

Summary of Consolidated Financial Statements for the Second Quarter Ended September 30, 2018 (IFRS Basis)

Listed company name: **Nitto Denko Corporation**
 Stock exchange listing: First Section of Tokyo Stock Exchange
 Code Number: 6988 URL <https://www.nitto.com/>
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Filing date of quarterly financial statements: November 2, 2018
 Estimated starting date of dividend paying: November 22, 2018
 Preparation of supplementary explanatory materials: Yes
 Holding of quarterly earnings release conference: Yes (for investment analysts and institutional investors)

(All monetary values noted herein are rounded down to the nearest million yen)

1. Consolidated financial results of the first half ended September 30, 2018 (April 1, 2018 through September 30, 2018)

(1) Operating results (% of change from same period in the previous year)

| | Revenue | | Operating income | | Income before income taxes | | Net income | | Net income attributable to owners of the parent company | | Total comprehensive income | |
|-------------------------------------|-----------------|------|------------------|-------|----------------------------|-------|-----------------|-------|---|-------|----------------------------|-------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| First half ended September 30, 2018 | 402,532 | -5.7 | 51,365 | -24.7 | 50,178 | -26.6 | 35,191 | -26.1 | 35,150 | -26.1 | 40,254 | -24.4 |
| First half ended September 30, 2017 | 427,052 | 20.3 | 68,242 | 133.0 | 68,352 | 136.9 | 47,598 | 129.6 | 47,554 | 131.1 | 53,217 | - |

| | Basic earnings per share | Diluted earnings per share |
|-------------------------------------|--------------------------|----------------------------|
| | Yen | Yen |
| First half ended September 30, 2018 | 223.19 | 222.99 |
| First half ended September 30, 2017 | 292.87 | 292.55 |

(2) Financial position

| | Total assets | Total equity | Equity attributable to owners of the parent company | Ratio of equity attributable to owners of the parent company to total assets |
|--------------------|-----------------|-----------------|---|--|
| | Millions of yen | Millions of yen | Millions of yen | % |
| September 30, 2018 | 934,504 | 693,399 | 692,666 | 74.1 |
| March 31, 2018 | 937,796 | 693,995 | 693,278 | 73.9 |

2. Dividends

| Record Date | Dividends per share | | | | |
|------------------------|---------------------|-------|-----|----------|--------|
| | 1Q | 2Q | 3Q | Year-end | Annual |
| | yen | yen | yen | yen | yen |
| March, 2018 | - | 80.00 | - | 80.00 | 160.00 |
| March, 2019 | - | 90.00 | - | - | - |
| March, 2019 (Forecast) | - | - | - | 90.00 | 180.00 |

(Note) Revision of dividend forecast in the current quarter: No

3. Forecast for fiscal year ending March 31, 2019 (April 1, 2018 through March 31, 2019)

(% of change from same period in the previous year)

| | Revenue | | Operating income | | Income before income taxes | | Net income | | Net income attributable to owners of the parent company | | Basic earnings per share |
|--------|-----------------|------|------------------|------|----------------------------|------|-----------------|------|---|------|--------------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | yen |
| Annual | 830,000 | -3.1 | 115,000 | -8.5 | 114,000 | -9.6 | 84,000 | -4.0 | 84,000 | -3.9 | 533.37 |

(Note) Revision of consolidated forecast in the current quarter: Yes

- Others

(1) Changes in significant subsidiaries during the second quarter ended September 30, 2018: Yes

Excluded : 1 company (Company Name) Nitto Denko (Suzhou) Co., Ltd.

(2) Changes in accounting policies applied and changes in accounting estimates

1. Changes in accounting policies required by IFRS: Yes

2. Changes in accounting policies other than the above: No

3. Changes in accounting estimates: No

(Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Key Notes (5) Notes on quarterly consolidated financial statements, (Changes in accounting policies)” on page 13.

(3) Number of shares outstanding (Common stock)

1. Number of shares outstanding at the end of the period (including treasury stock)

September 30, 2018: 173,758,428 March 31, 2018: 173,758,428

2. Number of treasury stock at the end of the period

September 30, 2018: 16,927,935 March 31, 2018: 13,592,423

3. Average number of outstanding shares during the period (cumulative from the beginning of the period)

April-September 2018: 157,490,249 April-September 2017: 162,378,087

- These quarterly financial results are not subject to quarterly review procedures by Certified Public Accountants or audit firm.

- Explanations for adequate utilization of the forecast and other special matters

The forward-looking statements shown in this report, including the forecast, are prepared based on information available to the Company and on certain assumptions deemed reasonable as of the issuing date of the report. Consequently, the statements herein do not constitute promises regarding actual results by the Company. Actual results may differ materially from forecasted figures due to various unknown factors. For conditions regarding this forecast and precaution for use, please refer to “Explanation of forecasts and other projections” on page 6 of the Attachment to this summary of consolidated financial results.

(Reference) Consolidated financial results of the second quarter (three months) of the fiscal year ending March 31, 2019
(July 1, 2018 through September 30, 2018)

(All monetary values noted herein are rounded down to the nearest million yen)
(% of change from same period in the previous year)

| | Revenue | | Operating income | | Income before income taxes | | Net income | | Net income attributable to owners of the parent company | | Total comprehensive income | |
|-------------------------------------|-----------------|------|------------------|-------|----------------------------|-------|-----------------|-------|---|-------|----------------------------|-------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Second quarter ended Sept. 30, 2018 | 210,416 | -6.8 | 24,824 | -34.5 | 24,190 | -36.1 | 18,002 | -33.9 | 17,981 | -33.9 | 22,324 | -29.7 |
| Second quarter ended Sept. 30, 2017 | 225,865 | 21.1 | 37,902 | 115.9 | 37,875 | 115.1 | 27,229 | 96.4 | 27,206 | 97.5 | 31,734 | 193.5 |

| | Basic earnings per share | Diluted earnings per share |
|-------------------------------------|--------------------------|----------------------------|
| | Yen | Yen |
| Second quarter ended Sept. 30, 2018 | 114.66 | 114.55 |
| Second quarter ended Sept. 30, 2017 | 167.52 | 167.38 |

(Attached Documents)

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1. Qualitative Information Regarding Quarterly Settlement of Accounts

(1) Explanation of operating results

During the first six months of the fiscal year ending March 31, 2019 (April 1, 2018 through September 30, 2018), economies in Japan and overseas maintained a moderate recovery trend. However, there was a concern of economic slowdown due to the U.S Trade Policy and Monetary Policy. Also, there were fluctuations because of a surge in oil price, environmental regulations, rising raw material prices and wages increases. Economic activities in Japan were influenced by natural disasters such as torrential rains, typhoons and earthquakes.

In such economic environment, Nitto Group (the “Group”) expanded steadily as Functional Base Products and Transportation in Industrial Tape. For Optronics, the Group also expanded steadily in Flexible Printed Circuits and Processing Materials, however Information Fine Materials weakened compared with the same period of the previous year. For Life Science, as a result of change in our customer's new drug discovery, the final profit had been recorded in the first quarter of the fiscal year, accordingly the results of the first half in the fiscal year was positively affected.

As a result of the above, revenue decreased by 5.7% from the same period of the previous year (changes hereafter are given in comparison with the same period of the previous year) to 402,532 million yen. Operating income decreased by 24.7% to 51,365 million yen, income before income taxes decreased by 26.6% to 50,178 million yen, net income decreased by 26.1% to 35,191 million yen, and net income attributable to owners of the parent company decreased by 26.1% to 35,150 million yen.

Summary of results by segment

① Industrial Tape

For Functional Base Products, sales weakened for smartphone. On the other hand, processing materials for semiconductors and electronic components and filter materials for industrial applications remained strong. As for Transportation Business, the sales of electrical insulating materials and vent filters for car electronics application were in good shape.

As a result of the above, revenue increased by 1.8% to 169,387 million yen and operating income decreased by 14.1% to 14,846 million yen.

② Optronics

Compared with the same period of the previous year, the demand of optical films used in smartphones was not so high, so the sales of Information Fine Materials weakened. For Flexible Printed Circuits, the sales for high-capacity hard disk drive (HDD) models for data centers remained steady. The sales of Processing Materials also remained steady for semiconductor manufacturing use.

As a result of the above, revenue decreased by 11.5% to 221,098 million yen and operating income decreased by 37.1% to 31,561 million yen.

③ Life Sciences

A transdermal patch formulation of atypical antipsychotic agent for the indication of schizophrenia, has been steadily proceeded as a joint development with our customer. In the nucleic acid drug discovery, clinical trials for pulmonary fibrosis have been worked on. As for oligonucleotide contract manufacturing business, as a result of change in our customer's new drug discovery, the final profit had been recorded on the contract basis in the first quarter of the fiscal year.

As a result of the above, revenue increased by 8.9% to 16,731 million yen and operating income increased by 77.0% to 3,055 million yen.

④ Others

For Membrane, the sales remained steady responding to industrial demands for water treatment plants, including seawater desalination. Please note that this segment includes new businesses that have not generated sufficient levels of revenue yet.

As a result of the above, revenue decreased by 3.5% to 12,378 million yen and operating loss amounted to 777 million yen. (operating income of 173 million yen was reported in the same period of the previous year)

| | | First half ended September 30, 2017 (April 1, 2017 through September 30, 2017) | First half ended September 30, 2018 (April 1, 2018 through September 30, 2018) | |
|-----------------------|----------------------------|--|--|-----------|
| | | Revenue | Revenue | Y-o-Y (%) |
| Industrial Tape | Functional base products | 85,776 | 88,043 | 102.6 |
| | Transportation | 80,604 | 81,343 | 100.9 |
| | Total | 166,380 | 169,387 | 101.8 |
| | Operating income | 17,275 | 14,846 | 85.9 |
| Optronics | Information fine materials | 216,905 | 187,888 | 86.6 |
| | Flexible printed circuits | 20,759 | 21,762 | 104.8 |
| | Processing materials | 12,108 | 11,448 | 94.5 |
| | Total | 249,773 | 221,098 | 88.5 |
| | Operating income | 50,175 | 31,561 | 62.9 |
| Life Science | Revenue | 15,364 | 16,731 | 108.9 |
| | Operating income | 1,726 | 3,055 | 177.0 |
| Others | Revenue | 12,825 | 12,378 | 96.5 |
| | Operating income | 173 | -777 | - |
| Corporate/Elimination | Revenue | -17,291 | -17,064 | - |
| | Operating income | -1,109 | 2,680 | - |
| Total | Revenue | 427,052 | 402,532 | 94.3 |
| | Operating income | 68,242 | 51,365 | 75.3 |

(Note) With the changes in the management structure that have been made during the fiscal year 2018 under review, partial changes have been made to reporting segments.

Such change has also been reflected in the figures for the first half ended September 30, 2017.

(Reference) Segment Information (three months)

(Yen in Millions)

| | | Second quarter ended September 30, 2017 (July 1, 2017 through September 30, 2017) | Second quarter ended September 30, 2018 (July 1, 2018 through September 30, 2018) | |
|-----------------------|----------------------------|--|--|-----------|
| | | Revenue | Revenue | Y-o-Y (%) |
| Industrial Tape | Functional Base Products | 46,091 | 46,247 | 100.3 |
| | Transportation | 41,478 | 41,105 | 99.1 |
| | Total | 87,570 | 87,352 | 99.8 |
| | Operating income | 9,702 | 8,143 | 83.9 |
| Optronics | Information Fine Materials | 117,072 | 103,677 | 88.6 |
| | Flexible Printed Circuits | 10,380 | 11,128 | 107.2 |
| | Processing Materials | 6,416 | 5,817 | 90.7 |
| | Total | 133,869 | 120,623 | 90.1 |
| | Operating income | 28,811 | 18,519 | 64.3 |
| Life Science | Revenue | 7,101 | 5,536 | 78.0 |
| | Operating income | 222 | -1,811 | - |
| Others | Revenue | 6,527 | 6,090 | 93.3 |
| | Operating income | 19 | -431 | - |
| Corporate/Elimination | Revenue | -9,203 | -9,186 | - |
| | Operating income | -853 | 403 | - |
| Total | Revenue | 225,865 | 210,416 | 93.2 |
| | Operating income | 37,902 | 24,824 | 65.5 |

(Note) With the changes in the management structure that have been made during the fiscal year 2018 under review, partial changes have been made to reporting segments.

Such change has also been reflected in the figures for the second quarter ended September 30, 2017.

Forecasts of fiscal year ending March 31, 2019
(As of October 31, 2018)

| | | Revenue | Y-o-Y (%) |
|-----------------------|----------------------------|---------|-----------|
| Industrial Tape | Functional Base Products | 184,000 | 105.9 |
| | Transportation | 165,000 | 100.0 |
| | Total | 349,000 | 103.0 |
| | Operating income | 36,000 | 102.9 |
| Optronics | Information Fine Materials | 393,000 | 92.7 |
| | Flexible Printed Circuits | 44,200 | 105.1 |
| | Processing Materials | 24,800 | 101.5 |
| | Total | 462,000 | 94.2 |
| | Operating income | 80,000 | 87.0 |
| Life Science | Revenue | 28,000 | 77.4 |
| | Operating income | 500 | 8.4 |
| Others | Revenue | 25,000 | 98.9 |
| | Operating income | -1,000 | - |
| Corporate/Elimination | Revenue | -34,000 | - |
| | Operating income | -500 | - |
| Total | Revenue | 830,000 | 96.9 |
| | Operating income | 115,000 | 91.5 |

(2) Explanation of financial position

The Group's financial position at the end of the second quarter of the fiscal year ending March 31, 2019 was as follows.

Compared with the end of the fiscal year ended March 31, 2018, total assets decreased by 3,291 million yen to 934,504 million yen and total liabilities decreased by 2,696 million yen to 241,104 million yen. Total equity decreased by 595 million yen to 693,399 million yen. As a result, the ratio of equity attributable to owners of the parent company to total assets changed from 73.9% at the end of the fiscal year ended March 31, 2018 to 74.1% at the end of the second quarter of the fiscal year ending March 31, 2019.

The main changes in assets were a decrease in cash and cash equivalents of 11,580 million yen, an increase in inventories of 2,032 million yen, a decrease in other financial assets of 4,992 million yen, an increase of 1,274 million yen in other current assets, a decrease in assets held for sale of 5,914 million yen, an increase in property, plant and equipment of 12,616 million yen, an increase in deferred tax assets 2,573 million yen, an increase in other non-current assets 368 million yen. In terms of liabilities, income tax payables decreased by 5,914 million yen, other current financial liabilities increased by 7,018 million yen, other current liabilities decreased by 4,976 million yen, defined benefit liabilities increased by 1,181 million yen.

(3) Explanation of forecasts and other projections

Given the financial results of the period under review, the full-year forecasts of the year ending March 31, 2019 were modified with a review of market trends in the future.

Revision of consolidated forecasts for the fiscal year ending March 31, 2019 (April 1, 2018 through March 31, 2019)

| | Revenue | Operating income | Income before income taxes | Net income | Net income attributable to owners of the parent company | Basic earnings per share |
|--|-----------------|------------------|----------------------------|-----------------|---|--------------------------|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Yen |
| Previous forecast (A) | 860,000 | 135,000 | 135,000 | 100,000 | 100,000 | 636.37 |
| Revised forecast (B) | 830,000 | 115,000 | 114,000 | 84,000 | 84,000 | 533.37 |
| Difference (B) – (A) | -30,000 | -20,000 | -21,000 | -16,000 | -16,000 | - |
| Rate of change (%) | -3.5 | -14.8 | -15.6 | -16.0 | -16.0 | - |
| (Reference) Consolidated financial results for the fiscal year ended March 31, 2018 | 856,262 | 125,722 | 126,168 | 87,463 | 87,377 | 538.99 |

The above results and forecasts are forward-looking statements determined by the Company based on currently available information that may include risks and uncertainties. Please be aware that actual results may vary significantly due to various factors.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly consolidated statements of financial position

(Yen in Millions)

| | March 31, 2018 | September 30, 2018 |
|---|-----------------------|-----------------------|
| (Assets) | | |
| Current assets | | |
| Cash and cash equivalents | 304,709 | 293,128 |
| Trade and other receivables | 192,120 | 192,372 |
| Inventories | 95,068 | 97,101 |
| Other financial assets | 8,815 | 3,823 |
| Other current assets | 15,398 | 16,672 |
| Subtotal | <u>616,112</u> | <u>603,098</u> |
| Assets held for sale | 5,914 | - |
| Total current assets | <u>622,027</u> | <u>603,098</u> |
| Non-current assets | | |
| Property, plant and equipment | 248,417 | 261,033 |
| Goodwill | 6,927 | 6,967 |
| Intangible assets | 12,355 | 12,300 |
| Investments accounted for using equity method | 338 | 356 |
| Financial assets | 9,361 | 9,436 |
| Deferred tax assets | 28,295 | 30,868 |
| Other non-current assets | 10,073 | 10,441 |
| Total non-current assets | <u>315,768</u> | <u>331,405</u> |
| Total assets | <u><u>937,796</u></u> | <u><u>934,504</u></u> |

(Yen in Millions)

| | March 31, 2018 | September 30, 2018 |
|--|----------------|--------------------|
| Liabilities and equity | | |
| (Liabilities) | | |
| Current liabilities | | |
| Trade and other payables | 110,114 | 110,742 |
| Bonds and borrowings | 4,049 | 3,448 |
| Income tax payables | 19,270 | 13,355 |
| Other financial liabilities | 13,362 | 20,380 |
| Other current liabilities | 40,379 | 35,402 |
| Subtotal | 187,175 | 183,330 |
| Liabilities directly associated with assets classified as held for sale | 260 | - |
| Total current liabilities | 187,436 | 183,330 |
| Non-current liabilities | | |
| Other financial liabilities | 1,183 | 1,303 |
| Defined benefit liabilities | 46,227 | 47,409 |
| Deferred tax liabilities | 612 | 712 |
| Other non-current liabilities | 8,339 | 8,348 |
| Total non-current liabilities | 56,364 | 57,774 |
| Total liabilities | 243,800 | 241,104 |
| (Equity) | | |
| Equity attributable to owners of the parent company | | |
| Share capital | 26,783 | 26,783 |
| Capital surplus | 55,981 | 56,089 |
| Retained earnings | 665,561 | 688,353 |
| Treasury stock | -69,867 | -98,272 |
| Other components of equity | 14,819 | 19,712 |
| Total equity attributable to owners of the parent company | 693,278 | 692,666 |
| Non-controlling interests | 716 | 733 |
| Total equity | 693,995 | 693,399 |
| Total liabilities and equity | 937,796 | 934,504 |

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income

(Quarterly consolidated statements of income)

(Yen in Millions)

| | First half ended September 30, 2017 (April 1, 2017 through September 30, 2017) | First half ended September 30, 2018 (April 1, 2018 through September 30, 2018) |
|---|--|--|
| Revenue | 427,052 | 402,532 |
| Cost of sales | 285,398 | 281,904 |
| Gross profit | 141,653 | 120,628 |
| Selling, general and administrative expenses | 57,220 | 59,369 |
| Research and development expenses | 15,814 | 15,594 |
| Other income | 2,766 | 7,827 |
| Other expenses | 3,142 | 2,126 |
| Operating income | 68,242 | 51,365 |
| Financial income | 623 | 529 |
| Financial expenses | 524 | 1,734 |
| Equity in profits (losses) of affiliates | 10 | 18 |
| Income before income taxes | 68,352 | 50,178 |
| Income tax expenses | 20,754 | 14,986 |
| Net income | 47,598 | 35,191 |
| Net income attributable to: | | |
| Owners of the parent company | 47,554 | 35,150 |
| Non-controlling interests | 43 | 41 |
| Total | 47,598 | 35,191 |
| Earnings per share attributable to owners of the parent company | | |
| Basic earnings per share (yen) | 292.87 | 223.19 |
| Diluted earnings per share (yen) | 292.55 | 222.99 |

(Quarterly consolidated statements of comprehensive income)

(Yen in Millions)

| | First half ended September 30, 2017 (April 1, 2017 through September 30, 2017) | First half ended September 30, 2018 (April 1, 2018 through September 30, 2018) |
|--|--|--|
| Net income | 47,598 | 35,191 |
| Other comprehensive income | | |
| Items that will not be reclassified to profit or loss | | |
| Net gain (loss) on financial assets measured at fair value through other comprehensive income | 402 | -6 |
| Reevaluation of defined benefit liability | - | 23 |
| Items that will be reclassified to profit or loss | | |
| Exchange differences on translating foreign operations | 5,196 | 5,033 |
| Net gain (loss) in fair value of cash flow hedges | 16 | 12 |
| Share of other comprehensive income of associates accounted for using equity method | 2 | -0 |
| Total other comprehensive income | 5,619 | 5,062 |
| Total comprehensive income | 53,217 | 40,254 |
| Total comprehensive income attributable to: | | |
| Owners of the parent company | 53,172 | 40,214 |
| Non-controlling interests | 45 | 40 |
| Total | 53,217 | 40,254 |

(3) Quarterly consolidated statements of changes in equity

For the first half ended September 30, 2017 (April 1, 2017 through September 30, 2017)

(Yen in Millions)

| | Equity attributable to owners of the parent company | | | | | Total | Non-controlling interests | Total equity |
|--|---|-----------------|-------------------|----------------|----------------------------|---------|---------------------------|--------------|
| | Share capital | Capital surplus | Retained earnings | Treasury stock | Other components of equity | | | |
| Balance as of April 1, 2017 | 26,783 | 56,139 | 603,886 | -50,876 | 17,839 | 653,772 | 648 | 654,421 |
| Net income | - | - | 47,554 | - | - | 47,554 | 43 | 47,598 |
| Other comprehensive income | - | - | - | - | 5,617 | 5,617 | 1 | 5,619 |
| Total comprehensive income | - | - | 47,554 | - | 5,617 | 53,172 | 45 | 53,217 |
| Share-based payment transactions | - | -284 | - | - | - | -284 | - | -284 |
| Dividends | - | - | -12,174 | - | - | -12,174 | -18 | -12,192 |
| Changes in treasury stock | - | 17 | - | 363 | - | 380 | - | 380 |
| Transfers from other components of equity to retained earnings | - | - | 0 | - | -0 | - | - | - |
| Total transactions with owners | - | -266 | -12,174 | 363 | -0 | -12,077 | -18 | -12,095 |
| Balance as of September 30, 2017 | 26,783 | 55,872 | 639,267 | -50,512 | 23,457 | 694,868 | 675 | 695,543 |

For the first half ended September 30, 2018 (April 1, 2018 through September 30, 2018)

(Yen in Millions)

| | Equity attributable to owners of the parent company | | | | | Total | Non-controlling interests | Total equity |
|--|---|-----------------|-------------------|----------------|----------------------------|---------|---------------------------|--------------|
| | Share capital | Capital surplus | Retained earnings | Treasury stock | Other components of equity | | | |
| Balance as of April 1, 2018 | 26,783 | 55,981 | 665,561 | -69,867 | 14,819 | 693,278 | 716 | 693,995 |
| Cumulative effects of changes in accounting policies | - | - | 430 | - | - | 430 | - | 430 |
| Adjusted balance | 26,783 | 55,981 | 665,992 | -69,867 | 14,819 | 693,709 | 716 | 694,426 |
| Net income | - | - | 35,150 | - | - | 35,150 | 41 | 35,191 |
| Other comprehensive income | - | - | - | - | 5,063 | 5,063 | -0 | 5,062 |
| Total comprehensive income | - | - | 35,150 | - | 5,063 | 40,214 | 40 | 40,254 |
| Share-based payment transactions | - | 54 | - | - | -145 | -91 | - | -91 |
| Dividends | - | - | -12,813 | - | - | -12,813 | -23 | -12,836 |
| Changes in treasury stock | - | 53 | - | -28,405 | - | -28,352 | - | -28,352 |
| Transfers from other components of equity to retained earnings | - | - | 23 | - | -23 | - | - | - |
| Total transactions with owners | - | 107 | -12,789 | -28,405 | -169 | -41,257 | -23 | -41,280 |
| Balance as of September 30, 2018 | 26,783 | 56,089 | 688,353 | -98,272 | 19,712 | 692,666 | 733 | 693,399 |

(4) Quarterly consolidated statements of cash flows

(Yen in Millions)

| | First half ended September 30, 2017 (April 1, 2017 through September 30, 2017) | First half ended September 30, 2018 (April 1, 2018 through September 30, 2018) |
|---|--|--|
| Cash flows from operating activities | | |
| Income before income taxes | 68,352 | 50,178 |
| Depreciation and amortization | 24,598 | 23,104 |
| Increase (decrease) in defined benefit liabilities | 1,417 | 1,155 |
| Decrease (increase) in trade and other receivables | -31,210 | 2,989 |
| Decrease (increase) in inventories | -5,073 | -1,823 |
| Increase (decrease) in trade and other payables | 11,347 | -1,563 |
| Interest and dividend income | 590 | 512 |
| Interest expenses paid | -186 | -130 |
| Income taxes (paid) refunded | -19,208 | -23,995 |
| Others | 2,572 | -1,490 |
| Net cash provided by (used in) operating activities | 53,199 | 48,937 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment and intangible assets | -22,815 | -30,887 |
| Proceeds from sale of property, plant and equipment and intangible assets | 99 | 210 |
| Decrease (increase) in time deposits | -3,375 | 3,345 |
| Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation | - | 2,634 |
| Others | -17 | 27 |
| Net cash provided by (used in) investing activities | -26,109 | -24,669 |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | 311 | -364 |
| Decrease (increase) in treasury stock | -0 | -28,547 |
| Cash dividends paid | -12,174 | -12,813 |
| Others | -18 | 430 |
| Net cash provided by (used in) financing activities | -11,881 | -41,294 |
| Effect of exchange rate changes on cash and cash equivalents | 1,808 | 2,664 |
| Reclassification of cash and cash equivalents included in assets held for sale in the opening balance | - | 2,780 |
| Net increase (decrease) in cash and cash equivalents | 17,016 | -11,580 |
| Cash and cash equivalents at the beginning of the period | 280,343 | 304,709 |
| Cash and cash equivalents at the end of the period | 297,360 | 293,128 |

(5) Notes on quarterly consolidated financial statements

(Notes on going concern assumption)

Not applicable.

(Changes in significant subsidiaries during the second quarter ended September 30, 2018)

During the second quarter of the fiscal year ending March 31, 2019, the Company's consolidated subsidiary Nitto Denko (Suzhou) Co., Ltd. was excluded from scope of consolidation due to transferring of all shares.

(Changes in accounting policies)

The significant accounting policies adopted for the Group's condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended March 31, 2018, with the exception of the items described below.

Beginning from the fiscal year ending March 31, 2019, the Group has adopted IFRS 15 "Revenue from Contracts with Customers". When applying IFRS 15, as a transition measure the Group applies this standard retrospectively with the cumulative effects of initially applying this standard recognized at the date of initial application.

In accordance with the adoption of IFRS 15, revenue is recognized based on the following five-step model.

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

Main business lines of the Group are Industrial Tape, Optronics and Life Science, and in the business lines the Group sells a range of products and licenses its patents, technologies and etc.

Because customers obtain control over the products at the time of delivery, for sales of these products the performance obligation is judged to have been satisfied and revenue is therefore recognized upon delivery of the products. For manufacture and sales associated with part of medical products in Life Science, revenue is recognized according to the progress toward completion of the performance obligation.

As for the license business, the performance obligation is judged to have been satisfied and revenue is therefore recognized upon provision or completion of the service to a customer based on the substantial content of the contract.

Furthermore, revenue is measured at the consideration promised in contracts with customers, less discounts, rebates, returned products, and other items.

The effect of the application of IFRS 15 on the Group's condensed interim consolidated financial statements is immaterial.

With the exception of the standards described above, the following is the accounting standard applied by the Group from fiscal year ending March 31, 2019, in compliance with its transitional provision. The effect of the application of the following standard on the Group's condensed interim consolidated financial statements is immaterial.

| IFRS | Title | Summaries of new IFRS and amendments |
|-----------------------------|-----------------------|--|
| IFRS 9 (Amended in 2014) | Financial Instruments | Amendments of financial instrument classification and measurement, impairment and hedge accounting |

(Segment information)

Information regarding revenue, income, or loss by segments

First half ended September 30, 2017 (April 1, 2017 through September 30, 2017)

(Yen in Millions)

| | Industrial Tape | Optronics | Life Science | Others | Total | Adjustment | Quarterly consolidated statements of income |
|--|-----------------|-----------|--------------|--------|---------|------------|---|
| Revenue from outside customers | 159,986 | 242,527 | 12,677 | 11,207 | 426,398 | 653 | 427,052 |
| Inter-segment revenue | 6,394 | 7,245 | 2,686 | 1,618 | 17,945 | -17,945 | - |
| Total segment revenue | 166,380 | 249,773 | 15,364 | 12,825 | 444,344 | -17,291 | 427,052 |
| Total operating income (loss) | 17,275 | 50,175 | 1,726 | 173 | 69,351 | -1,109 | 68,242 |
| Financial income | | | | | | | 623 |
| Financial expenses | | | | | | | -524 |
| Equity in profits (losses) of affiliates | | | | | | | 10 |
| Income before income taxes | | | | | | | 68,352 |

(Note) With the changes in the management structure that have been made during the fiscal year 2018 under review, partial changes have been made to reporting segments.

Such change has also been reflected in the figures for the first half ended September 30, 2017.

Major products for each segment

| Business segment | Major products |
|------------------|--|
| Industrial Tape | Functional Base Products (bonding and joining products, protective materials, etc.), Automotive Products |
| Optronics | Information Fine Materials, Flexible Printed Circuits, Processing Materials |
| Life Science | Medical Products |
| Others | Membrane Products, Other Products |

First half ended September 30, 2018 (April 1, 2018 through September 30, 2018)

(Yen in Millions)

| | Industrial Tape | Optronics | Life Science | Others | Total | Adjustment | Quarterly consolidated statements of income |
|--|-----------------|-----------|--------------|--------|---------|------------|---|
| Revenue from outside customers | 161,804 | 214,448 | 14,318 | 11,371 | 401,943 | 588 | 402,532 |
| Inter-segment revenue | 7,582 | 6,650 | 2,413 | 1,006 | 17,652 | -17,652 | - |
| Total segment revenue | 169,387 | 221,098 | 16,731 | 12,378 | 419,596 | -17,064 | 402,532 |
| Total operating income (loss) | 14,846 | 31,561 | 3,055 | -777 | 48,685 | 2,680 | 51,365 |
| Financial income | | | | | | | 529 |
| Financial expenses | | | | | | | -1,734 |
| Equity in profits (losses) of affiliates | | | | | | | 18 |
| Income before income taxes | | | | | | | 50,178 |

(Adoption of IFRS 15 “Revenue from Contracts with Customers”)

The Group applied IFRS 15 “Revenue from Contracts with Customers” starting from the first quarter ended June 30, 2018 as stated in the Changes in accounting policies. In accordance with the transitional measures under IFRS 15, the cumulative effects are recognized as an adjustment to the opening balance of retained earnings for the first quarter ended June 30, 2018. Therefore, the Group does not restate the first half ended September 30, 2017 financial statements.

Major products for each segment

| Business segment | Major products |
|------------------|--|
| Industrial Tape | Functional Base Products (bonding and joining products, protective materials, etc.), Automotive Products |
| Optronics | Information Fine Materials, Flexible Printed Circuits, Processing Materials |
| Life Science | Medical Products |
| Others | Membrane Products, Other Products |

(Notes in cases where there was a substantial change in the amount of shareholders’ equity)

Pursuant to the resolution at the Board of Directors meeting of January 31, 2018, the Company has acquired its treasury shares of 28,546 million yen. Pursuant to the resolution at the Board of Directors meeting of June 22, 2018, the Company has also disposed of its treasury shares of 141 million yen as remuneration for restricted shares, making the number of treasury shares at the second quarter of the fiscal year ending March 31, 2019 16,927 thousand, or the book balance of 98,272 million yen.

(Significant subsequent events)

Not applicable.