to the execution of the duties of an Officer; or
4. Any of the quality requirements set forth in the Officer Appointment Standards is no longer satisfied.

[Nomination of Outside Directors and Outside Corporate Auditors]

When nominating Outside Director and Outside Corporate Auditor candidates, individuals who are considered appropriate for such positions must meet the separately established "Criteria for Election of Independent Outside Directors and Outside Corporate Auditors," in addition to the Officer Appointment Standards. Furthermore, in order for Outside Directors and Corporate Auditors to set aside the time and labor necessary to properly fulfill their roles and responsibilities at the Company, due attention is paid to the statuses of concurrent positions (officers, etc.) that they might hold at other companies to ensure that such statuses are appropriate.

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

The Company, in an effort to ensure the objectivity and transparency of governance, has set forth the criteria for the independence of Outside Directors and Outside Corporate Auditors (hereinafter collectively referred to as "Outside Officer(s)"), as follows.

The Company considers an Outside Officer or a candidate for Outside Officer to have independence, if, after conducting an investigation to the utmost reasonable extent, it is determined that none of the following items are applicable to the Outside Officer or the candidate for Outside Officer.

1. A person who is or has been in the past ten years an executing person (Director, Corporate Auditor, Vice President, or any other employee) of the Company or the Group (hereinafter collectively referred to as the “Group”);
2. A person who is an important executing person (Director, Corporate Auditor, Accounting Advisor, Executive Officer, Vice President, or any other important employee; hereinafter the same shall apply) of a major shareholder of the Company (a shareholder holding 10% or more of the voting rights of the Company; hereinafter the same shall apply);
3. A person who is an important executing person of a company of which the Company is a major shareholder;
4. A person who is an important executing person of a major counterparty of the Company (a counterparty for which the amount of payment or receipt for transactions with the Company for the latest fiscal year exceeds 2% of consolidated gross sales);
5. A person who is an important executing person of a major lender of the Company (a lender to which the Group’s aggregate amount of loans payable at the latest fiscal year-end exceeds 2% of consolidated total assets);
6. A person who is a legal professional, accounting and tax professional, consultant, or research and education specialist who receives a large amount of compensation or donation (for the latest fiscal year, 10 million yen or more in the case of an individual and more than 2% of consolidated gross sales in the case of a corporation or an organization) from the Company;
7. A person who has kinship status (being a relative within the third degree of kinship or a relative living together) with an executing person of the Company or the Group;
8. A person to whom any of the items 2. through 7. above has been applicable within the past five years; and
9. In addition to the above, a person who has an interest that is reasonably considered to give rise to doubts about his or her independence as an Independent Outside Director or Independent Outside Corporate Auditor, or to give rise to a conflict of interest with shareholders of the Company.

<Criteria for “Important Concurrent Positions”>

Concurrent positions are deemed “important” if:

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

(Reference) Compensation of Full-time (corporate) Directors

Fixed compensation *1*2	Short-term performance-linked compensation	Mid-term performance-linked compensation	Mid- and long-term performance-linked compensation	How the specific amount of compensation is determined
Compensation in cash By-position fixed monthly compensation The upper limit of the total amount was approved at the 150th Ordinary General Meeting of Shareholders: 30 million yen/month (3 million yen/month of which is for Outside Directors)	Bonus for Directors The upper limit of the total amount to be approved at a general meeting of shareholders each year	Performance-linked share-based remuneration Shares to be provided in a number within the range of 0% to 150% of the standard number of shares in accordance with the achievement of numerical targets for three business terms The upper limit of the total amount and number of shares was approved at the 153rd Ordinary General Meeting of Shareholders: 364 million yen/year 48,400 shares/year	Restricted share remuneration Shares whose transfer is restricted until retirement to be provided in lieu of retirement benefits The upper limit of the total amount and number of shares was approved at the 153rd Ordinary General Meeting of Shareholders: 243 million yen/year 32,000 shares/year	Total amount The upper limit to be approved at a general meeting of shareholders The amount paid to each Director The Representative Director determine the amount paid to each Director in accordance with their duties, responsibilities, and performance after consulting with the Management, Nomination and Remuneration Advisory Committee (The amount of performance-linked share-based remuneration is to be calculated by a separately specified formula.)

*1. In light of the nature of Outside Directors' roles, which is to supervise management by making important decisions at Board of Directors meetings and otherwise, the compensation paid to Outside Directors of the Company does not include equity-related compensation, and instead consists of only fixed compensation in cash. The upper limit of the total amount was approved as 3 million yen per month at the 150th Ordinary General Meeting of Shareholders. If Item 5 for the 155th Ordinary General Meeting of Shareholders is approved, the compensation for Outside Directors of the Company will be up to 4 million yen per month in total.

*2. In light of the nature of Corporate Auditors' duties, which is to audit and otherwise examine the execution of duties by Directors, the compensation paid to Corporate Auditors of the Company does not include equity-related compensation and other performance-linked elements, and instead consists of only compensation in cash which is fixed compensation. The upper limit of the total amount was approved as 1.2 million yen per month at the 139th Ordinary General Meeting of Shareholders. The specific amount of compensation paid to each Corporate Auditor is determined through consultation among Corporate Auditors in accordance with their respective duties and responsibilities.

Breakdown of compensation of Full-time (corporate) Directors actually paid in FY2019

Compensation in cash	Bonus for Directors	Share-based remuneration
52.0%	27.0%	21.0%

[Structure and roles of Management, Nomination and Remuneration Advisory Committee]

To ensure the objectivity and transparency for important management issues and matters concerning nomination and remuneration for directors and corporate auditors, the Management, Nomination and Remuneration Advisory Committee is established consisting of outside experts*1 as an advisory body of the Representative Director. *2

- *1. At present, it consists of eight members: two Representative Directors, three Outside Directors, and three Outside Corporate Auditors (Chairman: President).
- *2. Items on the agenda of the general meetings of shareholders concerning nomination and remuneration are determined at the Board of Directors meetings based on inquiries and opinions of the Committee.

[Activities of Management, Nomination and Remuneration Advisory Committee]

The Committee met three times in total in the fiscal year under review (FY2019), with members' attendance rate of 100% each time. The following are main consultations and deliberations:

- The Company's course of action based on the global situation, industry trends, new research, etc.
- Current remuneration structure, level and future stance based on trends in other companies, stakeholders including shareholders, etc.
- Current status of securing candidates for management position and succession plan

Business Report for the 155th Fiscal Term

For the 2019 fiscal year (April 1, 2019 to March 31, 2020)

1. Overview of business operations of the Nitto Group

(1) Operating progress and results

During the fiscal year ended March 31, 2020, trade conflicts between the U.S. and China as well as heightened uncertainties over the economic outlook negatively affected the world economy as a whole. The GDP growth rate slowed down in the Americas. Demand remained weak due to Brexit issues in Europe. China saw a drop in import and export from and to the Americas and weaker business sentiment in the manufacturing industry. The auto market, which is the major market of the Group, recorded a significant decline in production volume. Although the production volume of smartphones did not grow as well, there has been a new change in displays. As the novel coronavirus infectious disease (COVID-19) spread toward the end of the term, the effects of outing restrictions and stalled logistics in each area and region worldwide on the real economy deepened. In response to these circumstances, the Group promotes telework in the best interest of its employees' safety and handles this situation responding to requests from governments. Although the Group temporarily suspended operations in China region, it gradually resumed production after the Chinese New Year. Meanwhile, some local subsidiaries in the Americas, EMEA (Europe, the Middle East, and Africa) regions, and Asia remained out of operation. The impact of COVID-19 on business results was limited in this fiscal year.

As a result of the above, revenue decreased by 8.1% from the previous fiscal year (changes hereafter are given in comparison with the previous fiscal term) to 741,018 million yen. Operating income dropped 24.8% to 69,733 million yen, and net income attributable to owners of the parent company fell 29.2% to 47,156 million yen.

(2) Summary of operations by segment

[Industrial Tape] Composition of revenue: 41.2%

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

For functional base products, due to the sluggish electronics market, demand for products for smartphones and process materials for electronic components did not grow. Meanwhile, despite the weak semiconductor market, related process materials remained firm. In addition, in response to sales expansion into new areas, the Group enhanced the production system of diaper materials manufactured and developed at a Group company in Turkey. We expect to expand the market area of these materials and develop applications for adults. Further, demand for organic solvent-free double-coated adhesive tapes was steady. The Group will continue contributing to the environment in manufacturing.

The transportation business including automotive products saw a drop in production volume and weak demand in world's major auto markets such as Europe, the Americas, and China. In addition, the business was affected by COVID-19, with the Group's factories in Europe, the Americas, and Asia forced to suspend operations toward the end of the term.

As a result of the above, revenue decreased by 10.5% to 317,921 million yen and operating income declined 33.2% to 20,752 million yen.

[Optronics] Composition of revenue: 51.7%

Main products: Information fine materials and flexible printed circuit boards

Production volume of information fine materials for smartphones did not grow. The Group, however, responded to irregularly shaping of optical films to accommodate to large-sized displays. As a result, this application performed strong compared to the previous year. In the TV market, the supply and demand balance has greatly changed as panel manufacturers' supply capability expanded. In such an environment, the Group focused on the high-value-added domain in such application. Royalty income from technology licensing of general polarizing films was partly posted in the previous fiscal year, but new revenue is forecast to be recognized from the next fiscal year onward. With regard to flexible printed circuit boards, production volume of high-capacity hard disk drives (HDDs) remained low in personal computers application and others. However, demand continued to recover in line with realization of high capacity for data center application. In applications

other than HDDs, production of materials for hearing instruments in the wireless recharging system started. Going forward, the Group will continue to cultivate new applications of high precision substrates.

The impact of COVID-19 on the segment was limited despite a temporary halt of production in China.

As a result of the above, revenue decreased by 7.2% to 398,942 million yen and operating income slid 7.9% to 57,067 million yen.

[Life Science] Composition of revenue: 3.5%

Main products: Medical-related products

The life science business posted final revenue from a customer's suspension of new drug development in the nucleic acid medicine contract manufacturing in the previous fiscal year. Due to this, the result for the year under review did not reach that of the previous year. Revenue, however, is on a recovery trend to cater to the needs of the steadily growing nucleic acid medicine market. In addition, as for transdermal absorption tape formulations, sales of atypical antipsychotic agent LONASEN® Tape, which the Group had jointly developed with Sumitomo Dainippon Pharma Co., Ltd., remained brisk. As for nucleic acid drug discovery, the Group is continuously working on a clinical trial of a drug for pulmonary fibrosis and intractable cancer.

As a result of the above, revenue dipped 9.4% to 27,129 million yen and operating loss amounted to 2,546 million yen (operating loss of 1,920 million yen was reported in the previous fiscal year).

[Others] Composition of revenue: 3.6%

Main products: Membrane products, other products

For membrane products (polymer separation membranes), demand for industrial applications for seawater desalination and environmental measures was steady. Also, in the field of energy, demand for new nanofiltration membrane for water injection used in oil drilling grew. Please note that this segment includes new businesses that have yet to generate sufficient levels of revenue.

As a result of the above, revenue increased by 2.3% to 26,943 million yen and operating loss amounted to 2,782 million yen (operating loss of 1,970 million yen was reported in the previous fiscal year).

(Yen in Millions)

Business segment	FY2019 (155th term)		FY2018 (154th term)
	Revenue	(year-on-year change)	Revenue
Industrial Tape	317,921	(down 10.5%)	355,277
Optronics	398,942	(down 7.2%)	430,065
Life Science	27,129	(down 9.4%)	29,958
Others	26,943	(up 2.3%)	26,326
Eliminations and corporate	-29,918	-	-35,131
Total	741,018	(down 8.1%)	806,495

Notes: 1. The breakdown of composition of revenue stated above is calculated by excluding eliminations and corporate.

2. In fiscal 2019, the attribution of the process materials was changed from Optronics to Functional base products. The figures for fiscal 2018 are stated to reflect the change.

(3) Capital expenditure

During the fiscal year under review, the Group expended a total of 58,930 million yen in capital spending.

Below is the breakdown of such spending by segment.

For the Industrial Tape segment, 15,261 million yen was spent to improve the productivity of adhesive tapes and continue contributing to the environment in manufacturing. For the Optronics, 30,257 million yen was spent to boost the productivity of optical films, to build the production system of high precision substrates for flexible printed circuit boards, and others. For the Life Science segment, 1,937 million yen was spent mainly to establish the production system of nucleic acid medicines. For the Others segment, 2,258 million yen was spent to enhance the productivity of membrane (polymer separation membranes).

Capital expenditures not directly related to any business segment amounted to 9,216 million yen.

(4) Financing

With the Group's policy to utilize funds efficiently and reduce borrowings as much as possible, consolidated total borrowings in the fiscal year under review stand at 90 million yen.

(5) Issues to be addressed by the Group

Under the Mission of “Contribute to customers’ value creation with innovative ideas,” which forms the core of its Corporate Philosophy, and the brand slogan of “Innovation for Customers,” the Nitto Group seeks to sustain its global growth through concerted and collective efforts. The Group faces many issues to be addressed, including geopolitical risks such as trade conflicts between the U.S. and China, concerns over a global economic downturn stemming from the outbreak of the novel coronavirus infectious disease (COVID-19), and changes in the society as a result of the outbreak of COVID-19. Under these circumstances, the Group will create new value by converging a wide range of technologies and information from both within and outside the Group. One of the approaches to achieving this is to place a renewed focus on *Sanshin Katsudo* (three new activities), which has been one of the strengths of the Group since its foundation, thus creating new demand through pursuing new technology development and new application cultivation.

Regarding the act of misconduct by local employees of the purchasing department of Shanghai Nitto Optical Co., Ltd., a consolidated subsidiary of the Company, that was publicly announced in “Notice of Act of Misconduct by Members of a Nitto Subsidiary” as of January 27, 2020, the Company established an in-house investigation committee (Chairman: Full-time Corporate Auditor Masami Kanzaki), including outside experts to conduct an investigation, and received a final report as of April 27, 2020 (the structure of the in-house investigation committee, the outline of the investigation results, and future actions were publicly announced in “Notice of Results of In-house Investigation on Act of Misconduct by Members of a Nitto Subsidiary” as of April 27). Going forward, the Group will formulate drastic preventive measures and reinforce the internal control system based on the investigation results. We received a report from the in-house investigation committee that no similar incident was detected in such consolidated subsidiary, nor was there any other high-risk location.

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

• Industrial Tape

For functional base products, the Group will review optical production system and carry out productivity reform of existing businesses, and thereby enhance its competitiveness. Further, the Group will create new products in fields where the demand for electronics materials, semiconductor process materials, and electronics process materials is expected to grow, driven by the dissemination of 5G and the data center market. For the transportation business including automotive products, with a long-term slump in production volume assumed, the Group will enhance the competitiveness and improve profitability of existing products by reviewing and thoroughly streamlining the global supply structure, and integrating and abolishing current products or other efforts. The Group will also push ahead with creation of new products related to car-electronics in response to changes such as car automation, automatic driving, connected and sharing, and the mobility fields other than automobile such as aircraft, and thereby aims to achieve further business growth.

• Optronics

For information fine materials, the display market has been bipolarized between the commodity market and the high-end market. Amid this trend, the Group will, by honing its industry-leading technological prowess, respond to the changes taking place to displays. The Group also aims to strengthen its business foundations and expand highly profitable businesses by strengthening and streamlining its product lifecycle management. With regard to flexible printed circuit boards, the Group aims to enhance profitability by boosting the market share of its HDD application and streamlining the business. The Group will work to generate new demand and expand its business by using technologies it has cultivated.

• Life Science

In the life science business, the nucleic acid medicine market is expected to expand in the future, backed by an increase in themes for late-phase clinical trials and approval of new drugs. In this context, the Group will expand its share in the contract manufacturing market by strengthening its manufacturing and technology development capabilities. For the drug discovery business, the Group will forge ahead with research and development as well as clinical trials of drugs in fields such as pulmonary fibrosis and intractable cancer in an attempt to develop them into new core businesses. The Group will also expand the sales of atypical antipsychotic agent LONASEN® Tape, which was launched in September 2019.

• Others

For membrane products, the Group will streamline its operations, which include automation of its production processes, while strengthening its business foundations. Aiming to grow new businesses in the fields of energy and environment, the Group will work to increase profitability. For new businesses, the Group will aim to bring products currently under development, including plastic optical cables, to the market as soon as possible.

(6) Trends in operating results and assets

Item	FY2015 (151st term)	FY2016 (152nd term)	FY2017 (153rd term)	FY2018 (154th term)	FY2019 (155th term)
Revenue (million yen)	793,054	767,710	857,376	806,495	741,018
Operating income (million yen)	102,397	92,589	125,722	92,777	69,733
Net income attributable to owners of the parent company (million yen)	81,683	63,453	87,377	66,560	47,156
Basic earnings per share (yen)	495.23	390.94	538.99	423.50	301.32
Dividend payout ratio (%)	28.2	38.4	29.7	42.5	66.4
ROA (Ratio of profit attributable to owners of the parent company to total assets) (%)	9.7	7.4	9.6	7.2	5.1
ROE (Return on equity attributable to owners of the parent company) (%)	13.3	10.0	13.0	9.6	6.8
Operating income to revenue (%)	12.9	12.1	14.7	11.5	9.4
Total assets (million yen)	825,905	879,899	937,796	913,418	921,900
Total equity (million yen)	617,891	654,421	693,995	701,187	690,204
Equity attributable to owners of the parent company per share (yen)	3,785.91	4,027.57	4,328.50	4,465.70	4,479.29
Ratio of equity attributable to owners of the parent company to total assets (%)	74.4	74.3	73.9	76.7	74.8
Depreciation and amortization (million yen)	48,537	48,556	49,283	45,904	49,390
Capital investment (million yen)	60,420	36,538	47,193	64,353	58,930
Research and development costs (million yen)	32,120	30,366	31,243	31,990	33,765
Exchange rate (average rate) (yen/1 US dollar)	120.17	108.88	110.83	110.57	109.06

Notes:

1. The Nitto Group prepares its consolidated financial statements based on the International Financial Reporting Standards (IFRS).
2. From fiscal 2018, "royalty income," which was previously included in "other income" on the consolidated statements of income, is included in "revenue." Accordingly, the above numbers for fiscal 2017 have been reclassified to reflect the change.
3. "Dividend payout ratio" is calculated based on a tentative dividend amount whose payment is subject to approval of Item 1 as proposed for the 155th Ordinary General Meeting of Shareholders.

(7) Principal offices and status of major subsidiaries (as of March 31, 2020)

<1> Principal offices of the Group

Nitto Denko Corporation	Head Office	Head Office (Kita-ku, Osaka), Tokyo Head Office (Minato-ku, Tokyo)
	Offices (Plants/Laboratory)	Tohoku Plant (Osaki, Miyagi), Kanto Plant (Fukaya, Saitama), Toyohashi Plant (Toyohashi, Aichi), Kameyama Plant (Kameyama, Mie), Shiga Plant (Kusatsu, Shiga), Ibaraki Laboratory (Ibaraki, Osaka), Onomichi Plant (Onomichi, Hiroshima)
	Branches	Tokyo Sales Branch (Minato-ku, Tokyo), Nagoya Sales Branch (Naka-ku, Nagoya), Osaka Sales Branch (Chuo-ku, Osaka), Kyushu Sales Branch (Hakata-ku, Fukuoka)
Nissho Corporation	Kita-ku, Osaka, Japan	
Nitto EMEA NV	Leuven, Belgium	
Nitto, Inc.	Lakewood, NJ, U.S.	
Nitto Denko Avecia Inc.	Milford, MA, U.S.	
Nitto Denko (China) Investment Co., Ltd.	Shanghai, China	
Taiwan Nitto Optical Co., Ltd.	Taichung, Taiwan	
Korea Nitto Optical Co., Ltd.	Pyeongtaek, South Korea	
Nitto Denko (HK) Co., Ltd.	Hong Kong, China	
Shanghai Nitto Optical Co., Ltd.	Shanghai, China	
Shenzhen Nitto Optical Co., Ltd.	Shenzhen, China	
Nitto (China) New Materials Co., Ltd.	Shanghai, China	
Nitto Denko (Singapore) Pte. Ltd.	Queenstown, Singapore	
Nitto Denko Material (Thailand) Co., Ltd.	Ayutthaya, Thailand	

<2> Status of major subsidiaries

Corporate name	Capital	Company's stake	Main business
Nissho Corporation	in million yen 515	100.0 %	Production, processing, and sales; Industrial Tape
Nitto EMEA NV	in thousand euro 212,282	100.0	Administration of Group companies in Europe
Nitto, Inc.	in thousand U.S. dollars 0	100.0	Administration of Group companies in the Americas Production, processing, sales, etc.; Industrial Tape
Nitto Denko Avecia Inc.	in thousand U.S. dollars 1	100.0 (100.0)	Production and sales; Life Science
Nitto Denko (China) Investment Co., Ltd.	in thousand RMB 925,394	100.0	Administration of the Group companies in China
Taiwan Nitto Optical Co., Ltd.	in thousand NT\$ 568,003	100.0 (3.6)	Production, processing, and sales; Optronics
Korea Nitto Optical Co., Ltd.	in million won 84,365	100.0	Production, processing, and sales; Optronics
Nitto Denko (HK) Co., Ltd.	in thousand HK\$ 13,826	100.0	Sales; Industrial Tape and Optronics
Shanghai Nitto Optical Co., Ltd.	in thousand RMB 89,981	100.0 (24.5)	Production, processing, and sales; Optronics
Shenzhen Nitto Optical Co., Ltd.	in thousand RMB 568,925	100.0	Production, processing, and sales; Optronics
Nitto (China) New Materials Co., Ltd.	in thousand RMB 50,000	100.0 (100.0)	Sales; Industrial Tape, Optronics, and Others
Nitto Denko (Singapore) Pte. Ltd.	in thousand U.S. dollars 70,285	100.0	Administration of Group companies in South Asia Sales; Industrial Tape
Nitto Denko Material (Thailand) Co., Ltd.	in thousand Thai Baht 460,000	100.0 (100.0)	Production, processing, and sales; Optronics

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

(8) Employees of the Group and the Company (as of March 31, 2020)

	Number of employees	Changes from the end of the previous fiscal year
Group	25,793	-208
Company	5,592	+169

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

(9) Major creditors (as of March 31, 2020)

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

2. Shareholders' equity (as of March 31, 2020)

(1) Number of shares authorized to be issued	400,000,000 shares
(2) Number of shares issued	158,758,428 shares
(Amount of treasury stock held)	4,839,755 shares)
(3) Number of shareholders	36,871
(4) Major shareholders (top 10)	

Name	Number of shares held	Ownership percentage
The Master Trust Bank of Japan, Ltd. (Trust Account)	Thousands of shares 28,737	% 18.67
Japan Trustee Services Bank, Ltd. (Trust Account)	14,279	9.28
Japan Trustee Services Bank, Ltd. (Trust Account 7)	3,377	2.19
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	2,866	1.86
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,810	1.83
JP MORGAN CHASE BANK 385151	2,722	1.77
STATE STREET BANK AND TRUST COMPANY 505223	2,600	1.69
STATE STREET BANK WEST CLIENT - TREATY 505234	2,429	1.58
Nippon Life Insurance Company	2,082	1.35
SSBTC CLIENT OMNIBUS ACCOUNT	2,037	1.32

- Notes:
- The Group holds 4,839,755 treasury stock other than the major shareholders listed above.
 - The ownership percentage has been calculated based on the number of shares issued, excluding treasury stock.
 - Although the reports on large-scale shareholdings have been submitted as follows, the Company lists the major shareholders above according to the shareholder register as of March 31, 2020.
 - A total of four shareholders comprising MUFG Bank, Ltd. and its joint holders
10,717,630 shares (as of December 24, 2018)
 - A total of two shareholders comprising Mizuho Securities Co., Ltd. and its joint holders
8,830,210 shares (as of February 15, 2019)
 - A total of two shareholders comprising Sumitomo Mitsui Trust Asset Management Co., Ltd. and its joint holders
12,629,500 shares (as of July 15, 2019)
 - A total of nine shareholders comprising BlackRock Japan Co., Ltd. and its joint holders
10,294,355 shares (as of March 13, 2020)
 - A total of three shareholders comprising Nomura Securities Co., Ltd. and its joint holders
16,546,420 shares (as of April 21, 2020)

(5) Matters concerning warrants

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

Subject	Equity-based compensation stock options
Number of warrants	698 units (100 shares of common stock per unit)
Class and number of underlying shares subject to warrants	Company's common stock: 69,800 shares
Exercise value (payment amount per unit at time of exercise)	100 yen
Exercise period	<ul style="list-style-type: none">• 30 years from the day following the issuing date• 10 days from the day following the day from which they no longer serve as Directors
Number of owners and units	5 Directors 698 units

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

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

Not applicable

3. Executives

(1) Directors and Corporate Auditors (as of March 31, 2020)

Name	Title (Position)	Duties and significant concurrent positions
Hideo Takasaki	Representative Director, President CEO, COO Chairperson, Internal Control Committee	Supervisor of management in general
Toshiyuki Umehara	Representative Director, Senior Executive Vice President CTO General Manager of Corporate Technology Sector Chairperson, Information Security Committee	Supervisor of information fine materials business, medical business, membrane business, human resources & training, and management of North and South American regions and Korea In charge of corporate technology
Toru Takeuchi	Director, Senior Executive Vice President CFO Chairperson, J-SOX Committee and Chairperson, Timely Disclosure Committee	Supervisor of compliance, and management of EMEA (Europe, the Middle East and Africa) regions In charge of accounting & finance
Nobuhiro Todokoro	Director, Executive Vice President	Supervisor of functional base products business, and management of East Asian region
Yosuke Miki	Director, Senior Vice President Deputy CTO General Manager of Information and Communication Technology Sector concurrently Deputy General Manager of Corporate Technology Sector and General Manager of New Business Development Division	Supervisor of transportation business and management of South Asia/Oceania and India In charge of ICT business and corporate technology (new technology)
Yoichiro Furuse	Outside Director	Representative Director of Evanston Corporation Chairman of Japan of Permira Advisers KK Consultant of GLP Pte. Ltd.
Takashi Hatchoji	Outside Director	External Audit & Supervisory Board Member of Marubeni Corporation Outside Director of Konica Minolta, Inc.
Tamio Fukuda	Outside Director	Professor Emeritus of Kyoto Institute of Technology
Masami Kanzaki	Corporate Auditor (full-time service)	
Shin Tokuyasu	Corporate Auditor (full-time service)	
Masashi Teranishi	Outside Corporate Auditor	Honorary Advisor of MUFG Bank, Ltd.
Masakazu Toyoda	Outside Corporate Auditor	Chairman & CEO of The Institute of Energy Economics, Japan Outside Director of Canon Electronics Inc. Outside Director of Nissan Motor Co., Ltd.
Mitsuhide Shiraki	Outside Corporate Auditor	Professor, Faculty of Political Science and Economics, Waseda University

* CEO: Chief Executive Officer, COO: Chief Operating Officer, CTO: Chief Technology Officer, CFO: Chief Financial Officer

- Notes:
1. Full-time Corporate Auditor Shin Tokuyasu has assumed key positions at accounting & finance and other administrative departments of the Company and as Representative Director of the Company's overseas subsidiary over many years, thus possessing a broad range of knowledge in finance and accounting.
 2. Outside Corporate Auditor, Masashi Teranishi holds a Master of Business Administration (MBA) and has been involved in management at financial institutions over the years, thus possessing a broad range of knowledge in finance and accounting.
 3. The Company has designated all of the Outside Directors and Outside Corporate Auditors as Independent Directors/Corporate Auditors as stipulated by Tokyo Stock Exchange and reported them to the Exchange.
 4. The Company has no special relationship with any of the organizations at which the Outside Directors and Outside Corporate Auditors hold important concurrent positions.
 5. Mr. Kageshi Maruyama resigned as full-time Corporate Auditor at the close of the 154th Ordinary General Meeting of Shareholders held on June 21, 2019.

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

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

(3) Summary of liability limitation agreement

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

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

(Yen in Millions)

Position	Total amount of compensation, etc.	Compensation by type			Number of eligible Directors and Corporate Auditors
		Compensation in cash	Bonus paid to Directors	Restricted share remuneration	
Directors (excluding Outside Directors)	469	244	127	98	6
Outside Directors	36	36	-	-	3
Corporate Auditors (excluding Outside Corporate Auditors)	67	67	-	-	3
Outside Corporate Auditors	32	32	-	-	3

- Notes:
1. The table above includes one Non-Outside Director and one Non-Outside Auditor who retired during the fiscal year under review.
 2. The amount of employee salary (including bonus) for a Director who also holds an employee position is paid separately from the abovementioned compensation, but such employee salary was not paid for the current term.
 3. The limit of compensation in cash for Directors is 30 million yen per month (of which up to 3 million yen is allocated to Outside Directors) since approval at the 150th Ordinary General Meeting of Shareholders, and that for Corporate Auditors is 12 million yen per month since approval at the 139th Ordinary General Meeting of Shareholders.
 4. Bonus for Directors is a tentative amount and its payment is subject to the approval of proposed Item 2 at the 155th Ordinary General Meeting of Shareholders.
 5. At the 153rd Ordinary General Meeting of Shareholders, it was resolved that the upper limit of the total amount and number of shares to be granted in the form of restricted share remuneration for Directors (excluding Outside Directors) would be 243 million yen/year and 32,000 shares/year, respectively.
 6. In addition to the above, at the 153rd Ordinary General Meeting of Shareholders it was approved that a performance-linked share-based remuneration would be provided to Directors (excluding Outside Directors) in accordance with the achievement of numerical targets at the close of the third fiscal term with the one ending March 31, 2019 being the first (at the close of the third fiscal term with each fiscal term being the first thereafter). The upper limit of the total amount and number of shares to be granted will be 364 million yen/year and 48,400 shares/year, respectively.

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

<1> Compensation paid to Directors

Compensation for Directors (excluding Outside Directors) of the Company has four components with a view toward improving performance over the mid- and long-term and motivating them to contribute to sustainable enhancement of corporate value:

- Fixed compensation in cash
- Bonus for Directors as short-term performance-linked remuneration
- Performance-linked share-based remuneration as a mid-term performance-linked remuneration

(To be paid within the scope of 0% to 150% in accordance with the achievement of each numerical target that the Company's Board of Directors decides based on performance targets laid out in its Mid-term Management Plan, etc.)

- Restricted share remuneration as a mid- and long-term performance-linked remuneration

The amount of each of the four components is determined within the range of the total amount (and number of shares) approved at the general meetings of shareholders, with consideration given to the balance between fixed compensation and variable compensation and between cash compensation and share-based remuneration, etc.

In order to increase the objectivity and transparency of such compensation, after consulting the Management, Nomination and Remuneration Advisory Committee on their views regarding compensation paid to Directors, the specific amount of performance-linked share-based remuneration is determined by a pre-specified formula and the compensation paid to each Director is determined by the Representative Director in accordance with each Director's duties, responsibilities, and performance.

In light of the nature of Outside Directors' roles, which is to supervise management by making important decisions at Board of Directors meetings and otherwise, the compensation paid to Outside Directors of the Company does not include any performance-based components, including equity-related compensation, and instead consists of only fixed compensation in cash.

<2> Compensation paid to Corporate Auditors

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

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

(Reference) Status of Vice Presidents

The Company has adopted the executive officer system. The current positions and responsibilities of executive officers as of April 1, 2020 are as follows.

Name	Title (Position)	Duties and significant concurrent positions
Hideo Takasaki	Representative Director, President CEO, COO Chairperson, Internal Control Committee	Supervisor of management in general
Toshihiko Omote	Senior Executive Vice President Senior Chief Engineer	In charge of special assignments
Michio Yoshimoto	Senior Executive Vice President General Manager, Legal and Corporate Affairs Division General Manager, Export Control Center	In charge of legal and corporate affairs, and export control
Toshiyuki Umehara	Representative Director, Senior Executive Vice President CTO General Manager of Corporate Technology Sector Chairperson, Information Security Committee	Supervisor of information fine materials business, medical business, membrane business, human resources & training, and management of North and South American regions and Korea In charge of corporate technology
Toru Takeuchi	Director, Senior Executive Vice President CFO Chairperson, J-SOX Committee and Chairperson, Timely Disclosure Committee	Supervisor of compliance, and management of EMEA (Europe, the Middle East and Africa) regions In charge of accounting & finance
Yasushi Nakahira	Executive Vice President General Manager of Corporate QES (Quality, Environment & Safety) Sector Chairperson, Environment & Safety Committee	In charge of quality, environment & safety
Yukihiro Iizuka	Executive Vice President General Manager of North and South American regions President, Nitto, Inc.	In charge of management of North and South American regions
Nobuhiro Todokoro	Director, Executive Vice President	Supervisor of functional base products business, and management of East Asian region
Yasuhito Ohwaki	Senior Vice President CIO, CPO	In charge of IT, procurement, logistics, and business reform
Sam Strijckmans	Senior Vice President General Manager of EMEA (Europe, the Middle East and Africa) regions Deputy General Manager of Corporate Accounting & Finance Division President & CEO, Nitto EMEA NV	In charge of management of EMEA (Europe, the Middle East and Africa) regions, and global finance & auditing
Jun Yamashita	Senior Vice President General Manager of South Asia/Oceania General Manager of India Director, Nitto Denko (Singapore) Pte. Ltd.	In charge of management of South Asia/Oceania and India
Toshihiko Takayanagi	Senior Vice President General Manager of Sales Management Sector, General Manager of Tokyo Sales Branch	In charge of sales management & sales support

Kazuki Tsuchimoto	Senior Vice President Deputy CTO Deputy General Manager of Corporate Technology Sector	In charge of Corporate Technology (manufacturing technology & process technology)
Yosuke Miki	Director, Senior Vice President Deputy CTO General Manager of Information and Communication Technology Sector concurrently Deputy General Manager of Corporate Technology Sector	Supervisor of transportation business and management of South Asia/Oceania and India In charge of ICT business and corporate technology (new technology)
Hiroshi Fukuhara	Vice President General Manager of Human Resources Management Division	In charge of human resources & training, and management of offices/plants
Seiji Fujioka	Vice President General Manager of Medical Division	In charge of medical business
Atsushi Ukon	Vice President President, Nissho Corporation	In charge of management of business companies
Bae-Won Lee	Vice President General Manager of Korea President, Korea Nitto Optical Co., Ltd.	In charge of management of Korea, and information fine materials business
Yasuhiro Iseyama	Vice President General Manager of Corporate Accounting & Finance Division	In charge of accounting & finance
Norio Sato	Vice President General Manager, Functional Base Products Sector	In charge of functional base products business
Katsuyoshi Jo	Vice President General Manager of East Asian region Chairman/President, Nitto Denko (China) Investment Co., Ltd.	In charge of management of East Asian region
Tatsuya Osuka	Vice President General Manager, Corporate Sustainability Division Chairperson, CSR Committee	In charge of compliance
Mehrdad Tabrizi	Vice President Director, Nitto, Inc.	In charge of management of North and South American regions
Tatsuya Akagi	Vice President General Manager of Information Fine Materials Sector	In charge of information fine materials business
Kenjiro Asuma	Vice President General Manager of Corporate Strategy Management Division	In charge of corporate strategy, public relations and investor relations

* CEO: Chief Executive Officer, COO: Chief Operating Officer, CTO: Chief Technology Officer, CIO: Chief Information Officer, CFO: Chief Financial Officer, CPO: Chief Procurement Officer

March 31, 2020

Findings of the Nitto Board Effectiveness Evaluation

Please find below the executive summary of the findings of the FY2019 Nitto Board effectiveness analysis/evaluation, which has been conducted based on Japan's Corporate Governance Code stipulated by Tokyo Stock Exchange, Inc.

1. Analysis/evaluation method

Our Board of Directors analyzed and evaluated the effectiveness of the Board as follows, with advice from a third-party organization starting this fiscal year.

- (1) Prepared a survey questionnaire on the Nitto Board effectiveness with input from a third-party organization
- (2) At the December Board of Directors meeting, the Secretariat of the Board explained the purpose of effectiveness evaluation and distributed a survey questionnaire to the Directors and Corporate Auditors.
- (3) Collected the questionnaire in mid-January
- (4) The Secretariat of the Board parsed the questionnaire results and optional comments by checking them against the analysis results provided by the third-party organization to prepare a report on the effectiveness evaluation survey, which was distributed to the Directors and Corporate Auditors.
- (5) At the February Board of Directors meeting, the Directors and Corporate Auditors discussed the Board's effectiveness based on the report.
- (6) The Secretariat of the Board prepared a document summarizing the outcomes of the discussions, which was distributed to the Directors and Corporate Auditors.
- (7) At the March Board of Directors meeting, the Board went over the discussion outcomes, reviewed the details of the Board effectiveness evaluation, and approved the timely disclosure document.

2. Categories of the survey questions

- Composition of the Board of Directors	3
- Agenda items for Board of Directors meetings	12
- Deliberation method at the Board of Directors meetings	8
- Risk management	3 *
- Training for Directors and Corporate Auditors	2 *
- Dialogue with shareholders	2 *
- Efforts by individual Directors and Corporate Auditors	7 *
- Others	2
- Overview	1
	Total of 40 questions

(*) The four categories with an asterisk were added last year to expand the range of topics.

3. Overview of the analysis/evaluation findings

1) Conclusions drawn

It was concluded that the effectiveness of Nitto's Board of Directors is ensured.

2) Analysis and evaluation

All the Directors and Corporate Auditors responded to the Board effectiveness survey on a five-point scale. They chose "Appropriate" or "Largely appropriate" for many of the questions (77% of the total). In particular, the survey confirmed that, at the Board of Directors meetings, open discussions are conducted among its members including Outside Directors and Outside Corporate Auditors, and that the agenda items and deliberation times are deemed to be largely appropriate. With regard to the mid- and long-term management themes required to be addressed that were discussed as part of the Board effectiveness evaluation last year, it was confirmed that efforts were made to improve them by bettering the content of business reports from executive officers in each overseas

geographical region and amending the decision-making regulations, among other initiatives.

Meanwhile, the Board of Directors confirmed that continued efforts would be made to improve issues that have come to light this fiscal year. These issues include: recruitment/development of the right candidates for Board members to ensure the diversity of Board members, enhancement of discussions on the risk management system, improvement of transparency and fairness through the Management, Nomination, and Remuneration Advisory Committee and other optional committees, improvement of the content of shareholder relations reports to facilitate dialogue with shareholders, and administration of the Secretariat of the Board with social trends and requests from shareholders in mind.

4. Future action

With the analysis/evaluation findings above in mind, Nitto's Board of Directors will remain committed to further enhancing the effectiveness of the Board as a whole.

End

4. Accounting auditors

(1) Name of Accounting Auditor: KPMG AZSA LLC

(2) Amount of compensation for the Accounting Auditor

(Yen in Millions)

1)	Amount of compensation as an accounting auditor for this business year	197
2)	Total amount of money and other asset interests to be paid by the Company and the subsidiaries of the Company	281

Notes:

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

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

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

5. Internal control system and policies of the Company

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

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

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

(Summary of resolutions at the Board of Directors)

- (1) A corporate philosophy and Nitto Group Business Conduct Guidelines that express that philosophy in concrete terms to ensure that employees make lawful and ethical decisions shall be established and communicated to all officers and employees of the Group to familiarize them with the same, and the Company's Directors shall take the lead in complying with legal and ethical norms to set an example for others to follow.
- (2) The Company's Board of Directors shall adopt an outside director system.
- (3) In order to promote CSR activities, including the establishment of compliance and risk management systems for the Group, an officer in charge of CSR (Director or Vice President) shall be appointed and a CSR Committee shall be set up and chaired by that officer.
- (4) Besides the CSR Committee, expert committees comprising members from relevant departments shall be established in order to address cross-sectional issues, compliance, and risk management for the Group.
- (5) An Internal Control Committee shall be established with the Company's Representative Director, President serving as chair in order to monitor the implementation status of this basic policy and consider revising the same as necessary.
- (6) An internal audit department shall be established in order to internally audit the appropriateness and other aspects of the operational process and operations in general at each division of the Company and Group companies. At the same time, departments specializing in safety, the environment, quality, and export control shall be established in order to conduct audits in collaboration with the internal audit department.
- (7) A whistleblowing system in which an external specialized institution directly receives such information, as well as an internal hotline, shall be set up and a Legal and Ethical Compliance Committee that includes the officer in charge of CSR shall also be established to handle the process and develop a recurrence prevention system.
- (8) A system shall be set up that ensures the appropriateness, validity, and efficiency of the operational process and operations in general, including internal control necessary to ensure the reliability of financial reporting.

(Implementation status confirmed)

- The Corporate Philosophy and Nitto Group Business Conduct Guidelines were established and communicated to all officers and employees of the Group by disseminating them and training.
- Several Outside Directors were elected.
- The Internal Control Committee Rules and individual expert committees' rules were established, and the Board operated in accordance therewith.
- An internal audit department was established in accordance with the Internal Audit Regulations, and an internal audit was also conducted during this fiscal year under review.
- Internal whistleblowing hotlines were established inside and outside the Company to detect problems early and prevent recurrence thereof, and appropriate measures were taken.
- In accordance with the basic policy on internal control concerning financial reporting, monitoring was conducted particularly in the department in charge.

<2> A system for safekeeping and management of information on the execution of duties by the Company's Directors

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

- Decision-making documents of the Company were safekept by the designated department in charge.

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

(Summary of resolutions at the Board of Directors)

- (1) The Company's Board of Directors, Corporate Strategic Committee, and individual operating entities shall constantly manage risks associated with business mix and business operation outside of Japan, risks arising from external factors, such as currency fluctuations and country risks, and risks associated with technological competitiveness, such as capabilities to develop new technologies and intellectual property rights, and respond to them as necessary.
- (2) With regard to risks associated with safety, the environment, disasters, and product quality/defects, and risks associated with protection of information security, responses to demands from antisocial forces, and compliance with the Antimonopoly Act, Pharmaceutical and Medical Device Act, Export Control Act, and other acts, a competent department shall be designated to identify significant risks periodically. Each risk thus identified shall be monitored and prevented by the relevant departments and committees, and project teams that may be formed as necessary.
- (3) An arrangement shall be in place to immediately inform the President, an officer in charge of CSR, and Corporate Auditors of the Company of any unforeseen situation that may have developed, and to prevent any damage from expanding and minimize the same by setting up a crisis countermeasures headquarters under the President, thereby ensuring continuity and early restoration of business.

(Implementation status confirmed)

- The Company's Board of Directors, Corporate Strategy Committee Meeting, and individual operating entities conducted monitoring on the business-related risks, and expert committees and special departments conducted monitoring on the risks that may affect the Nitto Group in general.
- The Internal Control Committee reviewed the risk management system of the Group in general.
- The Emergency Reporting Regulations, etc. were formulated, and the risk management system was maintained accordingly.

<4> A system for ensuring the efficient execution of duties by the Company's Directors

(Summary of resolutions at the Board of Directors)

- (1) As a basis for a system to ensure the efficient execution of duties by the Company's Directors, Board of Directors meetings shall, in principle, be held periodically once a month and extraordinarily as necessary.
- (2) Corporate decision-making rules shall be developed that demand significant matters concerning the Company's concrete management policies and strategies be subject to resolution of the Board of Directors, the Corporate Strategic Committee consisting of Directors and Vice Presidents (which convenes once a month, in principle), or other meetings organized by each operating entity, or be subject to the *ringi* collective decision-making process, depending on the importance of such matters.
- (3) Who is responsible for the execution of what duties and to what extent and the details of procedures for the execution of duties shall be defined by an organization designated by the Board of Directors, in Group Decision-Making Regulations and elsewhere.

(Implementation status confirmed)

- The Group Decision-Making Regulations were established, and decisions were made after deliberations by Board of Directors meetings, Corporate Strategic Committee meetings, etc. in accordance therewith.

<5> A system for reporting to the Company matters concerning execution of duties by Directors and other members of the Group

(Summary of resolutions at the Board of Directors)

- (1) Group Decision-Making Regulations/Rules shall be developed to ensure that Group companies properly consult, report to, or otherwise contact the Company concerning their decisions on management issues and other significant matters.
- (2) A system shall be established whereby Directors and Vice Presidents of the Company are briefed on businesses under their supervision by the relevant Group companies and are involved in their decision-making processes, if necessary, in accordance with the Group Decision-Making Regulations/Rules, thereby ensuring the appropriateness of duties within the entire Group.

(Implementation status confirmed)

- In accordance with the Group Decision-Making Regulations, a system under which important issues of the Group are discussed in advance with the Company and reported was established, and it was implemented and conducted accordingly.

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

- In accordance with the Group Decision-Making Regulations, issues of a Group company were clarified into those that require the Company's resolution and those that such Group company may resolve alone, and the Group's decision-making process was streamlined.

<7> Matters concerning employees whose appointment is requested by Corporate Auditors of the Company to assist them in their duties, matters concerning independence of such employees from Directors, and matters concerning assurance of the effectiveness of instructions given by Corporate Auditors to such employees

(Summary of resolutions at the Board of Directors)

- (1) A Corporate Auditor Assistant position shall be established in order to assist Corporate Auditors of the Company in their duties.
- (2) A Corporate Auditor Assistant shall be affiliated with an independent organization and perform his/her duties under the direct command of Corporate Auditors.
- (3) Election and transfer of a Corporate Auditor Assistant shall be determined with consent from full-time Corporate Auditors.
- (4) Evaluation of a Corporate Auditor Assistant shall be determined by full-time Corporate Auditors.
- (5) A Corporate Auditor Assistant shall not hold a concurrent position that concerns the execution of duties.
- (6) Directors of the Company shall recognize and comprehend the importance and usefulness of auditing by Corporate Auditors, make such recognition and comprehension known throughout the Group, and strive to enhance internal audit organizations.

(Implementation status confirmed)

- The Board of Corporate Auditors Regulations, etc. were developed, and Corporate Auditors' staff, who are independent from the execution of duties, assisted Corporate Auditors in their duties, and thereby Corporate Auditors' audit system was enhanced.

<8> A system for Directors and employees of the Company, Directors of Group companies, and others to report to (the Board of) Corporate Auditors of the Company and a system for ensuring that those who have made such a report are not unfavorably treated for having done so

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

- Corporate Auditors attended major management conferences, such as Board of Directors' meetings, Corporate Strategic Committee meetings, etc. and important documents requested by Corporate Auditors were submitted for Corporate Auditors' audit.
- With regards to a specialized contact office inside and outside the Company, a system to also report to Corporate Auditors was established, and it was implemented and conducted accordingly.

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

- Provisions concerning Corporate Auditors' expenses were stipulated in the Board of Corporate Auditors Regulations, etc. and they were implemented and conducted accordingly.

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

(Summary of resolutions at the Board of Directors)

- (1) Corporate Auditors of the Company shall establish a system that allows them to conduct audits efficiently in collaboration with accounting auditors, the department in charge of internal auditing, and others concerned, or by exchanging opinions and information with Corporate Auditors of Group companies. They shall audit Group companies as appropriate in accordance with an auditing plan and in cooperation with the department in charge of internal auditing.
- (2) In addition to the auditing described above, a system shall be established whereby Corporate Auditors may demand a report from Corporate Auditors, Directors, and senior executives of Group companies whenever necessary.

(Implementation status confirmed)

- Through regular information sharing meetings, etc., opportunities for information sharing among Corporate Auditors, Accounting Auditors, Corporate Auditors of the Group companies inside and outside Japan, and the department in charge of internal auditing were provided.

(2) Policy on corporate dominance

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

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

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

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

Consolidated Financial Statements

Consolidated Statements of Financial Position

(Yen in Millions)

	Amount	
	As of March 31, 2020	As of March 31, 2019 (Reference)
(Assets)		
Current assets	576,056	581,536
Cash and cash equivalents	304,922	297,682
Trade and other receivables	154,473	169,768
Inventories	96,124	93,985
Other financial assets	2,642	412
Other current assets	17,893	19,687
Non-current assets	345,843	331,882
Property, plant and equipment	266,948	267,133
Right-of-use assets	16,266	—
Goodwill	4,852	6,834
Intangible assets	10,198	12,393
Investments accounted for using equity method	206	194
Financial assets	7,242	8,428
Deferred tax assets	25,694	26,548
Other non-current assets	14,434	10,349
Total assets	921,900	913,418

Consolidated Statements of Financial Position

(Yen in Millions)

	Amount	
	As of March 31, 2020	As of March 31, 2019 (Reference)
(Liabilities)		
Current liabilities	161,895	158,478
Trade and other payables	90,811	96,887
Bonds and borrowings	90	448
Income tax payables	10,036	5,073
Other financial liabilities	24,050	21,609
Other current liabilities	36,907	34,458
Non-current liabilities	69,800	53,752
Other financial liabilities	18,976	503
Defined benefit liabilities	48,272	50,320
Deferred tax liabilities	284	619
Other non-current liabilities	2,266	2,309
Total liabilities	231,696	212,231
(Equity)		
Equity attributable to owners of the parent company	689,446	700,443
Share capital	26,783	26,783
Capital surplus	50,271	50,319
Retained earnings	643,521	622,025
Treasury stock	-27,505	-11,081
Other components of equity	-3,624	12,395
Non-controlling interests	757	744
Total equity	690,204	701,187
Total liabilities and equity	921,900	913,418

Consolidated Statements of Income

(Yen in Millions)

	Amount	
	April 1, 2019 – March 31, 2020	April 1, 2018 – March 31, 2019 (Reference)
Revenue	741,018	806,495
Cost of sales	519,090	564,608
Gross profit	221,927	241,886
Selling, general and administrative expenses	111,368	120,576
Research and development expenses	33,765	31,990
Other income	5,423	8,594
Other expenses	12,483	5,137
Operating income	69,733	92,777
Financial income	886	1,195
Financial expenses	1,620	1,917
Equity in profits (losses) of affiliates	13	-144
Income before income taxes	69,013	91,910
Income tax expenses	21,788	25,293
Net income	47,224	66,616
Net income attributable to:		
Owners of the parent company	47,156	66,560
Non-controlling interests	68	56

Consolidated Statements of Cash Flows (Reference)

(Yen in Millions)

	Amount	
	April 1, 2019 – March 31, 2020	April 1, 2018 – March 31, 2019
I Cash flows from operating activities		
Income before income taxes	69,013	91,910
Depreciation and amortization	49,390	45,904
Impairment losses	7,327	41
Increase (decrease) in defined benefit liabilities	2,677	725
Decrease (increase) in trade and other receivables	12,805	23,148
Decrease (increase) in inventories	-5,132	362
Increase (decrease) in trade and other payables	-4,899	-14,227
Interest and dividend income	822	1,089
Interest expenses paid	-650	-357
Income taxes (paid) refunded	-13,332	-41,835
Others	5,619	-8,192
Net cash provided by (used in) operating activities	123,641	98,569
II Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	-59,797	-59,628
Proceeds from sale of property, plant and equipment and intangible assets	1,444	331
Decrease (increase) in time deposits	-1,941	6,689
Purchase of investment securities	-1,236	-9
Proceeds from sale of investment securities	1,531	0
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	—	2,634
Others	7	26
Net cash provided by (used in) investing activities	-59,991	-49,955
III Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-336	-374
Repayment of long-term loans payable	—	-3,000
Repayment of lease liabilities	-4,735	—
Decrease (increase) in treasury stock	-16,701	-28,547
Cash dividends paid	-29,820	-26,928
Others	-44	430
Net cash provided by (used in) financing activities	-51,637	-58,419
IV Effect of exchange rate changes on cash and cash equivalents	-4,771	-1
V Reclassification of cash and cash equivalents included in assets held for sale in the opening balance	—	2,780
VI Net increase (decrease) in cash and cash equivalents	7,240	-7,027
VII Cash and cash equivalents at the beginning of the period	297,682	304,709
VIII Cash and cash equivalents at the end of the period	304,922	297,682

Consolidated Statements of Changes in Equity

April 1, 2019 – March 31, 2020

(Yen in Millions)

	Share capital	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance at the beginning of current year	26,783	50,319	622,025	-11,081	12,395	700,443	744	701,187
Net income			47,156			47,156	68	47,224
Other comprehensive income					-11,866	-11,866	1	-11,864
Total comprehensive income	—	—	47,156	—	-11,866	35,290	69	35,359
Share-based payment transactions		-37			-8	-45		-45
Dividends			-29,806			-29,806	-23	-29,829
Changes in treasury stock		-12		-16,424		-16,437		-16,437
Transfers from other components of equity to retained earnings			4,146		-4,146	—		—
Increase/decrease due to additional acquisition of interests in subsidiaries		1				1	-32	-30
Total transactions with owners	—	-48	-25,660	-16,424	-4,154	-46,287	-55	-46,343
Balance at the end of current year	26,783	50,271	643,521	-27,505	-3,624	689,446	757	690,204

Non-Consolidated Financial Statements

Non-Consolidated Balance Sheets

(Yen in Millions)

	Amount	
	As of March 31, 2020	As of March 31, 2019 (Reference)
(Assets)		
Current assets	372,412	363,994
Cash and deposits	200,264	185,290
Notes receivable-trade	3,663	5,059
Accounts receivable-trade	109,319	103,549
Merchandise and finished goods	9,231	8,686
Work in process	24,899	23,501
Raw materials and supplies	8,854	10,946
Short-term loans receivable	0	12,250
Income taxes recoverable	—	3,219
Other	16,488	11,786
Allowance for doubtful accounts	-310	-295
Non-current assets	307,520	299,144
Property, plant and equipment	160,873	151,737
Buildings	78,204	69,004
Structures	4,524	4,371
Machinery and equipment	54,960	49,327
Vehicles	451	432
Tools, furniture and fixtures	5,773	5,477
Land	13,771	13,847
Construction in progress	3,187	9,277
Intangible assets	7,432	6,095
Software	5,193	3,481
Other	2,238	2,614
Investments and other assets	139,214	141,312
Investments securities	4,251	5,349
Stocks of subsidiaries and affiliates	106,288	108,767
Long-term loans receivable	0	1
Deferred tax assets	19,038	17,120
Prepaid pension cost	7,706	7,925
Other	1,960	2,180
Allowance for doubtful accounts	-32	-32
Total assets	679,932	663,139

Non-Consolidated Balance Sheets

(Yen in Millions)

	Amount	
	As of March 31, 2020	As of March 31, 2019 (Reference)
(Liabilities)		
Current liabilities	182,984	168,950
Accounts payable-trade	56,261	59,766
Short-term loans payable	40,593	30,522
Accounts payable-other	32,820	33,625
Accrued expenses	8,788	9,361
Income taxes payable	7,091	—
Deposits received	33,158	32,141
Other	4,270	3,533
Non-current liabilities	32,147	28,114
Provision for retirement benefits	31,833	27,748
Guarantee deposits received	201	274
Other	111	91
Total liabilities	215,131	197,064
(Net assets)		
Shareholders' equity	463,184	463,477
Capital stock	26,783	26,783
Capital surplus	50,482	50,482
Legal capital surplus	50,482	50,482
Retained earnings	413,389	397,277
Legal retained earnings	4,095	4,095
Other retained earnings	409,294	393,182
Reserve for special depreciation	20	27
Reserve for advanced depreciation of non-current assets	2,223	1,910
General reserve	185,000	185,000
Retained earnings brought forward	222,050	206,243
Treasury stock	-27,471	-11,065
Valuation and translation adjustments	921	1,865
Valuation difference on available-for-sale securities	921	1,865
Subscription rights to shares	694	731
Total net assets	464,800	466,075
Total liabilities and net assets	679,932	663,139

Non-Consolidated Statements of Income

(Yen in Millions)

	Amount	
	April 1, 2019 – March 31, 2020	April 1, 2018 – March 31, 2019 (Reference)
Net sales	470,701	490,626
Cost of sales	340,048	358,312
Gross profit	130,653	132,314
Selling, general and administrative expenses	88,246	91,573
Operating income	42,406	40,741
Non-operating income	21,156	50,793
Interest and dividends income	17,642	45,818
Other	3,514	4,974
Non-operating expenses	4,207	4,912
Interest expenses	1,036	703
Foreign exchange losses	1,362	2,643
Other	1,808	1,565
Ordinary income	59,356	86,621
Extraordinary income	1,654	69
Gain on sales of non-current assets	745	69
Gain on sales of investment securities	909	—
Extraordinary loss	4,116	1,728
Loss on sales and retirement of non-current assets	1,039	1,704
Loss on devaluation of stocks of subsidiaries and affiliates	2,474	—
Impairment losses	602	23
Income before income taxes	56,894	84,962
Income taxes-current	12,309	11,208
Income taxes-deferred	-1,508	1,859
Net income	46,093	71,894

Non-Consolidated Statements of Changes in Equity

April 1, 2019 – March 31, 2020

(Yen in Millions)

	Shareholders' equity											
	Capital stock	Capital surplus			Retained earnings						Treasury stock	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings		
						Reserve for special depreciation	Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings brought forward			
Balance at the beginning of current year	26,783	50,482	-	50,482	4,095	27	1,910	185,000	206,243	397,277	-11,065	463,477
Net changes of items during the period												
Dividends from surplus									-29,806	-29,806		-29,806
Provision of reserve for special depreciation						2			-2	-		-
Reversal of reserve for special depreciation						-8			8	-		-
Provision of reserve for advanced depreciation of non-current assets							381		-381	-		-
Reversal of reserve for advanced depreciation of non-current assets							-68		68	-		-
Net income									46,093	46,093		46,093
Acquisition of treasury stock											-16,682	-16,682
Disposal of treasury stock			-12	-12							276	264
Decrease by corporate division			-162	-162								-162
Transfer to capital surplus from retained earnings			175	175					-175	-175		-
Net change of items other than shareholders' equity during the period												
Total changes of items during the period	-	-	-	-	-	-6	312	-	15,806	16,112	-16,405	-293
Balance at the end of current year	26,783	50,482	-	50,482	4,095	20	2,223	185,000	222,050	413,389	-27,471	463,184

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of current year	1,865	1,865	731	466,075
Net changes of items during the period				
Dividends from surplus				-29,806
Provision of reserve for special depreciation				-
Reversal of reserve for special depreciation				-
Provision of reserve for advanced depreciation of non-current assets				-
Reversal of reserve for advanced depreciation of non-current assets				-
Net income				46,093
Acquisition of treasury stock				-16,682
Disposal of treasury stock			-37	226
Decrease by corporate division				-162
Transfer to capital surplus from retained earnings				-
Net change of items other than shareholders' equity during the period	-943	-943		-943
Total changes of items during the period	-943	-943	-37	-1,274
Balance at the end of current year	921	921	694	464,800

Notes to the Consolidated Financial Statements

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

(1) Basis of the consolidated financial statements

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

(2) Scope of consolidation

<1> Number of consolidated subsidiaries: 91

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

<2> Increase/decrease of consolidated subsidiaries

Increase: 0

Decrease: 3 (due to liquidation)

(3) Fiscal year of consolidated subsidiaries

Number of subsidiaries that close books on the same date as the Company: 69

Number of subsidiaries that do not close books on the same date as the Company: 22

For the above 22 subsidiaries, provisional settlement of accounts as of March 31, 2020 are used.

(4) Accounting policies

<1> Valuation basis and method for principal assets

1) Financial assets:

Non-derivative financial assets

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

(a) Financial assets measured at amortized cost

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

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

Financial assets measured at amortized cost (excluding operating receivables that do not contain significant financing components) are initially recognized at fair value, which includes transaction costs directly attributable to the acquisition of such financial assets. Financial assets are measured by adding up the initially measured amount and financial income calculated after the fact using the effective interest method, and the amount after deducting impairment losses is recorded as the carrying amount. Operating receivables that do not contain significant financing components are initially recognized at the transaction price and the amount after deducting impairment losses after the fact is recorded as the carrying amount.

(b) Financial assets measured at fair value through other comprehensive income

(i) Debt financial assets measured at fair value through other comprehensive income

Debt instruments are classified as "financial assets measured at fair value through other comprehensive income" when the following two requirements are met:

- The foregoing financial assets are held within a business model whose objective is to hold assets in order to both collect the contractual cash flows and sell the financial assets.
- The contractual terms of the foregoing financial assets give rise on specific dates to cash flows that are

solely payments of principal and interest on the principal amount outstanding.
(ii) Equity financial assets measured at fair value through other comprehensive income
The Group has made an irreversible choice where changes in fair value of investments in any other equity instruments are recognized via other comprehensive income, not via net profit or loss.

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

- (c) Financial assets measured at fair value through net profit or loss
Financial assets designated as those measured at fair value through net profit or loss and financial assets other than (a) and (b) are classified as financial assets measured at fair value through net profit or loss.

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

2) Inventories:

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

<2> Depreciation method of major depreciable assets

- 1) Property, plant and equipment (excluding right-of-use assets):
Straight-line method
- 2) Intangible assets (excluding right-of-use assets):
Straight-line method (software for in-house use is depreciated using the straight-line method over its useful life of 5 years)
- 3) Right-of-use assets
Straight-line method over the lease term or the useful life of the underlying asset for the right-of-use asset, whichever is shorter

<3> Accounting criteria for major provisions

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

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

- 1) Foreign currency transactions
Items in financial statements of each entity within the Group are measured using the currencies in the primary economic environment in which each entity engages in operating activities (the “functional currency”).
Foreign currency transactions are translated into functional currencies using the exchange rates prevailing on the dates of transactions or, when remeasuring any items in financial statements, the exchange rate prevailing on the dates of remeasurement. Exchange differences arising from such transactions and any exchange differences that may arise when translating monetary assets and liabilities denominated in foreign currencies using the prevailing exchange rates on the reporting date are recognized as net profit or loss.
- 2) Foreign operations
For foreign operations that use functional currencies different from the Group’s presentation currency, assets and liabilities (including goodwill arising from acquisitions and adjustment of fair value) are translated into Japanese yen at the prevailing exchange rates on the reporting date, and the income and expenses are translated into Japanese yen at the average exchange rate of the period.
Exchange differences arising from translating the financial statements of foreign operations are included in other components of equity.

<5> Derivative financial instruments and hedge accounting

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

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

Cash flow hedges

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

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

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

<6> Employee benefits

1) Short-term employee benefits

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

2) Long-term employee benefits

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

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

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

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

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

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

Consumption taxes are excluded from the transaction amounts.

2. Matters concerning changes to accounting policies

The Group has adopted IFRS 16 “Leases” (hereinafter referred to as “IFRS 16”) since the fiscal year under review (hereinafter referred to as the “date of initial application”).

IFRS 16, which replaced the previous IAS 17 “Leases” (hereinafter referred to as “IAS 17”), regarding lessees of lease transactions, abolishes the distinction between finance lease and operating lease, and provides for the recognition of right-of-use assets and lease liabilities at the commencement date of the lease, except for short-term leases (leases that have a lease term of 12 months or less) and leases for which the underlying asset is of low value.

To apply IFRS 16, the Group has adopted a method that recognizes the cumulative effect of applying IFRS 16 at the date of initial application (the modified retrospective approach), permitted as a transitional measure.

Further, regarding whether a contract contains a lease, the Group has chosen the practical expedient under IFRS 16 and kept judgment under IAS 17 and IFRIC 4 “Determining Whether an Arrangement Contains a Lease.” Accordingly, the Group applies the identification of a lease under IFRS 16 only to contracts that were entered into or changed on or after the date of initial application.

(Lease as a lessee)

For leases previously classified as operating leases applying IAS 17, the Group measures a lease liability at the value of the remaining lease payments as of the date of initial application, discounting the lessee’s incremental borrowing rate at the date. The weighted average of such incremental borrowing rate is 2.4%.

The right-of-use asset is measured based on the measured value of a lease liability at the date of initial application.

The Group applies the following practical expedients when applying IFRS 16 to leases previously classified as operating leases applying IAS 17.

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Adjust the right-of-use asset by the amount of any provision for onerous contracts under IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” immediately before the date of initial application as an alternative of an impairment review.
- Apply exemption clause not to recognize a right-of-use asset and a lease liability regarding leases with remaining lease term of 12 months or less.
- Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application.
- Use hindsight in determining the lease term if the contract contains an option to extend or terminate the lease.

For leases that were previously classified as finance leases applying IAS 17, the carrying amount of right-of-use assets and lease liabilities at the date of initial application is calculated by the carrying amount of lease assets and lease liabilities under IAS 17 on the day before.

Lease liabilities for such lessee’s leases are included in “Other financial liabilities” and “Other financial liabilities (non-current)” in the consolidated statements of financial position.

(Lease as a lessor)

The Group, when as a lessor, is not required to make any adjustments for leases, except for subleases, on the date of initial application. The Group has accounted for subleases in accordance with IFRS 16 since the date of initial application.

IFRS 16 requires subleases be classified in reference to right-of-use assets, instead of underlying assets. The Group reassessed the classification of sublease contracts that were previously classified as operating leases under IAS 17, at the date of initial application, and judged them as finance leases under IFRS 16.

Receivables under lessor’s finance leases related to such subleases are included in “Trade and other receivables” and “Other current assets,” and “Other non-current assets” in the consolidated statements of financial position.

(Effects on consolidated financial statements)

As a result of application of IFRS 16, the total assets of the Group increased by 27,448 million yen, and its total liabilities increased by 27,448 million yen, as of the date of initial application.

The breakdown of the difference between the amount of operating lease agreements applying IAS 17 as of the end of the previous consolidated fiscal year and the amount of lease liabilities as of the date of initial application is as follows:

(Yen in Millions)

Operating lease agreements as of March 31, 2019	30,722
Operating lease agreements as of March 31, 2019 (after discount)	28,346
Finance lease liabilities recognized on March 31, 2019	53
Recognition exemptions (short-term leases, and leases for which the underlying asset is of low value)	-898
Lease liabilities recognized as of April 1, 2019	27,501

3. Notes to the consolidated statements of financial position

Accumulated depreciation of property, plant and equipment 641,526 million yen
(including accumulated impairment losses)

4. Notes to the consolidated statements of income

“Other expenses” include impairment losses of 7,327 million yen.

A rough breakdown of impairment losses is as follows:

Impairment losses, which relate to “property, plant and equipment” such as buildings, structures, machineries, and equipments, as well as to “intangible assets,” in East Asia’s specific cash-generating unit of the information fine materials business which belongs to the Optronics segment, are posted because their recoverable amounts fell below their carrying amounts due to a lower prospect of revenue and other factors. Recoverable amount is measured by fair value after deduction of disposal costs (projected sale value, etc.), and the level of such fair value hierarchy is categorized Level 3.

Impairment losses are reported for goodwill and intangible assets of a specific cash-generating unit of the transportation business which belongs to the Industrial Tape segment. This is due to a forecast that the carrying amounts might not be recoverable as the business environment in Europe deteriorated. Recoverable amount is measured by value in use based on discounted cash flow method adopting the discount rate of 10.0%.

5. Notes to the consolidated statements of changes in equity

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

Common stock 158,758 thousand shares

- (2) Dividends

- 1) Dividend payments

Resolution	Type of shares	Total dividends (Yen in Millions)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 21, 2019	Common stock	14,116	90	March 31, 2019	June 24, 2019
Board of Directors meeting held on October 28, 2019	Common stock	15,689	100	September 30, 2019	November 29, 2019
Total	—	29,806	—	—	—

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

The following proposal on dividends for common stock will be presented for resolution at the Ordinary General Meeting of Shareholders scheduled on June 19, 2020.

Total dividends 15,391 million yen

Dividend per share 100 yen

Record date March 31, 2020

Effective date June 22, 2020

Dividends are to be paid out of retained earnings.

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

Common stock 121,500 shares

- (4) Matters concerning treasury stock

Class of shares	At the beginning of the fiscal year under review	Increase	Decrease	At the end of the fiscal year under review
Common stock	1,908,766	2,978,589	47,600	4,839,755

(Outline of reasons for change)

The rough breakdown of the increase/decrease is as follows:

Decrease due to disposal of treasury stock based on resolution at the Board of Directors meeting held on June 21, 2019 43,200 shares

Increase due to acquisition of treasury stock based on resolution at the Board of Directors meeting held on January 27, 2020 2,978,400 shares

6. Notes to financial instruments

1. Matters relating to the status of financial instruments

(1) Capital risk management

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

(2) Financial risk management

Risk management policies

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

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

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

(3) Financial risks

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

(a) Market risks

(i) Foreign exchange risk

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

Although the Group's trade receivables and trade payables denominated in foreign currencies are exposed to foreign exchange risk, the Group uses forward exchange contracts to hedge its foreign exchange risk in principle for the net exposure of such trade receivables and trade payables whose balances are monitored monthly by currency.

(ii) Price risk

Equity instruments held by the Group mainly are the shares of the companies with which the Group has business relationships. Such shares are acquired and held from the perspective of enhancing the Group's corporate value over a long term, and not for short-term trading purposes. The Group reviews whether the status of transactions with such companies and returns on the holdings are commensurate with the capital cost that the Company incurs by periodically monitoring the fair values for listed shares and the financial conditions of investees (counterparty companies) for unlisted shares, thereby determining whether or not the Group should continue to hold those equity instruments.

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

(iii) Interest rate risk

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

The Group is working to utilize its funds efficiently and reduce interest-bearing debts as much as possible, with the result that the level of its interest-bearing debts is kept extremely low vis-à-vis total assets.

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

(b) Credit risk

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

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

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

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

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

(c) Liquidity risk

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

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

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

2. Matters relating to the fair values of financial instruments

The Group determines fair values of financial assets and financial liabilities as follows.

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

[Other financial assets and other financial liabilities]

Among other financial assets, the fair values of marketable securities are determined based on market prices, etc., while the fair values of unlisted securities are determined using valuation techniques.

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

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

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

7. Notes on information per share

Equity attributable to owners of the parent company per share	4,479.29 yen
Basic earnings per share	301.32 yen

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

Notes to the Non-Consolidated Financial Statements

1. Notes regarding significant accounting policies

(1) Valuation basis and method for securities

Other securities:

Securities with available fair value:

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

Securities with no available fair value:

Stated at cost based on the moving average method

Stocks issued by subsidiaries and affiliates:

Stated at cost based on the moving average method

(2) Valuation basis and method for derivatives

Stated at fair value

(3) Valuation basis and method for inventories

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

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

(4) Depreciation method of major depreciable assets

Property, plant and equipment (excluding lease assets):

Straight-line method

Intangible assets (excluding lease assets):

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

Lease assets:

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

(5) Accounting criteria for allowances and provisions

Allowance for doubtful accounts

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

Allowance for investment loss

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

Provision for directors' bonuses

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

Provision for retirement benefits

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

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

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

- (6) Method of hedge accounting
- 1) Method of hedge accounting
Deferred hedging is used for forward exchange contracts applied to forecast transactions. For currency swaps that qualify for hedge accounting, gain or loss is translated at the exchange rate stipulated in the contract under the allocation process. Interest rate swaps that qualify for hedge accounting and meet specific criteria are not measured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.
 - 2) Hedging instruments and hedged items
Hedging instruments: Forward exchange contracts, Currency swaps, Interest rate swaps
Hedged items: Foreign currency-denominated receivables and payables, etc.
 - 3) Hedge policy
The Company adopts a policy aimed at averting the risks associated with exchange fluctuations and interest rate fluctuations.
 - 4) Method of assessing the effectiveness of the hedges
The effectiveness is assessed by comparing a market change in a hedged item or cumulative change in its cash flows with a market change in a hedging instrument or cumulative change in its cash flow to observe a ratio of those changes. However, the assessment of the effectiveness is omitted for interest rate swaps that are handled under special rules.
- (7) Consumption taxes are excluded from the transaction amounts.

2. Notes to changes to the presentation method

(Non-consolidated statements of income)

“Impairment losses,” which was included in “Other” of extraordinary loss in previous fiscal years, is separately presented from the current fiscal year because its quantitative materiality increased.

“Impairment loss” for the previous fiscal year stood at 23 million yen.

3. Notes to the non-consolidated balance sheets

(1) Accumulated depreciation of property, plant and equipment	440,489 million yen
(2) Short-term receivables from affiliates	86,521 million yen
Short-term payables to affiliates	81,070 million yen

4. Notes to the non-consolidated statements of income

Sales to subsidiaries and affiliates	372,928 million yen
Purchases from subsidiaries and affiliates	39,813 million yen
Transactions other than business deals with subsidiaries and affiliates	21,746 million yen

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

Matters concerning treasury stock

Class of shares	At the beginning of the fiscal year under review	Increase	Decrease	At the end of the fiscal year under review
Common stock	1,908,766	2,978,589	47,600	4,839,755

(Outline of reasons for change)

The rough breakdown of the increase/decrease is as follows:

Decrease due to disposal of treasury stock based on resolution at the Board of Directors meeting held on June 21, 2019	43,200 shares
Increase due to acquisition of treasury stock based on resolution at the Board of Directors meeting held on January 27, 2020	2,978,400 shares

6. Notes on deferred tax accounting

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

7. Notes on information per share

Net assets per share	3,015.27 yen
Net income per share	294.52 yen

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