Corporate Philosophy

The Nitto Way

Concrete Thoughts and Actions

- Place safety before everything else
  - Achieve zero accidents and injuries.
  - Establish a safe and healthy workplace for all employees.
- Amaze and inspire our customers
  - Have customers say, “This is exactly what we wanted.”
  - Work with customers to create new value for society.
- Anticipate and leverage change
  - Stay at the forefront where we can sense changes in society and the market.
  - Rapidly link sensed changes to actions.
- Refine our strengths, and aim to become the company customers want to consult with first.
- Take on challenges for new value creation
  - Continuously take on challenges, even if we fail in the short-term, rather than do nothing for fear of failure.
- Embrace change, exercise curiosity and always take a bold step forward.

- Act promptly, and once a decision has been made, be determined to carry it through to completion.
  - Take the first step forward and then think while advancing.
  - Share information openly, have equal and fair discussions, and if a decision is made, work together as a team to bring out the best possible result.
  - Make a daily effort to erase frictions and open communication beyond organizational boundaries and hierarchies.
- Transform ourselves constantly
  - Anticipate changes, implement reforms, and bring about growth in the spirit of Mo-Gen-Dai.
  - Keep on changing ourselves, seeking ongoing change as a starting point for growth.
  - Continue to challenge ourselves and the future, with the conviction that changes in individuals lead to growth of the entire organization.
- Have an attitude of integrity, and understand and respect diversity
  - Take integrity and modesty as a starting point for action, and strive to build relationships of ‘respect and trust’ with stakeholders.
  - Recognize the diversity of our team, and accept and respect others.

Mission

Contribute to customers’ value creation with innovative ideas

The Nitto Way

Feature

Innovation for Customers

Contents

Business Development of the Nitto Group
Business Fields and Major Products
Highlights
Materiality
Value Creation Process
Top Message
ESG issue 1 Occupational Safety and Health
ESG issue 2 Environmental Management
ESG issue 3 Employment and Cultivation of Human Resources
ESG issue 4 Compliance and Human Rights Enforcement Activities
Feature: Innovation for Customers

Associated Business Risks Listed in the Financial Report
Risk Management
Business Continuity Management
Product Management
Environmental Conservation Activities
Environmental Data
Financial News
Consolidated Balance Sheet
Consolidated Statement of Income
Consolidated Statement of Cash Flows
Consolidated Statement of Changes in Equity
10-Year Summary (Consolidated)
Social Action Program
Our Relationships with Our Stakeholders

Page Contents Nitto Website URL
3–4 History of the Nitto Denko Group http://www.nitto.com/about_us/corporate/history/
7 Research and Development http://www.nitto.com/rd/
12 Corporate Governance http://www.nitto.com/governance/
28 Chemical Substance Management http://www.nitto.com/about_us/sustainability/environment/chemical/detail/
29 Procurement Management http://www.nitto.com/about_us/sustainability/environment/procurement/

Coverage

This report relates to the business activities of the 108 companies of the Nitto Group as of March 31, 2016, of which 102 are consolidated subsidiaries and the remaining 6 non-consolidated companies.

Time Period

Fiscal 2015 (April 2015–March 2016)
Includes actual performance other than this time period.

Reference Guidelines

This report is prepared in accordance with the Core option of the Sustainable Reporting Guidelines (G4) issued by the Global Reporting Initiative (GRI).
We also referred to the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC).

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

Editing Policy

The Nitto Group presents Nitto Group Report 2016: amalagating our financial and non-financial information in order to inform every stakeholder about the Nitto Group and our fiscal 2015 business activities. In order to gain an understanding of our activities by a broad spectrum of readers with only one report, the contents are necessarily limited to high-priority issues. Please refer to our website for more details.

On the occasion of the 100th anniversary of our founding in October 2018, our entire history and messages for the future are available in Japanese, English and Chinese.
The Nitto Group began expanding overseas with the establishment of the New York Office in 1961, and has made remarkable progress under the Global Niche Top® strategy. Recently, we have been furthering our business expansion by embracing an Area Niche Top® strategy of responding to unique needs in particular areas to seize a leading market share.
**Business Fields and Major Products**

**Automotive and Transportation Equipment**
- Our products improve the performance and product efficiency, as well as reduce the environmental impact of transportation equipment such as automobiles, trains, and aircraft.
- *Eco-500™* Internal pressure regulating valve
- *NITOWIR™* Steel plate reinforcing materials

**Packaging Industry**
- We supply components used in a variety of home electrical appliances, including audio visual systems, mobile devices and LED lights.
- *DOUBLE™ Double sided tape tape*
- *NITOFITAS™ Fine-setting/insulating*

**Medical Industry**
- We provide a variety of products for medical services and the healthcare field, from sanitary materials to nucleic acid medicine.
- *COLOCOLD™* Material for nucleic acid synthesis
- *YuKai™* Medical syringe material

**Display Industry**
- We provide peripheral materials for high-definition displays with the newest technologies.
- *ELECRYS™ Transparent conductive film*
- *LUCACO™ Transparent double-sided adhesive tape*

**Materials**
- We provide a list of products, such as metallic plate, for the materials processing field.
- *SPV™ Surface protective material*
- *SPV™ Taping machine processing materials*

**Housing and Housing Equipment**
- Our products provide various solutions to improve the security, comfort and environmental performance of housing.
- *PENJEREX®* Thermal insulation
- *SOLAST™* Solar control and thermal insulation

**Consumer Products**
- Our products are used to create comfortable, convenient and innovative solutions for people's lives.
- *COLOCOL™ Carton sealer*

**Social Infrastructure**
- We provide various products necessary for industrial structures supporting life.
- Seawater desalination spiral
- RO membrane element

**Home Electrical Appliances and Electronic Equipment**
- We supply components used in a variety of home electrical appliances, including audio visual systems, mobile devices and LED lights.
- Double sided tape
- *NITOSOLDER™* Fine-setting/insulating

**Electronic Devices**
- We satisfy our customers' needs with our wide-ranging products, from processing materials to peripheral materials.
- *COOLX™ Thin film-metalized board with high resolution circuit*
- *ELENIP™ Adhesive tape for protecting and fixing semi-conductor wafers*

**Environmental Equipment Investment (non-consolidated)**
- *Amount of equipment investment (non-consolidated)*
- *Number of shareholders (non-consolidated)*
- R&D/Sales ratio
- Total Input Energies

**Regional Breakdown of Revenue**
- *Japan: 180,837 million yen*
- *North America: 79,349 million yen*
- *Europe: 10,083 million yen*
- *Asian & Oceania: 493,972 million yen*

**Net Income Attributable to Owners of the Parent Company**
- *2014: 102,397 million yen*
- *2015: 106,734 million yen*

---

*Data for revenue and operating income in fiscal 2013 are presented according to IFRS for reference.*
The Nitto Group identifies material issues according to the following processes:

Abstraction of Materiality

Identification of Material Issues in Management

Identification of Material Issues in Specialized fields

Identification of Material Issues for Reporting

Value Creation Process

- **Inputs**
  - Financial Capital
  - Manufactured Capital
  - Intellectual Capital
  - Human Capital
  - Social and Relationship Capital
  - Natural Capital

- **Outputs**
  - Marketing
  - Manufacturing
  - Product supply

- **Outcomes**
  - Solving social problems (social contributions)
  - New demand (business fields)
  - Customer satisfaction

The Nitto Group abstracts materiality from the viewpoints of both the Nitto Group and its stakeholders. (Refer to chart to the right) Important business challenges are deliberated at management conferences and incorporated into our Mid-term Management Plan. The important challenges which have been defined in each specialized division and committee obtain approval in budgetary discussions and are reflected in each policy and activity plan. The CSR committee decides items for reporting from the above material issues referring to GRI Guidelines.

**Materiality**

**Abstraction of Materiality**

**Value Creation Process**

**Support & Management**

- Governance
  - Compliance
  - Cultivation of human resources
  - Safety and health
  - Product management
  - Environmental conservation

**GNT and ANT* Strategies**

- **Inputs**
  - Cash flow
  - Chemical substances
  - Technology
  - Intellectual property
  - Brands
  - Leadership
  - Knowledge / Skills
  - Diversity
  - Customers
  - Partners
  - Shareholders / Investors
  - Local communities
  - Water

- **Outputs**
  - R&D
  - Adhesion Technology
  - Coating Technology
  - Polymer Analysis and Evaluation Technology
  - Polymer Function Control Technology
  - Synthesis / Compounding
  - Coating / Lamination
  - Multi-layering
  - precedent

- **Outcomes**
  - Green (environment)
  - Clean (new energy)
  - Basic
  - Fine
  - Organic solvents
  - Water discharge
  - Industrial waste

*GNT Global Niche Top* *ANT Ana/ niche Top*
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 fiscal 2015 activities and present our key policies for fiscal 2016.

Achieving Zero Accidents and Injuries

We have implemented procedures placing safety before everything else in order to achieve zero accidents and injuries throughout the whole Group. Above all, both a Safety Call pledged and Safety Talk, in which familiar dangers among participants through dialogue. In addition, we utilize lessons learned from past accidents and disasters in daily safety activities.

The Nitto Group will continue to address our business activities under our core value: “Place safety before everything else”.

Business Summary of Fiscal 2015

In fiscal 2015, by enhancing our business and improving productivity in existing fields, the Nitto Group tackled business portfolio reform through the development of new products and creating new business in the new domains of Green (environmental concerns), Clean (new energy) and Fine (life science). In particular, our medical business, which promises mid-and long-term growth, progressed smoothly as a drug for liver cirrhosis using a molecular-targeting drug delivery system (DOS) received Fast Track designation by the FDA (U.S. Food and Drug Administration).

In our industrial tape business, automobile materials showed successful results, as a result of marketing strategy known as Sanshin Katsudo (three new activities), which advances three “new” (exploitation of new applications, new product development and creation of new demand).

On the other hand, our main optronics business was influenced by a decrease of production in the market for smartphones and hard disc drives. Overall, revenue decreased by 3.9 % to 793.0 billion yen and operating income decreased by 4.1 % to 102.3 billion yen, when compared to fiscal 2014.

Against this background, the year-end dividend for fiscal 2015 was 70 yen per share, whilst the annual dividend per share was 140 yen, a 20- yen increase in dividend over fiscal 2014, in accordance with our stance on profit distribution. The forthcoming annual dividend is projected to be 140 yen, equivalent to fiscal 2015 and in line with comprehensive calculations regarding future profits and capital expenditure.

Nitto-2018 is 3 year plan to be a bridge toward Nitto-New Century as we head towards centennial in 2018

The Nitto Group will celebrate its 100th anniversary in fiscal 2018. In order to traverse this memorable juncture and continue to reform our business portfolio towards “Nitto New Century” (The Next 100 Years), we have drawn up a three-year mid-term management plan, Nitto-2018, commencing with fiscal 2016. With the aim of achieving 910 billion yen in revenue and 130 billion yen in operating income in fiscal 2018, we will tackle this new challenge.

In concrete terms, by creating ample business opportunities (Tajiku) in the Green, Clean and Fine domains and improving our fundamental competences by such means as “proximity to customers”, Sanshin Katsudo, “creation of ample business opportunities” and “convergence”, we will create products which are differentiated by our Global Niche Top® and Area Niche Top® strategies to seize a high market share. Moreover, by adding further expertise by way of M&A, “utilizing external leverage”, “intellectual property strategy” and “improvement of brand values”, we will accelerate our growth.
In order to support this growth strategy, we will make 190 billion yen in capital investment and 160 billion yen in strategic investment for M&As and environmental measures, collectively 350 billion yen in three years. Simultaneously, we will continue to advance structural reform according to our Mu Gen Dai project, streamlining every operation and process from the viewpoints of mu (removing), gen (reducing) and dai (replacing). Furthermore, we will review our management and personnel systems and drastically strengthen our infrastructure and resources from a global perspective. Moreover, by properly observing the Corporate Governance Code, in effect in Japan since June 2015, we will engage in improvement of quality, leading to improvement of corporate value. With these approaches, we aim to be a corporation continuing to satisfy every stakeholder in future years.

**Approaches for Fiscal 2016**

In fiscal 2016, the first year of our mid-term management plan, Nitto-2018, we aim to achieve 770 billion yen in revenue and 90 billion yen in operating income. In our optronics business, growth in the smartphone market, which has led our business performance, shows signs of a slowdown. It is also expected changes in the business environment, such as the adoption of organic EL displays in place of liquid-crystal displays, will gain momentum. The Nitto Group has already begun to take measures to supply materials for organic EL displays, maintaining our high market share, along with that for our optical films for liquid-crystal displays.

Our automobile materials business, a unit of our industrial systems business, has developed into a wider transportation business by adding materials for other forms of transportation, such as aircraft, rolling stock and ships. We are developing not only our product and analysis technologies cultivated in automobile materials for other forms of transportation, but are also deploying our expertise gained in aircraft in automobiles.

In our medical business, we are engaged in facility expansion and reinforcement in order to further the favorable contracted manufacturing of oligonucleotide synthesis. We also plan to advance to the next stage of critical trials of a drug for liver cirrhosis with molecular targeting DDS technology throughout the U.S.

**Review of Environmental Goals**

Recently, with the adoption of new international frameworks for reducing greenhouse gas emissions, every signatory country has been asked to draw up a reduction target and regularly review it. Considering it was necessary to incorporate new environmental goals, including a GHG emissions target, into our mid-term management plan as part of our business strategies, the Nitto Group has constructed new systems in order to swiftly put the will of top management into practice. As one of our approaches, we established the Green Committee to allow a precise grasp of the present status, as well as risks concerning the environment, and to review our environmental goals.

Furthermore, we have developed our business in the Green, Clean and Fine domains. In particular, we have expanded our lineups of products reducing negative environmental impact in the Green and Clean domains, aiming to reduce the negative impact generated in our customers’ processing.

In order to realize our objective of “Protecting our planet for future generations”, the Nitto Group will actively engage in environmental conservation and contribute to the development of a sustainable society.

**Corporate Governance**

The Nitto Group has always recognized the importance of corporate governance in our business activities and continues to strengthen it. We accepted with sincerity the Japanese government’s policies on the strengthening of corporate governance, including the adoption of Japan’s Corporate Governance Code, and reviewed our own corporate governance in fiscal 2015. We consider it insufficient to merely adhere to the letter of the Code. We have reviewed our stance on corporate governance, and streamlined our corporate governance framework, centered on our Corporate Philosophy (Mission and “The Nitto Way”) after addressing corporate governance issues of interest to our stakeholders. In addition, we have established Corporate Governance Guidelines, and posted a detailed explanation of our Corporate Philosophy, which is at the core of our corporate governance, on our web site. Furthermore, we set policies on the holding of shares of companies outside of the Group, disposing of some shares owned. We also provided questionnaires on the performance of the Board of Directors to directors and auditors with the aim of analyzing and evaluating the effectiveness of the whole Board. Fiscal 2015 was a year of transition for corporate governance in Japan. The Nitto Group will continue to take measures aiming to improve our own corporate governance system further.

**Our Basic Views on Corporate Governance**

We at the Nitto Group make clear our fundamental values and sense of purpose with respect to performance of business in the form of our Corporate Philosophy. We have also established guidelines (the Nitto Group Business Conduct Guidelines) for concrete behavior based on this business principle, and spare no effort to make them universally known to our executives and employees. In order to maximize our corporate value and achieve continuous growth under this Corporate Philosophy, we believe that prompt and transparent decision making, as well as bold managerial decisions, are necessary. Fully aware of the importance of establishing corporate governance to achieve such decision-making, we will not only ensure the effectiveness of our corporate governance system, but also further improve the system in accordance with the following basic principles.

1. We ensure the rights and equality of our shareholders.
2. We collaborate with our stakeholders appropriately.
3. We discuss information appropriately to ensure transparency.
4. We aim to realize the management functions expected of us by our stakeholders.
5. We engage in constructive dialogue with our shareholders.

The Nitto Group looks forward to your ever-deeper patronage and future guidance.
The Nitto Group conducts business according to our core values, Place safety before everything else. We consider we will be able to establish safe and healthy workplaces for all employees and to achieve zero accident and injury throughout the whole Group.

**Fostering Safety Culture**

Thus far, the Nitto Group has engaged in risk reduction relating to equipment and production processes as proactive safety activities. Since fiscal 2014, with an emphasis on fostering a safety culture, the Group has newly established safety principles as criteria for our various safety activities which every employee implements in order to further enhance our safety culture. The Group has implemented activities to have the policies thoroughly understood. In addition, we conduct experience-based safety training especially for inexperienced employees who tend to lack an understanding of hazards. We have not only introduced transportable trailers for experience-based safety training to Japan and China, but also created rooms for experience-based safety training in Taiwan and South Korea. We are fostering improvement of safety awareness with safety training through simulated experience.

**Occurrence of Accidents**

As a result of the promotion of such safety activities, we were able to reduce critical accidents and serious accidents which might become critical accidents, and there were no fatal accidents in fiscal 2015. However, there was an increase in the incidence of general accidents, excluding critical and serious accidents. In the future, we will continue to strengthen safety activities, further fostering of the safety culture, with the aim of reducing general accidents, as well as critical and serious accidents.

**Area Meetings**

Thus far, we have promoted our various safety activities with a focus on Japan. In fiscal 2015, area meetings were held in each area of East Asia, South Asia, the Americas and Europe to encourage the initiative in those regions. In the meetings, site managers and EHS managers participated, sharing information on the occurrence of accidents. Moreover, workshops were also held in which participants learned about innovative changes in safety culture, the Group has newly established safety principles as criteria for our various safety activities which every employee implements in order to further enhance our safety culture. The Group has implemented activities to have the policies thoroughly understood. In addition, we conduct experience-based safety training especially for inexperienced employees who tend to lack an understanding of hazards. We have not only introduced transportable trailers for experience-based safety training to Japan and China, but also created rooms for experience-based safety training in Taiwan and South Korea. We are fostering improvement of safety awareness with safety training through simulated experience.

**Distribution of Nitto Group Safety Guidebook**

Aiming to ingrain awareness of, Place safety before everything else, we distribute Nitto Group Safety Guidebook to every employee in the Group. In the Guidebook, we expound our policies on safety and concepts of safety activities, such as risk assessments and SS*. Each employee is able to describe Safety Commitments in the Guidebook.

**Environmental Management**

The Nitto Group develops its business activities by adhering to our environmental policy, “Protecting our planet for future generations”. By valuing compliance with laws in letter and spirit and acting with integrity and a commitment to environmental preservation both locally and globally, we believe we are able to contribute to the development of a sustainable society.

**Status of Environmental Management Index**

In fiscal 2004, the Nitto Group established an Environmental Impact Value-Added Productivity Index as an all-encompassing environmental management index for the Group, calculating the total added value*1 created by our business activities and the resulting environmental impact*2.

Until fiscal 2015, we had set fiscal 2005 as the base year and had aimed to double the index (Index=200) by 2015 and worked towards our target. However, we failed to achieve the target as we were not able to sufficiently control the environmental impact for the added value created.

**Environmental Risks and Opportunities**

The Nitto Group has a grasp of and manages key environmental risk (refer to the following illustration) incidental to our business activities. We are convinced that preparing for environmental risk will lead to opportunities in markets.

We will continue to promote development of business contributing to reduction of negative impact and enhancement of environmental conservation.
**ESG Issue 3**

**Employment and Cultivation of Human Resources**

The Nitto Group undertakes business in the growing and changing global marketplace by promoting Global Niche Top® and Area Niche Top® strategies. We consider human resources our most valuable assets, and are developing measures aimed at allowing a diversity of human resources to play active roles.

**Promoting Diversity and Women to Play Active Roles**

In the Nitto Group, approximately 30,000 employees from culturally diverse backgrounds play active roles throughout the world. We aim to develop further by making good use of each employee's abilities, irrespective of nationality or gender. There is a diversity of new employees recruited by Nitto Headquarters. Over the past four years, 26 non-Japanese nationals have joined Nitto, with women comprising approximately 40 percent of all new recruits in fiscal 2016.

Twelve percent of management-level employees in the Nitto Group are women. To allow women to play an even more active role, we are creating women-friendly workplaces. However, the percentage of women in management in Japan remains at a comparatively low 3 percent. In order to actively promote women to managerial roles in Japan, we have established targets. For example, Nitto (non-consolidated) has a plan to raise the percentage of women in management to 4 percent by fiscal 2018, by organizing a Diversity and Inclusion Group, and by considering the introduction of concrete measures. We have already launched some measures, such as trials of working from home.

**Cultivation of Human Resources**

We have established NCS (Nitto Group Cultivation System) as a basic level of education for newcomers to the Nitto Group. NCS consists of six themes (safety, SQ, quality, CSR, environmental conservation and corporate philosophy), and is administered in each group company.

Furthermore, we have launched Nitto Global Business Academy (NGBA) in fiscal 2011, aiming to foster future C-Level executives who will be able to deal with the globalization of management. Every year, selected employees from across the whole Group participate in NGBA. In doing so, we cultivate human resources to support the future growth of the Group from the standpoint of diversity.

**Employees of the Nitto Group**

<table>
<thead>
<tr>
<th>Region</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Area</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>Asian Area</td>
<td>74%</td>
<td>26%</td>
</tr>
<tr>
<td>American Area</td>
<td>71%</td>
<td>29%</td>
</tr>
</tbody>
</table>

*In Europe, there is no comparable data, as benchmarks and attitudes differ to those in Japan. "Almost all" data is based on the 2016 Census, as a proxy for the last ten years. Men have been defined by their gender ratio as of March 30, 2016.

---

**ESG Issue 4**

**Compliance and Human Rights Enlightenment Activities**

Recently, corporate corruption by global enterprises has been frequently uncovered with repercussions for various stakeholders. In some cases, management-level persons were involved in such dishonesty. In the Nitto Group, we are engaged in further enhancement of awareness of such issues by directors and management-level employees, and ensure that all of our employees understand and follow our Business Conduct Guidelines thoroughly.

Furthermore, we consider the protection of human rights part of compliance, and ensure that training activities also encompass supply chains.

**Understanding Compliance Thoroughly**

The Nitto Group defines compliance as constantly exercising ethical judgment, not limited to obeying the relevant laws, but also adhering to every societal norm. We translate our Business Conduct Guidelines into 16 different languages and distribute them to all employees, irrespective of culture, custom, or area. Furthermore, when entering our companies, new employees must receive training on the Guidelines. Each group company also thoroughly implements enlightenment training for them.

In addition, we hold CSR workshops for management-level employees every year, which encourage each of those employees to be aware of, and to prevent, injustices from occurring, and to implement compliance. In fiscal 2015, corruption prevention and antitrust law were adopted as themes in the workshops, which were held a total of 155 times in twenty countries, with 2,529 directions and management-level employees participating in them.

**Ban on Child Labor and Forced Labor**

The Nitto Group emphasizes the ban on child labor and forced labor in Business Conduct Guidelines and has all group companies understand it. In addition, the ban is specified in CSR-Based Procurement Guidelines, and is something we ask our business partners to adhere to steadfastly.

In fiscal 2015, we had no issues with child labor or forced labor.

**Human Rights Enlightenment Activities**

The Nitto Group supports the Universal Declaration of Human Rights and has established a Nitto Group Basic Policy on Human Rights. Twice a year, at the beginning of a new fiscal year and on Human Rights Day, a message from the Nitto Group Central Human Rights Enlightenment Committee Chairman reminds the whole Group to observe the protection of human rights.

In Japan, we have persons in charge of each base and group company, implementing training sessions and calling for slogans on human rights. In other areas, we also implement training sessions and address issues specific to certain countries and areas.

---

**Reporting and Counseling System on Corporate Ethics**

To facilitate the early detection of violations of the law and ethics issues, we have a reporting and counseling system that allows employees to contact the CSR Department directly. Contact information is noted in Business Conduct Guidelines. Any employee in the Group is able to make use of the system. In addition, though limited, we have an independent reporting system. The incidence of reports is on the increase, which demonstrates that a company culture in which employees are able to speak freely about irregularities, has taken root.

In fiscal 2015, there were no issues concerning duty disclosure under the Commercial Code. However, we received 16 reports concerning labor disputes, human rights violations and dishonesty through this system. The Nitto Group settled issues after carefully interviewing parties involved, while ensuring the protection of all whistleblowers.

---

**Learning about Sexual Harassment in E-learning**

In Nitto Toyohashi Plant, sexual harassment awareness was conducted through e-learning in fiscal 2015. Four hundred and five management-level employees attended the lecture. They enhanced their understanding of what constitutes sexual harassment by, among other things, looking at issues from another person's standpoint and studying the legal implications of problems.
History of Technological Innovation

The Nitto Group has produced countless new technologies based on our four core technologies and has created various products by combining these technologies since 1918, our foundation year. Furthermore, we have developed our business by applying the products and technologies which we have developed to various fields.
By creating new products, as well as developing new applications of our existing technologies and products after promptly considering our customers' problems, the Nitto Group has stimulated new demand. We call such activities Sanshin Katsudo (Three New Activities). At present, approximately 13,500 different products of ours are used in various industries, offering solutions to social problems.

Currently, in addition to existing business fields, we are promoting development of technologies and products which may be awaited anxiously by our customers, and seek to develop new possibilities, targeting the domains of Green (environmental concern), Clean (new energy) and Fine (life sciences).

Optical Film for Flat Panel Displays (FPD)
On FPD, without optical film such as polarizing film, retardation film or brightness enhancing film, characters and projected images are not visible. Film with Nitto's unique optical properties contributes to thinner, higher grade displays with increased energy efficiency.

Transparent Conductive Film
ELECTRIST® transparent conductive film plays the role of a switch in touch panels by allowing in light while conducting electricity.

Structural Materials for Optical Products
We have a wide lineup of products, such as adhesive sheet, Teflon optical film and surface protection materials to prevent scratching.

Nitto Awarded Display Component of the Year Award
Nowadays, thinner and more flexible displays are demanded, and it is an important challenge for us to make polarizing films thinner. In such circumstances, Nitto has succeeded in developing a new, innovative ultra-thin polarizer. As recognition for this achievement, we were awarded a Display Component of the Year Award by the Society for Information Display at the 2016 Display Industry Awards.

New Marketing Base in Munich, Germany
In order to advance the development of electronics and IT in automobiles and to swiftly meet the needs of the global market, we newly established a marketing base with the main focus on automobiles in Munich, Germany in July 2015.

Name: Nitto Deutschland GmbH Munich Office
Location: 11 Parking, 85748 Garching bei Munich, Germany

Roll to Panel®
In the past, we delivered optical film for FPD manufactured and processed at Nitto to customers, before customers assembled the FPD panels. In our new business model Roll to Panel®, we install equipment at customer plants, cutting and attaching optical film to FPD panels for our customers. This leads not only to reduction of processing and transportation costs, but also improvement of production efficiency.

In addition, we protect our business using the Roll to Panel® system by promptly acquiring the relevant patents globally and establishing a platform of patents.

Clear
New Type of Neodymium Magnet
The neodymium magnet is used in motors, such as in automobiles, trains and mobile phones. By applying our organic/inorganic hybrid technology*1, we successfully developed a unique type of neodymium magnet featuring orientation control capability*2, which enables improvement in motor performance by 20 to 30% compared to conventional motors, while also contributing to the miniaturization and lightweight manufacture of motors.

Optical Transmission Cables
We have achieved high-quality bulk data transmission by combining our newly-developed film transmitting light signals (optical waveguide) with electrical circuit boards. Electrical signals have become more commonplace in automobiles to improve safety and comfort. Nitto's optical transmission cables make it possible to carry signals for such applications at high data rate.

In this chapter, we introduce our new products and services, and those we aim to commercialize, as well as our existing products and services.
Proposals to Streamline Manufacturing and Operating Processes of Aircraft

Some masking tapes were previously used in the manufacturing process of metallic components. The masking tapes which the Nitto Group has developed require no reaplication, and therefore, contribute to improvement of productivity through a one-stop process. Furthermore, our anti-corrosion and moisture barrier materials for aircraft not only contribute to long-lasting aircraft frames, but also benefit maintenance operations, and are now being increasingly employed by major airlines. In order to meet increasing passenger demand in the future, increasing aircraft production volume and operating efficiency will be required. Under the motto “We help you to build faster, maintain easier”, the Nitto Group promotes development of new products.

Feature  Innovation for Customers

2015

For Example

Aircrafts

- Carpet tape
- Moisture barrier tapes
- Anti-corrosion tapes
- PTFE adhesive tape for wrapping wire harnesses
- Cargo pit tapes

Functional films for Aircraft Windows

There is a possibility that electromagnetic waves have an effect on electronic devices controlling the operation of aircraft. The Nitto Group is addressing development of film with not only heat shielding and heat insulating functions, but also able to shield electromagnetic waves simply by its application to windows. In practical use, such film will contribute to improvement of safety as well as comfort in aircraft.

- Patching the electromagnetic waves inside and outside of aircraft

Proposals to Streamline Manufacturing and Operating Processes of Aircraft

For Example

Social Infrastructure

- Anti-corrosion and protection of piping
- Anti-corrosion tape
- Insulation/Heat radiation
- Insulating sheet
- Thermally conductive metal substrate

Clean

RAYCREA®

RAYCREA®, a wavelength conversion material applied to solar panels, converts UV light into blue light, which is harmless and available for power generation. It prevents deterioration of the panels without UV absorbers and improves power output by approximately 2%. RAYCREA® is highly durable and effective over a long time.

For Example

Housing, Building Materials and DIY

- Decofa
- Curing tape
- UV absorbers and improves deterioration of the panels without UV absorbers

Green

PENJERE® - Energy-saving Window Film with Solar Control and Thermal Insulation

PENJERE® is a window film with high performance solar control and thermal insulation. It cuts solar radiation entering windows in summer and reduces heat loss in winter, to keep rooms comfortable. PENJERE® allows energy saving in winter, which was hard to achieve with conventional window films. The Environmental Technology Verification (ETV) Program of the Ministry of the Environment, Government of Japan, has verified that PENJERE® contributes to reducing power consumption throughout the year.

- Energy-saving simulation of ETV (PX-8080S)
- Results of demonstration construction at Nitto Tohoku Plant

Green

Me-del Sheet - Protective Sheet for Sweet Potato Seedlings

Me-del Sheet protects sweet potato seedlings from the wind, frost and chill and aims to take the backache out of seedling transplanting for farmers who have to work in a semi-crouching position all day. It is fixed firmly by simple rolling, as it has adhesive tape at either end, greatly reducing the number of hours worked.

We have obtained yield feedback on crop yield improvements with Me-del Sheet and are further verifying its performance. We plan to develop Me-del Sheet overseas and aim to make a leap forward in fiscal 2016.

- Setting of Me-del Sheet: Planting is easier using a Raku-raku Roller
- PX-8080S
- With RAYCREA®
- Without RAYCREA®
The Nitto Group engages in the establishment of facilities for new value creation. In November 2015, we launched Season Terrace Innovation Center (STIC) at Nitto Global Marketing Center in Shinagawa, Tokyo. In addition, in March 2016 we established a facility known as inovas at Ibaraki Plant, with the three functions of the cultivation of human resources, research and development and the provision of an innovation center. STIC assumes the role of enzukuri (building relationships) as an entrance to the Nitto Group, while inovas aims to produce feelings of sympathy as a place of kototokuri (creation of new value). Until now we had three facilities: Toyohashi Innovation Center; Nitto Denko (Shanghai) Innovation Center (NICE); and an innovation center (QIC) at Nitto (Qingdao) Technology Research Institute. At the Toyohashi Innovation Center we conduct monozukuri (manufacturing) in cooperation with our customers. With the addition of STIC and inovas, we have formed an innovation center (IC) network.

In addition, the Nitto Group has constructed a network for research and development centers among five countries, addressing research and development lead by local initiative.

In the future, by fusing these two networks, the Nitto Group will contribute to creating future value by working closely with our customers.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Innovation for Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
</tr>
</tbody>
</table>

**Medical Services**

- Transdermal drug delivery patches
- Surgical tape
- Film dressing

**Nucleic Acid Medicines**

Nucleic acid medicines are pharmaceutical products produced from the structural components of DNA and RNA, called nucleic acid (polynucleotide). Through direct action on genes and proteins, these medicines hold great promise for treating diseases such as cancer that were formerly difficult to treat.

The Nitto Group develops and distributes NittoPhase® high-performance polymer beads for the synthesis of nucleic acid medicine (essentially carriers for solid-phase synthesis), while also providing manufacturing of a number of drugs and various related services.

**Protecting Business with Intellectual Property**

The Nitto Group implements optimal intellectual property activities according to our business strategy in order to achieve the industrialization and market penetration of technologies, services and products which we have developed. For example, we are adopting a new strategy, which includes such things as protecting business models like Roll to Panel® (refer to page 20).

Furthermore, the global application rate of the Nitto Group is more than 65%, which is relatively high (approximately 30% for the Japanese rate), and the globalization of our intellectual property activities continues to progress, in accordance with our business development. As recognition of such activities, the Nitto Group received a Thomson Reuters Top 100 Global Innovator award for the fifth consecutive year. The award is given to the most innovative corporations and research institutes.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Intellectual Property Activities Linking to Business Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
</tr>
</tbody>
</table>

**Anti-fibrosis Drug with Molecular Targeting DDS Technology Platform**

Drug delivery system (DDS) is a technology that steadily delivers drugs to an affected area. With the aim of industrializing the first drug discovery within the Group, we are engaged in the development of therapeutic agents for intractable diseases long-awaited by a great many patients using our DDS technology. A drug for liver cirrhosis, which is at a pre-industrialization stage, is currently being tested for its safety and efficacy in patients, progressing steadily toward practical use.

**Establishment of Nitto BioPharma, Inc., Devoted to Drug Discoveries in the US**

On January 11, 2016, we established a new company devoted to drug discoveries in the US. We are planning to relocate a development base to the north of San Diego where life science business is concentrated, further accelerating the industrialization of drug discoveries.

**Meeting of Hito, Gi and Chi Realizes Co-creation - Establishment of inovas**

inovas was established as a place for cultivating human resources and technologies and innovating, in partnership with our customers. Fusing the innovation of hito ‘person’ (cultivation of human resources) with the innovation of gi ‘technology’ (research and development), leads to the innovation of chi ‘knowledge’ and provides our customers with surprises and impressions. Through repeated active dialogue and interchange with our customers and by allowing new ideas to take shape, we aim to realize our brand slogan, “Innovation for Customers”.

**IC Network**

- Tokyo STIC
- U.S
- Singapore
- Switzerland
- Japan
- China
- Korea
- Taiwan
- EPO

**Intellectual Property Activities**

Amalgamation of business and intellectual property

- Business growth (by business each country) Market-appropriate intellectual property strategy

- Innovation for Customers

Linking intellectual property rights allowing effective use of rights for competitive business advantage

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

<table>
<thead>
<tr>
<th>Year of patent publications</th>
<th>Japan</th>
<th>China</th>
<th>Korea</th>
<th>Taiwan</th>
<th>Singapore</th>
<th>Switzerland</th>
<th>United States</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>100</td>
<td>50</td>
<td>20</td>
<td>10</td>
<td>5</td>
<td>1</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>2009</td>
<td>150</td>
<td>70</td>
<td>30</td>
<td>20</td>
<td>8</td>
<td>2</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td>2010</td>
<td>200</td>
<td>100</td>
<td>40</td>
<td>30</td>
<td>15</td>
<td>3</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>2011</td>
<td>250</td>
<td>150</td>
<td>50</td>
<td>40</td>
<td>20</td>
<td>5</td>
<td>70</td>
<td>35</td>
</tr>
<tr>
<td>2012</td>
<td>300</td>
<td>200</td>
<td>60</td>
<td>50</td>
<td>25</td>
<td>7</td>
<td>90</td>
<td>45</td>
</tr>
<tr>
<td>2013</td>
<td>350</td>
<td>250</td>
<td>70</td>
<td>60</td>
<td>30</td>
<td>9</td>
<td>110</td>
<td>55</td>
</tr>
<tr>
<td>2014</td>
<td>400</td>
<td>300</td>
<td>80</td>
<td>70</td>
<td>35</td>
<td>11</td>
<td>130</td>
<td>65</td>
</tr>
<tr>
<td>2015</td>
<td>450</td>
<td>350</td>
<td>90</td>
<td>80</td>
<td>40</td>
<td>13</td>
<td>150</td>
<td>75</td>
</tr>
<tr>
<td>2016</td>
<td>500</td>
<td>400</td>
<td>100</td>
<td>90</td>
<td>45</td>
<td>15</td>
<td>170</td>
<td>85</td>
</tr>
</tbody>
</table>
Potential risks which could have an adverse effect on our operational results, share price and financial standing are indicated below.

(1) Political, Social, and Economic Trends
The Group conducts business throughout the world. Depending on the country in which the Group operates, there are inherent unforeseeable risks that can materialize. Such risks include: deteriorating employment relationships; labor disputes; increasing labor costs; and interruption to transportation networks and electric power supplies. If such an event were to occur, the performance of the Group could be adversely affected. Furthermore, the occurrence of terrorism, war and coups caused by political instability, and market stagnation, unexpected fluctuations in exchange rates and financial instability caused by sudden changes in the world economy can all have adverse effects on the performance of the Group.

(2) Changes of Legal Regulations and Compliance
The Group carries out business in various fields overseas. The Group endeavors to abide by the various laws and regulations of each country in every activity. However, if there were to be significant changes to, strengthening of, or discrepancies in the interpretation of laws and ordinances or taxes and regulations, or a difference in business customs, the activities of the Group might be impaired, or the Group might incur additional costs, which could adversely affect its performance. Moreover, lack of compliance on the part of executive officers and employees could have adverse effects on the performance of the Group.

(3) Accidents and Disasters
The Group has drawn up a Business Continuity Plan (BCP) and promotes Business Continuity Management (BCM) in preparation for accidents and disasters, according to the policy, “We place safety before everything else”. In particular, Japan has a high occurrence of earthquakes, which are often accompanied by tsunamis and flooding. The effects of an earthquake, tsunami or flood could cause a blaze, leakage of chemical substances, or damage to infrastructure, such as electricity and gas supplies, which could cause disruption to supply chains over a wide area. Moreover, if there were a massive outbreak of new infection affecting human life, there could be an impact on the regional and global economies, which could interfere with continuity of our business. Any of these contingencies would impact the business results of the Group.

(4) Environmental Issues
The Group views “Integrity with a commitment to environmental preservation, both locally and globally”, as one of its key business policies and has a voluntary environmental impact reduction plan in which the Group accepts its social responsibility, focusing on reducing waste and preventing air pollution and global warming. The Group has not caused any serious environmental problems to date. However, there exists the possibility that the Group might fail to meet performance targets in reduction of environmental impact or an accident or natural disaster which could cause unforeseen environmental pollution, resulting in significant expenses. Any of these contingencies influence the business results of the Group.

(5) Optoelectronics Business
Materials used in LCD-related and touch panel products constitute the core of the Group’s sales. Many companies participate in this market and competition continues to be stiff. Market trends for products using materials of the Group, technical innovation, corporate reorganization and the switching of strategy among liquid panel makers and touch panel makers, declining prices due to supply demand imbalance, sharp increase in material costs caused by change due to manufacturing capacity of materials suppliers and demand can all negatively affect the performance of the Group.

(6) Research and Development
With the aim of meeting high market expectations, the Group strives toward technological innovation and competitive power of cost-cutting across all areas of our business. The Group continues to pursue the development of new products, exploitation of new applications and creation of new demand, with research and development investment, as well as plant and equipment investment based on our Area Niche Top® strategy, in which we supply products meeting specific needs in an area, in addition to our Global Niche Top® strategy. However, it is not easy to accurately forecast changes in an industry in which market changes are so drastic. It is possible that another company could unexpectedly develop a new technology or a new product that renders a product of the Group obsolete. The occurrence of such an event beyond contingency expectations could affect the future performance of the company.

(7) Procurement of Raw Materials
The Group endeavors to find multiple raw materials suppliers so as to reduce the risk of being unable to procure key materials. However, we depend on specific suppliers for some key raw materials. Failure to obtain the necessary raw materials, or a cost increase due to supply demand imbalances caused by supply decreases or stoppages resulting from circumstances beyond our control such as a natural disaster, accident or bankruptcy of a vendor, could adversely affect the performance of the Group.

(8) Product Quality
The Group manufactures primarily parts and materials according to ISO 9000 quality standards and delivers them to our customers. The Group cannot completely eliminate the risk of liability associated with product defects. If compensation were to exceed the coverage of product liability insurance, this could negatively affect the performance of the Group.

(9) Intellectual Property Rights
The Group owns, maintains and manages valuable intellectual property rights for the purpose of ensuring our market competitiveness. However, there exists the possibility that a third party could claim these rights to be invalid and the Group might not enjoy complete protection. The Group’s property could be imitated in some area or the Group could be involved in litigation. Therefore, intellectual property rights infringements could negatively affect the performance of the Group.

(10) Mergers and Acquisitions
Aiming for business growth, the Group constructs relationships with other companies with superior technology in diverse ways such as through acquisitions and affiliations. If such an acquisition did not prove to be as profitable as expected, the performance of the Group could be adversely affected.

(11) Retention of Human Resources
In order to facilitate the business activities of the Group, it is necessary to recruit superior personnel in a variety of fields such as research, development, manufacturing, sales and management. We actively recruit global human resources based on our Area Niche Top® strategy, in which we supply products meeting specific needs in an area, in addition to our Global Niche Top® strategy. However, it is not easy to accurately forecast changes in an industry in which market changes are so drastic. It is possible that another company could unexpectedly develop a new technology or a new product that renders a product of the Group obsolete. The occurrence of such an event beyond contingency expectations could affect the future performance of the company.

(12) Financial Standing of Our Customers
The Group deals with customers who meet its strict financial criteria. However, some customers are in rapidly changing business environments and serious financial problems can occur with such customers with whom the Group has accounts receivable. In particular, customers such as liquid crystal panel manufacturers and touch panel manufacturers average a significantly large amount in accounts receivable per customer compared with those of other product manufacturers. If a default were to occur, the amount involved would tend to be quite significant, which could affect the performance of the company.

(13) Information Management
Our information system has a critical role in the Group and is becoming more complex and highly-developed, year by year. In addition, our information system is not only becoming increasingly at risk of natural disaster and fire, but also a target of malicious intent, such as in the form of cyber terrorism. The Group takes various measures against both hardware and software problems. However, any failure occurring in our information system could negatively affect the performance of the Group. Furthermore, in order to prevent leakage and abuse of technical information, client information, transaction information and personal information, we take various measures in information security. However, if any leakage or abuse of information data were to occur, the performance of the Group could be adversely affected.

(14) Lawsuits
In the business activities of the Group, there exists the possibility that the Group could become embroiled in legal proceedings with a customer or third party. The risk that the outcome of litigation did not properly reflect the opinion of the Group and thus differed from the Group’s forecasts might be ineluctable and this could adversely affect the performance of the Group.

(15) Retirement Benefit Liability
The defined benefit liabilities of the Group are calculated on the basis of various experience assumptions used in actual calculations and investment yields of pension assets. In line with the devaluation of pension assets at market price, interest-rate trends and changes in the retirement allowance system and pension system, recognized and calculated liabilities could be affected. This might influence the business results of the Group.
Business Continuity Management

By following our Four Basic Policies, the Nitto Group performs Business Continuity Management (BCM) with a strong link between disaster mitigation (approaches to minimize damage caused by disaster) and quick recovery. We have established a Business Continuity Plan in order to minimize damage caused by disaster) and quick recovery.

We have committees to investigate common risks such as product risk and information security in the Group and to consider suitable countermeasures.

Investigation of Risk and Countermeasures

The Nitto Group distributes questionnaires on business risk to more than 2,000 management-level employees every year. The purpose of the questionnaires is to investigate and distinguish risks concerning the Group as a whole and risks according to the characteristic features of each business and area, as well as to enhance risk awareness by each management-level employee. Furthermore, we not only provide feedback on the questionnaires in CSR workshops for those employees, but also discuss the unique risks in each base and group company, and considering appropriate countermeasures with everyone.

Recently, we are exposed to the risk of information leaks due to negligence and information flow by external attack. Therefore, in fiscal 2015, we consolidated our global management system as part of our enhancement of information security management. We have employees thoroughly abide by the rules we have established for administrative storage and use of information. In addition, we seek to mitigate our security vulnerabilities through technological countermeasures, audits and self-inspections of IT infrastructure. Furthermore, we have begun employee education through e-learning. In order to secure the trust of our customers, we aim for “a state of fewer security incidents” and no information leakage”, enhancing our information security management across the entire Group.

Enhancement of Information Security Management

Recently, we are exposed to the risk of information leaks due to negligence and information flow by external attack. Therefore, in fiscal 2015, we consolidated our global management system as part of our enhancement of information security management. We have employees thoroughly abide by the rules we have established for administrative storage and use of information. In addition, we seek to mitigate our security vulnerabilities through technological countermeasures, audits and self-inspections of IT infrastructure. Furthermore, we have begun employee education through e-learning. In order to secure the trust of our customers, we aim for “a state of fewer security incidents” and no information leakage”, enhancing our information security management across the entire Group.

Business Continuity Plan

We consolidated our global management system as part of our enhancement of information security management. We have employees thoroughly abide by the rules we have established for administrative storage and use of information. In addition, we seek to mitigate our security vulnerabilities through technological countermeasures, audits and self-inspections of IT infrastructure. Furthermore, we have begun employee education through e-learning. In order to secure the trust of our customers, we aim for “a state of fewer security incidents” and no information leakage”, enhancing our information security management across the entire Group.

BCM at Nitto Europe

Nitto Europe (current Nitto Belgium) has a crisis response plan and prepares for contingencies. In fiscal 2015, in order to verify the effectiveness of the plan, we conducted a joint training exercise with the Ghent City Fire Department on the assumption of a chemical spill within the plant. In the future, we will continue to improve our ability to respond to contingencies and enhance mutual cooperation.

Chemical Substance Management

Besides anticipating social changes and complying with the letter and spirit of the law in every country where we do business, we conduct chemical substance information management with the aim of fulfilling our social responsibilities as an enterprise.

By property managing information on chemical substances contained in raw materials and information on chemical substances produced by the Nitto Group, we are able to ensure the safety of our products and our employees, whilst giving consideration to the environment. Furthermore, we provide proper and prompt information, not only on the chemical substances contained in our products, but also on conflict minerals* to our customers.

Construction of Information Management System

Recently, against a background of heightened public concern about chemical substances and globalization, prompt responses to the establishment of new, or changes in, the laws and regulations of each country and area are required.

Embracing the opportunity afforded by the tightening of REACH Regulation in Europe in 2007, Nitto Head Office has taken the initiative of unifying the management of raw materials, chemical substance information and information on the laws and regulations in each country and area. We are currently advancing the establishment of an information management system in each area independently, aiming to strengthen responses to laws and regulations.

In fiscal 2015, responses to the laws and regulations in individual countries in Europe became possible. In the Americas, we are advancing establishment of a system to be in place by fiscal 2018. In addition, we have begun to develop the same system in East Asia (China). In the future, we will conduct autonomous information management in every area.

Chemical Substance Management Flow

<table>
<thead>
<tr>
<th>2005</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Europe</td>
<td>the Americas</td>
<td>East Asia</td>
</tr>
<tr>
<td>2016</td>
<td>South Asia</td>
<td>2015</td>
<td>2016</td>
</tr>
</tbody>
</table>

* For more information on product risk management, please see page 30.

* Incidents and accidents including loss of data, virus infection and unauthorized access due to negligence and information flow by external attack.

* Conflict minerals: minerals which are produced in conflict areas and become the source of funds for armed groups.

Nitto Group Report 2016
Quality Management

In order to provide safe products and services satisfying our customers’ demands, we conduct quality management. We address not only the establishment, continuous maintenance and improvement of quality, but also engage in activities to prevent risks entailed in our quality management system, such as quality defects and complaints about quality from the planning and development stages through to sales.

Preventive Activities

In order to ensure product quality, we employ FMEA (Failure Mode and Effect Analysis) to thoroughly forecast any potential issues, which are likely to occur in the design and operations processes, and investigate whether appropriate measures to these issues are taken. In addition, we implement the concept of SBSQ (Same Brand Same Quality) for the purpose of maintaining the same quality standards for products of the same serial number, irrespective of production base.

We have been conducting basic education on quality. However, by conducting more advanced education, we try to increase the capabilities of human resources engaged in quality control. Until fiscal 2014, we provided Basic Quality Seminars to employees of different grade levels at manufacturing and processing sites in Japan, China and South Asia. In fiscal 2015, we expanded quality control education to Europe, the Americas, Korea and Taiwan, focusing on the cultivation of human resources able to identify and solve quality-related issues by themselves.

In the future, we will establish an education system at the initiative of each area and aim at producing quality satisfying our customers.

Procurement Management

In February 2016, the Nitto Group established a new Basic Procurement Policy as our basic policy on procurement activities.

In order to implement this Policy, we demand that persons engaged in procurement activities act in conformity with the Action Guidelines, adhering to corporate ethics and societal norms.

Furthermore, by establishing CSR-Based Procurement Guidelines, we expect our business partners to follow the essence of the Basic Procurement Policy and Business Conduct Guidelines of the Nitto Group. As such, we have enhanced our approaches to CSR-based procurement in areas such as fair and equitable dealings, compliance with corporate ethics and laws and concern for the environment.

The Nitto Group aims to coexist in mutual prosperity with our partners, while enjoying the confidence of every one of our stakeholders.

Green Procurement

We promote green procurement by selecting environmentally-friendly materials on a priority basis from our environmentally-conscious partners.

Logistics Approach

We address logistics for the purpose of efficiently delivering products and services satisfying our customers without delay.

With proper logistics, we are able to ensure product quality, while giving consideration to the environment.

Construction of Logistics System

We are improving the efficiency of our physical distribution through standardization of sales operations and the development of a system supporting such standardization. So far, we have implemented the construction of a system with a focus on Japan. However, in fiscal 2014, we began development of such a system in Korea, and in fiscal 2015, began construction of a framework for such a system in China and Taiwan, too.

Emission-reduction of Environmentally Hazardous Substances

In transporting products requiring temperature regulation, we generally use reefer containers maintaining a constant temperature. In transporting products requiring temperature regulation, we generally use reefer containers maintaining a constant temperature. In transporting products requiring temperature regulation, we generally use reefer containers maintaining a constant temperature. In transporting products requiring temperature regulation, we generally use reefer containers maintaining a constant temperature.

The Nitto Group conducts the aforementioned approaches concerning our products and properly deals with existing unknown risks.

In order to minimize the effects of such risk, we have established a Product Risk Management Committee and regularly share information. The committee develops activities aiming for faster and more globalized responses through the three types of section meeting below.

In the future, we will continue to enhance our risk management system so as to cover the activities of the whole group.

Product Risk Management

The Nitto Group conducts the aforementioned approaches concerning our products and properly deals with existing unknown risks.

In order to minimize the effects of such risk, we have established a Product Risk Management Committee and regularly share information. The committee develops activities aiming for faster and more globalized responses through the three types of section meeting below.

In the future, we will continue to enhance our risk management system so as to cover the activities of the whole group.

<table>
<thead>
<tr>
<th>Risk Management</th>
<th>Main Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>• Responses to risks inherent in purchased goods and raw materials • Implementation of conclusion of quality assurance agreement • Prevention of recurrence of serious complaints</td>
</tr>
<tr>
<td>Chemicals</td>
<td>• Response to REACH ** (including CLP*) • Response to the chemical substances control laws of each country • SDSs (safety data sheets) prepared in accordance with GHS*2 • Review of Nitto Group Regulations on Voluntary Management of Chemicals</td>
</tr>
<tr>
<td>Logistics</td>
<td>• Response to GHS product description (including GHS in China) • Response to EPA (Economic Partnership Agreement) and FTA (Free Trade Agreement) • Response to information disclosure in exports • Response to indication method established by export control order</td>
</tr>
</tbody>
</table>

*2 CLP: Classification, Labeling and Packaging
*3 GHS: Globally Harmonized System of Classification and Labeling of Chemicals
** REACH: Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals in Europe
Environmental Conservation

The Nitto Group adopts the following approaches with the aim of realizing a sustainable society.

While paying regard to the letter and spirit of environmental laws in all countries where we operate, we act with integrity and a commitment to environmental preservation both locally and globally.

Environmental Management System

- **Board of Directors**
- **CEO**
- **Corporate Strategy Committee Meeting**
- **Environment & Safety Committee**
- **Business Divisions**
- **Corporate Technology Development Department**
- **Environmental, Health, & Safety Department**
- **Environment Conservation Activities**

Our environmental vision and goals, which are set by the Board of Directors or Corporate Strategy Committee Meeting after discussion by members of the Environment and Safety Committee, in which the President and executives participate. In order to achieve the vision and goals drawn up, the Environment, Health and Safety Department of each business division plays a central role in implementing environmental conservation activities, while the Corporate Environmental Strategy Department promotes and supports the activities.

Environmental Impact of Our Business Activities (Material Flow)

As the Nitto Group uses large amounts of chemical substances in our business activities, we have concerns about our environmental impact. For example, organic solvent vaporizes in the production of adhesive tapes, so we render it harmless. However, some solvent gases escape into the atmosphere, though the amount is infinitesimal.

In addition to chemical substances, we use a lot of energy, materials and water. In order to use those resources as efficiently as possible, we improve production processes and replace old facilities. It is of concern to us that the CO₂, waste and effluent that is ultimately generated by our production processes may have a negative impact on the environment. Therefore, we conduct voluntary management more strictly than standards requested by laws and ordinances of each country where we operate.

**Approaches to Environmental Conservation**

By including “climate change”, “depletion of resources”, “water crisis” and “biodiversity decrease” in our mid-term plan, the Nitto Group has set goals of CO₂ and toluene emissions in our mid-term plan. Furthermore, we will continue to engage in reduction of air emissions of PRTR substances, as well as proper management of waste.

**Adoption of Energy Visualization System**

We promote energy-saving activities in energy-intensive processes and equipment.

- **In fiscal 2012**, we began to grasp the amount of energy consumed per machine (energy-saving analysis), and in fiscal 2013, we drew up a standard for energy-saving analysis. So far, we have implemented energy-saving analysis at major energy-intensive bases.

- **In fiscal 2015**, in order to make energy-saving analysis more efficient, we began introducing an Energy Visualization System to bases in Japan, mainly where energy-saving analysis had already been conducted. With the system, it has become possible to monitor the amount of energy consumed at any time and easier to ascertain which equipment requires measures to reduce energy consumption and to determine the efficacy of such measures. In addition, it is also possible to appropriately manage and analyze data, taking energy-saving measures based on such data at two bases in Japan. According to these approaches, we not only share information at Energy-Saving Training and Exchange Meetings, but also address these approaches, we not only share information at Energy-Saving Training and Exchange Meetings, but also address these

**Use of MFCA**

In order to reduce waste in the production process, we promote the use of Material Flow Cost Accounting (MFCA). MFCA is known as a tool in environmental management accounting, visualizing the loss of raw materials and energy, reducing the waste of resources. The Nitto Group calls this method MATEFURO, and uses it in environmental conservation activities.

In fiscal 2014, we organized a MATEFURO Committee centered on Japan, further promoting adoption of the system. Until now, we have analyzed and reduced loss at key production bases of each division using MATEFURO. In fiscal 2015, we sought to strengthen these activities in East Asia (Korea and Taiwan). With the aim of making MATEFURO, an activity across the whole Group, we regularly hold MATEFURO (MFCA) Assembly, in which many participants from not only Japan, but also abroad, participate.

**Installation of Solvent Recovery Equipment**

Until now, incineration was the most common means of treating organic solvent gases. However, from the viewpoint of using fossil fuels and dealing with climate change, we introduced solvent recovery equipment to our Kanto Plant in December 2015. The equipment has a system in which organic solvents contained in exhaust gas are absorbed and recovered by using activated carbon, resulting in the reuse of a significant amount of organic solvent produced in the production process.

These energy-saving activities are considered to be effective approaches in preventing the depletion of resources.

**Material Flow**

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic solvents</td>
<td>Atmospheric release</td>
</tr>
<tr>
<td>Volume purchased: 63,128 ton</td>
<td>Organic solvents: 1,137 ton</td>
</tr>
<tr>
<td>Volume recycled: 14,487 ton</td>
<td>CO₂: 837,894 ton</td>
</tr>
<tr>
<td>Energies</td>
<td>Disposed waste</td>
</tr>
<tr>
<td>Electricity purchased: 752,467 MWh</td>
<td>Total waste: 150,054 ton</td>
</tr>
<tr>
<td>Steam purchased: 28,454 GJ</td>
<td>Organic solvents: 1,137 ton</td>
</tr>
<tr>
<td>Diesel oil / Gas oil: 4,611 t</td>
<td>CO₂: 837,894 ton</td>
</tr>
<tr>
<td>LPG purchased: 1,485 ton</td>
<td>Effluent: 3,113,556 t</td>
</tr>
<tr>
<td>Natural Gas purchased: 1,470,620 GJ</td>
<td>Poliutants (COD): 13 ton</td>
</tr>
<tr>
<td>LNG purchased: 40,221 ton</td>
<td>Water discharged / Fresh surface water</td>
</tr>
<tr>
<td>Solar generation and green power purchased: 31,877 MWh</td>
<td>Total waste: 150,054 ton</td>
</tr>
<tr>
<td>Other (gasoline, kerosene, etc.): 26,754 GJ</td>
<td>Effluent: 3,113,556 t</td>
</tr>
<tr>
<td>Water</td>
<td>Poliutants (COD): 13 ton</td>
</tr>
<tr>
<td>Municipal Supply: 3,249,437 m³</td>
<td>Poliutants (COD): 13 ton</td>
</tr>
<tr>
<td>Produced / Process water: 1,312,585 m³</td>
<td>Water discharged / Fresh surface water</td>
</tr>
<tr>
<td>Ground water: 2,384,134 m³</td>
<td>Total waste: 150,054 ton</td>
</tr>
</tbody>
</table>

---

*1) PRTR: Pollutant Release and Transfer Register (System in Japan)
2) MFCA (Material Flow Cost Accounting): One method of environmental accounting. By focusing on the loss of raw materials and energy in the production process, we can monitor the loss of raw materials and money. MFCA was ISO standardized in 2011 (ISO14051)
### Environmental Conservation

#### Environmental Data

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Input Energies</strong> (GJ)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>4,151,932</td>
<td>4,198,503</td>
<td>4,310,971</td>
<td>4,385,508</td>
<td>4,218,336</td>
</tr>
<tr>
<td>The Americas</td>
<td>98,875</td>
<td>75,445</td>
<td>73,625</td>
<td>245,444</td>
<td>377,032</td>
</tr>
<tr>
<td>Europe</td>
<td>232,359</td>
<td>230,354</td>
<td>227,016</td>
<td>342,474</td>
<td>353,345</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>1,469,556</td>
<td>1,336,697</td>
<td>1,188,198</td>
<td>1,781,411</td>
<td>1,732,841</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,952,722</td>
<td>5,839,999</td>
<td>5,799,810</td>
<td>6,754,837</td>
<td>6,681,554</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Disposed Waste</strong> (ton)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>62,596</td>
<td>66,016</td>
<td>66,923</td>
<td>74,658</td>
<td>73,365</td>
</tr>
<tr>
<td>The Americas</td>
<td>872</td>
<td>1,034</td>
<td>906</td>
<td>7,532</td>
<td>8,375</td>
</tr>
<tr>
<td>Europe</td>
<td>3,062</td>
<td>3,353</td>
<td>3,685</td>
<td>9,697</td>
<td>10,426</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>50,870</td>
<td>49,381</td>
<td>59,197</td>
<td>66,040</td>
<td>57,893</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>117,400</td>
<td>119,784</td>
<td>130,741</td>
<td>157,927</td>
<td>150,054</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Water Withdrawal</strong> (m³)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>4,177,867</td>
<td>4,643,514</td>
<td>4,322,852</td>
<td>4,328,713</td>
<td>4,171,581</td>
</tr>
<tr>
<td>The Americas</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>580,896</td>
<td>719,810</td>
</tr>
<tr>
<td>Europe</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>85,351</td>
<td>88,057</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>2,302,531</td>
<td>1,966,708</td>
<td>1,966,708</td>
<td>2,302,531</td>
<td>1,966,708</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>7,197,491</td>
<td>6,946,156</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COD Discharge / Fresh Surface Water</strong> (ton)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>15.1</td>
<td>11.4</td>
</tr>
<tr>
<td>The Americas</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Europe</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2.2</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>17.3</td>
<td>13.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CO₂ Emissions (Scopes 1 + 2)</strong> (ton)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>492,188</td>
<td>515,312</td>
<td>531,461</td>
<td>540,689</td>
<td>521,562</td>
</tr>
<tr>
<td>The Americas</td>
<td>10,911</td>
<td>8,539</td>
<td>7,836</td>
<td>27,059</td>
<td>37,430</td>
</tr>
<tr>
<td>Europe</td>
<td>29,707</td>
<td>29,223</td>
<td>30,646</td>
<td>44,090</td>
<td>44,919</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>213,460</td>
<td>204,985</td>
<td>202,176</td>
<td>241,294</td>
<td>233,983</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>746,266</td>
<td>758,059</td>
<td>772,119</td>
<td>853,132</td>
<td>837,894</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percentage of Disposed Waste Recycled</strong> (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>92</td>
<td>93</td>
</tr>
<tr>
<td>The Americas</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>23</td>
<td>17</td>
</tr>
<tr>
<td>Europe</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>57</td>
<td>56</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>31</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>61</td>
<td>61</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hazardous Waste</strong> (ton)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>6,114</td>
<td>6,248</td>
</tr>
<tr>
<td>The Americas</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>438</td>
<td>495</td>
</tr>
<tr>
<td>Europe</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>656</td>
<td>654</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>37,311</td>
<td>30,055</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>44,519</td>
<td>37,452</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Toluene</td>
<td>461.8</td>
<td>477.0</td>
<td>463.8</td>
<td>437.1</td>
<td>585.7</td>
</tr>
<tr>
<td>Xylene</td>
<td>3.2</td>
<td>2.5</td>
<td>2.2</td>
<td>8.9</td>
<td>8.0</td>
</tr>
<tr>
<td>N-hexane</td>
<td>10.0</td>
<td>16.9</td>
<td>18.3</td>
<td>10.6</td>
<td>11.5</td>
</tr>
<tr>
<td>Butyl acrylate</td>
<td>3.9</td>
<td>0.003</td>
<td>2.6</td>
<td>2.6</td>
<td>3.1</td>
</tr>
<tr>
<td>2-hydroxyethyl Acrylate</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>

* As some of the data for some bases are not available, ‘−’ has been used.

Data relating to the environment: Some past figures have been revised. Formulae used in the calculations are posted on Nitto’s website.
### Consolidated Financial Statements

#### Consolidated Balance Sheet

<table>
<thead>
<tr>
<th>Category</th>
<th>As of March 31, 2016</th>
<th>As of March 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>240,891</td>
<td>214,559</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>149,305</td>
<td>191,074</td>
</tr>
<tr>
<td>Inventories</td>
<td>88,499</td>
<td>93,448</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>8,662</td>
<td>7,726</td>
</tr>
<tr>
<td>Other current assets</td>
<td>14,894</td>
<td>12,437</td>
</tr>
<tr>
<td><strong>Noncurrent assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>263,645</td>
<td>268,601</td>
</tr>
<tr>
<td>Goodwill</td>
<td>2,663</td>
<td>2,966</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>10,634</td>
<td>12,837</td>
</tr>
<tr>
<td>Investments accounted for using equity method</td>
<td>319</td>
<td>284</td>
</tr>
<tr>
<td>Financial assets</td>
<td>7,869</td>
<td>12,737</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>29,146</td>
<td>30,231</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>9,372</td>
<td>8,527</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>825,905</td>
<td>855,433</td>
</tr>
</tbody>
</table>

#### Consolidated Statement of Income

<table>
<thead>
<tr>
<th>Category</th>
<th>April 1, 2015 - March 31, 2016</th>
<th>April 1, 2014 - March 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>793,054</td>
<td>825,243</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>548,354</td>
<td>579,009</td>
</tr>
<tr>
<td>Gross profit</td>
<td>244,700</td>
<td>246,234</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>115,040</td>
<td>114,939</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>32,120</td>
<td>28,240</td>
</tr>
<tr>
<td>Other income</td>
<td>8,714</td>
<td>12,684</td>
</tr>
<tr>
<td>Other expenses</td>
<td>3,855</td>
<td>9,004</td>
</tr>
<tr>
<td>Operating income</td>
<td>102,397</td>
<td>106,734</td>
</tr>
<tr>
<td>Financial income</td>
<td>1,140</td>
<td>700</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>1,527</td>
<td>1,021</td>
</tr>
<tr>
<td>Equity in profits (losses) of affiliates</td>
<td>-13</td>
<td>-465</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>101,996</td>
<td>105,947</td>
</tr>
<tr>
<td>Income tax expenses</td>
<td>20,006</td>
<td>27,918</td>
</tr>
<tr>
<td>Net income</td>
<td>81,989</td>
<td>78,028</td>
</tr>
<tr>
<td>Owners of the parent company</td>
<td>81,683</td>
<td>77,876</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>306</td>
<td>152</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities</strong></td>
<td><strong>140,658</strong></td>
<td><strong>119,481</strong></td>
</tr>
<tr>
<td>Purchase of property, plant and equipment and intangible assets</td>
<td>-63,047</td>
<td>-53,329</td>
</tr>
<tr>
<td>Proceeds from sales of property, plant and equipment and intangible assets</td>
<td>2,823</td>
<td>562</td>
</tr>
<tr>
<td>Decrease (increase) in time deposits</td>
<td>395</td>
<td>-1,301</td>
</tr>
<tr>
<td>Proceeds from sales of investment securities</td>
<td>3,059</td>
<td>480</td>
</tr>
<tr>
<td>Others</td>
<td>-266</td>
<td>-268</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) investing activities</strong></td>
<td><strong>-57,085</strong></td>
<td><strong>-53,857</strong></td>
</tr>
<tr>
<td>Net increase (decrease) in short-term loans payable</td>
<td>-1,767</td>
<td>-1,423</td>
</tr>
<tr>
<td>Redemption of bonds</td>
<td>-50,000</td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in treasury stock</td>
<td>-20,007</td>
<td>-382</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>-22,297</td>
<td>-17,328</td>
</tr>
<tr>
<td>Repayment of long-term loans payable</td>
<td>-581</td>
<td>-540</td>
</tr>
<tr>
<td>Others</td>
<td>-247</td>
<td>-47</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td><strong>-44,902</strong></td>
<td><strong>-48,905</strong></td>
</tr>
<tr>
<td>Effect of exchange rate change on cash and cash equivalents</td>
<td>-12,339</td>
<td>14,496</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>26,332</td>
<td>11,113</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the beginning of period</strong></td>
<td><strong>214,559</strong></td>
<td><strong>203,446</strong></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of period</strong></td>
<td><strong>240,891</strong></td>
<td><strong>214,559</strong></td>
</tr>
</tbody>
</table>
### Business Results 10-Year Summary

<table>
<thead>
<tr>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td>2007</td>
<td></td>
<td></td>
<td>2008</td>
<td></td>
<td></td>
<td>2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>679,822</td>
<td>745,259</td>
<td>Sales</td>
<td>577,922</td>
<td>601,859</td>
<td>Sales</td>
<td>638,556</td>
<td>607,638</td>
<td>Sales</td>
<td>671,253</td>
<td>749,835</td>
</tr>
<tr>
<td>Operating income</td>
<td>69,037</td>
<td>77,954</td>
<td>Operating income</td>
<td>12,382</td>
<td>27,614</td>
<td>Operating income</td>
<td>8,368</td>
<td>17,952</td>
<td>Operating income</td>
<td>19,032</td>
<td>36,573</td>
</tr>
<tr>
<td>Profit margin</td>
<td>10.2%</td>
<td>10.5%</td>
<td>Profit margin</td>
<td>12.0%</td>
<td>12.5%</td>
<td>Profit margin</td>
<td>17.1%</td>
<td>17.9%</td>
<td>Profit margin</td>
<td>19.3%</td>
<td>36.6%</td>
</tr>
<tr>
<td>Net income</td>
<td>67,319</td>
<td>74,468</td>
<td>Net income</td>
<td>12,041</td>
<td>24,410</td>
<td>Net income</td>
<td>19,783</td>
<td>36,483</td>
<td>Net income</td>
<td>23,874</td>
<td>44,552</td>
</tr>
<tr>
<td>Return on equity</td>
<td>6.1%</td>
<td>6.5%</td>
<td>Return on equity</td>
<td>6.1%</td>
<td>6.5%</td>
<td>Return on equity</td>
<td>6.1%</td>
<td>6.5%</td>
<td>Return on equity</td>
<td>6.1%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

### Consolidated Financial Statements

#### Statement of Income

<table>
<thead>
<tr>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td>2007</td>
<td></td>
<td></td>
<td>2008</td>
<td></td>
<td></td>
<td>2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>173,758</td>
<td>188.9</td>
<td>Revenue</td>
<td>205,009</td>
<td>231.9</td>
<td>Revenue</td>
<td>197,343</td>
<td>232.9</td>
<td>Revenue</td>
<td>230,465</td>
<td>264.1</td>
</tr>
<tr>
<td>Operating income</td>
<td>173,758</td>
<td>188.9</td>
<td>Operating income</td>
<td>205,009</td>
<td>231.9</td>
<td>Operating income</td>
<td>197,343</td>
<td>232.9</td>
<td>Operating income</td>
<td>230,465</td>
<td>264.1</td>
</tr>
<tr>
<td>Profit margin</td>
<td>10.2%</td>
<td>10.5%</td>
<td>Profit margin</td>
<td>12.0%</td>
<td>12.5%</td>
<td>Profit margin</td>
<td>17.1%</td>
<td>17.9%</td>
<td>Profit margin</td>
<td>19.3%</td>
<td>36.6%</td>
</tr>
<tr>
<td>Net income</td>
<td>173,758</td>
<td>188.9</td>
<td>Net income</td>
<td>205,009</td>
<td>231.9</td>
<td>Net income</td>
<td>197,343</td>
<td>232.9</td>
<td>Net income</td>
<td>230,465</td>
<td>264.1</td>
</tr>
<tr>
<td>Return on equity</td>
<td>6.1%</td>
<td>6.5%</td>
<td>Return on equity</td>
<td>6.1%</td>
<td>6.5%</td>
<td>Return on equity</td>
<td>6.1%</td>
<td>6.5%</td>
<td>Return on equity</td>
<td>6.1%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

#### Statement of Changes in Equity

<table>
<thead>
<tr>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
<th>Year</th>
<th>Japanese GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td>2007</td>
<td></td>
<td></td>
<td>2008</td>
<td></td>
<td></td>
<td>2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders' equity</td>
<td>173,758</td>
<td>188.9</td>
<td>Shareholders' equity</td>
<td>205,009</td>
<td>231.9</td>
<td>Shareholders' equity</td>
<td>197,343</td>
<td>232.9</td>
<td>Shareholders' equity</td>
<td>230,465</td>
<td>264.1</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>173,758</td>
<td>188.9</td>
<td>Retained earnings</td>
<td>205,009</td>
<td>231.9</td>
<td>Retained earnings</td>
<td>197,343</td>
<td>232.9</td>
<td>Retained earnings</td>
<td>230,465</td>
<td>264.1</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>173,758</td>
<td>188.9</td>
<td>Total liabilities</td>
<td>205,009</td>
<td>231.9</td>
<td>Total liabilities</td>
<td>197,343</td>
<td>232.9</td>
<td>Total liabilities</td>
<td>230,465</td>
<td>264.1</td>
</tr>
<tr>
<td>Total equity</td>
<td>173,758</td>
<td>188.9</td>
<td>Total equity</td>
<td>205,009</td>
<td>231.9</td>
<td>Total equity</td>
<td>197,343</td>
<td>232.9</td>
<td>Total equity</td>
<td>230,465</td>
<td>264.1</td>
</tr>
</tbody>
</table>

### Notes

1. Per-share figures are included.
2. The exchange rate used was JPY112.68 to USD1.00, which was the rate as at March 31, 2016.
3. Effective from the fiscal year ended March 31, 2014, the company and some of its consolidated subsidiaries changed the method of recognition of revenue to one based on the time of transfer of control from from the previous cost-based basis on the point of shipment. The figures for the fiscal year ended March 31, 2013, are those after the retrospective application of changes in accounting methods.
4. From the fiscal year ended March 31, 2018, the Nitto Denko Group has implemented the International Financial Reporting Standards (IFRS) to prepare its consolidated financial statements (except for the figures in "Segment information by geographic area"). Accordingly, the financial data for the fiscal year ended March 31, 2014 is also presented based on the IFRS.
Contributing to Local Communities

Donating Sterile Products to Victims of Explosion in Taiwan

On June 27, 2015 at Formosa Fun Coast, an amusement complex in New Taipei City, a dust explosion occurred, with more than five hundred people killed or injured. As hospitals where the injured were carried experienced shortages of medical supplies, Nitto Denko (Taiwan) and Nitto donated sterile products such as XTRATE® PERME-AID, valued at 6,000,000 yen, to Tansui Mackay Memorial Hospital and five other medical institutions.

For our actions, we received letters of thanks from The Taiwanese Association in Japan, The Taiwanese Women’s Association in Japan and The Taiwanese Medical Doctors Association in Japan.

Sustainable Livelihood Program for Unemployed Housewives in the Philippines

On September 27, 2015 at Brgy. Pooc, Sta. Rosa City in the province of Laguna, a craft-making course was held, in which 30 unemployed housewives participated. This program was designed by Nitto Denko Philippines (NDP), with the assistance of an NGO. It is an educational campaign which targets and aims to improve the livelihoods of unemployed housewives of Sta. Rosa City, where NDP is located. Furthermore, NDP provided the starter kits for all participants, while 20 employees of NDP taught the housewives how to make jewelry and potholders, as well rug weaving.

Following the course, five housewives started a business with 5 kg of fabric donated by NDP as capital. Profits from the handwoven rugs and potholders supplement their income.

Volunteer Activities at an Institution for Disabled Children in Mexico

Considering that many welfare institutions were facing dire economic straits, Nitto Denko De Mexico and Nitto Denko Automotive de Mexico supported CAM Children’s School for the Disabled in their neighborhood.

On October 24, 2015, employees of both companies carried out maintenance work at the institution, mending a water pump and paving a pathway. On December 18, 2015, a Christmas party was held. The costs of these activities were covered by an in-house fund drive.

Both companies decided to continue their support for the beaming children.

Supporting Victims of the 2016 Kumamoto Earthquake

From April 14 to 16, 2016, devastating earthquakes hit the Kumamoto district in succession and caused serious damage. The Nitto Group donated 5,000,000 yen to the Japan Red Cross for the relief of victims and reconstruction.

In addition, we donated relief supplies, valued at 1,200,000 yen, and approximately 1,000,000 yen collected by employees of the Group.

Nitto Denko India’s purpose was for trainees to experience manufacturing in Japan and to learn basic management skills.

In order to contribute to the further economic development of India, Nitto Denko India will continue to support such activities in the future.

Sponsoring FIRST LEGO League in Limburg, Belgium

Nitto Europe (present Nitto Belgium) has sponsored a competition in the province of Limburg, part of the FIRST LEGO League international robot competition for elementary and middle school students.

Participating teams not only have to assemble robots, but also present the results of their research on social issues. In 2013, due to an insufficiency of technical personnel in Limburg, a partnership between local primary schools and companies was formed. Employees of Nitto Europe give guidance on effective presentation methods, as well as methods for fabricating robots. Nitto Europe hopes to encourage creativity in and allow children to resolve future issues which they may face.

Sponsoring FIRST LEGO League in Limburg, Belgium

Nitto Europe (present Nitto Belgium) has sponsored a competition in the province of Limburg, part of the FIRST LEGO League international robot competition for elementary and middle school students.

Participating teams not only have to assemble robots, but also present the results of their research on social issues. In 2013, due to an insufficiency of technical personnel in Limburg, a partnership between local primary schools and companies was formed. Employees of Nitto Europe give guidance on effective presentation methods, as well as methods for fabricating robots. Nitto Europe hopes to encourage creativity in and allow children to resolve future issues which they may face.

Sponsoring FIRST LEGO League in Limburg, Belgium

Nitto Europe (present Nitto Belgium) has sponsored a competition in the province of Limburg, part of the FIRST LEGO League international robot competition for elementary and middle school students.

Participating teams not only have to assemble robots, but also present the results of their research on social issues. In 2013, due to an insufficiency of technical personnel in Limburg, a partnership between local primary schools and companies was formed. Employees of Nitto Europe give guidance on effective presentation methods, as well as methods for fabricating robots. Nitto Europe hopes to encourage creativity in and allow children to resolve future issues which they may face.

Sponsoring FIRST LEGO League in Limburg, Belgium

Nitto Europe (present Nitto Belgium) has sponsored a competition in the province of Limburg, part of the FIRST LEGO League international robot competition for elementary and middle school students.

Participating teams not only have to assemble robots, but also present the results of their research on social issues. In 2013, due to an insufficiency of technical personnel in Limburg, a partnership between local primary schools and companies was formed. Employees of Nitto Europe give guidance on effective presentation methods, as well as methods for fabricating robots. Nitto Europe hopes to encourage creativity in and allow children to resolve future issues which they may face.
Our Relationships with Our Stakeholders

The Nitto Group engages with our stakeholders through various activities. We have developed with our stakeholders through establishing face-to-face relationships as much as possible, responding to feedback from our stakeholders and adopting countermeasures to improve our business performance.

Dialogue with Our Employees
Nitto Labor Unions commemorated the 70th anniversary of their founding on February 1, 2016. Top management has been sure to participate in labor-management meeting held every month and has had numerous conversations with them. With good communication between labor and management, we deepen mutual understanding and partnerships, striving for co-existence and co-prosperity.

Dialogue with Our Customers
We not only listen to our customers' requests concerning our products, services, business management and ESG (environment, society and governance), but also provide information to them. Furthermore, we undergo an audit by Electronic Industry Citizenship Coalition (EICC), an international CSR promotion organization.

Dialogue with Our Partners
We have established CSR-Based Procurement Guidelines, with the expectation that our business partners will follow them. Thus, we approach CSR activities looking at supply chains as a whole. By holding regular meetings with our partners, we deepen exchanges and seek to solidify trustful relationships.

Dialogue with Our Shareholders and Investors
By following “Policies Concerning Constructive Dialogue with Shareholders,” we reflect on the opinions of our shareholders and investors in shareholder meetings, company information sessions and IRI activities with management.

Environmental Conservation Program
Nitto supports activities in Japan by United Nations Environment Programme (UNEP) as a regular member of Japan Association for UNEP. Furthermore, as a promotion partner of Declaration of Biodiversity by Nippon Kaigai, we approach business activities with due consideration to biodiversity. For information on our other environmental conservation activities, please refer to pages 14 and 31-32.

Social Action Program
Please refer to pages 39 – 40

Disclaimer
This report contains future projections as well as past and present facts related to Nitto Denko Corporation (non-consolidated) and the Nitto Group (consolidated). These statements are based on information at the time of creation and may not be completely accurate at the time of reading. Please be advised that actual business activity results may differ materially from those described in the projections. All chapters of this report are also available in Japanese. In the event of any discrepancies between the two versions, the Japanese version will prevail.

About Business Performance and Financial News
As we have applied International Financial Reporting Standards (IFRS) from fiscal 2014, business performance and financial news from fiscal 2014 described in this report are based on IFRS.

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

About Environmental Data
Figures for past years have been partly altered to reflect the increase or decrease in number of group companies covered, or changes in calculation procedures.

About the Front Cover
By including the Nitto Group’s products, which are used in every aspect of daily life, business areas we are focused on are expressed.

Illustration of the Front Cover: Tatsuzo Yamaguchi

Printing and Binding
This Nitto Group Report 2016 was printed by Nitto Denko Himawari Co., Ltd., a member of the Nitto Group.

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

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