

To our stakeholders

On behalf of the Nitto Group, I would like to express my appreciation for the understanding and patronage that the Nitto Group continues to receive from our shareholders, investors, customers, business partners, and local communities. This report will outline our activities in fiscal 2016 and present our key initiatives for fiscal 2017 and beyond.

Hideo Takasaki
Board Member
President, CEO & COO
Nitto Denko Corporation




Business Summary of Fiscal 2016

During the fiscal year ended March 31, 2017, the overseas economy took an unexpected turn toward a more turbulent path as a result of major political events, including Britain's decision to withdraw from the EU and the outcome of the U.S. presidential election. Nonetheless, modest growth continued throughout the year as the U.S. economy subsequently rebounded and the Chinese economy held up. The Japanese economy also continued to recover, albeit modestly, as exports increased and the strong yen was corrected on the back of the overseas economy's turnaround later in the fiscal year.

Under these economic circumstances, the Nitto Group successfully improved the earnings of its mainstay Optronics segment by deftly capitalizing on a pickup in production volume in the IT industry in the second half of the year, despite sluggish business in the first half. For the Industrial Tape segment, the profitability of functional base products improved due to productivity enhancement, while that of the Transportation business remained almost flat. For the Life Science segment, on the other hand, the Nitto Group forged ahead with the reform of its business portfolio. As a result, contract manufacturing of oligonucleotides showed substantial growth in the U.S., and an exclusive license agreement with a leading pharmaceutical manufacturer in the U.S. for a liver cirrhosis drug, which the Group had been working on for many years, led to the receipt of an upfront payment. The change in annual average yen-dollar exchange rate from 120.2 yen for the previous year to 108.9 yen for the fiscal year under

review had a negative impact on the Group's performance.

As a result, revenue decreased by 3.2% from the same period of the previous year (changes hereafter are given in comparison with the same period of the previous year) to 767.7 billion yen. Operating income decreased by 9.6% to 92.5 billion yen, income before income taxes dropped by 10.0% to 91.7 billion yen, net income fell by 22.3% to 63.6 billion yen, and net income attributable to owners of the parent company declined by 22.3% to 63.4 billion yen.

■ Business Performance of Each Segment* (Yen in Millions)

			Fiscal	Fiscal	Year-on-year
			2015	2016	
Industrial Tape	Revenue	Functional base products	191,134	186,187	97.4%
		Transportation	125,534	124,229	99.0%
		Total	316,668	310,416	98.0%
	Operating income		24,885	26,214	105.3%
Optronics	Revenue	Information fine materials	380,805	352,905	92.7%
		Printed circuit boards	51,533	42,871	83.2%
		Process materials	23,625	23,410	99.1%
		Total	455,963	419,187	91.9%
	Operating income		69,058	50,623	73.3%
Life Science	Revenue		23,976	44,459	185.4%
	Operating income		2,287	21,357	933.9%
Others	Revenue		29,562	26,039	88.1%
	Operating income		2,917	-1,034	-

Excluding "Intercompany eliminations" in "Business Performance of Each Segment" on page 6.

*Business segmentation has been partially altered.

Meanwhile, in accordance with the basic dividend policy, it has been decided to pay 75 yen per share for the year-end dividend, which remains unchanged from the interim dividend, to make the full-year total 150 yen per share, an increase of 10 yen from the previous year. We plan to pay a full-year dividend of 160 yen per share for the next fiscal year after taking into account earnings forecasts, capital expenditure plans, and other factors.

As the world is faced with an ever-growing mountain of social issues associated with climate change, demographic shifts, and other transformations in our society, computerization and advancements in other technologies have brought about dramatic changes in living environments. The Nitto Group has accumulated technological assets with which to address such issues and shape the future, and it is our corporate mission to continue delivering new value to the public in order to earn their trust and sustain our growth into the future.

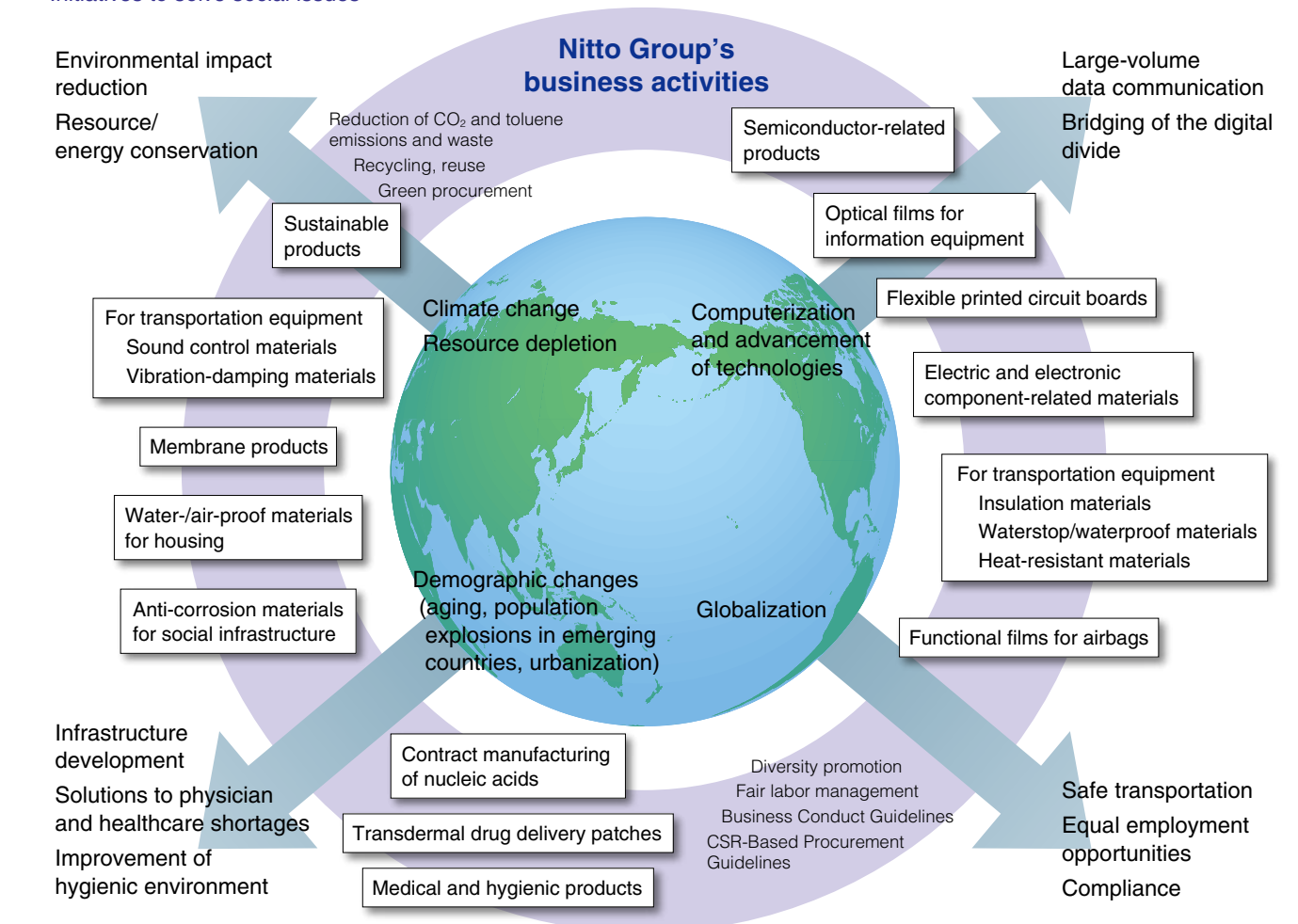
Toward Solving Social Issues

Since its foundation, the Nitto Group has listened carefully to the demands of society and read the wants of the market to deliver numerous technologies and products based on its four core technologies, which include adhesion and coating, thereby expanding its presence in diverse business fields.

Consideration for the Environment

In November 2016, the Paris Agreement under the United Nations Framework Convention on Climate Change (UNFCCC) went into effect. Hailed as one of the United Nations' most historic agreements, the Paris Agreement involves all signatory nations to the Convention in anti-global warming countermeasures that aim to keep the average global temperature rise to "well below 2°C" from preindustrial levels.

Initiatives to solve social issues



The Nitto Group has given birth to a number of products that help to reduce environmental impact, including the energy efficiency-enhancing neodymium magnet and its membrane products that can be used to prevent environmental pollution. Also available from the Group are numerous products and services that simplify customers' production processes, thereby eliminating resource and energy waste. We will accelerate our drive to develop technologies, products, and services that address environmental problems, which represent a threat faced by all of humanity.

Meanwhile, in order to reduce the impact that our production activities have on the environment, we will focus on reducing CO₂ and toluene emissions and waste in line with our new mid- and long-term environmental plan.

Underpinning the Computerization and Advancements of Other Technologies

Liquid crystal displays use a variety of materials delivered by the Nitto Group, including optical films. Those materials have made displays thinner and larger and improved picture quality, thereby underpinning our information society. Among our many products, we maintain the leading share of polarizers, and our original ultra-thin polarizer has the potential to make displays more flexible and usable for wearable devices. Meanwhile, our ELECRYSTA™ transparent conductive film and other materials for touch panels play a part in the diffusion of smartphones and tablets and improvement of their functions.

Going forward, organic electroluminescence displays are expected to replace LCDs as screens for television sets and smartphones. In anticipation of such a change, we have begun working on highly functional materials that will support such next-generation displays.

It can be said that technology is progressing with each passing day, or even with each passing second. As the IoT (Internet of Things) and AI (Artificial Intelligence) are being introduced at an accelerated pace, the Nitto Group utilizes its multifaceted technologies to wholeheartedly create value that underpins its evolution.

Contributing to Better Quality of Life

With aging populations in developed countries and population explosions in emerging countries, the absolute numbers of physicians, nurses, and other medical professionals are seriously lacking throughout the globe. In light of this, the Nitto Group has also offered a variety of solutions in the life science field by developing innovative

dosing strategies that make use of its original technologies. From the late 1970s, we began working on transdermal drug delivery patches ahead of others in the world to establish technologies for synthesizing adhesives optimized for controlled release and designing safe and stable preparations. More recently, we have been developing the "Nitto PassPort® System," which combines tape patch technology with technology for creating micropores on the surface of the skin. When these technologies are put to practical use, injections, intravenous drips, and other forms of drug administration that only medical professionals are currently allowed to perform will become simplified, thereby reducing the burdens placed not only on patients, but on physicians and nurses as well.

The Nitto Group's technology also makes itself felt in nucleic acid medicines, which hold great promise for treating intractable diseases. The development of a liver cirrhosis drug using nucleic acid, in particular, is expected to be accelerated since the signing of a license agreement with Bristol-Myers Squibb Company of the United States last year.

Meanwhile, as standards of living improve in emerging countries and developing countries, people are increasingly interested in enhanced comfort and hygiene. To cater to this growing need, the Nitto Group delivers tape materials for disposable diapers, including NITOFOLD™ folding tape, as well as its COLOCOLO® Series of cleaning tools, thus improving environmental hygiene and comfort in life.

For Greater Wellbeing in Society

As the wave of globalization eliminates distances, people seek greater convenience and speed from transportation, which in turn gives rise to the need to ensure the safety of increasingly congested and complicated means of transportation.

The Nitto Group's automotive products meet these conflicting needs by ensuring safe and comfortable travel while at the same time conserving the environment. NITOHARD reinforcing material, for example, is in wide demand to retain the strength of ever-lightening vehicle bodies. Meanwhile, AEROSEAL anti-corrosion tape for aircraft prevents corrosion on support structures under floorboards due to water condensation and offers easy maintenance, thereby helping to increase aircraft safety. These unique products offer great potential for broader applications to other transport equipment.

We have also commenced the functional film business for curtain airbags, which protect the driver and passengers of a vehicle in the event of a side impact crash. By breaking

into a heretofore-untapped market, we will enhance comfort and safety for passengers.

The Nitto Group "places safety before everything else" in its business activities to ensure employees' safety and health. Not merely aiming to achieve zero accidents and injuries on the shop floor, we will also continue to remind our employees of the importance of staying healthy and always acting safely.

Mid-Term Management Plan

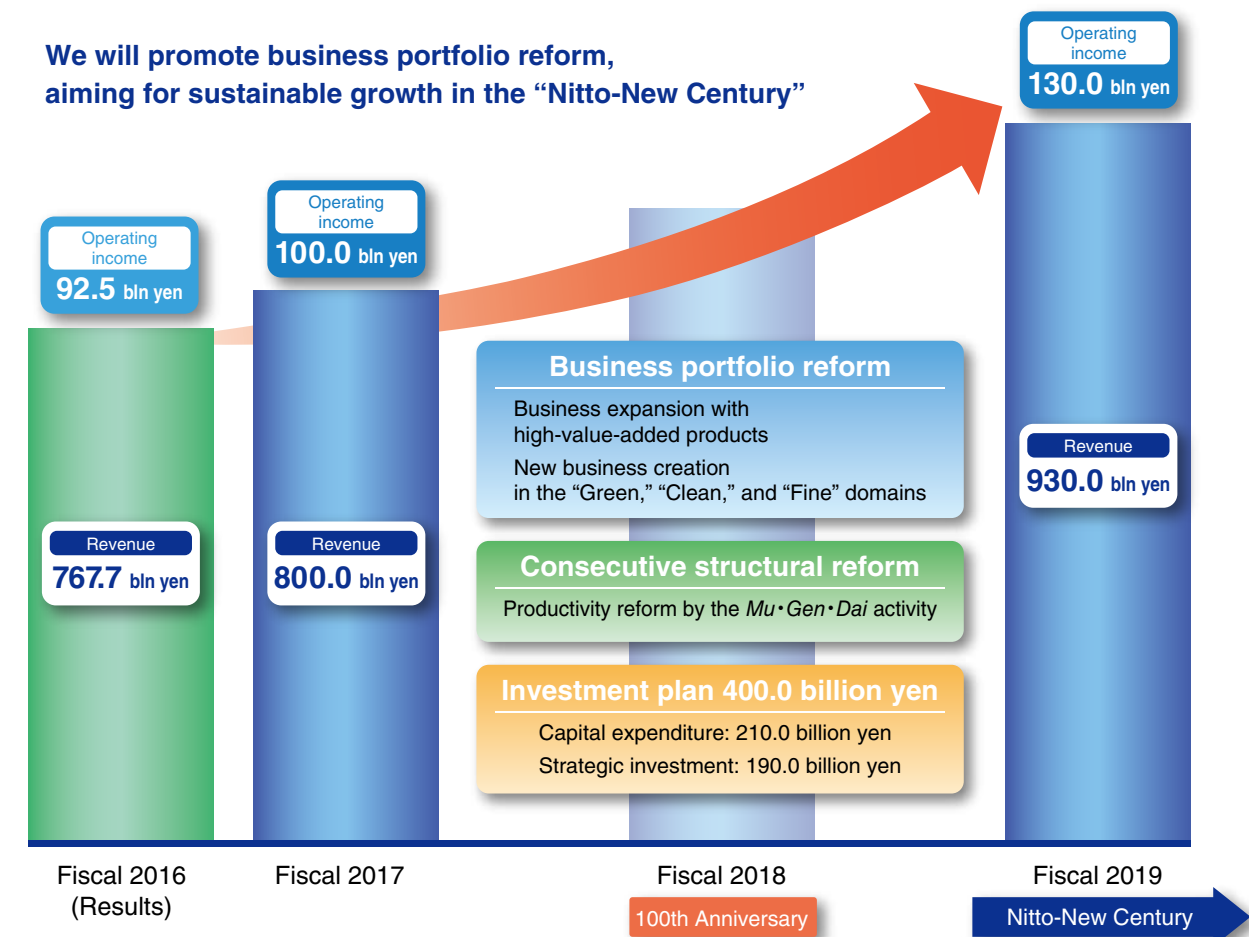
Nitto will celebrate its first centennial in October 2018. In order for us to "realize" a further leap forward during the next hundred years beyond this commemorative milestone, we have drawn up the new Mid-Term Management Plan

Jitsugen*-2019, which will guide us into the 2019 fiscal year that will end on March 31, 2020. Under Jitsugen-2019, we aim to increase our earning power by expanding business through the steady implementation of growth strategies in existing fields, such as smartphones and vehicles, and maximizing productivity via the "Mu Gen Dai" approach, which seeks greater efficiency by streamlining every operation and process from the viewpoints of *mu* (removing), *gen* (reducing), and *dai* (replacing). At the same time, we will attempt to create new businesses in the Green (environmental concerns), Clean (new energy), and Fine (life science) domains. The Nitto Group has been able to identify opportunities presented by changes and, by responding to market needs ahead of the competition, combine and integrate diverse technologies and information from both within and outside of the Group. We will leverage this strength to continue creating new values.

* The name of the new Mid-Term Management Plan is based on its aim to "realize" (*jitsugen*) the mid-term corporate strategies and performance goals without fail.

Mid-Term Management Plan "Jitsugen-2019"

We will promote business portfolio reform, aiming for sustainable growth in the "Nitto-New Century"



In order to support these growth strategies, we will remain aggressive in making strategic investments for M&As and environmental measures, in addition to capital expenditures. We will also further consolidate our management foundations by fulfilling our duties as a manufacturer, namely, safety assurance, advancements in manufacturing, and enhancement of quality and brand value. In all of these endeavors, human resources are the single most important aspect, and so we will cultivate, assign, and optimally allocate people on a global basis.

At the Nitto Group, all employees display their “*jitsugen* power (capability to deliver)” while living up to the Nitto Way, thereby achieving sustainable business growth.

Nitto Sponsors the ATP Finals

Nitto concluded a four-year title sponsorship contract from 2017 to 2020 with the Association of Tennis Professionals (ATP) for the ATP Finals, the season-ending finale of the ATP World Tour for men’s professional tennis. The Nitto ATP Finals features only the world’s best eight qualified singles players and doubles teams of the year and is the biggest indoor tennis tournament of the world.

By sponsoring the ATP Finals, Nitto will raise its brand recognition globally and aim to create innovation through collaborations and other activities with new business partners.



Reinforcement of Corporate Governance

Fiscal 2015 witnessed corporate governance reform in Japan, and a prompt response was required of businesses to comply with the Corporate Governance Code. To respond to this change and live up to our Corporate Philosophy, which was renewed in 2014, we recreated our governance system and established our Corporate Governance Guidelines.

Then, as the term “governance” became a buzzword, the effectiveness of our Guidelines was put to the test in fiscal 2016. Nitto analyzed and evaluated the effectiveness of our

Board of Directors and disclosed the summary of the findings.* We concluded that our Board of Directors is being operated both effectively and appropriately through consultation among directors and corporate auditors. Without being merely content with these results, we will make continued efforts to further strengthen the governance of the entire Board of Directors.

* A summary of our Board’s effectiveness evaluation results can be found under “Relevant Disclosed Information” in “Investor Relations” on our corporate website.

