

To our stakeholders

Nitto will celebrate its first centennial on October 25, 2018. Ever since 1918, when the company was established in Tokyo to begin production of electrical insulating materials in Japan, we have been able to follow a path of constant growth and bring a variety of products to the world.

On behalf of the Nitto Group, I would like to extend our most heartfelt appreciation to our customers, employees both past and present, shareholders and investors, business partners, and our host communities, without whose support we could never have come this far. Now, I would like to share with you more about what we delivered in fiscal 2017 and our key initiatives for fiscal 2018 and beyond.

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




Business Summary of Fiscal 2017 and Forecast for Fiscal 2018

During the fiscal year ended March 31, 2018 (fiscal 2017), the real economy showed signs of growth across the globe, buoyed by the economic expansion that had started in the previous year and favorable economic fundamentals. In Japan, the real economy showed a moderate yet firm performance, as the employment environment remained stable and private businesses continued to invest in higher efficiency to counter labor shortages. Since the start of calendar year 2018, however, the stock markets in developed countries underwent a major adjustment from their high plateau due to concerns that the favorable employment situation in the U.S. might accelerate the pace of interest-rate hikes. At the same time, there is a growing wariness concerning protectionist moves by such countries as the U.S. and China.

Against this background, the Nitto Group successfully achieved significant year-on-year earnings growth in its mainstay Optronics segment by launching high-value-added products in response to major changes in demands for smartphone displays. For the Industrial Tape segment as well, revenue expanded for a broad range of industrial applications, including electronics. Meanwhile, in the Life Science segment, the oligonucleotide medicine contract manufacturing business slowed down after having previously driven the earnings of the segment, due primarily to customers' termination of new drug development

programs. Nonetheless, steady progress was able to be achieved in drug discovery and development of oligonucleotides.

As a result of the above, revenue increased by 11.5% from the same period of the previous year (changes hereafter are given in comparison with the same period of the previous year) to 856,262 million yen. Operating income

■ Business Performance of Each Segment			(Yen in Millions)		
			Fiscal 2016	Fiscal 2017	Year-on-year Comparison
Industrial Tape	Revenue	Functional Base Products	186,187	209,594	112.6%
		Transportation	124,229	129,600	104.3%
		Total	310,416	339,195	109.3%
	Operating Income	27,433	34,357	125.2%	
Optronics	Revenue	Information Fine Materials	352,905	424,153	120.2%
		Printed Circuit Boards	42,871	42,038	98.1%
		Processing Materials	23,410	24,439	104.4%
		Total	419,187	490,632	117.0%
	Operating Income	48,466	92,548	191.0%	
Life Science	Revenue	44,459	36,171	81.4%	
	Operating Income	21,200	5,985	28.2%	
Others	Revenue	26,039	25,279	97.1%	
	Operating Income	61	-140	-	

The above numbers do not include "Intercompany eliminations" under the "Business Performance of Each Segment" on page 6.

increased by 35.8% to 125,722 million yen, income before income taxes increased by 37.5% to 126,168 million yen, net income increased by 37.3% to 87,463 million yen, and net income attributable to owners of the parent company increased by 37.7% to 87,377 million yen.

In accordance with the basic dividend policy, it has been decided to pay 80 yen per share for the year-end dividend, which remains unchanged from the interim dividend, making the full-year total 160 yen per share, which is an increase of 10 yen from the previous year. We plan to pay a full-year dividend of 180 yen per share for the next fiscal year, after taking into account earnings forecasts, capital expenditure plans, and other factors.

The global economy is expected to sustain its growth in fiscal 2018. We are thus hoping to achieve revenue of 860,000 million yen and operating income of 135,000 million yen for the year ending March 31, 2019 by accomplishing our tasks in each business without fail while paying careful attention to protectionist policies and rapid changes in financial markets.

Mid-Term Management Plan "Jitsugen*-2020"

In order for us to realize a further leap forward, the Nitto Group has drawn up the new Mid-Term Management Plan "Jitsugen*-2020," which will guide us through the three years ending March 31, 2021.

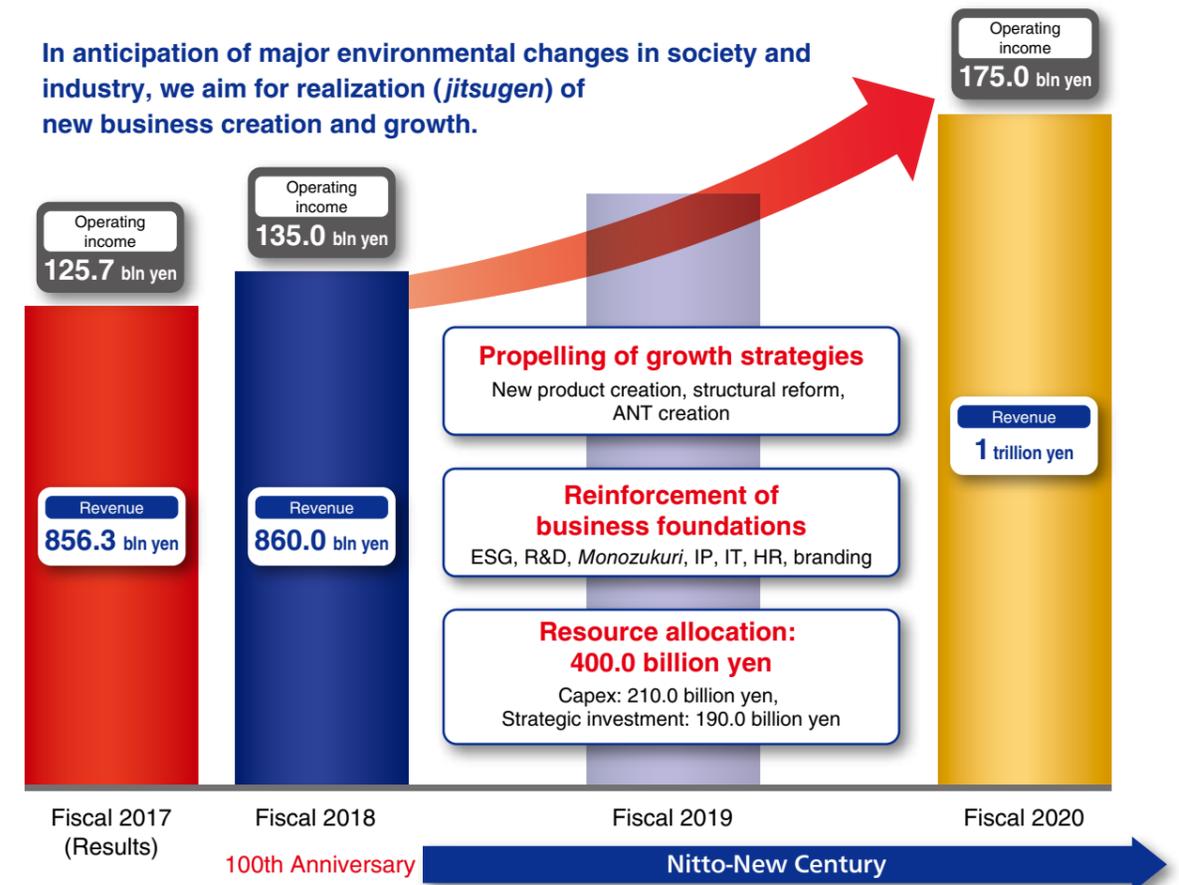
* The plan is named after our goal of consistent "realization" (*jitsugen*) of our mid-term corporate strategies and performance goals.

Propelling of Growth Strategies

After our strong performance in fiscal 2017, it is still essential that we constantly evolve our business portfolio and continue to offer high values to the market if we are to ensure consistent business growth. Accordingly, for "Jitsugen-2020" we deliberately chose the three domains of

■ Mid-Term Management Plan "Jitsugen-2020"

In anticipation of major environmental changes in society and industry, we aim for realization (*jitsugen*) of new business creation and growth.



“information interface,” “next-generation mobility,” and “life science.” These three domains are destined to grow, but are also liable to change very suddenly. Such being the case, we will focus on the creation of new businesses in these domains via proactive convergences of technologies, knowledge, and knowhow from both inside and outside of the company. In addition, we will reinforce the fundamentals of our existing businesses through structural reform.

• Information Interface

As an advanced information age underpinned by high-speed, high-volume telecommunications looms before our eyes, the Nitto Group has entered the market for plastic optical cables, which are well-suited for short-distance communications. Possible applications include 8K-resolution image data transmission, telemedicine services, data centers, and automobiles, which are increasingly incorporating electronics.

Meanwhile, displays for smartphones and other devices have begun shifting from liquid crystal displays (LCDs) to organic electroluminescence displays (OLED). Although OLEDs use just one polarizing film rather than two, they employ many other materials created by the Nitto Group,

including films for touch sensors. In tandem with the anticipated evolution of flexible displays for wearable terminals and other devices, we are working closely with our customers to develop new products by tapping into our unique strength of total design capability.

• Next-Generation Mobility

The development of electric vehicles (EVs) and self-driving technology has brought with it a major turning point in the auto industry, which is expected to boost demands for car electronics products. Among such products from the Nitto Group is a visible light-blocking material for head-up displays (HUDs). Used to counteract sunlight concentration on HUDs, there should be an even greater need for this product as such displays become increasingly larger in size. Other products under development include those for enhancing the performance and safety of electric motors and those for transportation equipment other than automobiles.

• Life Science

Comprising the two main pillars of contract manufacturing

and drug discovery, the oligonucleotide medicine business is developing into the core of the Life Science segment. Our strength in contract manufacturing lies in our one-stop support for development of oligonucleotide medicines, from contract manufacturing to pharmaceutical analysis and aseptic fill & finish services. For drug discovery, we are developing a liver cirrhosis drug jointly with Bristol-Myers Squibb (BMS) while also applying our technologies to cancer treatment, and both of these efforts are proceeding smoothly. We are doing our utmost to launch these drugs as soon as possible for the many patients who are fighting against those diseases.

The Nitto Group has set its numerical targets for fiscal 2020, which are revenue of one trillion yen and operating income of 175.0 billion yen. We intend to achieve these targets by developing businesses in the aforementioned three strategic domains into profitable ones, in addition to stabilizing our existing businesses.

competition, in which first-class players from across the globe exert their utmost efforts to reach the top, is similar to the Nitto Group’s corporate attitude of constantly striving for the leading position in various fields. It is our hope that this sponsorship will help to enhance our brand value.

Furthermore, we will recruit and develop diverse human resources from across the globe who will go on to advance these initiatives, and we plan to assign them to optimal positions so that they can provide even more impetus to such endeavors. By forging ahead with the “Jitsugen-2020” plan and living up to the Nitto Way, which is the sum of our corporate values, we aim to fulfill our corporate Mission of “contributing to customers’ value creation with innovative ideas” so that we can reach our goal of achieving sustainable growth of the Nitto Group.

Resource Allocation: 400.0 Billion Yen

As we announced in the previous year’s Mid-Term Management Plan, we will remain proactive in making strategic investments for M&As and environmental measures, in addition to capital expenditures, in our bid to support the aforementioned growth strategies.

Reinforcement of Business Foundations

To ensure that these growth strategies will make steady progress, we intend to further consolidate our business foundations by enhancing environmental and safety measures, advancing manufacturing, and improving product quality and brand value. To conserve the environment, we are focusing on reduction of CO₂ emissions, which are causing environmental problems on a global scale, as well as toluene emissions. In fiscal 2017, we were able to halve our toluene emissions by taking advantage of our newly established environmental fund. We are also planning to use this fund to significantly increase the water recycling ratio in order to combat the water crisis. In conjunction with such efforts, we will continue to expand measures to prevent environmental pollution by using products of the Nitto Group whenever feasible.

Recent years have seen one case after another of non-compliance among Japanese companies, resulting in a serious loss of public confidence in them. In response, we immediately conducted surveys on how product quality is managed at all of our production sites to see if there are any similar situations within the Nitto Group. Fortunately, we found no cases of legal violation, but we will nonetheless remain on guard and reinforce our auditing and other relevant systems so that we can always offer the best product quality possible to our valued customers.

Since 2017, Nitto has been a title sponsor of the ATP Finals, the season-ending finale of the ATP World Tour for men’s professional tennis. We believe that the spirit of this

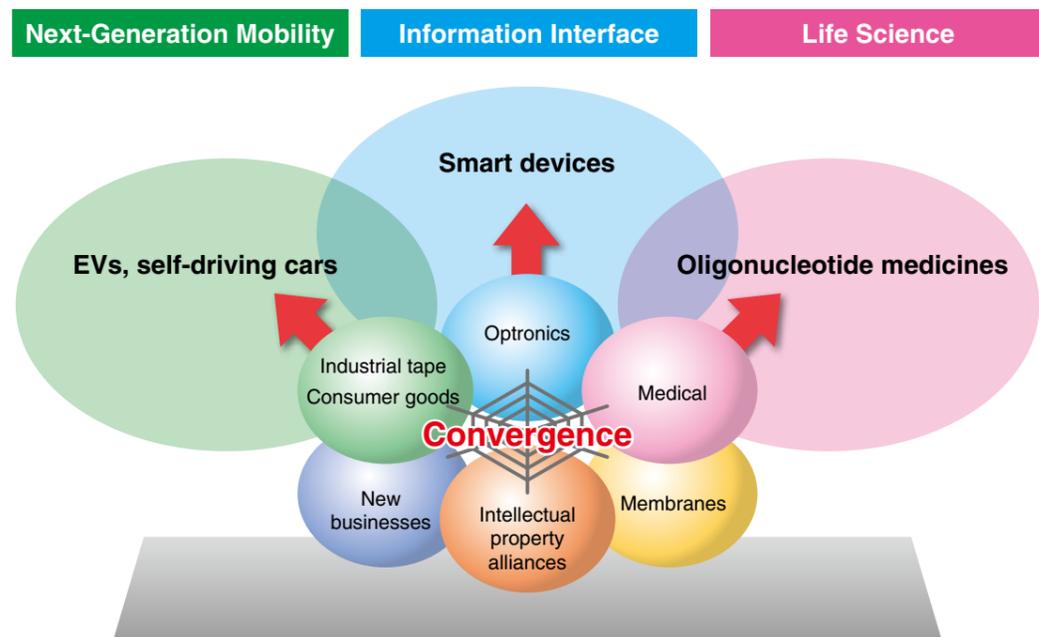
Placing Safety Before Everything Else

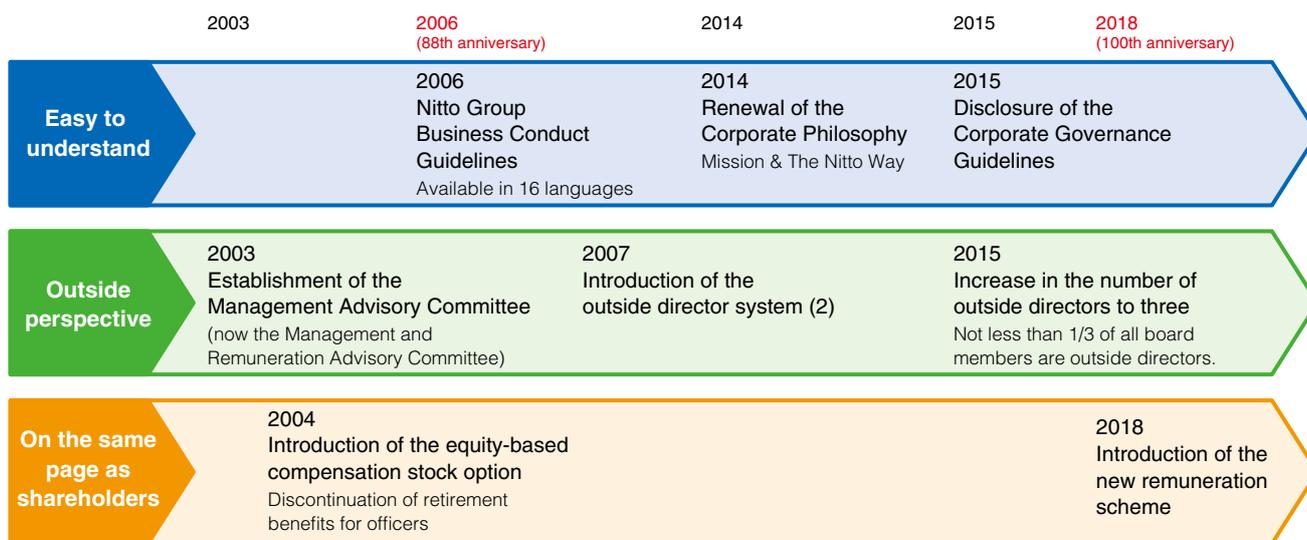
We clearly state in our Corporate Philosophy that “we place safety before everything else” based on our firm conviction that we can offer quality products and services that satisfy our customers only when we assure the safety and good health of everyone involved. Occupational safety is essential in guaranteeing a stable supply of products, safety in our host communities, and peace of mind for our employees and their families. Nevertheless, I must admit that the Nitto Group still has issues to address in this regard. Under the powerful belief that we will be able to achieve zero accidents and injuries, we will take safety measures from the three perspectives of “safety of machinery,” “safety of people,” and “safety of the organization.”

Safety of machinery	We will identify and assess risks to eradicate any possible causes of disasters that might be hidden on the shop floor.
Safety of people	We will develop people who not only observe rules, but also choose to act safely even without those rules.
Safety of the organization	Supervisors will visit the shop floor to determine whether “operators’ safety is assured and machinery can be operated safely,” while always remaining conscious of their responsibility to “protect their workplace, team, and subordinates.”

Strategic Domains in the Nitto-New Century

Allocating management resources to the three strategic domains to advance the business portfolio





Reinforcement of Corporate Governance

Even before Japan's Corporate Governance Code came into being in 2015, the Nitto Group had long been keen on "visualizing management." By taking the three approaches of being "easy to understand," taking an "outside perspective," and being "on the same page as shareholders," we have introduced a variety of measures in this regard.

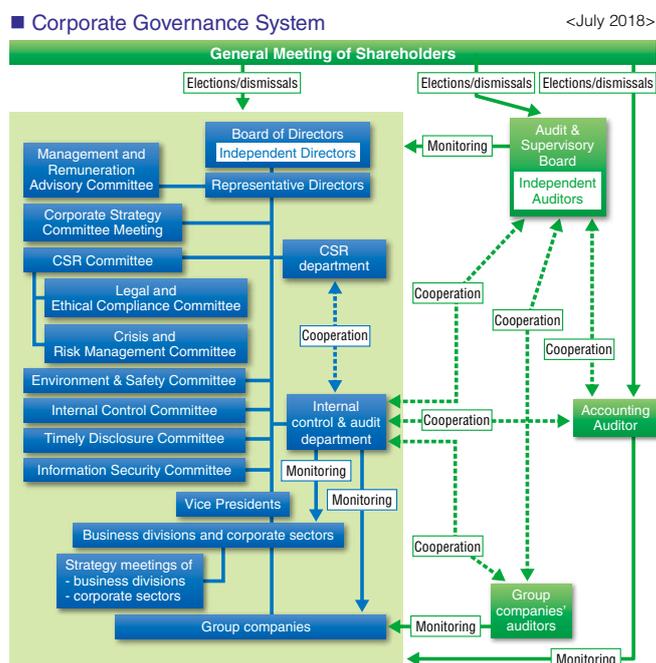
To make the Nitto Group's thoughts and actions "easy to understand" for our stakeholders, in 2006 we published the "Nitto Group Business Conduct Guidelines," which have been translated into 16 different languages for Group employees to share. In 2014, we renewed our Corporate Philosophy and have since had all employees of the Nitto Group comprehend it and act accordingly. Then, in accordance with the Corporate Governance Code of Japan, we established our own Corporate Governance Guidelines in 2015, thereby setting forth a series of measures that require continued efforts and an attitude of external disclosure. All of these documents are made public on Nitto's website.

To take an "outside perspective" toward management, in 2003 we set up the Management Advisory Committee (now the Management and Remuneration Advisory Committee), which comprises members from outside of the company. In 2007, we introduced the outside director system, and then increased the number of outside directors to three in 2015. Now, not less than one-third of all directors are outside directors.

Finally, to be "on the same page as shareholders," we introduced the equity-based compensation stock option for

Nitto's officers in 2004. As recently as this year, we also introduced a new remuneration scheme that we hope will be easy to understand and relate to for our shareholders.

Going forward, we will continue our corporate governance reforms with the above three perspectives in mind.



Amid major transformations in society and the industry, we at the Nitto Group will embark upon the Nitto-New Century to create new businesses and achieve sustained growth in a way that responds to anticipated changes in our business environment. We ask our stakeholders for their continued support and guidance in these endeavors.