

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

May 28, 2021

**NOTICE OF
THE 156TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

We would like to hereby inform you that the 156th Ordinary General Meeting of Shareholders of Nitto Denko Corporation (hereinafter “the Company”) will be held as indicated below.

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

Sincerely,

Hideo Takasaki, President

Nitto Denko Corporation

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

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

Date/time: Friday, June 18, 2021 from 10:00 a.m. (Reception desk opens at 9:00 a.m.)

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

Meeting Agenda

Items to be reported:

1. Business Report, Consolidated and Non-Consolidated Financial Statements for the 156th term (from April 1, 2020 to March 31, 2021)
2. Auditing results of Consolidated Financial Statements by Accounting Auditors and the Board of Corporate Auditors

Items to be resolved:

- Item 1: Approval of the proposed dividends from surplus
- Item 2: Approval of the payment of bonus for Directors
- Item 3: Election of nine Directors
- Item 4: Revision of compensation for Directors and Corporate Auditors

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

How to Exercise Voting Rights

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

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

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

Exercising your voting rights

- 1 Voting at the general meeting of shareholders
Please present the Voting Rights Exercise Form at the reception of the venue.
Meeting date/time: Friday, June 18, 2021 from 10:00 AM (JST)
- 2 Mailing the Voting Rights Exercise Form
Please mail the Voting Rights Exercise Form after indicating your approval or disapproval of each item.
Deadline for mail arrival: Thursday, June 17, 2021 at 5:00 PM (JST)
- 3 Internet voting
Please indicate your approval or disapproval of each item by following the guidance on the next page.
Deadline for voting: Thursday, June 17, 2021 at 5:00 PM (JST)

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

How to Fill in the Voting Rights Exercise Form

Please indicate your approval or disapproval of the following items.

Items 1, 2, and 4

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

Item 3

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

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

How to Exercise Voting Rights via the Internet

- Entering log-in ID and provisional password

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

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

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

- How to scan a QR code

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

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

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

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

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

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

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

Tel: 0120-173-027 (toll free)

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

Institutional investors can use the electronic voting platform operated by ICJ, Inc., in addition to exercising voting rights via the Internet described above. Please note that the deadline for voting is Thursday, June 17, 2021 at 5:00 PM (JST), which is the same as the deadline for voting via the Internet.

Reference Materials for the General Meeting of Shareholders

Item 1: Approval of the proposed dividends from surplus

We consider the stable return of our profits to shareholders to be one of our most important management issues and, before providing dividends, we comprehensively assess profit conditions and the dividend payout ratio, and also consider improvement of financial conditions, prior investments for technical innovation and business development, and retained earnings. Proposed year-end dividends for the 156th term are as described below. Since we have paid interim dividends of 100 yen per share, the amount of annual dividend per share will be 200 yen.

Matters concerning year-end dividends

- (1) Type of dividend property
Cash
- (2) Matters concerning distribution of dividend property and its total amount
100 yen per share of our common stock: 14,796,574,700 yen in total
- (3) Effective date of distribution of dividends
June 21, 2021

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

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

FY	Annual dividends	Consolidated dividend payout ratio
FY2016 (152nd term)	150	38.4
FY2017 (153rd term)	160	29.7
FY2018 (154th term)	180	42.5
FY2019 (155th term)	200	66.4
FY2020 (156th term)	200	42.3

* The Company purchased treasury stock in fiscal 2020, bringing the total distribution ratio to 89.7%.

Item 2: Approval of the payment of bonus for Directors

We propose providing the total amount of 240 million yen as a bonus for Directors based on factors such as the results of the fiscal year under review. A bonus will be paid to the four Directors (excluding the four Outside Directors) serving as of the end of the fiscal year under review, separately from basic remuneration that is provided as fixed compensation, performance-linked share-based remuneration that is provided as medium-term performance-linked compensation, and restricted share remuneration that is provided as medium- and long-term performance-linked compensation. We would like to ask our shareholders to leave the specific amount for each person and payment date and method to be decided by the Board of Directors.

The total amount of payment proposed above is calculated by comprehensively taking into account the roles expected of Directors, the record of past payments, the level of payments in other companies, and the number of Directors and is considered appropriate.

Item 3: Election of nine Directors

At the close of this Ordinary General Meeting of Shareholders, the terms of office of all the eight incumbent Directors will expire.

With a view to strengthening the management structure and corporate governance, we hereby propose the appointment of nine Directors, an increase in the number of Outside Directors by one.

The following are the candidates, with eight being nominated for reelection and one for new election.

Candidate number	Name	Gender	Length of service (as of the close of this Ordinary General Meeting of Shareholders):	Attendance at Board meetings	Current position and areas of responsibility, etc. in the Company		
1	Hideo Takasaki	Male	13 years	100% 12 out of 12	Representative Director, President CEO, COO	Supervisor of management in general	Reelection
2	Nobuhiro Todokoro	Male	4 years	100% 12 out of 12	Director, Executive Vice President	Supervisor of Functional Base Products business, Information Fine Materials business, Membrane business, and management of EMEA (Europe, the Middle East and Africa), PRC, Taiwan, and Korea	Reelection
3	Yosuke Miki	Male	4 years	100% 12 out of 12	Director, Executive Vice President CTO General Manager of Corporate Technology Sector	Supervisor of Information & Communication Technology business, Medical business, management of North/South America, South Asia/Oceania, and India In charge of Corporate Technology (R&D)	Reelection
4	Yasuhiro Iseyama	Male	1 year	100% 10 out of 10	Director, Senior Vice President CFO General Manager of Corporate Accounting & Finance Division	Supervisor of ESG Promotion, Compliance, and Risk Management In charge of Accounting & Finance and IR	Reelection
5	Yoichiro Furuse	Male	14 years	100% 12 out of 12	Outside Director		Reelection Independent Outside
6	Takashi Hatchoji	Male	6 years	92% 11 out of 12	Outside Director		Reelection Independent Outside
7	Tamio Fukuda	Male	3 years	100% 12 out of 12	Outside Director		Reelection Independent Outside
8	Wong Lai Yong	Female	1 year	100% 10 out of 10	Outside Director		Reelection Independent Outside

9	Michitaka Sawada	Male	-	-			New election Independent Outside
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Reelection: Candidate for reelected Director

New election: Candidate for newly elected Director

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

Outside: Outside Director or Candidate for Outside Director

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

CFO: Chief Financial Officer

Candidate number

1

Hideo Takasaki

(Date of birth: August 11, 1953)

Number of Company shares owned: 36,800

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 0

Brief Profile

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

■ Reason for nomination as a candidate for Director

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

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

Number of Company shares owned: 8,700

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 0

Brief Profile

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

■ Reason for nomination as a candidate for Director

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

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

Number of Company shares owned: 5,700

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 0

Brief Profile

April 1993	Joined Nitto Denko Corporation
June 2016	Vice President, General Manager of Information and Communication Technology Sector
April 2017	Vice President, Deputy CTO General Manager of Information and Communication Technology Sector, concurrently Deputy General Manager of Corporate Technology Sector and General Manager of New Business Development Division
June 2017	Director, Vice President
June 2019	Director, Senior Vice President
April 2020	Director, Senior Vice President, Deputy CTO General Manager of Information and Communication Technology Sector, Deputy General Manager of Corporate Technology Sector
June 2020	Director, Executive Vice President, CTO General Manager of Corporate Technology Sector, General Manager of Information and Communication Technology Sector
April 2021	Director, Executive Vice President, CTO (present)

■ Reason for nomination as a candidate for Director

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

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

Number of Company shares owned: 4,200

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 0

Brief Profile

June 1991	Joined Nitto Denko Corporation
October 2009	General Manager of Accounting Department, Strategic Administration Division, Optical Sector
July 2013	General Manager of Accounting Department, Strategic Administration Division, Functional Base Products Sector
October 2013	General Manager of Accounting Department, Strategic Administration Division, Functional Base Products Sector concurrently General Manager of Accounting Department, Planning & Management Department, Automotive Products Sector
April 2016	Deputy General Manager of Corporate Accounting & Finance Division, Corporate Strategy Sector
June 2017	Vice President, General Manager of Corporate Accounting & Finance Division
June 2020	Director, Senior Vice President, CFO General Manager of Corporate Accounting & Finance Division (present)

■ Reason for nomination as a candidate for Director

Mr. Yasuhiro Iseyama has assumed key positions in administration sections, especially in the area of accounting and finance, over a long time, dedicating himself to enhancing the corporate value and corporate governance of the Nitto Group.

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

Number of Company shares owned: 2,000

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 3

Brief Profile

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

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

■ Reason for nomination as a candidate for Outside Director and expected roles

In this fiscal year, Mr. Yoichiro Furuse participated in all the Board of Directors meetings (12 times) and made useful comments based on his deep insights into and experience in corporate management, which was cultivated through his service as director and representative director at listed companies and a mega bank.

As it is expected that he will continue to oversee the Board of Directors and provide a wide range of opinions on the management of Nitto based on his insights and experience as a corporate manager and a former employee of a mega bank, Mr. Furuse has again been nominated as a candidate for Outside Director this year. Upon his reappointment as Outside Director, he will also continue working as a member of the Management, Nomination and Remuneration Advisory Committee.

■ Matters concerning independence

The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 19 and 20 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Furuse as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Mr. Furuse also currently serves as an important executing person of Evanston Corporation and Permira Advisers KK, with both of which the Company does not engage in transactions.

Number of Company shares owned: 0

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 2

Brief Profile

April 1970	Joined Hitachi, Ltd.
June 2003	Vice President and Executive Officer, Hitachi, Ltd.
April 2004	Senior Vice President and Executive Officer, Hitachi, Ltd.
April 2006	Representative Executive Officer, Executive Vice President, and Executive Officer, Hitachi, Ltd. (retired in March 2007)
June 2007	President and Representative Director, Hitachi Research Institute (retired in March 2009)
April 2009	Representative Executive Officer, Executive Vice President, and Executive Officer, Hitachi, Ltd. (retired in March 2011)
April 2011	Chairman of the Board, Hitachi America, Ltd. (retired in March 2015)
June 2011	Director, Hitachi, Ltd. (retired in June 2015)
June 2015	Advisor, Hitachi, Ltd. (retired in June 2016)
June 2015	Outside Director, Nitto Denko Corporation (present)
June 2017	External Audit & Supervisory Board Member, Marubeni Corporation (retired in June 2020)
June 2017	Outside Director, Konica Minolta, Inc. (present)
June 2020	Outside Director, Marubeni Corporation (present)

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

■ Reason for nomination as a candidate for Outside Director and expected roles

In this fiscal year, Mr. Takashi Hatchoji participated in 11 out of 12 Board of Directors meetings and made useful comments based on his deep insight into management, which was cultivated through his service as representative executive officer and director of listed companies, and his extensive experience.

As it is expected that he will continue to oversee the Board of Directors and provide opinions on the management of Nitto from a global perspective based on his insights and experience as a corporate manager in Japan and overseas, Mr. Hatchoji has again been nominated as a candidate for Outside Director this year. Upon his reappointment as Outside Director, he will also continue working as a member of the Management, Nomination and Remuneration Advisory Committee.

■ Matters concerning independence

The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 19 and 20 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Hatchoji as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange. He was an important executing person of Hitachi, Ltd. in the past, which held about 15% of shares in

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

The Company engages in transactions with Hitachi, Ltd., most of which relate to the development, maintenance, etc. of Nitto's system, with annual transaction amount accounting for less than 0.13% of Nitto's consolidated revenue. Thus, the Company's relationship with Hitachi, Ltd. does not affect his independence.

Number of Company shares owned: 700

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 1

Brief Profile

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

[Important concurrent positions held at] Kyoto Institute of Technology

■ Reason for nomination as a candidate for Outside Director and expected roles

In this fiscal year, Mr. Tamio Fukuda participated in all the Board of Directors meetings (12 times) and made useful comments based on his insights as a university professor specializing in design management and his experience in business management as a corporate advisor.

As it is expected that he will continue to oversee the Board of Directors and provide opinions on the management of Nitto from the perspectives of brand building and innovation creation based on his insights and experience as an expert as detailed above, Mr. Fukuda has again been nominated as a candidate for Outside Director this year. Upon his reappointment as Outside Director, he will also continue working as a member of the Management, Nomination and Remuneration Advisory Committee.

■ Matters concerning independence

The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 19 and 20 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Fukuda as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Mr. Fukuda also currently serves as a professor emeritus of Kyoto Institute of Technology. The Company makes a donation to the university. However, the annual donation amount is less than 0.0003% of Nitto’s consolidated revenue. The Company’s relationship with the university therefore does not affect the independence of Mr. Fukuda.

Number of Company shares owned: 0

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 1

Brief Profile

September 2013 Founder and Chief, Principal Trainer and Consultant, First Penguin Sdn. Bhd. (present)
July 2018 Director, Penang Women's Development Corporation (present)
October 2019 Adjunct Associate Professor, Shizenkan University Graduate School of Leadership & Innovation
Deputy Center Leader, Center for Sustainability and Innovation (present)
June 2020 Outside Director, Nitto Denko Corporation (present)

[Important concurrent positions held at] First Penguin Tours & Training Sdn. Bhd. (the name changed from First Penguin Sdn. Bhd.)

■ Reason for nomination as a candidate for Outside Director and expected roles

Ms. Wong Lai Yong participated in all the Board of Directors meetings (10 times) during this fiscal year and provided useful opinions on diversity and sustainability including the promotion of women and non-Japanese nationals based on her experience of studying and working in Japan for about 16 years and diverse experience and track records in her mother country, Malaysia, and other Asian countries.

As it is expected that she will continue to oversee the Board of Directors based on her insights and experience as an expert as detailed above and provide opinions on the management of Nitto from the perspective of an expert, Ms. Wong has again been nominated as a candidate for Outside Director this year. Upon her reappointment as Outside Director, she will also continue working as a member of the Management, Nomination and Remuneration Advisory Committee.

■ Matters concerning independence

The Company stipulates "Criteria for Election of Independent Outside Directors and Outside Corporate Auditors" (please refer to page 19 and 20 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Ms. Wong as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Ms. Wong also currently serves as an important executing person of First Penguin Tours & Training Sdn. Bhd., with which the Company does not engage in transactions.

Number of Company shares owned: 0

Conflicts of interest between the Company and candidate: None

Important positions concurrently held outside of the Company: 2

Brief Profile

April 1981	Joined Kao Soap Co., Ltd.
June 2008	Director, Executive Officer, Kao Corporation
June 2012	Representative Director, President and CEO, Kao Corporation
June 2020	Outside Director, Panasonic Corporation (present)
January 2021	Director and Chair of the Board of Directors, Kao Corporation (present)

[Important concurrent positions held at] Kao Corporation, Panasonic Corporation

■ Reason for nomination as a candidate for Outside Director and expected roles

As it is expected that Mr. Sawada will oversee the Board of Directors and provide a wide range of opinions as a manager of a leading company in ESG promotion, he has been nominated as a candidate for Outside Director. Upon his appointment as Outside Director, he will also become a member of the Management, Nomination and Remuneration Advisory Committee.

■ Matters concerning independence

The Company stipulates “Criteria for Election of Independent Outside Directors and Outside Corporate Auditors” (please refer to page 19 and 20 for the content of these criteria) and selects candidates for Outside Directors based on the said criteria. The Company designated Mr. Sawada as an Independent Director as stipulated by Tokyo Stock Exchange and reported such designation to the Exchange.

Mr. Sawada also currently serves as an important executing person of Kao Corporation, with which the Company does not engage in transactions.

[Notes on the Candidate for Director]

■ Summary of liability limitation agreement

Nitto has entered into a liability limitation agreement with Messrs. Yoichiro Furuse, Takashi Hatchoji, Tamio Fukuda, and Ms. Wong Lai Yong to limit their compensation liability to the degree stipulated in laws and regulations and intends to maintain this agreement when they are reelected. In addition, Nitto will enter into a similar liability limitation agreement with Mr. Michitaka Sawada upon his election.

■ Summary of directors and officers (D&O) liability insurance policy

Nitto purchases a directors and officers (D&O) liability insurance policy from an insurance company, naming its Directors, Corporate Auditors, and so on as the insured, to cover any damage (e.g., compensations and legal fees) incurred when a lawsuit is filed against any of the insured for an action they have taken in the course of performing their duties. If Director candidates are appointed as Directors, they will be added to the insured under the said insurance policy.

(Reference) Nomination of Directors and Corporate Auditors

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

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

[Appointment and Dismissal of Directors and Corporate Auditors]

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

<Officer Appointment Standards>

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

<Officer Dismissal Standards>

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

[Nomination of Outside Directors and Outside Corporate Auditors]

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

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

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

The Company considers an Outside Officer or a candidate for Outside Officer to have independence, if, after

conducting an investigation to the utmost reasonable extent, it is determined that none of the following items are applicable to the Outside Officer or the candidate for Outside Officer.

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

<Criteria for “Important Concurrent Positions”>

Concurrent positions are deemed “important” if:

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

Item 4: Revision of compensation for Directors and Corporate Auditors

The current amount of total compensation for Directors has remained unchanged at up to 30 million yen per month (out of which up to 4 million yen is allocated to Outside Directors) since it was so approved at the 155th Ordinary General Meeting of Shareholders held on June 19, 2020, while the current amount of total compensation for Corporate Auditors has remained unchanged at up to 12 million yen per month since it was so approved at the 139th Ordinary General Meeting of Shareholders held on June 24, 2004. Nitto has adopted these amounts as the upper limits of basic compensation for Directors and Corporate Auditors, while the specific amount of bonus for Directors has been separately approved at the Ordinary General Meeting of Shareholders each time.

We propose to revise the upper limit of total compensation for Directors from a monthly amount to an annual amount and to set the upper limit of total compensation for Directors at 1 billion yen per year (of which up to 100 million yen is allocated to Outside Directors) from the fiscal year 2021. This proposal is designed to accommodate to the appointment of one more Outside Director should Item 3 is approved as proposed. It is also designed to enable Nitto to pay both basic compensation, which is fixed compensation for Directors, and cash bonus as performance-linked compensation, within the scope of this upper limit. Furthermore, in line with compensation for Directors, we propose to revise the upper limit of total compensation for Corporate Auditors from a monthly amount to an annual amount and to set it at 144 million yen per year. Outside Directors and Corporate Auditors, whose positions are independent from business execution, only receive basic compensation in light of their roles and to ensure their independence. The above-proposed compensation amount does not include the amount of employees' salaries for Directors who are also employees, as before.

Under Nitto's executive compensation system, the amount of bonus for Directors is determined with a fiscal year as an evaluation period. In the past, Directors' achievements were assessed against the annual goals established for their respective areas of responsibilities during a short period following the end of a fiscal year to accommodate the schedule for the convening procedures of the general meeting of shareholders. The proposed amounts of compensation based on the results of such evaluations were then submitted to the Management, Nomination and Remuneration Advisory Committee and Board of Directors before being submitted to the Ordinary General Meeting of Shareholders. The proposal made in Item 4 is designed to enable the evaluation process to take place in a reliable manner over a sufficient time frame to further improve the effectiveness of this performance evaluation. Nitto has been making ongoing efforts to improve its corporate governance functions and working on improving the functions of the Management, Nomination and Remuneration Advisory Committee and the Board of Directors. We have determined that spending a sufficient and necessary time for the evaluation process and finalizing specific amounts of bonus at the Board of Directors based on recurring management evaluations by the Management, Nomination and Remuneration Advisory Committee will improve the effectiveness of performance evaluation.

In addition, given the increasing needs to further enhance our management structures and corporate governance by seeking out excellent corporate managers and other qualified professionals from wider fields, regardless of their nationality, gender, age, industry sector they have worked in, or track records, and by inviting them as Directors, we consider it important to ensure further flexibility in respect of the determination of compensation for such Director candidates.

The upper limit of total compensation proposed above is considered appropriate as it is calculated by comprehensively taking into account the roles expected of Directors, the level of past payments, the level of

payments in other companies, and the number of Directors, to ensure that we provide compensation that is appropriate for the future roles of Directors.

The number of Directors is currently eight (including four Outside Directors) and the number of Corporate Auditors is five. If Item 3 is approved as proposed, the number of Directors will be nine (including five Outside Directors) and the number of Corporate Auditors five at the close of this General Meeting of Shareholders.

The upper limit for total compensation proposed above is to be established separately from performance-linked share-based remuneration and restricted share remuneration, which were approved at the 153rd Ordinary General Meeting of Shareholders held on June 22, 2018.

(Reference) Executive compensation system upon approval of Item 4

Directors

		Current system	New system
Fixed compensation	Cash compensation	- Basic compensation Up to 30 million yen a month (Up to 4 million yen for Outside Directors)	- Basic compensation - Bonus for Directors Up to 1 billion yen a year (Up to 100 million yen for Outside Directors)
Variable compensation		- Bonus for Directors Resolved at the general meeting of shareholders each time	
	Share-based remuneration	- Restricted share remuneration Up to 243 million yen and 32,000 shares a year	- Restricted share remuneration No change
		- Performance-linked share-based remuneration Up to 364 million yen and 48,400 shares a year *Positioned as additional compensation	- Performance-linked share-based remuneration No change *Positioned as additional compensation

Corporate Auditors

		Current system	New system
Fixed compensation	Cash compensation	- Basic compensation Up to 12 million yen a month	- Basic compensation Up to 144 million yen a year

[Executive Compensation Policy]

<1> Compensation for Directors

a. Basic policy related to compensation for Directors

- The content of remuneration shall be such that Nitto Persons* are allowed to be appointed as a Director.
- The remuneration structure must motivate Directors to contribute to Nitto's sustainable growth and the enhancement of its corporate value over the medium and long term.
- The remuneration determination process shall be fair and transparent.

* In addition to meeting the basic requirement of having profound insights and high levels of expertise acquired from past experience, a Nitto Person is a person who can comprehend and practice Nitto's Corporate Philosophy, deliver results, and keep taking on new challenges.

b. Components of remuneration

Directors (excluding Outside Directors) shall be remunerated as follows.

Type	Category	Policy related to the content of remuneration, methods of calculating the cash amount/number of shares, and the timing of payment
Fixed compensation	Compensation in cash	Monthly compensation as determined by position, responsibility, and length of service is paid in cash.
Short-term performance-linked compensation	Bonus for Directors in cash	Compensation in cash is paid after the relevant business term is over to raise awareness about the Group's performance improvement for each business term. The amount of compensation paid to each Director is determined by the progress of achievement of the Group's performance indicators on consolidated operating income and consolidated ROE* over the period of one business term and by the progress made against the targets set for each Director's areas of responsibilities.
Medium-term performance-linked compensation	Performance-linked share-based remuneration	This additional compensation is designed to incentivize Directors to improve business performance over the mid-term, and share-based remuneration is granted once every three consecutive business terms. The number of shares to be granted to each Director is determined based on consolidated operating income and consolidated ROE* when three years have passed since the commencement of their performance evaluation period. Targets should be set high, and no compensation is paid if the targets are not met. The number of shares to be granted ranges between 80% and 150% according to the progress against the targets.
Medium- and long-term performance-linked compensation	Restricted share remuneration	Share-based remuneration is granted for each business term to align the interests of Directors and shareholders and reflect medium- and long-term business performance in their compensation. The number of shares to be granted to each Director is determined by position, responsibility, and length of service. The amount of remuneration is linked to the market price by setting restrictions on transfer until retirement.

* Consolidated operating income is chosen as an indicator for their commitment to delivering results, whereas consolidated ROE serves as an indicator for measuring business stability.

In light of their roles and independence, Outside Directors are remunerated by fixed compensation only.

c. Policy related to the designing of the compensation level

In order to ensure that compensation for Nitto's officers, etc. is at a competitive level vis-à-vis industry standards, their compensation level is set by benchmarking a group of major companies of a similar scale in the same industry as Nitto.

d. Component ratio of remuneration

For the purpose of standard evaluation, the target component ratio of remuneration is: Compensation in cash : Bonus for Directors : Restricted share remuneration = 40% : 40% : 20%. Performance-linked share-based remuneration is provided as additional remuneration when medium-term targets are achieved, but not provided for a standard evaluation.

e. Policy related to the determination process

The policy related to the standard amount, calculation method, component ratio among different types of compensations, timing or conditions of payment, etc. for the remuneration of each Director shall be decided by the Board of Directors, by comprehensively taking into account factors such as the Company's business conditions, management environment, the levels of remuneration to officers at major companies of a similar scale in the same industry as the Company, after receiving a report on the results of deliberations by the Management, Nomination and Remuneration Advisory Committee.

Decisions on concrete details of basic compensation for each term of office and the allocation of executive bonuses to each Director shall be entrusted to the President (who is also a Board Member) pursuant to a resolution of the Board of Directors. Because the President is in a position to evaluate if targets for Directors other than Outside Directors have been met, it is deemed rational for him/her to make a decision on the allocation. Compensation in cash shall be determined according to the position, responsibility, and length of service, whereas bonuses for officers shall be determined by taking into account the progress of achievement of targets set for areas of responsibilities of each Director in accordance with the predetermined standard amount and calculation method above, in order to prevent arbitrary decisions from being made. For performance-linked share-based remuneration and restricted share remuneration, the Board of Directors shall determine the number of shares to be granted to each Director using a predetermined formula.

<2> Compensation paid to Corporate Auditors

a. Basic policy related to remuneration of Corporate Auditors

- The content of remuneration shall be such that Nitto Persons are allowed to be appointed as a Corporate Auditor.
- The remuneration structure shall be such that it contributes to the fulfillment of their duties, including audits of the performance of duties by Directors.

b. Components of remuneration

Remuneration of Corporate Auditors does not include any share-based or other performance-linked portions and instead is comprised solely of fixed compensation in cash.

c. Policy related to the designing of the compensation level

In order to ensure that compensation for Nitto's officers, etc. is at a competitive level vis-à-vis industry standards, their compensation level is set by benchmarking a group of major companies of a similar scale in the same industry as Nitto.

d. Policy related to the determination process

Remuneration of individual Corporate Auditor is determined through consultations among themselves.

[Bonus for Directors]

Bonus for Directors is paid as consideration for single-year business results of the Group and achievements of each officer, etc. and designed to function as an incentive for officers, etc. to deliver results and to share profits with shareholders. Bonus for Directors comprises performance-linked portion (85%) that reflects the business results of the entire company and the individual evaluation portion (-15 to 15%) that reflects the achievements of individuals. The amount of the performance-linked portion is determined based on performance indicators (consolidated operating income and consolidated ROE). Consolidated operating income is chosen as an indicator for their commitment to delivering results, whereas consolidated ROE serves as an indicator for measuring business stability. The amount of the individual evaluation portion is determined according to the performance of individuals.

Business Report for the 156th Fiscal Term

For the 2020 fiscal year (April 1, 2020 to March 31, 2021)

1. Overview of business operations of the Nitto Group

(1) Operating progress and results

During this fiscal year, a sense of economic slowdown temporarily increased due to the impact of the further spread of novel coronavirus (COVID-19) infections. With the resumption of economic activities, however, consumption recovered. In the Nitto Group, *products to be extended* as new demands have arisen through changes such as the evolving electronics market and the growing life science market with the spread of new lifestyles. Meanwhile, the demands that had existed in the past were split into those that would *return* and those that *would not return*. To accommodate these changes, the Nitto Group acted speedily and flexibly.

In this environment, in the key markets for the Nitto Group, demands grew for assembly parts of electronic devices, process parts in the production of semiconductors, and optical films used in laptop computers and tablets, on the back of the spread of teleworking. As for optical films used for TV, we posted royalty income through licensing agreements as we enhanced collaboration with our partners as part of the intellectual property strategy the Nitto Group promotes. With respect to printed circuits that are expected to grow in the future, smartphone parts began contributing to our business results as an initiative for a new market using high precision substrates. In addition, in the nucleic acid medicine market, expectations for nucleic acid medicines grew more than ever for the development of therapeutic drugs and vaccines for COVID-19, resulting in steady demand for contract manufacturing business and related materials. Additionally, demand for porous materials also expanded as a material for medical masks.

Meanwhile, the transportation business suffered a material negative impact from COVID-19 as vehicle production plummeted in the first quarter. Although demand recovered thereafter, it did not reach the level seen in the previous fiscal year. As for optical films used in smartphones, although there was a progress in their use for high-end models, demand did not reach the level of the previous fiscal year.

In responding to COVID-19, the Nitto Group prioritized the health and safety of every person and worked on preventing the spread of infections while endeavoring to ensure the continued supply to our customers. As part of these efforts, we promoted new workstyles such as teleworking and online conferences using information communication technologies. This led to the improved productivity and smaller expenses throughout the Group.

In the fourth quarter, we posted impairment losses for structural reforms and other reasons.

As a result of the above, revenue increased by 2.7% from the previous fiscal year (changes hereafter are given in comparison with the previous fiscal term) to 761,321 million yen. Operating income rose by 34.5% to 93,809 million yen, and the net income attributable to owners of the parent company grew by 48.9% to 70,235 million yen.

(2) Summary of operations by segment

[Industrial Tape] Composition of revenue: 39.1%

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

Functional base products grew compared to the previous fiscal year. An increase in the production of high-end smartphones following the evolution of displays pushed up demand for assembly parts. Furthermore, the spread of teleworking and other factors increased demand for ceramic condensers and semiconductors used for electronic devices such as smartphones, tablets, and servers, leading to the growth of demand for related materials used in their manufacturing processes. Meanwhile, demand for materials related to general industries and housing and protective materials for metals declined significantly in the first quarter. Although demand recovered from the second quarter onward, it did not reach the level seen in the previous fiscal year.

Automotive products in the transportation business were weaker than the previous fiscal year. Demand plummeted in the first quarter especially in the United States and Europe. Although demand recovered from the second quarter onward, it did not reach the level seen in the previous fiscal year. In the fourth quarter, we posted impairment losses for structural reforms. As a result of the above, revenue decreased by 3.0% to 309,063 million yen, while operating income rose by 33.1% to 27,311 million yen.

[Optronics] Composition of revenue: 54.2%

Main products: Information fine materials and flexible printed circuit boards

Information fine materials grew compared to the previous fiscal year. The greater demand for optical films used in laptop computers and tablets on the back of the spread of teleworking made a large contribution to the segment's business results. Meanwhile, overall demand for products used in smartphones declined despite the new adoption of optical films for OLED displays. Revenue from products used in TV also decreased. However, efforts were made to enhance collaboration with partners, and royalty income was posted in the first quarter through licensing agreements.

Printed circuits grew from the previous fiscal year. The production of HDD (hard disk drive) temporarily dropped in the first quarter but recovered thereafter. Although demand was weak for HDD used for personal computers, demand for high-capacity HDD used in data centers was strong. Furthermore, smartphone parts began contributing to the segment's business results as an initiative for a new market using high precision substrates. To respond to this change, we took actions including increasing our production capacity.

As a result of the above, revenue rose by 7.7% to 428,886 million yen and operating income increased by 40.9% to 80,727 million yen.

[Life Science] Composition of revenue: 3.8%

Main products: Medical-related products

Life Science grew compared to the previous fiscal year. Demand for nucleic acid medicine contract manufacturing was solid due to the greater expectations placed on nucleic acid medicines as potential therapeutic drugs and vaccinations for COVID-19. Demand for NittoPhase also expanded for synthesizing nucleic acid drug.

Meanwhile, demand for transdermal absorption tape formulations and medical supplies shrank due to factors such as the smaller number of outpatients in hospitals. Although the demand has been recovering, it did not reach the level seen in the previous fiscal year. In the fourth quarter, impairment losses were posted for the reorganization of existing facilities and other reasons.

As for nucleic acid drug discovery, the Group is continuously working on a clinical trial of a drug for pulmonary fibrosis and intractable cancer.

As a result of the above, revenue increased by 10.0% to 29,855 million yen, while operating loss amounted to 3,011 million yen (operating loss of 2,546 million yen was reported in the previous fiscal year).

[Others] Composition of revenue: 2.9%

Main products: Membrane products, other products

Membrane products (polymer separation membranes) were weaker than the previous fiscal year due to the significant impact of COVID-19. Demand for membrane products was sluggish, especially for industrial applications and in the field of energy. Please note that this segment includes new businesses that have yet to generate sufficient levels of revenue.

As a result of the above, revenue shrank by 13.6% to 23,266 million yen and operating loss amounted to 7,496 million yen (operating loss of 2,622 million yen was reported in the previous fiscal year).

(Yen in Millions)

Business segment	FY2020 (156th term)		FY2019 (155th term)
	Revenue (year-on-year change)		Revenue
Industrial Tape	309,063	(down 3.0%)	318,564
Optronics	428,886	(up 7.7%)	398,299
Life Science	29,855	(up 10.0%)	27,129
Others	23,266	(down 13.6%)	26,943
Eliminations and corporate	-29,750	-	-29,918
Total	761,321	(up 2.7%)	741,018

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

2. Reporting segments were partially changed due to the change made to the management structure during the fiscal year under review. The figures for the previous fiscal year are adjusted to reflect this change.

(3) Capital expenditure

Capital expenditure for the Group (Nitto and its subsidiaries and affiliates) in the fiscal year under review totaled 50,597 million yen.

For the Industrial Tape segment, 12,660 million yen was spent to enhance its production capacity of adhesive tapes and so on. For the Optronics, 29,697 million yen was mainly spent to boost the productivity of optical films and to build the production system of high precision substrates for flexible printed circuit boards. For the Life Science segment, 1,358 million yen was spent mainly to establish the production system of nucleic acid medicines. For the Others segment, 2,272 million yen was spent to enhance the productivity of membrane (polymer separation membranes).

Capital expenditures not directly related to any business segment amounted to 4,608 million yen.

(4) Financing

With the Group's policy to utilize its funds efficiently and reduce borrowings as much as possible, consolidated total borrowings in the fiscal year under review stood at 545 million yen.

(5) Issues to be addressed by the Group

In the next fiscal year (April 1, 2021 to March 31, 2022), the global economy is expected to grow due to economic support measures implemented by national governments and the much-anticipated rollouts of vaccinations against COVID-19 in advanced countries and some of the developing countries. On the other hand, there are potential risks, such as the spread of virus variants with strong virulence or high infectivity, delay in vaccination rollouts, and the resumption of measures to curb economic activities to control the pandemic. The economic outlook, therefore, is highly uncertain.

In this environment, the Group aims to create resilient corporate foundations that are resistant to the impact of the external environment. We will refine the Group's unique business model, *Sanshin* Activities and Niche Top Strategy, and promote the growth of our business with a focus on the *products to be extended* in the areas that are expected to see growth and greater demand. For the products whose demand is expected to *return*, we will further improve productivity to maximize revenue. With respect to the products whose demand *would not return*, we will improve our revenue through structural reforms aimed to reorganize, consolidate, or close unprofitable businesses and products.

We will also aim to achieve zero accidents or disasters under the policy, "Place safety before everything else." In addition to pursuing the growth of our business, we will further promote our initiatives to build a sustainable society for a better future.

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

• Industrial Tape

In the Industrial Tape segment, the transportation business will be integrated with the functional base products business in the next fiscal year. This integration is designed to maximize synergy between the two businesses ahead of the expansion of the next-generation mobility market that is expected to accelerate in the future and the subsequent changes in the supply chain. It is also designed to enhance our efforts for innovation creation in areas such as CASE (Connected, Autonomous, Shared, and Electric). With respect to a demand outlook, vehicle production is expected to recover, albeit with uncertainties such as concerns about semiconductor supply.

Solid demand is anticipated for electronic materials and semiconductor process materials, driven by the dissemination of 5G and new lifestyles. The Industrial Tape segment will flexibly respond to these changes and endeavor to further differentiate the Group from its competitors through enhancement of technologies.

Furthermore, the entire segment will implement structural reforms to optimize its production system and create a business foundation that will stably achieve a high level of profitability.

• Optronics

For information fine materials, the Group will continue collaborating with our Chinese partner in the TV market. For smartphones, we will work on expanding the use of our optical films for OLED displays against the background of the evolution of various display technologies. Demand for optical films used in laptop computers and tablets is expected to remain at a high level, with the expansion of teleworking and other factors. We will endeavor to securely capture this demand, while working on further productivity improvement. Demand for ITO films is anticipated to remain strong with respect to their use for laptop computers and tablets, while it is forecast to decline with respect to smartphone use. We will therefore work on creating new products using production technologies of ITO films.

The use of printed circuits in personal computers, such as HDD (hard disk drives), is expected to decline. However, demand for high-capacity HDD used in data centers is forecast to remain solid. To meet this demand, we will work on building a stable supply system. Additionally, we will further strengthen our production capacity of high-precision substrates to increase their supply for smartphone parts.

• Life Science

In the nucleic acid medicine market, in addition to the already existing clinical development centered around rare diseases, development of oligonucleotide therapeutics for common diseases and cancer is progressing. The market is also shifting to the stage of commercialization and expected to grow rapidly from now on. Under this circumstance, the Group is enhancing our production capacity in the contract manufacturing business and expanding the design service function in the nucleic

acid medicine production process utilizing the know-how we have accumulated so far to further increase our revenue. In drug discovery, the Group will forge ahead with R&D and clinical trials in the areas of treatment drugs for pulmonary fibrosis and intractable cancer in an attempt to develop them into core businesses. We expect to post royalty income in the next fiscal year. Meanwhile, demand for transdermal absorption tape formulations and medical supplies is expected to recover moderately.

• **Others**

Demand for membrane products (polymer separation membranes) is anticipated to bounce back from the decline caused by COVID-19. The speed of its recovery, however, is expected to be moderate, given factors such as the anticipated delayed recovery in the Americas. In this situation, the Group will work on cost reduction efforts through the automation of production process. We will also work on the creation and nurturing of new products in the energy and environment areas. For new businesses, the Group will aim to bring products currently under development, including plastic optical cables, to the market as soon as possible.

(6) Trends in operating results and assets

Item	FY2016 (152nd term)	FY2017 (153rd term)	FY2018 (154th term)	FY2019 (155th term)	FY2020 (156th term)
Revenue (million yen)	767,710	857,376	806,495	741,018	761,321
Operating income (million yen)	92,589	125,722	92,777	69,733	93,809
Net income attributable to owners of the parent company (million yen)	63,453	87,377	66,560	47,156	70,235
Basic earnings per share (yen)	390.94	538.99	423.50	301.32	472.71
Dividend payout ratio (%)	38.4	29.7	42.5	66.4	42.3
ROA (Ratio of profit attributable to owners of the parent company to total assets) (%)	7.4	9.6	7.2	5.1	7.4
ROE (Return on equity attributable to owners of the parent company) (%)	10.0	13.0	9.6	6.8	10.0
Operating income to revenue (%)	12.1	14.7	11.5	9.4	12.3
Total assets (million yen)	879,899	937,796	913,418	921,900	965,901
Total equity (million yen)	654,421	693,995	701,187	690,204	716,686
Equity attributable to owners of the parent company per share (yen)	4,027.57	4,328.50	4,465.70	4,479.29	4,838.07
Ratio of equity attributable to owners of the parent company to total assets (%)	74.3	73.9	76.7	74.8	74.1
Depreciation and amortization (million yen)	48,556	49,283	45,904	49,390	47,950
Capital investment (million yen)	36,538	47,193	64,353	58,930	50,597
Research and development costs (million yen)	30,366	31,243	31,990	33,765	35,261
Exchange rate (average rate) (yen/1 US dollar)	108.88	110.83	110.57	109.06	105.73

Notes:

1. The Nitto Group prepares its consolidated financial statements based on the International Financial Reporting Standards (IFRS).
2. From fiscal 2018, "royalty income," which was previously included in "other income" on the consolidated statements of income, is included in "revenue." Accordingly, the above numbers for fiscal 2017 have been reclassified to reflect the change.
3. "Dividend payout ratio" is calculated based on a tentative dividend amount whose payment is subject to approval of Item 1 as proposed for the 156th Ordinary General Meeting of Shareholders.

(7) Principal offices and status of major subsidiaries (as of March 31, 2021)

<1> Principal offices of the Group

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

<2> Status of major subsidiaries

Corporate name	Capital	Company's stake	Main business
Nissho Corporation	in million yen 515	100.0 %	Production, processing, and sales; Industrial Tape
Nitto EMEA NV	in thousand euro 212,282	100.0	Administration of Group companies in Europe
Nitto, Inc.	in thousand U.S. dollars 0	100.0	Administration of Group companies in the Americas Production, processing, sales, etc.; Industrial Tape
Nitto Denko Vecia Inc.	in thousand U.S. dollars 1	100.0 (100.0)	Production and sales; Life Science
Nitto Denko (China) Investment Co., Ltd.	in thousand RMB 925,394	100.0	Administration of the Group companies in China
Taiwan Nitto Optical Co., Ltd.	in thousand NT\$ 568,003	100.0	Production, processing, and sales; Optronics
Korea Nitto Optical Co., Ltd.	in million won 84,365	100.0	Production, processing, and sales; Optronics
Nitto Denko (HK) Co., Ltd.	in thousand HK\$ 13,826	100.0	Sales; Industrial Tape and Optronics
Shanghai Nitto Optical Co., Ltd.	in thousand RMB 89,981	100.0 (24.5)	Production, processing, and sales; Optronics
Shenzhen Nitto Optical Co., Ltd.	in thousand RMB 568,925	100.0	Production, processing, and sales; Optronics
Nitto (China) New Materials Co., Ltd.	in thousand RMB 50,000	100.0 (100.0)	Sales; Industrial Tape, Optronics, and Others
Nitto Denko (Singapore) Pte. Ltd.	in thousand U.S. dollars 81,088	100.0	Administration of Group companies in South Asia Sales; Industrial Tape
Nitto Denko Material (Thailand) Co., Ltd.	in thousand Thai Baht 460,000	100.0 (100.0)	Production, processing, and sales; Optronics
Taiwan Nitto Corporation	in thousand NT\$ 262,768	100.0	Sales; Optronics and Industrial Tape

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

(8) Employees of the Group and the Company (as of March 31, 2021)

	Number of employees	Changes from the end of the previous fiscal year
Group	25,424	-369
Company	5,870	+278

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

(9) Major creditors (as of March 31, 2021)

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

2. Shareholders' equity (as of March 31, 2021)

(1) Number of shares authorized to be issued	400,000,000 shares
(2) Number of shares issued	149,758,428 shares
(Amount of treasury stock held)	1,792,681 shares)
(3) Number of shareholders	28,456
(4) Major shareholders (top 10)	

Name	Number of shares held	Ownership percentage
The Master Trust Bank of Japan, Ltd. (Trust Account)	Thousands of shares 28,828	% 19.48
Custody Bank of Japan, Ltd. (Trust Account)	12,040	8.14
Custody Bank of Japan, Ltd. (Trust Account 7)	3,261	2.20
Custody Bank of Japan, Ltd. (Securities Investment Account)	2,849	1.93
STATE STREET BANK AND TRUST COMPANY 505223	2,636	1.78
STATE STREET BANK WEST CLIENT - TREATY 505234	2,539	1.72
JP Morgan Securities Japan Co., Ltd.	2,134	1.44
Nippon Life Insurance Company	2,082	1.41
Custody Bank of Japan, Ltd. (Trust Account 5)	1,964	1.33
JP MORGAN CHASE BANK 385781	1,839	1.24

- Notes:
- The ownership percentage has been calculated based on the number of shares issued, excluding treasury stock.
 - Although the reports on large-scale shareholdings have been submitted as follows, the Company lists the major shareholders above according to the shareholder register as of March 31, 2021.
 - A total of two shareholders comprising Sumitomo Mitsui Trust Asset Management Co., Ltd. and its joint holders
12,629,500 shares (as of July 15, 2019)
 - A total of three shareholders comprising Nomura Securities Co., Ltd. and its joint holders
16,288,072 shares (as of July 1, 2020)
 - A total of four shareholders comprising MUFG Bank, Ltd. and its joint holders
10,970,009 shares (as of March 22, 2021)
 - A total of ten shareholders comprising BlackRock Japan Co., Ltd. and its joint holders
11,216,496 shares (as of March 31, 2021)

(5) Shares granted to the Company's officers as consideration for the performance of duties during the fiscal year under review

Name	Performance-linked share-based remuneration	Restricted share remuneration
Type and number of shares	-	12,900 shares of the Company's common stock
Number of eligible recipients	-	Directors 4 persons

Note: Outside Directors and Corporate Auditors are not eligible to receive the above share-based remuneration.

(6) Matters concerning warrants

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

Subject	Equity-based compensation stock options
Number of warrants	424 units (100 shares of common stock per unit)
Class and number of underlying shares subject to warrants	Company's common stock: 42,400 shares
Exercise value (payment amount per unit at time of exercise)	100 yen
Exercise period	<ul style="list-style-type: none"> · 30 years from the day following the issuing date · 10 days from the day following the day from which they no longer serve as Directors
Number of owners and units	4 Directors 424 units

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

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

Not applicable

3. Executives

(1) Directors and Corporate Auditors (as of March 31, 2021)

Name	Title (Position)	Responsible area, etc.
Hideo Takasaki	Representative Director, President CEO, COO Chairperson, Internal Control Committee	Supervisor of management in general
Nobuhiro Todokoro	Director, Executive Vice President	Supervisor of functional base products business, information fine materials business, membrane business, and management of EMEA (Europe, the Middle East and Africa), PRC, Taiwan, and Korea
Yosuke Miki	Director, Executive Vice President CTO General Manager, Corporate Technology Sector, General Manager, Information and Communication Technology Sector	Supervisor of transportation business, medical business, management of North/South America, South Asia/Oceania, and India In charge of corporate technology (R&D) and ICT business
Yasuhiro Iseyama	Director, Senior Vice President CFO General Manager, Corporate Accounting & Finance Division Chairperson, J-SOX Committee and Chairperson, Timely Disclosure Committee	Supervisor of ESG promotion, compliance, and risk management In charge of accounting & finance and IR
Yoichiro Furuse	Outside Director	Representative Director of Evanston Corporation Chairman of Japan of Permira Advisers KK Consultant of GLP Pte. Ltd.
Takashi Hatchoji	Outside Director	Outside Director of Konica Minolta, Inc. Outside Director of Marubeni Corporation
Tamio Fukuda	Outside Director	Professor Emeritus of Kyoto Institute of Technology
Wong Lai Yong	Outside Director	First Penguin Tours & Training Sdn. Bhd. (Founder and Chief, Principal Trainer and Consultant)
Masami Kanzaki	Corporate Auditor (full-time service)	
Shin Tokuyasu	Corporate Auditor (full-time service)	
Masashi Teranishi	Outside Corporate Auditor	Honorary Advisor of MUFG Bank, Ltd.
Masakazu Toyoda	Outside Corporate Auditor	Chairman & CEO of The Institute of Energy Economics, Japan Outside Director of Canon Electronics Inc. Outside Director of Nissan Motor Co., Ltd.
Mitsuhide Shiraki	Outside Corporate Auditor	Professor, Faculty of Political Science and Economics, Waseda University

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

Notes: 1. The following change was made to the titles (positions, etc) of Directors effective April 1, 2021.

Name	Title (Position)	Responsible area, etc.
Yosuke Miki	Director, Executive Vice President CTO General Manager, Corporate Technology Sector	Supervisor of ICT business, medical business, management of North/South America, South Asia/Oceania, and India In charge of corporate technology (R&D)

2. Full-time Corporate Auditor Shin Tokuyasu has assumed key positions at accounting & finance and other administrative departments of the Company and as Representative Director of the Company's overseas subsidiary over many years, thus possessing a broad range of knowledge in finance and accounting.
3. Outside Corporate Auditor Masashi Teranishi possesses significant insights into finance and accounting through his long years of involvement in the management of financial institution.
4. The Company has designated all of the Outside Directors and Outside Corporate Auditors as Independent Directors/Corporate Auditors as stipulated by Tokyo Stock Exchange and reported them to the Exchange.
5. The Company has no special relationship with any of the organizations at which the Outside Directors and Outside Corporate Auditors hold important concurrent positions.

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

Name	Major activities
1. Outside Directors	
Yoichiro Furuse	Participation Board of Directors meetings: 100% (12 out of 12 times) In addition to overseeing the Board of Directors based on his insight and experience as a corporate manager and former employee of a mega bank, Mr. Furuse is expected to provide a broad range of opinions on the business administration of the Company. He proactively made comments at the Company's Board of Directors meetings from this perspective during the fiscal year under review. In addition, Mr. Furuse attended all meetings of the Management, Nomination and Remuneration Advisory Committee. Please refer to the notes below on the activities of the Advisory Committee.
Takashi Hatchoji	Participation Board of Directors meetings: 92% (11 out of 12 times) In addition to overseeing the Board of Directors based on his insight and experience as a corporate manager, which includes working overseas, Mr. Hatchoji is expected to provide opinions on the business administration of the Company from a global perspective. He proactively made comments at the Company's Board of Directors meetings from this perspective during the fiscal year under review. In addition, Mr. Hatchoji attended all meetings of the Management, Nomination and Remuneration Advisory Committee. Please refer to the notes below on the activities of the Advisory Committee.
Tamio Fukuda	Participation Board of Directors meetings: 100% (12 out of 12 times) In addition to overseeing the Board of Directors based on his management experience as a corporate advisor and his insight as a university professor specializing in design management, Mr. Fukuda is expected to provide opinions on the business administration of the Company from the perspectives of brand building and innovation creation. He proactively made comments at the Company's Board of Directors meetings from these perspectives during the fiscal year under review. In addition, Mr. Fukuda attended all meetings of the Management, Nomination and Remuneration Advisory Committee. Please refer to the notes below on the activities of the Advisory Committee.
Wong Lai Yong	Participation Board of Directors meetings: 100% (10 out of 10 times) In addition to overseeing the Board of Directors based on her insight and experience as a corporate representative who provides advice on diversity and sustainability, Ms. Wong is expected to provide opinions on the business administration of the Company from an expert perspective. She proactively made comments at the Company's Board of Directors meetings from this perspective during the fiscal year under review. In addition, Ms. Wong attended all meetings of the Management, Nomination and Remuneration Advisory Committee. Please refer to the notes below on the activities of the Advisory Committee.
2. Outside Corporate Auditors	
Masashi Teranishi	Participation Board of Directors meetings: 100% (12 out of 12 times) Board of Corporate Auditors meetings: 100% (13 out of 13 times) In addition to conducting appropriate audits based on his insight and experience as a manager of a mega bank, Mr. Teranishi was expected to provide opinions on the business administration of the Company from the perspective of finance. He conducted appropriate audits from this perspective during the fiscal year under review. In addition, Mr. Teranishi attended all meetings of the Management, Nomination and Remuneration Advisory Committee. Please refer to the notes below on the activities of the Advisory Committee.
Masakazu Toyoda	Participation Board of Directors meetings: 100% (12 out of 12 times) Board of Corporate Auditors meetings: 92% (12 out of 13 times) In addition to conducting appropriate audits based on his insight and experience as an economist involved in national politics, Mr. Toyoda is expected to provide opinions on the business administration of the Company from the perspective of an expert of economics. He conducted appropriate audits from this perspective during the fiscal year under review. In addition, Mr. Toyoda attended all meetings of the Management, Nomination and Remuneration Advisory Committee. Please refer to the notes below on the activities of the Advisory Committee.
Mitsuhide Shiraki	Participation Board of Directors meetings: 100% (12 out of 12 times) Board of Corporate Auditors meetings: 100% (13 out of 13 times) In addition to conducting appropriate audits based on his insight and experience as a specialist of labor issues and global HR development, Mr. Shiraki is expected to provide opinions on the business administration of the Company from an expert perspective. He conducted appropriate audits from this perspective during the fiscal year under review. In addition, Mr. Shiraki attended all meetings of the Management, Nomination and Remuneration Advisory Committee. Please refer to the notes below on the activities of the Advisory Committee.

Notes: (1) Structure and roles of the Management, Nomination and Remuneration Advisory Committee

The Management, Nomination and Remuneration Advisory Committee was formed as an advisory group for the Representative Director(s). It consists of Outside Directors, Outside Corporate Auditors, and Representative Directors(s) and is chaired by the President. The Committee offers advice on important management issues, the appointment of officers, and compensation for officers, from the perspectives of shareholders and other various stakeholders.

(2) Activities of the Management, Nomination and Remuneration Advisory Committee

The Committee met three times in total in the fiscal year under review (FY2020), with the members' attendance rate of 100% each time. All outside officers played important roles as the members of the Advisory Committee utilizing their deep insights and extensive experience in their respective areas of expertise. The following are main consultations and deliberations:

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

(3) Summary of liability limitation agreement

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

(4) Summary of directors and officers (D&O) liability insurance policy

The Company purchases a directors and officers (D&O) liability insurance policy from an insurance company, naming its Directors, Corporate Auditors, and Vice Presidents (hereinafter collectively referred to as the “Company D&O”) and the officers of Nitto Shinko Corp., which is a member company of the Group, as the insured, to cover any damage (e.g., compensations and legal fees) incurred when a lawsuit is filed against any of the insured for an action they have taken in the course of performing their duties. The insurance policy has an exemption clause excluding from its coverage any liability that has arisen due to the insured’s intent, illegal and personal sharing of profits, and criminal acts, among other things. The Company pays insurance premiums for the Company D&O in full, while the officers of Nitto Shinko Corp. are required to pay 10% of insurance premiums as their individual expense.

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

<1> Compensation paid to Directors

a. Basic policy related to compensation for Directors

- The content of remuneration shall be such that Nitto Persons* are allowed to be appointed as a Director.
- The remuneration structure must motivate Directors to contribute to Nitto's sustainable growth and the enhancement of its corporate value over the medium and long term.
- The remuneration determination process shall be fair and transparent.

* In addition to meeting the basic requirement of having profound insights and high levels of expertise acquired from past experience, a Nitto Person is a person who can comprehend and practice Nitto's Corporate Philosophy, deliver results, and keep taking on new challenges.

b. Components of remuneration

Directors (excluding Outside Directors) shall be remunerated as follows.

Type	Category	Policy related to the content of remuneration, methods of calculating the cash amount/number of shares, and the timing of payment
Fixed compensation	Basic compensation (cash)	Monthly compensation as determined by position, responsibility, and length of service is paid in cash.
Short-term performance-linked compensation	Bonus for Directors (cash)	Compensation in cash is paid after the relevant business term is over to raise awareness about the Group's performance improvement for each business term. The amount of compensation paid to each Director is determined by the progress of achievement of the Group's performance indicators on consolidated operating income and consolidated ROE* over the period of one business term and by the progress made against the targets set for each Director's areas of responsibilities.
Medium-term performance-linked compensation	Performance-linked share-based remuneration	This additional compensation is designed to incentivize Directors to improve business performance over the mid-term, and share-based remuneration is granted once every three consecutive business terms. The number of shares to be granted to each Director is determined based on consolidated operating income and consolidated ROE* when three years have passed since the commencement of their performance evaluation period. Targets should be set high, and no compensation is paid if the targets are not met. The number of shares to be granted ranges between 80% and 150% according to the progress against the targets.
Medium- and long-term performance-linked compensation	Restricted share remuneration	Share-based remuneration is granted for each business term to align the interests of Directors and shareholders and reflect medium- and long-term business performance in their compensation. The number of shares to be granted to each Director is determined by position, responsibility, and length of service. The amount of remuneration is linked to the market price by setting restrictions on transfer until retirement.

* Consolidated operating income is chosen as an indicator for their commitment to delivering results, whereas consolidated ROE serves as an indicator for measuring business stability.

In light of their roles and independence, Outside Directors are remunerated by fixed compensation only.

c. Policy related to the designing of the compensation level

In order to ensure that compensation for Nitto's officers, etc. is at a competitive level vis-à-vis industry standards, their compensation level is set by benchmarking a group of major companies of a similar scale in the same industry as Nitto.

d. Component ratio of remuneration

For the purpose of standard evaluation, the target component ratio of remuneration is: Compensation in cash : Bonus for Directors : Restricted share remuneration = 40% : 40% : 20%. Performance-linked share-based remuneration is provided as additional remuneration when medium-term targets are achieved, but not provided for a standard evaluation.

e. Policy related to the determination process

The policy related to the standard amount, calculation method, component ratio among different types of compensations, timing or conditions of payment, etc. for the remuneration of each Director shall be decided by the Board of Directors, by comprehensively taking into account such factors as the Company's business conditions, management environment, the levels of remuneration to officers at major companies of a similar scale in the same industry as the Company, after receiving a report on the results of deliberations by the Management, Nomination and Remuneration Advisory Committee.

Decisions on concrete details of basic compensation for each term of office and the allocation of executive bonuses to each Director shall be entrusted to the President (who is also a Board Member) pursuant to a resolution of the Board of Directors. Because the President is in a position to evaluate if targets for Directors other than Outside Directors have been met, it is deemed rational for him/her to make a decision on the allocation.

Compensation in cash shall be determined according to the position, responsibility, and length of service, whereas bonuses for officers shall be determined by taking into account the progress of achievement of targets set for areas of responsibilities of each Director in accordance with the predetermined standard amount and calculation method above, in order to prevent arbitrary decisions from being made. For performance-linked share-based remuneration and restricted share remuneration, the Board of Directors shall determine the number of shares to be granted to each Director using a predetermined formula.

<2> Compensation paid to Corporate Auditors

a. Basic policy related to remuneration of Corporate Auditors

- The content of remuneration shall be such that Nitto Persons are allowed to be appointed as a Corporate Auditor.
- The remuneration structure shall be such that it contributes to the fulfillment of their duties, including audits of the performance of duties by Directors.

b. Components of remuneration

Remuneration of Corporate Auditors does not include any share-based or other performance-linked portions and instead is comprised solely of fixed compensation in cash.

c. Policy related to the designing of the compensation level

In order to ensure that compensation for Nitto's officers, etc. is at a competitive level vis-à-vis industry standards, their compensation level is set by benchmarking a group of major companies of a similar scale in the same industry as Nitto.

d. Policy related to the determination process

Remuneration of individual Corporate Auditor is determined through consultations among themselves.

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

(Yen in Millions)

Position	Total amount of compensation, etc.	Compensation by type				Number of eligible Directors and Corporate Auditors
		Fixed compensation	Performance-linked compensation			
		Compensation in cash (cash)	Bonus paid to Directors (cash)	Performance-linked share-based remuneration	Restricted share remuneration	
Directors (excluding Outside Directors)	525	203	240	-	82	6
Outside Directors	45	45	-	-	-	4
Corporate Auditors (excluding Outside Corporate Auditors)	67	67	-	-	-	2
Outside Corporate Auditors	32	32	-	-	-	3

- Notes: 1. The above table includes two Directors (who were not Outside Directors) who resigned during the fiscal year under review.
2. The amount of employee salary (including bonus) for a Director who also holds an employee position is paid separately from the abovementioned compensation, but such employee salary was not paid for the current term.
3. The upper limit of compensation in cash for Directors was set at 30 million yen a month (of this amount, the upper limit of the total amount of compensation in cash for Outside Directors was set at 4 million yen) at the 155th Ordinary General Meeting of Shareholders. The number of Directors at the close of the said Ordinary General Meeting of Shareholders was eight (of which, four were Outside Directors). The upper limit of the total amount of compensation in cash for Corporate Auditors was set at 12 million yen a month at the 139th Ordinary General Meeting of Shareholders. The number of Corporate Auditors at the close of the said Ordinary General Meeting of Shareholders was five.
4. Bonus for Directors is a tentative amount and its payment is subject to the approval of proposed Item 2 at the 156th Ordinary General Meeting of Shareholders.
5. The upper limits of the total value and the number of shares to be granted to Directors (excluding Outside Directors) in the form of performance-linked share-based remuneration were set at 364 million yen and 48,400 shares a year at the 153rd Ordinary General Meeting of Shareholders. The number of Directors at the close of the said Ordinary General Meeting of Shareholders was nine (of which, three were Outside Directors).
6. The upper limit of the total value and the number of shares to be granted to Directors (excluding Outside Directors) in the form of restricted share remuneration were set at 243 million yen and 32,000 shares a year at the 153rd Ordinary General Meeting of Shareholders. The number of Directors at the close of the said Ordinary General Meeting of Shareholders was nine (of which, three were Outside Directors).
7. Consolidated operating income and consolidated ROE are adopted as indicators based on which bonuses for Directors and performance-linked share-based remuneration are calculated. For the fiscal year under review, the Company's consolidated operating income was 93,809 million yen and consolidated ROE 10.0%. There will be no payment of performance-linked share-based remuneration as the Company did not achieve its targets. Restricted share remuneration is linked to the market price of the Company's shares. There is nothing that needs to be disclosed in relation to its performance.
8. Individual remuneration and so on granted to Directors and others for the fiscal year under review are (or will be) paid in accordance with the determination process. The Board of Directors considers that their details are in line with the Company's compensation policy.

(Reference) Status of Vice Presidents

The Company has adopted the executive officer system. The current positions and responsibilities of executive officers as of April 1, 2021 are as follows.

Name	Title (Position)	Responsible area, etc.
Hideo Takasaki	Representative Director, President CEO, COO	Supervisor of management in general
Toshihiko Omote	Senior Executive Vice President Senior Chief Engineer, Corporate Technology Sector	In charge of corporate technology (R&D) (special assignment)
Michio Yoshimoto	Senior Executive Vice President General Manager, Legal and Corporate Affairs Division General Manager, Export Control Center	In charge of legal and corporate affairs, and export control
Yukihiro Iizuka	Executive Vice President General Manager of North/South American regions President, Nitto, Inc.	In charge of management of North/South America
Nobuhiro Todokoro	Director, Executive Vice President	Supervisor of functional base products business, information fine materials business, membrane business, EMEA (Europe, the Middle East and Africa), PRC, Taiwan, and Korea
Yasuhito Ohwaki	Executive Vice President CIO General Manager, Corporate Sustainability Division	In charge of ESG promotion, compliance, risk management, IT, logistics, and business reform
Toshihiko Takayanagi	Executive Vice President General Manager, Sales Management Sector General Manager of Taiwan	In charge of sales management & sales support, and management of Taiwan
Yosuke Miki	Director, Executive Vice President CTO General Manager, Corporate Technology Sector	Supervisor of ICT business, medical business, management of North/South America, South Asia/Oceania, and India In charge of corporate technology (R&D)
Sam Strijckmans	Senior Vice President General Manager of EMEA (Europe, the Middle East and Africa) President & CEO, Nitto EMEA NV	In charge of management of EMEA (Europe, the Middle East and Africa)
Kazuki Tsuchimoto	Senior Vice President Deputy CTO General Manager, Manufacturing & Production Engineering Division	In charge of corporate technology (manufacturing technology & process technology)
Seiji Fujioka	Senior Vice President General Manager of Medical Division	In charge of medical business
Yasuhiro Iseyama	Director, Senior Vice President CFO General Manager, Corporate Accounting & Finance Division	Supervisor of ESG promotion, compliance, and risk management In charge of accounting & finance and IR
Atsushi Ukon	Vice President President, Nissho Corporation	In charge of management of business companies
Bae-Won Lee	Vice President General Manager of Korea Representative Director and President, Korea Nitto Optical Co., Ltd	In charge of management of Korea, and information fine materials business
Norio Sato	Vice President General Manager, Functional Base Products Sector	In charge of functional base products business
Katsuyoshi Jo	Vice President General Manager of PRC Chairman/President, Nitto Denko (China) Investment Co., Ltd.	In charge of management of PRC
Tatsuya Osuka	Vice President	In charge of Japan plant management
Mehrdad Tabrizi	Vice President Director, Nitto, Inc.	In charge of management of North/South America
Tatsuya Akagi	Vice President General Manager of Information Fine Materials Sector	In charge of information fine materials business

Kenjiro Asuma	Vice President CPO General Manager, Corporate Strategy Management Division	In charge of management strategy, PR, and procurement
Norikane Nabata	Vice President General Manager, Corporate QES (Quality, Environment & Safety Management) Sector	In charge of quality, environment & safety management
Scott Shu	Vice President General Manager of South Asia/Oceania General Manager of India Chairman/President, Nitto Denko (HK) Co., Ltd.	In charge of South Asia/Oceania and India
Yukihiro Horikawa	Vice President General Manager, Information and Communication Technology Sector	In charge of ICT business
Nobuyuki Aoki	Vice President General Manager, Human Resources Management Division	In charge of human resources education

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

Findings on the Nitto Board Effectiveness Evaluation

Please find below the executive summary of the findings of the FY2020 Nitto Board effectiveness analysis/evaluation, which has been conducted based on Japan's Corporate Governance Code stipulated by Tokyo Stock Exchange, Inc.

1. Analysis/evaluation method

As was done last year, our Board of Directors analyzed and evaluated the effectiveness of the Board as follows, with advice from a third-party organization:

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

2. Categories of the survey questions

- Composition of the Board of Directors	3
- Operation of Board of Directors meetings	8
- Risk management	3
- Discussions at Board of Directors meetings	9
- Monitoring function of the Board of Directors	3
- Training for Directors and Corporate Auditors	2
- Dialogue with shareholders	2
- Efforts by individual Directors and Corporate Auditors	7
- Overview	3

Total of 40 questions

3. Overview of the analysis/evaluation results

1) Conclusions drawn

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

2) Analysis and evaluation

All the Directors and Corporate Auditors responded to the Board effectiveness survey on a five-point scale. They chose "Appropriate" or "Largely appropriate" for many of the questions (82% of the total). In particular, as in the last year, the survey confirmed that, at the Board of Directors meetings, open discussions are conducted among its members including Outside Directors and Outside Corporate Auditors, and that the agenda items and deliberation times are deemed to be largely appropriate.

With regard to the composition of the Board of Directors, which was brought up as an issue last year, we ensured its diversity by appointing new directors. Also, to facilitate dialogue with shareholders, we provided opportunities to discuss opinions and comments from shareholders and institutional investors.

This year enhancement of discussions on ESG as well as on the development of an internal control system for the entire Group and the supervision of its operational status, which was recognized last year as well, have been recognized as areas that need to be addressed. Opinions were also offered on approaches to the management of each geographical region and the principles on the development of human resources.

4. Future action

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

4. Accounting auditors

(1) Name of Accounting Auditor: KPMG AZSA LLC

(2) Amount of compensation for the Accounting Auditor

(Yen in Millions)

1)	Amount of compensation as an accounting auditor for this fiscal year	194
2)	Total amount of money and other asset interests to be paid by the Company and the subsidiaries of the Company	271

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

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

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

5. Internal control system and policies of the Company

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

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

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

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

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

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

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

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

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

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

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

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

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

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

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

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

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

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

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

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

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

(Summary of resolutions at the Board of Directors)

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

(Implementation status confirmed)

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

(2) Policy on corporate dominance

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

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

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

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

Consolidated Financial Statements

Consolidated Statements of Financial Position

(Yen in Millions)

	Amount	
	As of March 31, 2021	As of March 31, 2020 (Reference)
(Assets)		
Current assets	610,017	576,056
Cash and cash equivalents	300,888	304,922
Trade and other receivables	182,939	154,473
Inventories	107,668	96,124
Other financial assets	1,399	2,642
Other current assets	17,121	17,893
Non-current assets	355,884	345,843
Property, plant and equipment	270,813	266,948
Right-of-use assets	14,979	16,266
Goodwill	4,593	4,852
Intangible assets	13,620	10,198
Investments accounted for using equity method	392	206
Financial assets	10,856	7,242
Deferred tax assets	25,951	25,694
Other non-current assets	14,676	14,434
Total assets	965,901	921,900

Consolidated Statements of Financial Position

(Yen in Millions)

	Amount	
	As of March 31, 2021	As of March 31, 2020 (Reference)
(Liabilities)		
Current liabilities	182,783	161,895
Trade and other payables	100,790	90,811
Bonds and borrowings	545	90
Income tax payables	11,225	10,036
Other financial liabilities	22,834	24,050
Other current liabilities	47,387	36,907
Non-current liabilities	66,431	69,800
Other financial liabilities	17,161	18,976
Defined benefit liabilities	46,754	48,272
Deferred tax liabilities	347	284
Other non-current liabilities	2,167	2,266
Total liabilities	249,214	231,696
(Equity)		
Equity attributable to owners of the parent company	715,868	689,446
Share capital	26,783	26,783
Capital surplus	50,070	50,271
Retained earnings	635,916	643,521
Treasury stock	-10,039	-27,505
Other components of equity	13,136	-3,624
Non-controlling interests	817	757
Total equity	716,686	690,204
Total liabilities and equity	965,901	921,900

Consolidated Statements of Income

(Yen in Millions)

	Amount	
	April 1, 2020 – March 31, 2021	April 1, 2019 – March 31, 2020 (Reference)
Revenue	761,321	741,018
Cost of sales	517,872	519,090
Gross profit	243,449	221,927
Selling, general and administrative expenses	107,722	111,368
Research and development expenses	35,261	33,765
Other income	4,466	5,423
Other expenses	11,122	12,483
Operating income	93,809	69,733
Financial income	559	886
Financial expenses	1,073	1,620
Equity in profits (losses) of affiliates	25	13
Income before income taxes	93,320	69,013
Income tax expenses	23,012	21,788
Net income	70,308	47,224
Net income attributable to:		
Owners of the parent company	70,235	47,156
Non-controlling interests	72	68

Consolidated Statements of Cash Flows (Reference)

(Yen in Millions)

	Amount	
	April 1, 2020 – March 31, 2021	April 1, 2019 – March 31, 2020
I Cash flows from operating activities		
Income before income taxes	93,320	69,013
Depreciation and amortization	47,950	49,390
Impairment losses	6,011	7,327
Increase (decrease) in defined benefit liabilities	1,878	2,677
Decrease (increase) in trade and other receivables	-21,058	12,805
Decrease (increase) in inventories	-7,607	-5,132
Increase (decrease) in trade and other payables	9,234	-4,899
Interest and dividend income	587	822
Interest expenses paid	-617	-650
Income taxes (paid) refunded	-24,560	-13,332
Others	11,171	5,619
Net cash provided by (used in) operating activities	116,309	123,641
II Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	-57,724	-59,797
Proceeds from sale of property, plant and equipment and intangible assets	341	1,444
Decrease (increase) in time deposits	769	-1,941
Purchase of investment securities	-507	-1,236
Proceeds from sale of investment securities	292	1,531
Purchase of shares of subsidiaries and affiliates	-880	—
Others	170	7
Net cash provided by (used in) investing activities	-57,538	-59,991
III Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	428	-336
Repayment of lease liabilities	-5,199	-4,735
Decrease (increase) in treasury stock	-33,312	-16,701
Cash dividends paid	-30,188	-29,820
Others	-25	-44
Net cash provided by (used in) financing activities	-68,297	-51,637
IV Effect of exchange rate changes on cash and cash equivalents	5,492	-4,771
V Net increase (decrease) in cash and cash equivalents	-4,034	7,240
VI Cash and cash equivalents at the beginning of the period	304,922	297,682
VII Cash and cash equivalents at the end of the period	300,888	304,922

Consolidated Statements of Changes in Equity

April 1, 2020 – March 31, 2021

(Yen in Millions)

	Share capital	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance at the beginning of current year	26,783	50,271	643,521	-27,505	-3,624	689,446	757	690,204
Net income			70,235			70,235	72	70,308
Other comprehensive income					19,478	19,478	10	19,488
Total comprehensive income	—	—	70,235	—	19,478	89,714	82	89,796
Share-based payment transactions		-200			5	-195		-195
Dividends			-30,188			-30,188	-22	-30,211
Changes in treasury stock		-50,374		17,466		-32,908		-32,908
Transfer from other components of equity to retained earnings			2,723		-2,723	—		—
Transfer to capital surplus from retained earnings		50,374	-50,374			—		—
Total transactions with owners	—	-200	-77,840	17,466	-2,717	-63,291	-22	-63,314
Balance at the end of current year	26,783	50,070	635,916	-10,039	13,136	715,868	817	716,686

Non-Consolidated Financial Statements

Non-Consolidated Balance Sheets

(Yen in Millions)

	Amount	
	As of March 31, 2021	As of March 31, 2020 (Reference)
(Assets)		
Current assets	372,237	372,412
Cash and deposits	194,650	200,264
Notes receivable-trade	3,716	3,663
Accounts receivable-trade	118,408	109,319
Merchandise and finished goods	7,985	9,231
Work in process	21,841	24,899
Raw materials and supplies	14,031	8,854
Short-term loans receivable	0	0
Other	11,933	16,488
Allowance for doubtful accounts	-330	-310
Non-current assets	309,262	307,520
Property, plant and equipment	159,655	160,873
Buildings	75,265	78,204
Structures	4,504	4,524
Machinery and equipment	57,835	54,960
Vehicles	417	451
Tools, furniture and fixtures	5,321	5,773
Land	13,771	13,771
Construction in progress	2,540	3,187
Intangible assets	10,614	7,432
Software	4,728	5,193
Other	5,886	2,238
Investments and other assets	138,992	139,214
Investments securities	6,515	4,251
Stocks of subsidiaries and affiliates	101,776	106,288
Long-term loans receivable	0	0
Deferred tax assets	21,377	19,038
Prepaid pension cost	7,572	7,706
Other	1,782	1,960
Allowance for doubtful accounts	-32	-32
Total assets	681,499	679,932

Non-Consolidated Balance Sheets

(Yen in Millions)

	Amount	
	As of March 31, 2021	As of March 31, 2020 (Reference)
(Liabilities)		
Current liabilities	191,710	182,984
Accounts payable-trade	61,236	56,261
Short-term loans payable	45,391	40,593
Accounts payable-other	27,141	32,820
Accrued expenses	10,517	8,788
Income taxes payable	7,093	7,091
Deposits received	33,606	33,158
Other	6,724	4,270
Non-current liabilities	35,628	32,147
Provision for retirement benefits	35,234	31,833
Guarantee deposits received	217	201
Other	176	111
Total liabilities	227,338	215,131
(Net assets)		
Shareholders' equity	451,967	463,184
Capital stock	26,783	26,783
Capital surplus	50,482	50,482
Legal capital surplus	50,482	50,482
Retained earnings	384,730	413,389
Legal retained earnings	4,095	4,095
Other retained earnings	380,635	409,294
Reserve for special depreciation	16	20
Reserve for advanced depreciation of non-current assets	2,148	2,223
General reserve	185,000	185,000
Retained earnings brought forward	193,470	222,050
Treasury stock	-10,028	-27,471
Valuation and translation adjustments	1,699	921
Valuation difference on available-for-sale securities	1,699	921
Subscription rights to shares	493	694
Total net assets	454,160	464,800
Total liabilities and net assets	681,499	679,932

Non-Consolidated Statements of Income

(Yen in Millions)

	Amount	
	April 1, 2020 – March 31, 2021	April 1, 2019 – March 31, 2020 (Reference)
Net sales	481,473	470,701
Cost of sales	339,766	340,048
Gross profit	141,707	130,653
Selling, general and administrative expenses	89,788	88,246
Operating income	51,919	42,406
Non-operating income	19,800	21,156
Interest and dividends income	17,432	17,642
Other	2,368	3,514
Non-operating expenses	2,196	4,207
Interest expenses	307	1,036
Foreign exchange losses	608	1,362
Other	1,280	1,808
Ordinary income	69,522	59,356
Extraordinary income	51	1,654
Gain on sales of non-current assets	6	745
Gain on sales of investment securities	45	909
Extraordinary loss	6,543	4,116
Loss on sales and retirement of non-current assets	1,543	1,039
Loss on devaluation of stocks of subsidiaries and affiliates	715	2,474
Impairment losses	4,284	602
Income before income taxes	63,031	56,894
Income taxes-current	13,851	12,309
Income taxes-deferred	-2,676	-1,508
Net income	51,855	46,093

Non-Consolidated Statements of Changes in Equity

April 1, 2020 – March 31, 2021

(Yen in Millions)

	Shareholders' equity											
	Capital stock	Capital surplus			Retained earnings						Treasury stock	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings		
						Reserve for special depreciation	Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings brought forward			
Balance at the beginning of current year	26,783	50,482	—	50,482	4,095	20	2,223	185,000	222,050	413,389	-27,471	463,184
Net changes of items during the period												
Dividends from surplus									-30,188	-30,188		-30,188
Provision of reserve for special depreciation						3			-3	—		—
Reversal of reserve for special depreciation						-8			8	—		—
Reversal of reserve for advanced depreciation of non-current assets							-74		74	—		—
Net income									51,855	51,855		51,855
Acquisition of treasury stock											-33,288	-33,288
Disposal of treasury stock			24	24							380	404
Cancellation of treasury stock			-50,350	-50,350							50,350	—
Transfer to capital surplus from retained earnings			50,326	50,326					-50,326	-50,326		—
Net change of items other than shareholders' equity during the period												
Total changes of items during the period	—	—	—	—	—	-4	-74	—	-28,579	-28,658	17,442	-11,216
Balance at the end of current year	26,783	50,482	—	50,482	4,095	16	2,148	185,000	193,470	384,730	-10,028	451,967

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of current year	921	921	694	464,800
Net changes of items during the period				
Dividends from surplus				-30,188
Provision of reserve for special depreciation				—
Reversal of reserve for special depreciation				—
Reversal of reserve for advanced depreciation of non-current assets				—
Net income				51,855
Acquisition of treasury stock				-33,288
Disposal of treasury stock			-200	203
Cancellation of treasury stock				—
Transfer to capital surplus from retained earnings				—
Net change of items other than shareholders' equity during the period	777	777		777
Total changes of items during the period	777	777	-200	-10,639
Balance at the end of current year	1,699	1,699	493	454,160

Notes to the Consolidated Financial Statements

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

(1) Basis of the consolidated financial statements

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

(2) Scope of consolidation

<1> Number of consolidated subsidiaries: 90

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

<2> Increase/decrease of consolidated subsidiaries

Increase: 0

Decrease: 1 (due to merger)

(3) Fiscal year of consolidated subsidiaries

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

Number of subsidiaries that do not close books on the same date as the Company: 21

For the above 21 subsidiaries, provisional settlement of accounts as of March 31, 2021 are used.

(4) Accounting policies

<1> Valuation basis and method for principal assets

1) Financial assets:

Non-derivative financial assets

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

(a) Financial assets measured at amortized cost

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

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

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

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

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

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

- The foregoing financial assets are held within a business model whose objective is to hold assets in order to both collect the contractual cash flows and sell the financial assets.

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

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

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

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

2) Inventories:

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

<2> Depreciation method of major depreciable assets

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

<3> Accounting criteria for major provisions

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

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

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

Exchange differences arising from translating the financial statements of foreign operations are included in other components of equity.

<5> Derivative financial instruments and hedge accounting

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

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

Cash flow hedges

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

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

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

<6> Employee benefits

1) Short-term employee benefits

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

2) Long-term employee benefits

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

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

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

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

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

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

Consumption taxes are excluded from the transaction amounts.

2. Notes on accounting estimates

The figures for the following items are posted on consolidated financial statements for the fiscal year under review using accounting estimates and may have a material impact on consolidated financial statements for the 157th term.

(1) Evaluation of collectability of property, plant and equipment

- <1> Amount posted on consolidated financial statements for the fiscal year under review: property, plant and equipment 270,813 million yen
- <2> Information that would be useful to the understanding of accounting estimates
Please refer to “Other expenses” in “4. Notes to the consolidated statements of income.”

(2) Evaluation of collectability of goodwill and intangible assets

- <1> Amount posted on consolidated financial statements for the fiscal year under review: goodwill 4,593 million yen; intangible assets 13,620 million yen
- <2> Information that would be useful to the understanding of accounting estimates
Please refer to “Other expenses” in “4. Notes to the consolidated statements of income.”

(3) Evaluation of collectability of deferred tax assets

- <1> Amount posted on consolidated financial statements for the fiscal year under review: deferred tax assets 25,951 million yen
- <2> Information that would be useful to the understanding of accounting estimates
The Group evaluates the collectability of deferred tax assets each term and recognizes deferred tax assets taking into account material uncertainty concerning the collectability of our deferred tax assets.

(4) Calculation of defined benefit liabilities

- <1> Amount posted on consolidated financial statements for the fiscal year under review: prepaid pension cost (Note) 8,788 million yen; defined benefit liabilities 46,754 million yen
(Note) Prepaid pension cost is included in “Other non-current assets” in the consolidated statements of financial position.
- <2> Information that would be useful to the understanding of accounting estimates
Please refer to “2) Long-term employee benefits” in “<6> Employee Benefits” of “(4) Accounting policies” in “1. Notes regarding significant accounting policies for the preparation of the consolidated financial statements and others.”

3. Notes to the consolidated statements of financial position

Accumulated depreciation of property, plant and equipment (including accumulated impairment losses)	676,958 million yen
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4. Notes to the consolidated statements of income

Other expenses

“Other expenses” include impairment losses of 6,011 million yen.

A rough breakdown of impairment losses is as follows:

Impairment losses are reported for property, plant and equipment and intangible assets of a specific cash-generating unit of the transportation business that belongs to the Industrial Tape segment. This is due to a forecast that the carrying amounts might not be recoverable, as it has become unlikely that the Group will achieve the projected earnings in Japan. Recoverable amount is measured by value in use based on discounted cash flow method adopting the discount rate of 7.9%.

In addition, impairment losses are reported for property, plant and equipment, goodwill, and intangible assets of a specific cash-generating unit of the medical-related product business that belongs to the Life Science segment. This is due to a forecast that the carrying amounts might not be recoverable, as the earnings forecast for certain businesses in the Americas has been revised down. Recoverable amount is measured by value in use based on discounted cash flow method adopting the discount rate of 14.4%.

5. Notes to the consolidated statements of changes in equity

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

Common stock 149,758 thousand shares

- (2) Dividends

- 1) Dividend payments

Resolution	Type of shares	Total dividends (Yen in Millions)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 19, 2020	Common stock	15,391	100	March 31, 2020	June 22, 2020
Board of Directors meeting held on October 26, 2020	Common stock	14,796	100	September 30, 2020	November 27, 2020
Total	—	30,188	—	—	—

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

The following proposal on dividends for common stock will be presented for resolution at the Ordinary General Meeting of Shareholders scheduled on June 18, 2021.

Total dividends 14,796 million yen

Dividend per share 100 yen

Record date March 31, 2021

Effective date June 21, 2021

Dividends are to be paid out of retained earnings.

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

Common stock 83,500 shares

- (4) Matters concerning treasury stock

Class of shares	At the beginning of the fiscal year under review	Increase	Decrease	At the end of the fiscal year under review
Common stock	4,839,755	6,022,026	9,069,100	1,792,681

(Outline of reasons for change)

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

Increase due to acquisition of treasury stock based on resolution at the Board of Directors meeting held on January 27, 2020 6,021,600 shares

Decrease due to disposal of treasury stock based on resolution at the Board of Directors meeting held on June 19, 2020 34,200 shares

Decrease due to the cancellation of treasury stock based on resolution at the Board of Directors meeting held on February 24, 2021 9,000,000 shares

6. Notes to financial instruments

1. Matters relating to the status of financial instruments

(1) Capital risk management

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

(2) Financial risk management

Risk management policies

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

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

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

(3) Financial risks

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

(a) Market risks

(i) Foreign exchange risk

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

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

(ii) Price risk

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

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

(iii) Interest rate risk

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

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

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

(b) Credit risk

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

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

If, as a result, the credit standing of a customer is judged as changed or abnormal, or if no payment is performed by a customer on or before the payment due date contractually agreed upon, we will check the situation of the customer and take appropriate preventive measures, such as change of payment terms and factoring. Those measures are subject to approval of the respective responsible persons in charge.

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

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

(c) Liquidity risk

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

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

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

2. Matters relating to the fair values of financial instruments

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

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

[Other financial assets and other financial liabilities]

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

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

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

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

7. Notes on information per share

Equity attributable to owners of the parent company per share	4,838.07 yen
Basic earnings per share	472.71 yen

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

Notes to the Non-Consolidated Financial Statements

1. Notes regarding significant accounting policies

(1) Valuation basis and method for securities

Other securities:

Securities with available fair value:

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

Securities with no available fair value:

Stated at cost based on the moving average method

Stocks issued by subsidiaries and affiliates:

Stated at cost based on the moving average method

(2) Valuation basis and method for derivatives

Stated at fair value

(3) Valuation basis and method for inventories

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

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

(4) Depreciation method of major depreciable assets

Property, plant and equipment (excluding lease assets):

Straight-line method

Intangible assets (excluding lease assets):

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

Lease assets:

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

(5) Accounting criteria for allowances and provisions

Allowance for doubtful accounts

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

Allowance for investment loss

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

Provision for directors' bonuses

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

Provision for retirement benefits

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

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

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

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

2. Notes to changes to the presentation method

Changes following the application of the Accounting Standard for Disclosure of Accounting Estimates

The Group has adopted the Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31; March 31, 2020) from the fiscal year under review. Under this Standard, we included “3. Notes on accounting estimates” in the notes to the non-consolidated financial statements.

3. Notes on accounting estimates

The figures for the following items are posted on non-consolidated financial statements for the fiscal year under review using accounting estimates and may have a material impact on non-consolidated financial statements for the next fiscal year. For information that would be useful to the understanding of accounting estimates, matters that are identical to the contents of the notes to the consolidated financial statements are omitted.

(1) Evaluation of collectability of property, plant and equipment, and intangible assets

<1> Amount posted on non-consolidated financial statements for the fiscal year under review: property, plant and equipment 159,655 million yen; intangible assets 10,614 million yen

<2> Information that would be useful to the understanding of accounting estimates

Please refer to “(2) Extraordinary loss” in “5. Notes to the non-consolidated statements of income.”

(2) Evaluation of collectability of deferred tax assets

Amount posted on non-consolidated financial statements for the fiscal year under review: deferred tax assets 21,377 million yen

(3) Calculation of provision for retirement benefits

<1> Amount posted on non-consolidated financial statements for the fiscal year under review: prepaid pension cost 7,572 million yen; provision for retirement benefits 35,234 million yen

<2> Information that would be useful to the understanding of accounting estimates

Please refer to “Provision for retirement benefits” in “(5) Accounting criteria for allowances and provisions” of “1. Notes regarding significant accounting policies.”

4. Notes to the non-consolidated balance sheets

- | | |
|---|---------------------|
| (1) Accumulated depreciation of property, plant and equipment | 445,801 million yen |
| (2) Short-term receivables from affiliates | 88,892 million yen |
| Short-term payables to affiliates | 86,861 million yen |

5. Notes to the non-consolidated statements of income

(1) Transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates	371,292 million yen
Purchases from subsidiaries and affiliates	35,744 million yen
Transactions other than business deals with subsidiaries and affiliates	19,737 million yen

(2) Extraordinary loss

Extraordinary loss includes impairment losses of 4,284 million yen.

A rough breakdown of impairment losses is as follows:

Impairment losses are reported for property, plant and equipment, and intangible assets of a specific cash-generating unit of the transportation business that belongs to the Industrial Tape segment. This is due to a forecast that the carrying amounts might not be recoverable, as it has become unlikely that the Group will achieve the projected earnings in Japan. Recoverable amount is measured by value in use based on discounted cash flow method adopting the discount rate of 7.9%.

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

Matters concerning treasury stock

Class of shares	At the beginning of the fiscal year under review	Increase	Decrease	At the end of the fiscal year under review
Common stock	4,839,755	6,022,026	9,069,100	1,792,681

(Outline of reasons for change)

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

Increase due to acquisition of treasury stock based on resolution at the Board of Directors meeting held on January 27, 2020	6,021,600 shares
Decrease due to disposal of treasury stock based on resolution at the Board of Directors meeting held on June 19, 2020	34,200 shares
Decrease due to the cancellation of treasury stock based on resolution at the Board of Directors meeting held on February 24, 2021	9,000,000 shares

7. Notes on deferred tax accounting

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

8. Notes on information per share

Net assets per share	3,066.03 yen
Net income per share	349.01 yen

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