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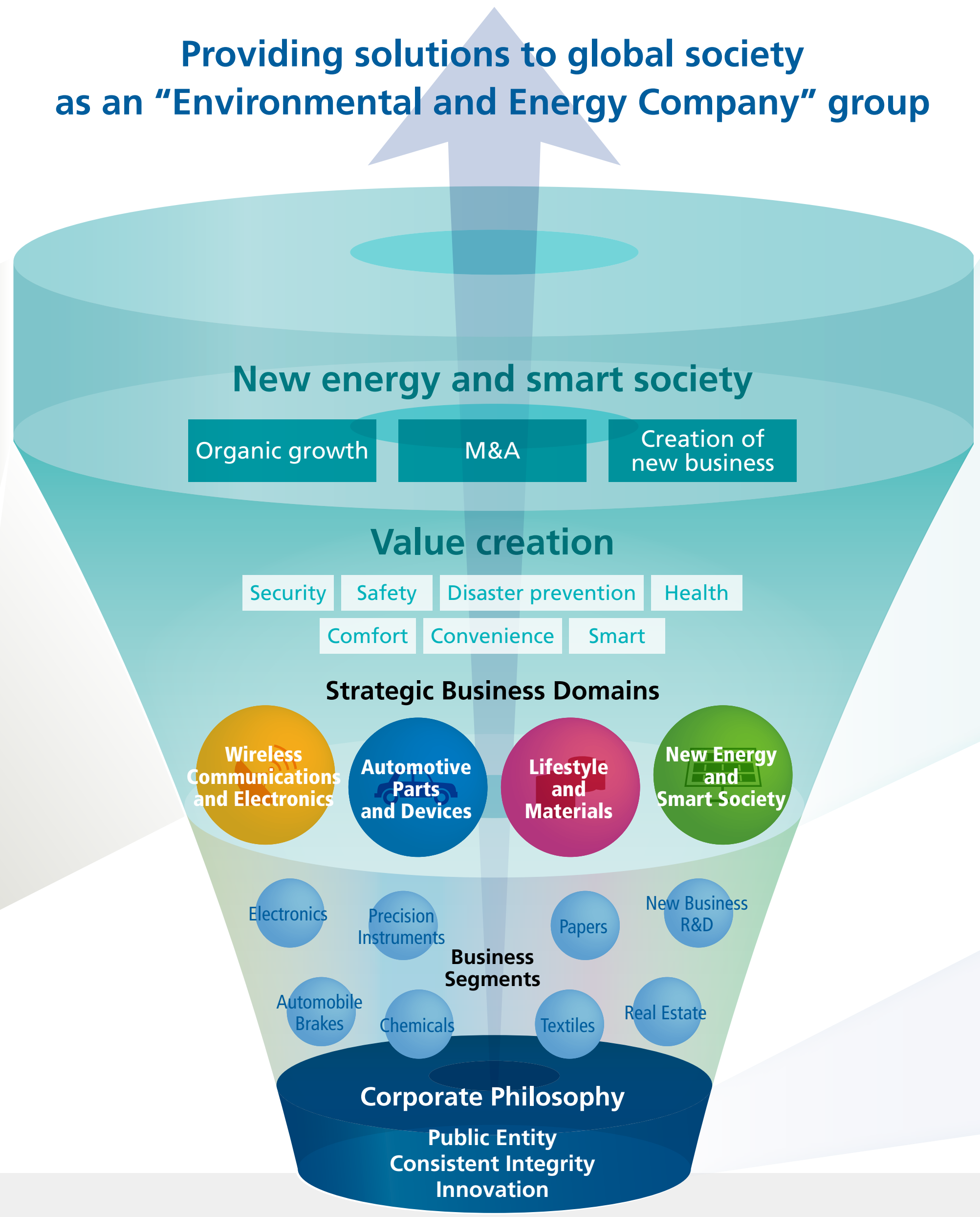
# A Bright Future Ahead

Annual Report **2016**
Fiscal Year Ended March 2016

*As an "Environmental and Energy Company" group working to create a sustainable society, Nisshinbo Holdings Inc. is targeting net sales of ¥1 trillion and ROE of more than 12% in the fiscal year ending March 2026, under its long-term strategic plan.*

*Our management policy for the fiscal year ending March 2017 is unchanged. We will continue to "Drive Productivity and Performance, Inspire Creativity and Innovation." We will step up cash flow management and implement initiatives to achieve those objectives. We have identified four strategic business fields: wireless communications and electronics, automotive parts and devices, lifestyle and materials, and new energy and smart society. Focusing on those fields, the Nisshinbo Group will draw on the strengths of its diversity to generate further growth as an "Environmental and Energy Company" group.*

**Providing solutions to global society as an "Environmental and Energy Company" group**




## FUTURE DEVELOPMENT

**Long-term Strategic Plan for the fiscal year ending March 2026**

Net Sales ¥1 trillion

ROE in excess of 12%

## GLOBAL DEVELOPMENT

24 countries (region)

144 companies

## PURSUING INNOVATION IN FOUR AREAS

### Wireless Communications and Electronics

Leveraging information and communications technology and microelectronics, the Nisshinbo Group is contributing to the building of a safer and securer society and the realization of a comfortable living environment in the field of wireless communication equipment.

**Related Business:**
Electronics

### Automotive Parts and Devices

The Nisshinbo Group supplies various automotive products, including brake friction materials, precision parts and electronic components. As a global supplier, we are striving to make major technological themes a reality, such as improvements in the safety, comfort, reliability and environmental friendliness of automobiles.

**Related Businesses:**
Electronics / Automobile Brakes / Precision Instruments / Chemicals

### Lifestyle and Materials

Through our textile, paper product and chemical product businesses, the Nisshinbo Group endeavors to develop products that can both add color to our lives and contribute to environmental preservation.

**Related Businesses:**
Textiles / Papers / Chemicals

### New Energy and Smart Society

The Nisshinbo Group is contributing to the development of clean energy through the supply of products such as bipolar plates for fuel cells. We are also doing our part to create a smart society.

**Related Businesses:**
Electronics / Precision Instruments / Chemicals

## CORPORATE VISION

**Nisshinbo Group Corporate Philosophy**

**Business Conduct Guidelines of the Nisshinbo Group**

| | | |
|---|---|---|
| Compliance | Environment | Human Rights |
| Workplace | Product Safety | Procurement |

Nisshinbo Group CSR Procurement Basic Policy

Corporate Governance Policy

## Editing Policy

In addition to the usual financial data and information about business strategies, Nisshinbo's Annual Report 2016 includes an in-depth section about the Group's environmental, social and governance (ESG) activities to provide readers with a more detailed picture of the Group's business activities. This information highlights how the Nisshinbo Group is striving to increase corporate value in areas such as personnel training and consideration for the environment, complementing efforts to increase value through earnings growth.

Effective from the fiscal year ending March 2016, the Group has changed the order in which it presents segment information.

## Contents

# Nisshinbo Group: A History of Creating Value

## 1907

Nisshin Cotton Spinning Co., Ltd. (present Nisshinbo Holdings Inc.) was founded by 76 sponsors, including prominent figures in financial circles, for the mass production of high-grade cotton thread. The introduction of state-of-the-art spinning machinery on a scale paralleling the largest companies in the industry signified that the new company intended to compete head-on with high-quality cotton thread from overseas.

## 1940s-1960s

Amid the current of postwar reconstruction followed by high economic growth, the Company expanded into non-textile segments, such as automobile brakes, papers and chemicals. In 1960, non-textile segments accounted for more than 10% of total sales. The Company positioned the expansion and development of new businesses in non-textile segments and the nurturing of related businesses as its basic policy and accelerated business diversification in a full-fledged manner.

## 1960s–1980s

Riding the wave of motorization in Japan, the Company rapidly expanded the automobile brakes business, and in 1988 sales of the automobile brakes business accounted for more than 10% of total sales. The Company actively invested in other non-textile segments as well, such as the precision instruments business and chemicals business.

## 1990s

The value of the yen continued to appreciate after the Plaza Accord in 1985, causing a shift in the textile industry from exports to imports. Furthermore, this overlapped with a slump in demand for clothing due to the recession, which forced the Company to restructure its operations.

Active efforts to promote further business diversification and develop new businesses overseas reinvigorated our textile and non-textile segments. In the fiscal year ended March 1991, the share of non-textile segments in total sales exceeded 50% for the first time.

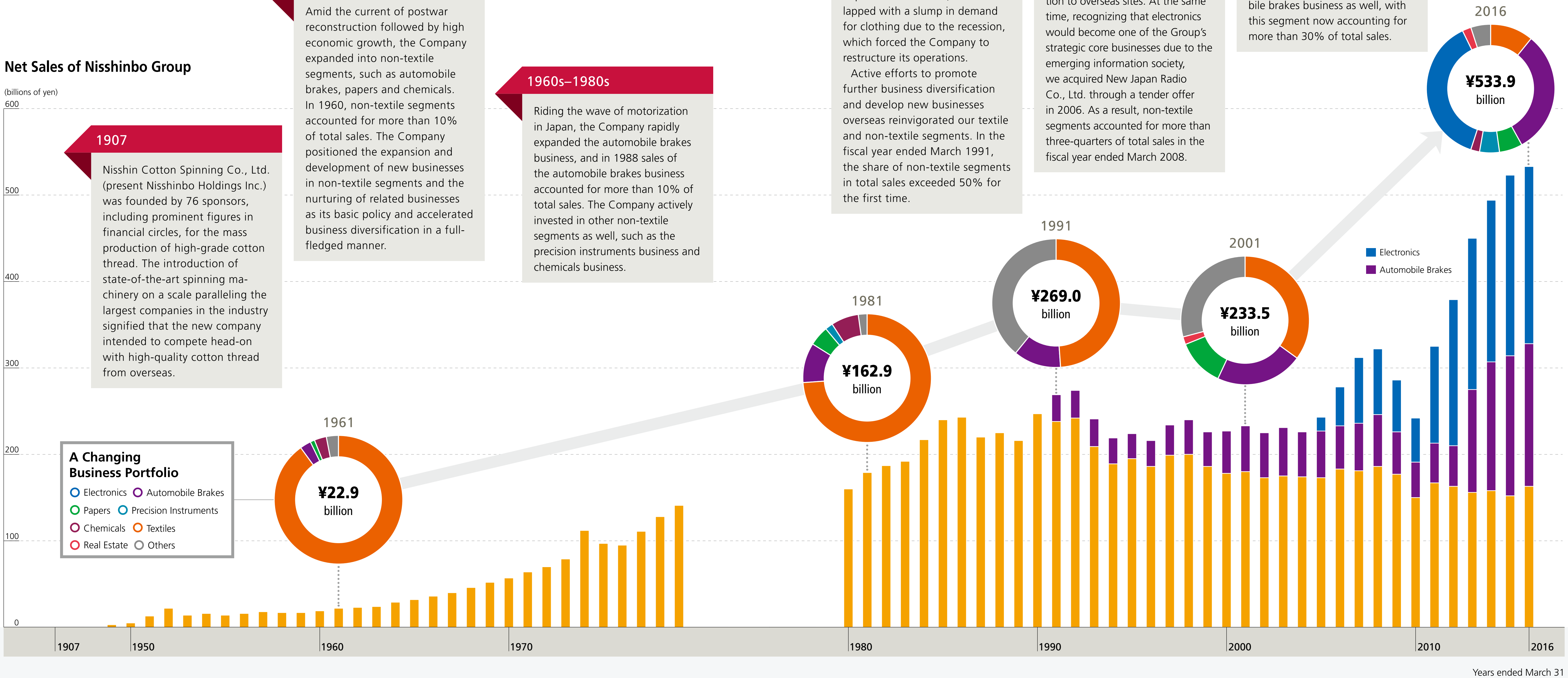
## 2000s

This was the start of a new era when every industry conducted business from a global perspective while keeping an eye on changes in society and the living environment. With the aim of enhancing corporate value, the Company also accelerated the transfer of production to overseas sites. At the same time, recognizing that electronics would become one of the Group's strategic core businesses due to the emerging information society, we acquired New Japan Radio Co., Ltd. through a tender offer in 2006. As a result, non-textile segments accounted for more than three-quarters of total sales in the fiscal year ended March 2008.

## 2010-present

After the acquisition of Japan Radio Co., Ltd. and Nagano Japan Radio Co., Ltd., the electronics business accounted for around 40% of total sales. Electronics had truly become a core business of the Group. And following the acquisition of European firm TMD Friction Group S.A. through an M&A deal in 2011, we became into a top-class global supplier of friction materials in the automobile brakes business as well, with this segment now accounting for more than 30% of total sales.

## Net Sales of Nisshinbo Group



# Highlights

| For the years ended March 31 | 2012 | 2013 | 2014 | 2015 | (millions of yen) 2016 | (thousands of US dollars) 2016 |
|---|---|---|---|---|---|---|
| **Operating Results** | | | | | | |
| Net Sales | ¥379,340 | ¥450,693 | ¥494,350 | ¥523,758 | **¥533,989** | **$4,643,383** |
| Electronics | 169,907 | 175,308 | 187,743 | 209,116 | **205,368** | **1,785,809** |
| Automobile Brakes | 47,450 | 118,849 | 148,699 | 161,887 | **165,037** | **1,435,104** |
| Precision Instruments | 25,191 | 24,520 | 28,655 | 28,608 | **29,525** | **256,739** |
| Chemicals | 8,258 | 8,150 | 8,810 | 8,138 | **8,285** | **72,044** |
| Textiles | 60,964 | 50,773 | 51,349 | 48,166 | **57,504** | **500,035** |
| Papers | 30,220 | 30,524 | 31,686 | 31,280 | **32,585** | **283,348** |
| Real Estate | 9,082 | 15,367 | 10,567 | 9,246 | **8,358** | **72,678** |
| Other Businesses | 28,268 | 27,202 | 26,841 | 27,317 | **27,327** | **237,626** |
| Operating Income | 4,170 | 13,394 | 13,175 | 13,744 | **12,617** | **109,713** |
| Net Income Attributable to Nisshinbo Holdings Inc. | 9,416 | 6,418 | 9,012 | 13,694 | **10,776** | **93,704** |
| **Financial Position** | | | | | | |
| Total Assets | ¥534,584 | ¥551,933 | ¥611,311 | ¥678,486 | **¥651,793** | **$5,667,765** |
| Equity | 213,751 | 242,623 | 276,865 | 306,938 | **284,472** | **2,473,670** |
| **Cash Flows** | | | | | | |
| Net Cash Provided by Operating Activities | ¥12,974 | ¥34,095 | ¥26,075 | ¥37,120 | **¥39,566** | **$344,052** |
| Net Cash Used in Investing Activities | (57,861) | (10,973) | (19,862) | (21,271) | **(22,793)** | **(198,200)** |
| Net Cash Provided by (Used in) Financing Activities | 16,835 | (24,073) | (2,321) | (6,238) | **(9,044)** | **(78,643)** |
| | | | | | (yen) | (dollars) |
| **Per Share** | | | | | | |
| Net Income Attributable to Nisshinbo Holdings Inc. | ¥53.83 | ¥36.74 | ¥51.60 | ¥80.33 | **¥67.93** | **$0.59** |
| Shareholders' Equity | 1,063.19 | 1,198.67 | 1,369.78 | 1,634.07 | **1,472.26** | **12.80** |
| Cash Dividends | 15.00 | 15.00 | 15.00 | 15.00 | **30.00** | **0.26** |
| | | | | | (%) | |
| **Key Ratios** | | | | | | |
| Return on Assets (ROA) | 1.9 | 1.2 | 1.5 | 2.1 | **1.6** | |
| Return on Equity (ROE) | 5.1 | 3.2 | 4.0 | 5.5 | **4.4** | |
| **ESG Indicators** | | | | | | |
| Number of Employees | 22,304 | 22,083 | 22,052 | 21,387 | **23,055** | |
| Number of Patents Approved | 1,986 | 2,293 | 2,448 | 2,410 | **2,441** | |
| Greenhouse Gas Emissions per Unit of Sales (t-$CO_2$/million yen) | 1.66 | 1.62 | 1.48 | 1.43 | **1.37** | |

Note: 1. The U.S. dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥115 = US$1.
2. In the fiscal year ended March 2016, the elastomer business was transferred from the chemicals business segment to the textiles business segment. Figures for the previous fiscal year have been adjusted to reflect this change.



# To Our Shareholders

## A Bright Future Ahead

The Nisshinbo Group has set a number of medium- and long-term goals: net sales of ¥600 billion and ROE of 9% in the fiscal year ending March 2018 and net sales of ¥1 trillion and ROE of 12% in the fiscal year ending March 2026. In the fiscal year ended March 2016, we rolled out a number of initiatives to realize those goals. We also worked to ensure our Corporate Philosophy takes root in operations worldwide and stepped up efforts to drive growth by taking bold steps in strategic fields such as automotive parts and devices.

## Financial Results for the Fiscal Year Ended March 2016

In the fiscal year ended March 2016, net sales increased 2.0% year on year to ¥533,989 million, operating income dropped 8.2% to ¥12,617 million and net income attributable to Nisshinbo Holdings Inc. declined 21.3% to ¥10,776 million. The main factor driving sales was the consolidation of new subsidiary TOKYO SHIRTS CO., LTD., while the main drag on profits was weakness in the solutions field and the communications equipment field in the electronics business segment.

We are focusing on four strategic business fields to drive growth: wireless communications and electronics, automotive parts and devices, lifestyle and materials, and new energy and smart society. We are actively overhauling our businesses and forming tie-ups with partners in all four fields.

Another key area for us is corporate governance. As our operations become more global, we are working to create an organization that is more transparent and fair and that allows us to make rapid, bold decisions.

## Restructuring the Electronics Business Segment

The Nisshinbo Group's electronics business segment is made up of four companies: Japan Radio Co., Ltd., New Japan Radio Co., Ltd., Nagano Japan Radio Co., Ltd., and Ueda Japan Radio Co., Ltd. Excluding New Japan Radio, which is focused on semiconductor devices, the three remaining companies mainly supply wireless and communications products. We have taken steps to integrate their operations in order to harness business synergies. For example, we transferred Japan Radio's main base of operations from Mitaka in Tokyo to Nagano. The new site is already home to Japan Radio's Advanced Technology Center, which is shared with Nagano Japan Radio. Nagano Japan Radio also expanded its manufacturing site in China, which Japan Radio uses to make its marine equipment.

The reorganization of the electronics business segment was completed in March 2016, when Nagano Japan Radio and Ueda Japan Radio became wholly owned subsidiaries of Japan Radio through a share swap. Wireless communications operations have now been fully integrated under Japan Radio, which will work with semiconductor device maker New Japan Radio to grow the Group's electronic business segment worldwide in fields such as automotive parts and devices, and new energy and smart society.

## Stepping up Initiatives in the Automotive Field

The main highlight of the fiscal year was our acquisition of Nanbu Plastics Co., Ltd.

Automotive parts and devices is one of our strategic fields. We already have the top market share in automobile brakes worldwide and the automotive sector is an increasingly important client industry for our precision parts processing and semiconductor businesses.

Nanbu Plastics has a strong position in connectors for automotive wire harnesses and plastic molded parts for headlamp assemblies. Until our acquisition of the company, the Nisshinbo Group mainly produced plastic parts for air conditioners and other home electronics products. Consequently, there is little overlap between Nisshinbo and Nanbu Plastics in terms of customers and technologies and there is no duplication of production sites. Our aim is to rapidly expand our plastics parts business by integrating Nanbu Plastics' operations into the Group.

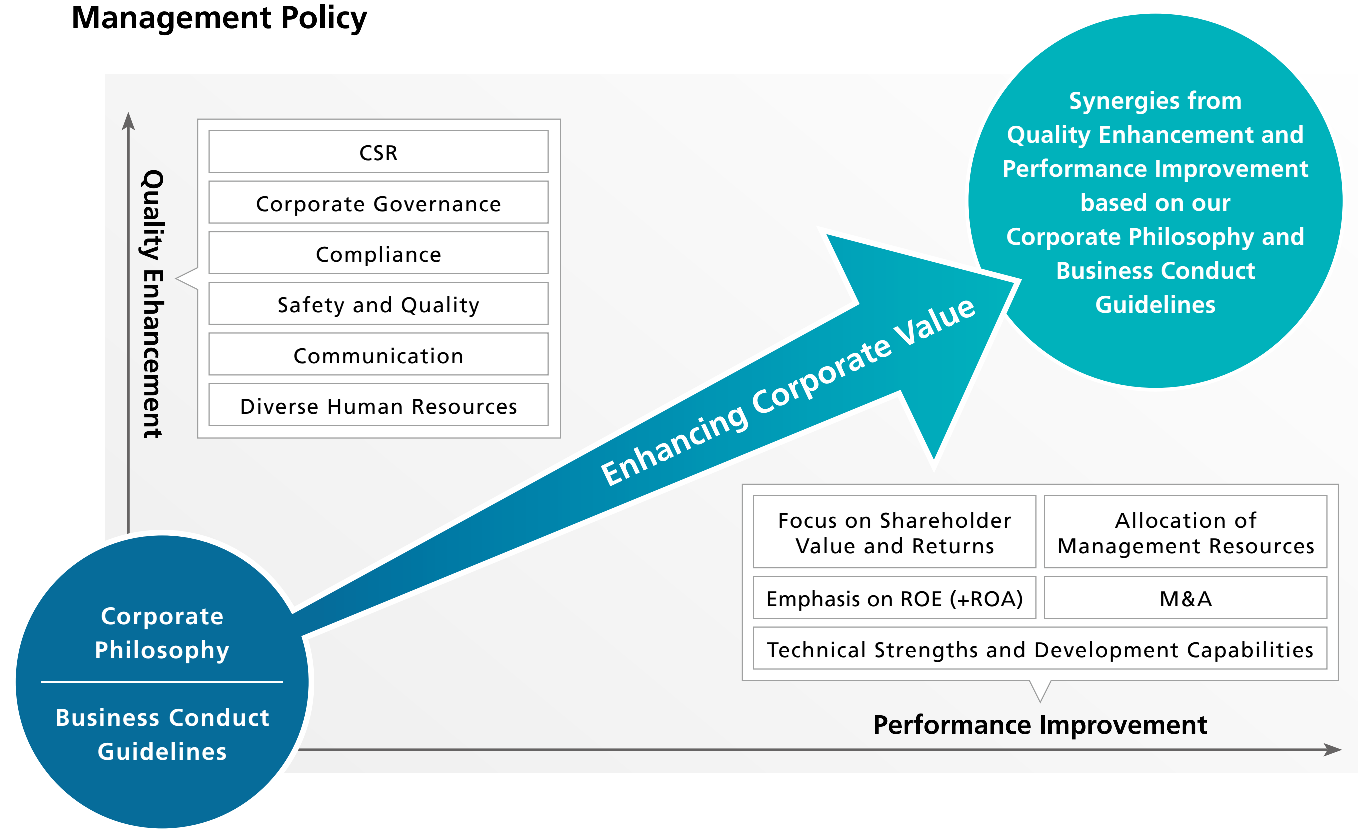
Another important step in the automotive field was our investment in Canadian fuel cell manufacturer Ballard Power Systems Inc. Ballard was the first company in the world to launch fuel cells and is now one of the leaders in the field due to its advanced technologies and expertise. The Nisshinbo Group makes and sells bipolar plates for fuel cells and we are also focusing on the development of carbon alloy catalysts as a potential replacement for expensive platinum catalysts for fuel cells. We see a major opportunity to expand our fuel cell business from 2020 onwards, when the use of fuel cell vehicles is projected to take off. The investment in Ballard builds on our already friendly relationship with the company and we hope the even closer ties will help to boost the performance of our products and speed up development.

## Working towards Targets in Our Long-term Strategic Plan

The Nisshinbo Group has formulated a long-term strategic plan targeting net sales of ¥1 trillion and ROE of 12% in the fiscal year ending March 2026. We plan to boost sales by ¥200 billion by actively targeting M&A opportunities and increase sales by a further ¥200 billion by reinforcing existing businesses and leveraging the results of research and development. The Group is working as a single unit to increase corporate value, guided by our slogan announced last year, "Drive Productivity and Performance, Inspire Creativity and Innovation."

To achieve our ROE target, we will work to improve the return on invested capital. Shareholder returns also remain key. We are targeting stable and consistent dividends based on a consolidated payout ratio target of around 30%. When we have sufficient internal reserves to fund growth strategies, we plan to

### Management Policy



actively return profits to shareholders through share buybacks and other means after taking into account factors such as financial stability. Over time, we plan to dissolve our cross-shareholdings based on rational assessments of their usefulness over the medium- and long-term, in line with our Corporate Governance Policy.

I believe investment and management reforms are vital to realizing our long-term strategic plan. As part of our management reforms, we are improving governance in a number of areas, which I would like to talk about next.

**Promoting our Corporate Philosophy**

We need to fundamentally change the way we do business in order to achieve the targets in our long-term strategic plan. But one thing will remain the same: our Corporate Philosophy. The main principles of the philosophy are Public Entity, Consistent Integrity and Innovation. This philosophy is universal across the Nisshinbo Group, regardless of country or region, and sits at the very heart of who we are as an organization. It is also the basis for our "Made by Nisshinbo" high-quality products and services, and underscores our commitment to generating returns for shareholders.

When I visit our business sites in Japan and overseas, I always stress the importance of our Corporate Philosophy and Business Conduct Guidelines directly to employees. Each organization in the Group also works hard to ensure every single employee understands the principles of the philosophy. These activities will never end, because as long as Nisshinbo continues to grow, we will always welcome new people into the Group. To realize Innovation, one of the principles of our Corporate Philosophy, we have to accelerate efforts to create an innovative corporate culture underpinned by a diverse workforce. Supported by that corporate culture, we will work to deliver global growth while also harnessing our strengths as a Group to improve governance. This will be crucial to increasing corporate value.

**Corporate Governance**

We have formulated a new Corporate Governance Policy to make our business more transparent and fair and support rapid, bold decision-making. We will strengthen proactive corporate governance to support our growth strategies, while also carefully weighing up risks, in order to generate sustained growth and increase corporate value.

After securing approval at the General Shareholders' Meeting in June, we have reduced the number of directors from 13 (four outside directors) to 10, with no change in the number of outside directors. This increase in the proportion of outside appointments will improve decision-making. Since introducing a managing officer system in 2006, we have worked to clarify business oversight and executive functions and build a dynamic and highly transparent decision-making framework. This latest move to reduce the number of directors is the next key step in that process.

At the same time, effective from the fiscal year ending March 2017, we have voluntarily established a Nomination Committee and a Remuneration Committee. Some of the committee members are outside appointments, which will help to improve management transparency related to decisions on director appointments and pay.

**Diversity**

Using our diverse workforce effectively will be increasingly important as our business becomes more diversified, global and complex. We have to harness the strengths of diversity to generate new ideas and innovations. That is why we established a Diversity Development Department in 2015. Led by this department, we are working to achieve targets for the number of female managers and the number of new female graduates for office positions as part of a broader range of measures to promote the active participation of women in the workplace. Utilizing our overseas employees and senior staff is also an area we want to strengthen, and we are putting in place the necessary structures to support the promotion of diverse human resources and improve compensation packages. We are rolling out these initiatives across the Group in order to build a truly global corporate group where all employees can maximize their value.

## Initiatives for the Fiscal Year Ending March 2017

One of the main issues we have been working on recently is improving profitability in the automobile brakes business, particularly TMD. We aim to reinforce our position as the market share leader and deliver a clear improvement in profitability by continuously fine-tuning TMD's global supply framework and by harnessing the Group's technological capabilities in areas such as new regulations on copper content in friction materials*.

In the electronics business segment, Japan Radio plans to establish a business site in Fujimino, Saitama Prefecture after opening a new site in Nagano in 2014. The Fujimino site, which is scheduled to open in the fiscal year ending March 2017, will conduct basic research and focus on system engineering solutions for local governments in areas such as communication and disaster prevention systems.

Along with this investment in existing businesses, we plan to combine our expertise in wireless technologies and electronic device manufacturing to move into advanced driving assistance systems (ADAS) as part of our long-term growth strategy.

We will also optimize all the Group's operations, from development and production through to distribution and sales. By stepping up our efforts to "Drive Productivity and Performance, Inspire Creativity and Innovation" and accelerating efforts to improve cash flow management, we aim to expand our business while staying focused on profit margins and capital efficiency.

Exciting new technologies are emerging, such as the internet of things (IoT) and artificial intelligence (AI).

We will face this era head on, seeking to harness advances in technology to create businesses that support the super smart society of the future, where anybody will be able to access high-quality services anywhere in the world and lead active and comfortable lives. By combining a broad range of technologies and skills, we aim to continue contributing to society as an "Environmental and Energy Company" group.

I hope we can count on your continued support as we work towards those goals.

* US environmental regulations, effective from 2021, prohibit the sale of new friction materials or vehicles fitted with friction materials that have a copper content of more than 5%. From 2025, the limit on copper content will be reduced to less than 0.5%.

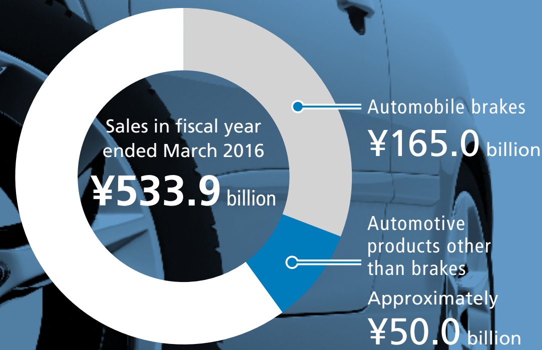
June 2016

Masaya Kawata
President

Feature

# Targeting Sustained Growth in the Automotive Field

The Nisshinbo Group's automobile brakes business has captured the leading share worldwide for friction materials used in automobile brakes. Targeting further growth in the automotive field, we are expanding our automotive-related operations and building a global network, including in the precision instruments and electronics business segments.




## Existing Products

### Precision parts processing: Key components for electronic brake systems

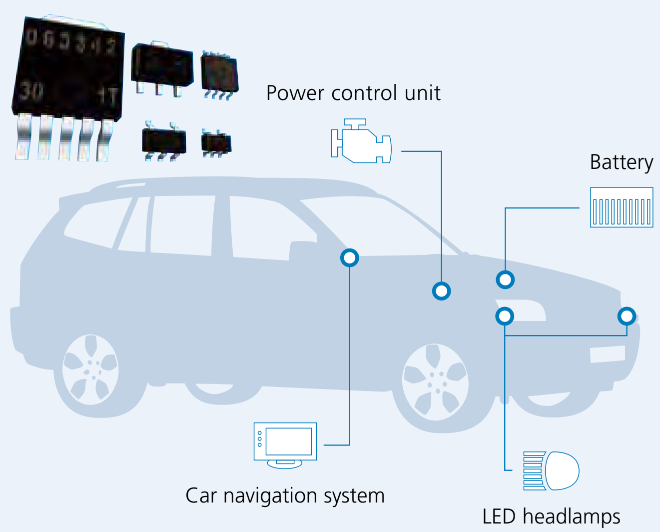
Nisshinbo Mechatronics Inc. provides reliable supplies of important automotive components, such as precision processed parts used in electronic brake systems (EBS), which control brakes to improve vehicle safety. One of the key EBS parts we supply is valve blocks, which ensure braking force is optimally distributed to the wheels of the vehicle. We have steadily built up a track record of supplying these components to automotive component companies worldwide. By supplying these parts for EBS, which automakers are adopting more widely, Nisshinbo is helping to improve vehicle safety.

EBS valve block

### Supplying automotive ICs

Electronic device maker New Japan Radio Co., Ltd. is focusing on the development of automotive ICs. As electronic control systems used in engine management and other automotive systems become more numerous and advanced, these systems require a growing number of ICs, which also have to be more compact.

New Japan Radio supplies high-quality semiconductor devices that are used in a wide range of automotive products, from car navigation systems and electronic toll system devices to electronic units that control driving, cornering and braking. The company is also poised to launch semiconductor packages that use significantly less space on printed circuit boards. In these and other ways, New Japan Radio is playing a key role in improving vehicle safety by supporting advances in electronic vehicle control.




## New Developments

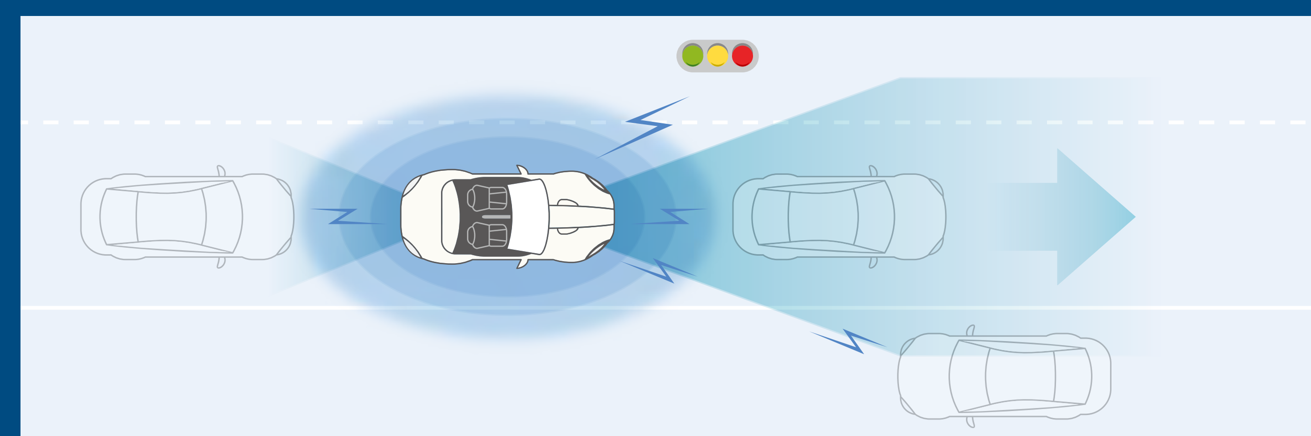
### Plastic parts maker Nanbu Plastics becomes a consolidated subsidiary

Nisshinbo Mechatronics has grown its plastic parts business by focusing on components for home electronics products, such as fans for air conditioners. Leveraging that expertise, the company has also developed products for the automotive field, such as fans for car air conditioners and radiators. Targeting further growth in the automotive field, Nisshinbo acquired plastic automotive parts maker Nanbu Plastics Co., Ltd. in October 2015, making it a consolidated subsidiary. The company mainly supplies connectors for wire harnesses and headlamp covers. By bringing Nanbu Plastics into the Nisshinbo Group, we have strengthened our presence in plastic parts for the automotive industry. We aim to transform plastic parts into another growth driver to complement precision parts processing.

Automotive headlamp parts

### R&D Moving into the ADAS field

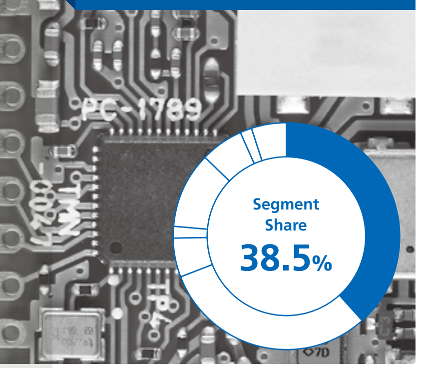
Advanced driving assistance systems (ADAS) are a suite of technologies set to deliver further improvements in automated driving. We see significant potential for rapid growth in the ADAS field. These systems are being developed for a range of areas, such as emergency braking, autonomous cruise control (ACC), lane departure warning systems and automatic parking. The Nisshinbo Group already has the personnel and technologies to support businesses in the ADAS field. Japan Radio Co., Ltd. has a strong position in wireless communication technologies, while New Japan Radio has built up technical expertise in electronic device manufacturing. We plan to combine the strengths of the two companies to support our move into ADAS. Our goal is to help drive the development of ADAS by supplying components such as high-precision radars and sensors.

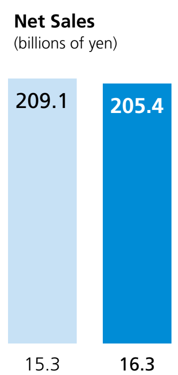


# At a Glance

*The Nisshinbo Group comprises seven businesses: electronics, automobile brakes, precision instruments, chemicals, textiles, papers and real estate. Leveraging the manufacturing technologies and assets of our original spinning business, we have diversified into other business fields, where we supply high value-added products to satisfy a range of customer needs.*

## ELECTRONICS



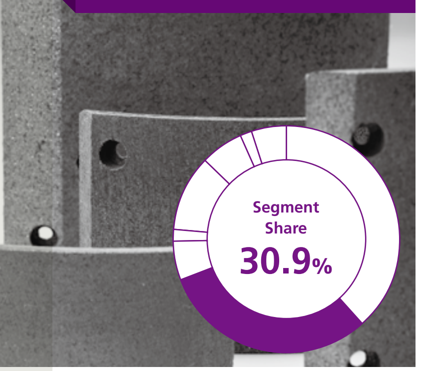



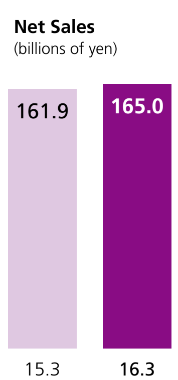

### Main Business Areas

Involved in wireless communications equipment and electronic parts; in wireless communications equipment, supplies solutions such as disaster prevention systems, as well as marine electronics equipment and communications equipment; in electronic parts, aims to grow the electronic devices business with a focus on microelectronics technologies.

- **Solutions and specialized equipment:** Disaster prevention systems
- **Communications equipment:** GPS receivers
- **Marine electronics equipment:** Inmarsat satellite ship earth stations
- **Electronic devices:** Semiconductor devices and SAW filters

## AUTOMOBILE BRAKES



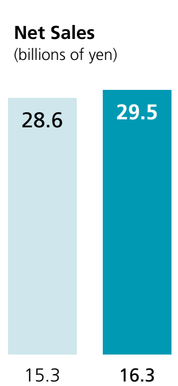




### Main Business Areas

The Nisshinbo Group is the world's leading maker of brake friction materials by market share; acquired TMD Friction Group S.A., Europe's largest manufacturer of brake friction materials, in 2011; now expanding presence as a true global supplier, with manufacturing bases in North America, South Korea, Southeast Asia, China, Europe, South America, and South Africa.

- **Friction materials:** Disc pads and brake linings
- **Assembly products:** Drum brake products

## PRECISION INSTRUMENTS

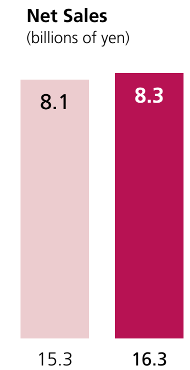




### Main Business Areas

Leverages advanced mechatronics technologies in a wide range of business fields, such as customized machine tools, air conditioner fans and processed precision automotive parts.

- **Precision parts processing including parts for electronic brake systems (EBS)**
- **Plastic molding and processing**
- **Customized production equipment**

## CHEMICALS

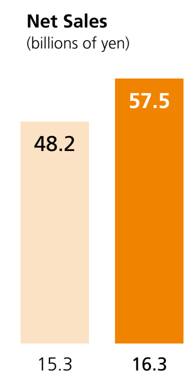




### Main Business Areas

Manufactures a range of highly promising products in the environmental and energy fields, such as Carbodilite, a modifier used in bio-plastic manufacturing, and bipolar plates for fuel cells

- **Carbodilite high-performance chemical additive**
- **Bipolar plates for fuel cells**
- **Rigid urethane foam**
- **Fine carbon products**

## TEXTILES

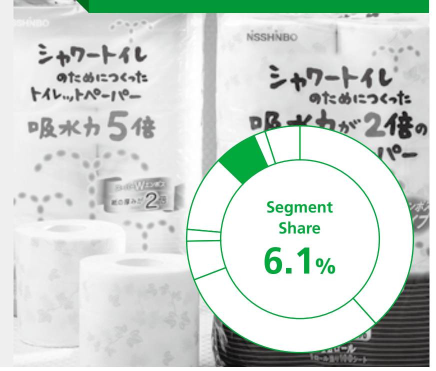



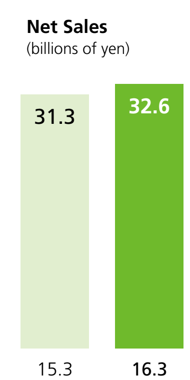

### Main Business Areas

Mainstay business is products made from natural cotton; supplies high-quality "Made by Nisshinbo" dress shirts, denim, uniforms and other products to markets worldwide

- **Shirts:** Dress shirts, casual shirts and fabric
- **Textiles:** Uniform fabric and casual fabric
- **Denim:** Jeans and denim fabric
- **Others**

## PAPERS



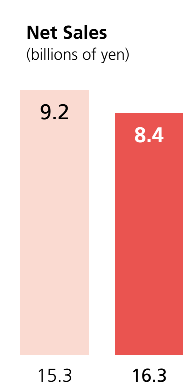




### Main Business Areas

Makes high value-added products for everyday use such as toilet tissue and other household paper products, specialty paper used in pamphlets and other materials and processed paper products such as telegram paper

- **Household paper products:** Toilet tissue, facial tissue (made with virgin and recycled pulp) and kitchen-related products
- **Specialty paper:** Fine paper and synthetic paper
- **Processed paper products:** Telegram-related paper, high-end packaging and other products

## REAL ESTATE


### Main Business Areas

Procures funds to support the Nisshinbo Group's growth strategy by effectively utilizing idle plant sites and other real estate assets arising from business restructuring

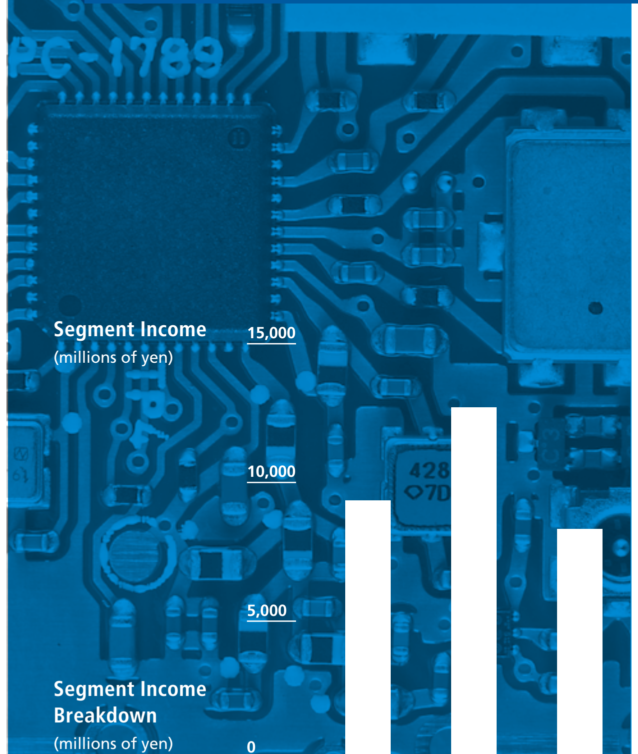
- **Sales:** Housing lots
- **Leasing:** ARIO Nishi Arai and other properties

# Overview of Business Segments

## ELECTRONICS

### Japan Radio Co., Ltd. / New Japan Radio Co., Ltd.

***This segment is Nisshinbo's largest and is centered on leading communications equipment company Japan Radio Co., Ltd. Other major subsidiaries in the segment include New Japan Radio Co., Ltd., Nagano Japan Radio Co., Ltd. and Ueda Japan Radio Co., Ltd., which operate businesses in the electronic equipment, communications, and semiconductor fields. In March 2016, Nagano Japan Radio and Ueda Japan Radio became wholly owned consolidated subsidiaries of Japan Radio.***




| | 14.3 | 15.3 | **16.3** |
|---|---|---|---|
| Japan Radio | 7,281 | 7,713 | **3,183** |
| New Japan Radio | 2,276 | 2,918 | **3,127** |
| Nagano Japan Radio | (1,813) | 217 | **586** |
| Ueda Japan Radio | 437 | 974 | **743** |
| Eliminations | 1,170 | 881 | **679** |
| **Total** | **9,352** | **12,704** | **8,318** |

### Summary of Financial Results for the Fiscal Year Ended March 2016

In the fiscal year ended March 2016, the electronics business reported net sales of ¥205,368 million, down 1.8% year on year, and operating income of ¥8,318 million, down 34.5%.

In the marine equipment field, Japan Radio Co., Ltd. recorded solid sales of equipment for new vessels, merchant shipping and the retrofit market. Sales also rose strongly at Alphatron Marine Beheer B.V., supporting earnings. However, in the communications equipment field, sales of professional mobile radio equipment and PHS terminals declined. Sales also declined in the solutions and specialized equipment field, mainly due to a drop in orders and postponed deliveries for disaster prevention systems and water and river management systems in the public sector.

New Japan Radio Co., Ltd. reported strong results. Sales of MEMS devices*[1] were solid on the back of efforts to attract new customers, and output at a foundry making SAW filters*[2] was steady after investment to boost production capacity.

Nagano Japan Radio Co., Ltd. reported higher sales year on year, supported by firm demand for products such as photocopiers and routers.

In March 2016, Nagano Japan Radio and Ueda Japan Radio Co., Ltd. became wholly owned subsidiaries of Japan Radio. This step was taken to integrate business operations and strengthen corporate governance. Japan Radio will now build an operating structure to enable each company to cooperate more closely on growth strategies and implement those strategies more rapidly, aiming to realize further growth in the automotive sector and other fields.

*1 Micro-electro-mechanical system devices: small devices made using semiconductor fabrication technology

*2 Surface acoustic wave filters: used in smartphones and other communication devices

### Business Strategies for the Fiscal Year Ending March 2017

In the electronics business, we are building a stronger operating framework for Group companies, centered on Japan Radio, in order to maximize synergies. We will also channel management resources into growth fields, such as businesses related to safety, security and environmental protection, and position overseas and private-sector markets as growth areas. Targeting those areas, we will focus on developing new markets and cultivating new businesses.

In the marine equipment field, Japan Radio will work to grow its business further in the retrofit market for large commercial vessels and in the market for small and medium class vessels, two areas where demand is likely to be stable. The company will also reinforce its information services business amid prospects for growth in demand. In the communications equipment field, we will target resources on next-generation transport infrastructure systems, aiming to grow our business in automotive areas such as in-vehicle radar. In the solutions and specialized equipment field, we will focus on securing public-sector orders for water and river management systems and road information systems, while also aiming to increase sales in promising growth areas such as harbor surveillance systems and weather radar systems in emerging markets.

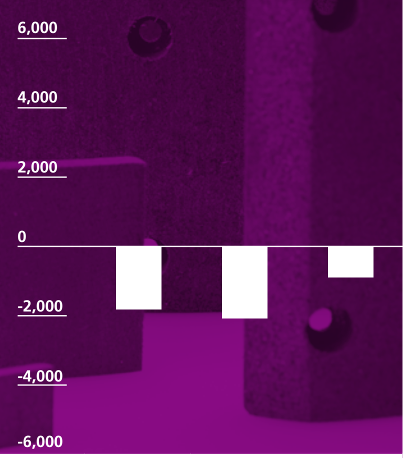
In the fiscal year ending March 2017, we plan to build a new facility in Fujimino, Saitama Prefecture. The facility will be responsible for some projects in the solutions field and for companywide basic research. In the solutions field, the facility will use its prime location near Tokyo to develop proposals and provide support for local governments in areas such as control systems for dams and rivers and wireless systems that relay crucial information from local governments to the public during disasters.

# Overview of Business Segments

## AUTOMOBILE BRAKES

### Nisshinbo Brake Inc. / TMD Friction Group S.A.

***Nisshinbo is a global supplier with world-class development capabilities in the field of friction materials, which are key components in automobile brake systems. The automobile brakes business also includes Luxembourg-based TMD Friction Group S.A., making Nisshinbo one of the world's leading manufacturers of friction materials. As a global leader in the friction materials industry, we are working to address global automaker needs for optimum parts procurement.***




Segment Income Breakdown
(millions of yen)

| | 14.3 | 15.3 | **16.3** |
|---|---|---|---|
| NISB* —Domestic | 1,836 | 1,950 | **1,142** |
| NISB —Overseas | 4,824 | 5,267 | **5,722** |
| TMD | 718 | 1,013 | **1,725** |
| TMD acquisition costs, etc. | (9,192) | (10,298) | **(9,475)** |
| **Total** | **(1,814)** | **(2,069)** | **(887)** |

* Nisshinbo Brake Inc.

#### Summary of Financial Results for the Fiscal Year Ended March 2016

In the fiscal year ended March 2016, the automobile brakes business reported net sales of ¥165,037 million, up 1.9% year on year, and operating income before goodwill amortization of ¥5,689 million, up 17.4% year on year. The automobile brakes business booked goodwill amortization costs related to the acquisition of TMD of ¥6,576 million, resulting in an operating loss of ¥887 million, an improvement of ¥1,181 million from the previous fiscal year.

Sales and profits declined in Japan due to a drop in new car sales after the light vehicle tax was raised in April 2015. Overseas, profits declined in the US due to changes in the product mix, but profits rose in China and Thailand on the back of cost reduction. Profits also increased in South Korea, supported by changes in the product mix and lower raw material costs. Sales rose at TMD amid a recovery in market conditions in Europe. A project to improve productivity at all TMD plants also helped to narrow losses at the company. However, goodwill amortization costs and other expenses related to business acquisitions increased due to the weaker yen.

Progress was made with integrating the operations of TMD and Nisshinbo Brake Inc., but in order to further leverage the combined strengths of companies in the automobile brakes business, we created permanent positions for TMD and Saeron Automotive Corporation employees at Nisshinbo Brake head office. The employees of all three companies worked together to optimize the business portfolio.

#### Business Strategies for the Fiscal Year Ending March 2017

In the fiscal year ending March 2017, we forecast a downward trend in domestic new car sales in Japan. However, overseas, we expect car sales in the US to remain at a high level, spurred by falling gasoline prices and replacement demand due to a rise in the average age of vehicles on the road. In China, growth is likely to lose momentum due to a slowdown in the wider economy, but there is still significant potential demand in the car market. We forecast an ongoing recovery in the European market.

Against this backdrop, the automobile brakes business aims to increase sales by enhancing its ability to provide technical services, develop operations globally and provide solutions for customers. The business will continue to optimize its production activities through the consolidation of plants in Germany and the transfer of production to a new site in Brazil, as well as upgrade facilities at each manufacturing site to create a more efficient and cost-competitive production framework.

TMD has already started volume production of low-steel friction materials in response to new regulations on copper content*1. A number of Japanese automakers will also adopt Nisshinbo Brake's NAO*2 materials from 2017.

*1 US environmental regulations, effective from 2021, prohibit the sale of new friction materials or vehicles fitted with friction materials that have a copper content of more than 5%. From 2025, the limit on copper content will be reduced to less than 0.5%.

*2 Non-Asbestos Organic

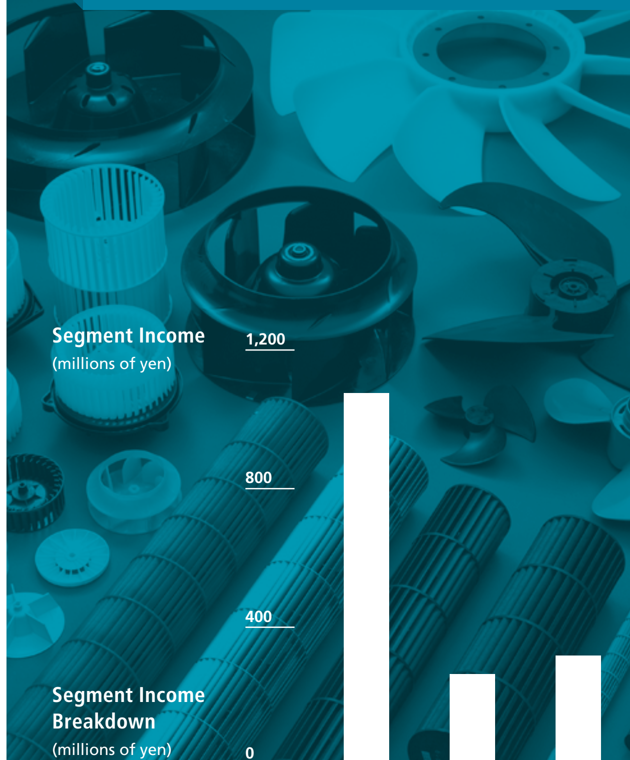
Disc pads

# Overview of Business Segments

## PRECISION INSTRUMENTS

### Nisshinbo Mechatronics Inc.

***Utilizing know-how accumulated over roughly 70 years as a machine tool maker supporting various manufacturing industries, Nisshinbo is focusing on precision parts processing, mainly metal processing for the automotive sector, and plastic molding and processing for the electronics and automotive sectors. We are developing these businesses globally, centered on Asia. This segment also makes customized production equipment, such as manufacturing equipment for photovoltaic modules.***




Segment Income Breakdown
(millions of yen)

| | 14.3 | 15.3 | 16.3 |
|---|---|---|---|
| Mechatronics | 218 | (509) | **(88)** |
| Plastic molding | 949 | 853 | **448** |
| Eliminations | (92) | (81) | **(42)** |
| **Total** | **1,075** | **264** | **318** |

**Summary of Financial Results for the Fiscal Year Ended March 2016**

In the fiscal year ended March 2016, the precision instruments business reported net sales of ¥29,525 million, up 3.2% year on year, and operating income of ¥318 million, up 20.6%.

In precision parts processing, sales and profits both rose year on year, partly reflecting the start of volume production at Nisshinbo-Continental Precision Machining (Yangzhou) Co., Ltd., a joint venture formed with Continental Automotive Holding Co., Ltd. in the previous fiscal year.

In plastic molding and processing, sales rose on the back of forex factors and the consolidation of an affiliated company in India, but profits fell due to deteriorating productivity and the impact of intensifying price competition.

In customized production equipment, the photovoltaic module market remained weak and there was a drop in large orders for various types of customized production equipment, leading to lower sales. However, profitability improved year on year.

In October 2015, the Nisshinbo Group acquired all outstanding shares in Nanbu Plastics Co., Ltd., which has a strong position in plastic parts for automotive applications, making the company a consolidated subsidiary. As a result of this acquisition, the automotive sector now accounts for roughly 40% of sales in the plastic molding and processing business. The year-end balance sheets of Nanbu Plastics Co., Ltd. and its nine subsidiaries have been included in the Company's balance sheet for the fiscal year ended March 2016. However, the earnings impact of the acquisition and related goodwill amortization will be reflected in the consolidated financial statements from the fiscal year ending March 2017.

**Business Strategies for the Fiscal Year Ending March 2017**

We aim to expand the precision instruments business by focusing on the automotive sector.

The Nisshinbo Group now operates joint ventures in Japan and China with German company Continental AG, one of the world's leading Tier 1 auto parts suppliers. Our precision parts, particularly those for electronic brake systems (EBS), have a high reputation at our German business partner. Going forward, we plan to enhance cooperation with Continental AG by adding more production capacity at Chinese joint venture Nisshinbo-Continental Precision Machining (Yangzhou) Co., Ltd. and by expanding our lineup of precision parts.

In plastic molding and processing, our business has been focused on fans for air conditioners, but the acquisition of Nanbu Plastics Co., Ltd. has given us a broader lineup of plastic parts for headlamps, connectors and other products for the automotive sector. We see significant scope for synergies with Nanbu Plastics Co., Ltd., as there is minimal overlap in production sites, customers and technologies. We plan to increase our presence in automotive parts, where demand is projected to expand, and step up global business development.

In customized production equipment, we have formulated a new strategy to focus on high value-added customized production equipment for the automotive sector.

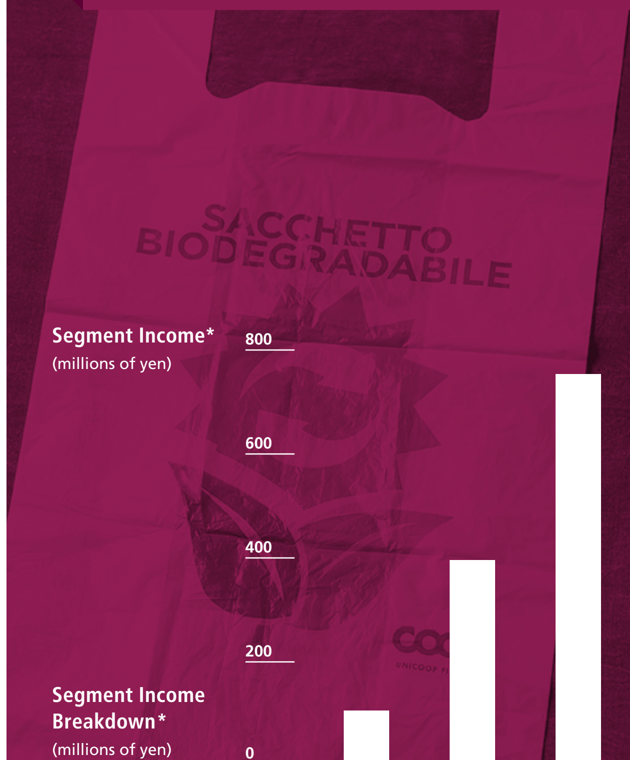
Plastic moldings

# Overview of Business Segments

## CHEMICALS

### Nisshinbo Chemical Inc.

***This segment is pushing ahead with the development of environment-related products on a global basis, drawing on a broad base of expertise and intellectual property in the chemical field. Our environment- and energy-related products include bipolar plates for fuel cells and Carbodilite, which is a high-performance plastic material that increases the durability of bio-plastics. We are investing management resources in these promising growth areas as a matter of priority.***




Segment Income Breakdown*
(millions of yen)

| | 14.3 | 15.3 | 16.3 |
|---|---|---|---|
| Environmental & Energy Business | (120) | 457 | **636** |
| Others | 184 | (102) | **18** |
| Subsidiaries | 40 | 41 | **97** |
| Eliminations | 1 | 0 | **1** |
| **Total** | **106** | **396** | **753** |

* In the fiscal year ended March 2016, the elastomer business was transferred from the chemicals business segment to the textiles business segment. Figures for the previous fiscal year have been adjusted to reflect this change.

#### Summary of Financial Results for the Fiscal Year Ended March 2016

In the fiscal year ended March 2016, the chemicals business reported net sales of ¥8,285 million, up 1.8% year on year, and operating income of ¥753 million, up 89.9% year on year.

In thermal insulation products, we started shipments of refrigeration panels for liquefied natural gas (LNG) carriers in February 2016, and we secured steady orders for insulation materials used in areas related to LNG storage tanks. In bio-carriers for wastewater treatment, we stepped up efforts to win business in Southeast Asia, building on our delivery track record in the Philippines. In the large Chinese market, we are fielding inquiries for a number of large-scale projects, including public-sector wastewater treatment facilities.

Sales of carbon products and fuel cell bipolar plates for residential fuel cell systems and fixed fuel cells declined in Japan, but we secured orders for newly developed fuel cell bipolar plates. In the Carbodilite business, we were just short of our targets for sales and operating income, supported by efforts to cultivate demand from users of existing products. We also received firm orders for a new grade of waterborne cross-linking agent launched in the fiscal year ended March 2016.

Also during the fiscal year ended March 2016, we invested US$5 million in Canadian fuel cell manufacturer Ballard Power Systems Inc. We will work to ensure our fuel cell separators are adopted for future Ballard fuel cells and we plan to cooperate with the company in the development of automotive fuel cells.

#### Business Strategies for the Fiscal Year Ending March 2017

The chemicals business will target new applications for its LNG carrier insulation products, bio-carriers for wastewater treatment and Carbodilite, as well as push ahead with the development of fuel cell-related products.

The market for LNG carrier insulation products is firm, so we plan to upgrade our production framework to increase supplies further, aiming to win business from other shipbuilders and promote the use of our insulation products for other types of marine refrigeration systems.

In bio-carriers for wastewater treatment, we plan to join forces with makers of treatment systems in order to accelerate our move into the Chinese and Southeast Asian markets.

In the Carbodilite business, we see significant potential for the product as a waterborne cross-linking agent and as a powder-type modifier in areas such as paint, ink, polyester and biodegradable plastics. We plan to strengthen Carbodilite development, production and sales and promote the Carbodilite business. We will also look for opportunities to work closely with customers in development and consider potential tie-ups or M&A deals with other companies.

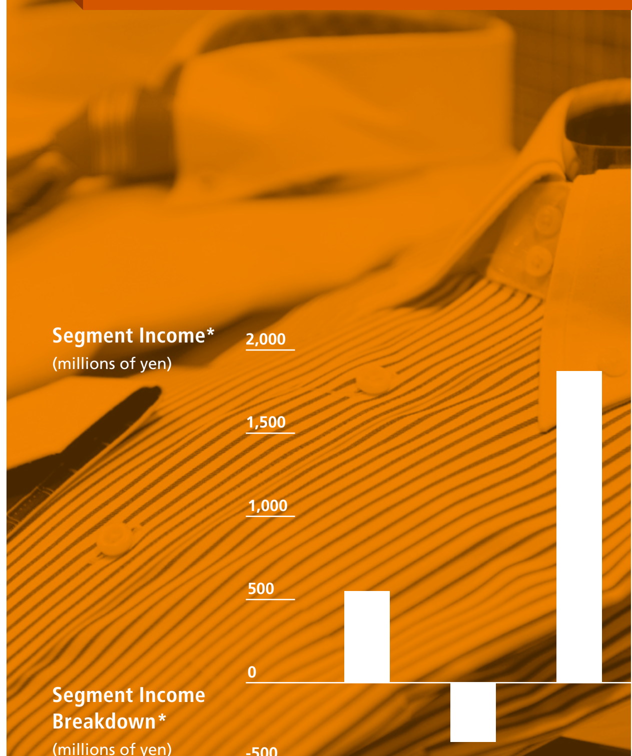
In fuel cell bipolar plates, the market for residential fuel cell systems is spreading from detached homes to shared housing. Taking advantage of this trend, we aim to retain our position as the leading supplier of fuel cell bipolar plates. Also, targeting new applications in the automotive sector, we will strengthen our links with Ballard Power Systems, Japanese automakers and other partners in order to step up research and development. In fuel cells, the Business Development Division at Nisshinbo Holdings is focusing on the development of carbon alloy catalysts as a potential platinum substitute for fuel cells.

# Overview of Business Segments

## TEXTILES

### Nisshinbo Textile Inc.

***Since its founding in 1907, Nisshinbo has led the Japanese textile industry with its state-of-the-art technologies and high quality. Nisshinbo subsequently expanded its business globally in the fields of spinning, weaving, processing and sewing and today possesses some of the world's most advanced technologies in product development and production. Nisshinbo is currently working to increase global sales of the APOLLOCOT brand by mobilizing its sophisticated textile processing technologies.***




**Segment Income Breakdown***
(millions of yen)

| | 14.3 | 15.3 | 16.3 |
|---|---|---|---|
| Domestic | (41) | (968) | **1,766** |
| Overseas | 689 | 606 | **423** |
| Eliminations | (96) | 5 | **(317)** |
| **Total** | **552** | **(357)** | **1,873** |

* In the fiscal year ended March 2016, the elastomer business was transferred from the chemicals business segment to the textiles business segment. Figures for the previous fiscal year have been adjusted to reflect this change.

#### Summary of Financial Results for the Fiscal Year Ended March 2016

In the fiscal year ended March 2016, the textiles business reported net sales of ¥57,504 million, up 19.4% year on year, and operating income of ¥1,873 million, an improvement of ¥2,230 million year on year.

In the domestic market, sales of shirt fabric and uniform fabric were lower than forecast, but sales of spandex fiber, elastomers and non-woven fabric were firm. Solid sales for those products and the consolidation of TOKYO SHIRTS CO., LTD. in May 2015 lifted domestic sales and profits year on year. In product development, we launched a number of new products, including non-iron shirt fabric SPANO, which has better wrinkle-free performance than other chief value cotton (CVC) shirt fabric.

Overseas, our subsidiaries in Indonesia reported weak sales to Japan, Europe and the US, as well as to the local market, and operations in Brazil were affected by the slowdown in the local economy. As a result, overseas sales and profits declined year on year.

#### Business Strategies for the Fiscal Year Ending March 2017

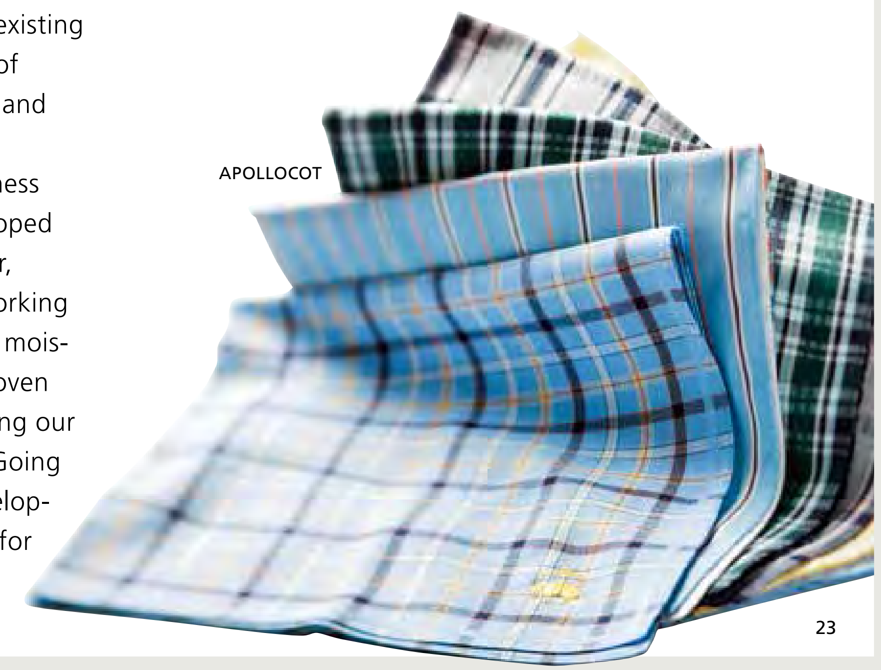
In order to "Drive Productivity and Performance, Inspire Creativity and Innovation," the textiles business is working to achieve three management goals: (1) create overseas markets and generate more demand in the domestic market, (2) build a highly profitable operating structure by continuing to develop and launch new products, and (3) enhance competitiveness through restructuring and the use of diverse human resources.

In product development, we are pushing ahead with the development of next-generation APOLLOCOT fabric, which will be even thinner than existing fabric. We also plan to increase the number of products in our mainstay APOLLOCOT range and expand sales channels.

In addition to our existing mainstay business of shirts and textiles, we will grow our developed material business, which covers spandex fiber, elastomers and non-woven fabric. We are working closely with cosmetics companies to develop moisture retention face masks made from non-woven fabric, and we are creating new products using our spandex fiber thermal adhesive technology. Going forward, we plan to strengthen product development capabilities and expand sales channels for newly developed products.

The acquisition of TOKYO SHIRTS CO., LTD. has transformed our business model, giving us a vertically integrated business with a presence in materials, products and retailing. We plan to reinforce this structure further.

The outlook overseas remains unclear due to a slowdown in China and other emerging markets. Despite this backdrop, we aim to grow sales overseas by increasing shipments of products made overseas to customers in third countries using our global network, including through cooperation with business partners.



# Overview of Business Segments

## PAPERS

### Nisshinbo Paper Products Inc.

***This business supplies high value-added paper products tailored to market needs in various fields, from facial tissue and toilet tissue in the household paper products field, to fine paper and synthetic paper products in the commercial printing and business communication paper field, telegram-related products, luxury packaging and other products in the processed paper products field, and products for the industrial label and printer field.***


PEANUTS®



Segment Income Breakdown
(millions of yen)

| | 14.3 | 15.3 | **16.3** |
|---|---|---|---|
| Household | (118) | 365 | **809** |
| Fine Papers | 159 | 44 | **(28)** |
| Eliminations | 1 | 16 | **(39)** |
| **Total** | **42** | **425** | **742** |

#### Summary of Financial Results for the Fiscal Year Ended March 2016

In the fiscal year ended March 2016, the paper products business reported net sales of ¥32,585 million, up 4.2% year on year, and operating income of ¥742 million, an increase of 74.6%. Sales and profit growth were driven by three main factors: sales recovered from the previous fiscal year, when demand fell back after a spike ahead of the increase in consumption tax, prices were raised to pass on the higher cost of raw materials and imported products due to the weaker yen, and sales of high-margin products increased. Performance in each business category was as follows.

In household paper products, sales and profits rose year on year. The higher cost of pulp and other raw materials caused by the weaker yen was offset by firm sales prices for key products such as toilet tissue for use with bidets and toilet tissue made from recycled paper, and by cost reduction.

Sales and profits also increased in specialty paper. Firm sales of high-margin fine paper and synthetic paper products and spot orders* for colored fine paper cancelled out the higher cost of pulp and other raw materials caused by the weaker yen.

Sales of processed paper products rose on the back of solid demand for mainstay packaging products, but deteriorating margins on products imported from China, due to the weaker yen, led to losses in this category.

In label systems, sales and profits rose year on year, supported by firm sales of printer-related products.

* Nisshinbo paper was used to publish several novels, including one that won the Akutagawa Prize, a Japanese literary award.

#### Business Strategies for the Fiscal Year Ending March 2017

We forecast firm demand for household paper products and paper for packaging applications, but the market is likely to remain challenging amid rapid changes in the operating environment.

Against this backdrop, we will work to grow our business in four categories – household paper products, specialty paper, processed paper products, and label systems – aiming to build a unique presence in the paper sector by using our inherent strengths to satisfy the needs of customers.

In household paper products, we aim to grow our business by strengthening alliances with partners in Japan and overseas, creating a distinctive lineup with products such as toilet tissue for use with bidets, and launching products with higher margins. We will also reinforce the earnings structure by reducing costs and maintaining prices at a sustainable level.

In specialty paper, we aim to secure profits by expanding sales of existing products, such as colored fine paper, and by strengthening our Vent Nouveau high-grade printing paper brand and our KI•HOU•SHI packaging paper brand in the fine paper category. We will also work to win more orders and develop new applications by working more closely with other manufacturers in the synthetic paper category. In addition, we will lay the groundwork to move into new paper categories.

In processed paper products, we will step up efforts to return the business to profit, such as working to win more business from major users in Japan and overseas and overhauling manufacturing sites for telegram-related products. We will also reinforce internal controls and inventory and business systems, including at overseas subsidiaries.

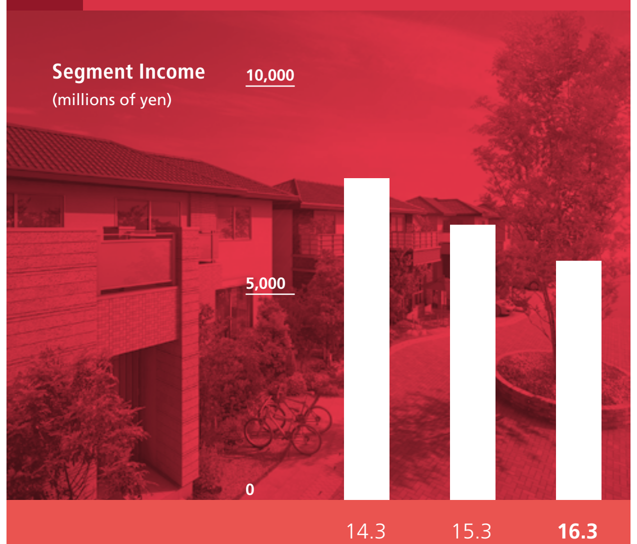
In label systems, we aim to provide proposal, sales and technical services that address user needs. We will also work to enhance our competitiveness in the labeling sector and boost earnings by developing unique products and ensuring a high level of quality assurance.

# Overview of Business Segments

## REAL ESTATE

### Nisshinbo Holdings Inc.

*Nisshinbo's real estate business is active in the redevelopment of business property that has become idle as a result of business changes by Group companies. It is also involved in the leasing of office and commercial facilities and the sale of housing lots. Income from those activities is used as capital to launch new businesses and develop the Group's global operations. Many Group properties and facilities located throughout Japan have high asset values and have been used for a wide range of purposes, including shopping centers and offices.*




Scheduled building lot sales in the fiscal year ending March 2017

| | Total lots | Already sold | Scheduled for sale |
|---|---|---|---|
| Kawagoe (Saitama) | 256 | 165 | 42 |
| Nagoya (Aichi) | 72 | 46 | 26 |
| Okazaki (Aichi) | 4 | 0 | 4 |

**Summary of Financial Results for the Fiscal Year Ended March 2016**

In the fiscal year ended March 2016, the real estate business reported net sales of ¥8,358 million, down 9.6% year on year, and operating income of ¥5,795 million, down 13.1%.

In the property leasing business, demand was firm for land, office and commercial property leasing, but revenues declined year on year due to a change in the usage of some land at the former Kawagoe Plant site (Saitama) from leasing to lots for housing sales.

In the housing lot sales business, sales of lots at former plant sites in Harisaki (Aichi), Kawagoe (Saitama) and Nagoya (Aichi) were in line with forecasts, but revenues declined year on year. The sale of lots at the former Harisaki Plant site was completed in the fiscal year under review.

**Business Strategies for the Fiscal Year Ending March 2017**

The real estate business will continue to fulfill its role as a source of funds to help Nisshinbo attain its management targets by effectively utilizing the real estate assets of the whole Group.

In the property leasing business, we forecast another stable performance in the fiscal year ending March 2017, supported by efforts to attract tenants suited to the specific locations of the Group's properties. These efforts are helping us create a more diverse tenant base.

In the housing lot sales business, we will continue to sell lots at former plant sites in Kawagoe (256 total lots) and in Nagoya (72 total lots). We are also starting sales in Okazaki (4 total lots). Looking further ahead, we plan to offer retail sites and roughly 330 residential lots at the former Miai Plant site, with sales set to begin in around 2020.



# The Nisshinbo Group's Management Framework

## CORPORATE VISION

**The Nisshinbo Group believes strongly that its companies are public entities. While pursuing profit on the basis of fair competition, we consider it our mission to contribute to society at large through our corporate activities. To achieve further growth in global society by utilizing the organizational culture we have cultivated, we have formulated our Corporate Philosophy and Business Conduct Guidelines to reflect the values and standards of behavior that all of our employees throughout the world share and respect.**

**Nisshinbo Group Corporate Philosophy**

**Business Conduct Guidelines of the Nisshinbo Group**

| | | |
|---|---|---|
| Compliance | Environment | Human Rights |
| Workplace | Product Safety | Procurement |

### Nisshinbo Group Corporate Philosophy

Our corporate philosophy expresses the values we share as members of the Nisshinbo Group.

**PUBLIC ENTITY**

**Believing that our companies are public entities, we shall aim to realize a sustainable society*1 by proposing solutions to global environmental problems.**

- We remember at all times and in all our activities that the ultimate goal of our Group is to contribute to society.
- We offer products and services that help solve global environmental issues, with an eye to developing a society where all people can enjoy comfortable lifestyles long into the future.

*1 A sustainable society is a society where environmental preservation and effective resource use are balanced with economic rationality and where, as a result, all people can enjoy comfortable lifestyles long into the future.

**CONSISTENT INTEGRITY**

**Respecting the diverse cultures and customs of the world, as well as biodiversity, we shall conduct fair and sincere business activities with pride as a corporate citizen.**

- We fulfill our social responsibilities as a corporate citizen by acting in good faith and with fairness at all times.
- We respect the diverse cultures and customs of countries and regions throughout the world and uphold the laws and regulations of each.
- We conduct our business activities with full recognition that the global environment depends on the maintenance of a delicate harmony among all living things and that we are part of that diverse harmony.

**INNOVATION**

**Maintaining our spirit of response to change and unceasing challenge, we shall create an affluent future together with our stakeholders*2 .**

- We work toward the creation of an affluent society by constantly creating new and original value.
- We satisfy stakeholder expectations by sensitively anticipating changes in the times and the environment and boldly taking on new challenges.
- We build ties of trust with stakeholders and work together with them in our business activities.

*2 A stakeholder is any person or organization involved in or affected by our corporate activities, including customers, shareholders, employees, business partners, community residents, and governmental organizations.

## INTERVIEW WITH OUTSIDE DIRECTOR

**Shinobu Fujino**
Outside Director
Nisshinbo Holdings Inc.

**For this year's annual report, we interviewed Shinobu Fujino, who has been an outside director since 2015. Ms. Fujino is the Nisshinbo Group's first female director. Her goal is to help create new value for the Group by drawing on her unique insights as a career counselor.*1**

*I have applied exactly the same thinking to my role as outside director, using my first year to learn about the Nisshinbo Group.*

### Q1 You've been in your post for a year now. What are your impressions so far?

When I was appointed, I was initially a bit apprehensive about the challenges that lay ahead, as it was my first role as an outside director. However, my concerns were unfounded. Nisshinbo's outside director system has been operating smoothly for many years and I was accepted quickly by my colleagues, even though I was the first woman to fill the role.

My background is career counseling, so in my work I always start off by finding out about the person sitting opposite me. I have applied exactly the same thinking to my role as outside director, using my first year to learn about the Nisshinbo Group.

### Q2 What are Board of Directors meetings like at Nisshinbo?

Discussions are detailed and exhaustive. Outside directors are actively involved, providing candid advice based on their respective areas of expertise and backgrounds. In many cases, meetings are longer than scheduled, illustrating how the board puts priority on rigorous debate. One feature of discussions is that directors do not compromise on agenda points.

A common view among my acquaintances is that Board of Directors meetings at major companies are formal and lack input, with new members like myself given little opportunity to take part in any dialogue. That's not the case at Nisshinbo. I'm as actively involved in discussions as all the other directors.

Nevertheless, I still need to learn more about the Nisshinbo Group, so drawing on my inherent curiosity, I ask as many direct questions as possible.

Specifically, I want to know what kind of company Nisshinbo aims to be and what it wants to achieve, how it plans to create value, what problems it faces and how it intends to tackle them. Also, I look for the directors to explain complex problems clearly and address areas that I think are contradictory or seem out of place.

### Q3 As a director, what issues do you focus on in particular?

I always put paramount importance on building trust, which comes from my background as a career counselor. Without trust, all dialog is superficial. I try to use that approach myself by entering into every conversation with an open mind.

The Nisshinbo Group holds Management Policy Meetings twice a year. Roughly 80 managers from across Nisshinbo's businesses attend the meetings to discuss management strategy for the whole Group. I use the gathering to deepen communication with Nisshinbo's top business managers, which also leads to more opportunities to visit business sites.

I recently visited Japan Radio's Advanced Technology Center in Nagano Prefecture to see the World Café*2 event, which is designed to promote fresh thinking among young researchers through discussion in small multidisciplinary groups. These groups discuss topics not necessarily related to everyday work and the researchers are encouraged to talk openly about themes such as their vision for society, the kind of value they can provide, and the role of Japan Radio. It was a valuable exercise for me as well, as I took part in the discussions and saw for myself the high level of motivation among Japan Radio employees.

I've visited many other Nisshinbo Group business sites and all of them have been open and welcoming.

*My main role is to always pose questions about Nisshinbo, rather than state my views about the company.*

### Q4 What are the main characteristics of the Nisshinbo Group?

As an outside director, I think my main role is to always pose questions about Nisshinbo, rather than state my views about the company.

The Nisshinbo Group has six main businesses, excluding real estate. All six businesses affect people's lives in some way, meaning that the products and services they supply to society have to be reliable and safe. The fact that Nisshinbo has been doing this successfully for nearly 110 years underscores the strength of the Group.

Another feature of Nisshinbo is decisiveness, even when the business is doing well. Nisshinbo has not shied away from making bold decisions, such as bringing Japan Radio into the Group and incorporating it into our corporate culture, even though it operates in a different sector, or acquiring TMD, a company in the same automotive sector but bigger than our brakes business. Nisshinbo's President, Masaya Kawata, has a mild and calm personality, but he also has a clear vision for the Group and is firmly committed to investing in the Group's future. There have been senior managers of his caliber in the past, which speaks volumes about the underlying strengths of the Nisshinbo Group.

*1 Career counselors provide advice to people in companies, public agencies and educational institutions by accurately identifying their abilities and values to help them choose their best career path and develop as individuals.

*2 World Café is an event designed to promote new ideas and fresh thinking by encouraging topic-based discussion among small, fluid groups of four to five people in a relaxed café setting.

*One of my goals is to encourage the Company to think and do more about investing in intangible assets.*

## Q5 How do you want to contribute to Nisshinbo?

I'm only in my second year at the Company, so I still have a lot more to learn. The Nisshinbo Group is part of the manufacturing sector, and because of that, discussions about management strategy tend to focus on investment in tangible assets. So one of my goals is to encourage the Company to think and do more about investing in intangible assets; in other words, training human resources. To achieve that, we need to give employees the opportunities to grow and develop, and that means creating more businesses.

The Nisshinbo Group is a civilized place to work, but sometimes seems to lack a certain energy. By actively encouraging greater contact between personnel in each of the six businesses, I think we can create a steady stream of new businesses. Companies often say that they contribute to society through their businesses. I believe that developing personnel simply by doing business can also have an immeasurable positive impact on society.

## Q6 How has the Nisshinbo Group changed since the implementation of Japan's Corporate Governance Code last year?

There has been an ongoing improvement in areas such as the provision of documents and other information to directors, but the biggest change has been in the role of the Board of Directors itself. In the past, there were nine inside directors on Nisshinbo's board and discussions were mainly focused on operational matters. After the approval of new appointments by the General Shareholders' Meeting in June 2016, the board is now made up of six inside directors and four outside directors. This change in composition has moved the focus of board business away from decisions about individual businesses to discussions with a wider perspective, while also strengthening oversight of the Group.

We have also voluntarily established a Remuneration Committee and a Nomination Committee. These and other steps give me the impression that Nisshinbo is working to enhance management transparency and accountability, given its position as a global company.

## Q7 What message do you have for Nisshinbo shareholders?

The Nisshinbo Group began promoting diversity in 2015. Training women to become managers is part of that process. Given Nisshinbo's bold track record of acquiring companies such as Japan Radio and TMD, and the rapid pace of reforms to the Board of Directors, I'm confident we'll be able to create a more diverse company in a short space of time. I believe Nisshinbo is a company that is committed to that kind of continuous reform, helping it adapt to changes in the operating environment. I hope to see more exciting changes like this at the Nisshinbo Group in the near future.



# CORPORATE GOVERNANCE

**Nisshinbo believes it needs to increase corporate value over the medium and long term as an "Environmental and Energy Company" group based on global business management and cash flow management. To achieve this, we are promoting the Group's Corporate Philosophy and improving the quality of corporate governance and other aspects of our organizational culture. In parallel, we are striving to deliver quantitative growth in earnings and shareholder value, focusing on ROE to improve profitability and placing importance on the share price in management decisions.**

**By making rapid and bold decisions based on risk-taking in line with our management principles, we are working to enhance management efficiency while ensuring transparency, improve accountability, act ethically and build a stronger corporate governance structure founded on the core principles of our Corporate Philosophy – Public Entity, Consistent Integrity and Innovation.**

### Corporate Governance Policy

We have formulated the Nisshinbo Corporate Governance Policy, which clearly states our basic thinking on corporate governance and related initiatives. By steadily implementing the principles of the policy and revising and improving its content as needed, we aim to improve the effectiveness of governance and create a framework for rapid and bold decision-making that contributes to sustained growth and increased corporate value over the medium and long term.

### Corporate Governance Structure

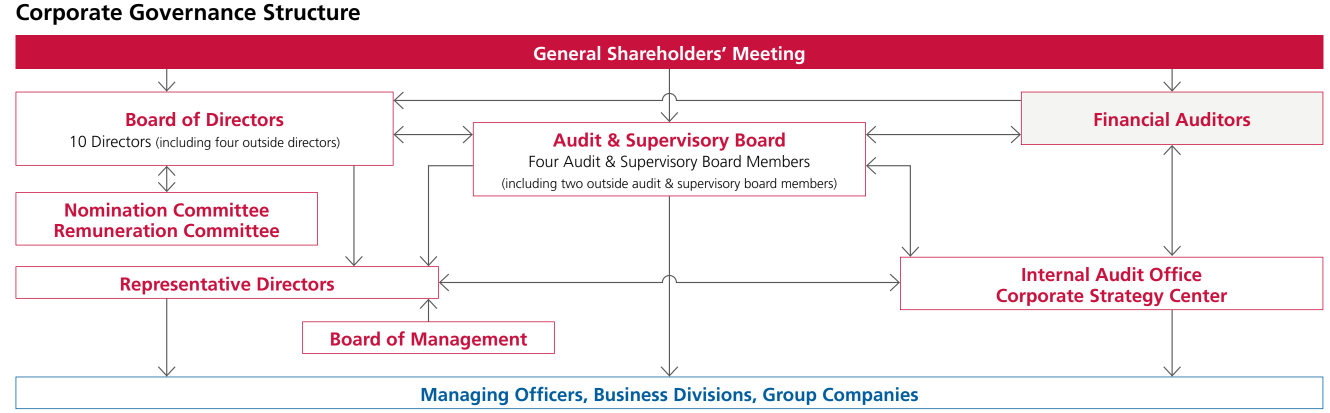
Nisshinbo has separated decision-making and oversight from business execution and adopted a managing officer system to reinforce those functions. By transferring responsibility for business execution to managing officers and strengthening oversight by the Board of Directors, we are improving management efficiency and transparency and creating an effective governance structure that will support the Group's sustained growth and enhance corporate value over the medium and long term.

Nisshinbo has established an Audit & Supervisory Board. The members of the Audit & Supervisory Board monitor the execution of duties by directors in accordance with audit policy and plans determined by the board.

Nisshinbo has appointed several outside directors and outside audit & supervisory members. These outside appointments also sit on the Company's voluntarily established Nomination Committee and Remuneration Committee.

We have adopted this structure as we believe it ensures operations are conducted in an appropriate manner. Under this structure, outside directors draw on their depth of experience and expertise to monitor business management from an objective and independent standpoint, while outside members and internally appointed standing members of the Audit & Supervisory Board work closely with the Internal Audit Office.

**Corporate Governance Structure**




#### Representative Directors

Representative directors are appointed by resolutions of the Board of Directors. As of June 29, 2016, the president and a senior executive managing officer were the Company's two representative directors.

#### Directors

As of June 29, 2016, the Company had 10 directors, including four outside directors. The Board of Directors is responsible for making decisions on important management matters and for monitoring the execution of duties by directors. Directors are appointed for one-year terms in order to clarify management responsibility each fiscal year.

#### Managing Officers

Nisshinbo has adopted a managing officer system to speed up decision-making for business execution and clarify operational responsibilities. As of June 29, 2016, the Company had 16 managing officers, including six with dual roles as directors. Managing officers are also appointed for one-year terms.

# OUR RESPONSE TO JAPAN'S CORPORATE GOVERNANCE CODE

**The Nisshinbo Group adheres to the intent and spirit of Japan's Corporate Governance Code formulated by the Tokyo Stock Exchange and intends to promote concrete measures to address provisions in the code's principles (general principles, principles and supplementary principles). In February 2016, the Group published Nisshinbo's Corporate Governance Policy. In this document, the Group sets out fundamental matters and initiative guidelines on corporate governance.**

General Principle 1

Our Initiatives

## Securing the Rights and Equal Treatment of Shareholders

Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively. In addition, companies should secure effective equal treatment of shareholders.

### Cross-Shareholdings

To the extent deemed necessary from the standpoint of raising corporate value, the Company may hold shares of business partners with the goal of maintaining and strengthening the business or alliance relationship. These cross-shareholdings are regularly verified to determine the necessity of the holdings and the presence or absence of economic rationality, and the advisability of continued ownership is decided at the Board of Directors meeting based on those results.

The exercise of voting rights related to cross-shareholding shall be performed after deciding in each individual case the purpose of the holdings from the standpoint of raising the corporate value of the Company and the relevant business partner.

### Transactions between Related Parties

In the case of transactions between directors and the Company, the Company shall obtain the approval of the Board of Directors in accordance with conflict of interest regulations set forth in the Companies Act and report the results.

### Anti-takeover Measures

The Company has not introduced anti-takeover measures. If someone tries in the future to implement a capital policy that could harm the shareholder interests, the Company will ensure that it explains this to shareholders and implements appropriate procedures after considering the necessity and rationality of such a move.

General Principle 2

Our Initiatives

## Appropriate Cooperation with Stakeholders Other Than Shareholders

Companies should fully recognize that the creation of corporate value is achieved as a result of the provision of resources and contributions made by a range of stakeholders and companies should endeavor to cooperate with them appropriately.

### Business Principles

As values shared by all officers and employees that serve as the basis for corporate governance initiatives, the Company has established the Nisshinbo Group Corporate Philosophy.

### Code of Conduct

The Company established the Business Conduct Guidelines of the Nisshinbo Group to define standards of behavior expected of our executives and employees in six areas: compliance, the environment, human rights, workplace safety, product safety and procurement. Directors and managing officers take the initiative to provide this guidance by themselves and constantly educate employees on compliance with these guidelines and widely disseminate them.

General Principle 3

Our Initiatives

## Ensuring Appropriate Information Disclosure and Transparency

Companies should ensure appropriate disclosure of non-financial information disclosure in accordance with the relevant laws and regulations, in addition to financial information disclosure.
Non-financial information includes business strategies and issues, risk, and governance.

### Business Plans

As an "Environmental and Energy Company" group, Nisshinbo has contributed to human society through business and believes its mission is to grow together with society. To fulfill this mission, we have established the four strategic business domains of "Wireless Communications and Electronics," "Automotive Parts and Devices," "Lifestyle and Materials," and "New Energy and Smart Society" and will work for sustainable growth and to raise corporate value over the medium to long term.

### Appointment of the Senior Management

The Board of Directors, based on the recommendation of the president, nominates candidates for director who can enrich and ensure the diversity of the Board and who possess extensive management and professional experience and high-level expertise. Out of representatives of subsidiaries and those in responsible positions at Nisshinbo, we appoint executive officers from among personnel who are highly ambitious and courageous and excel in management talent and expertise. The appointment and dismissal of executive officers shall be by resolution of the Board of Directors and determined through fair and transparent deliberation in the Board of Directors.

Moreover, the Company shall establish a Nomination Committee that independent outside directors participate in and policies and related procedures pertaining to the nomination and appointment of directors, Audit & Supervisory Board members, and managing officers shall be discussed and reviewed in the Nomination Committee.



General Principle 4

Our Initiatives

## Responsibilities of the Board

In order to promote sustainable corporate growth and the increase of corporate value over the medium- to long-term, the board should appropriately fulfill its roles and responsibilities.

### Stance on Overall Balance, Diversity, and Size of the Board of Directors

To promote the globalization of each Nisshinbo company along the lines of environment and energy, the Board of Directors selects personnel who possess extensive management and professional experience and high-level expertise and who can enrich and ensure the diversity of the board.

The current Board of Directors is composed of 10 directors, of which four are independent outside directors (including one woman). The number of directors is set at 14 or less in the Company's Articles of Incorporation.

### Independence Standards and Concurrent Serving Status of Independent Outside Directors

The Board of Directors, taking into consideration the external requirements set forth in the Companies Act and the independence standards set by securities exchanges, shall obtain the consent of the person in question and appoint them after carefully determining their eligibility as an independent director.

So that outside directors and outside Audit & Supervisory Board members are able to properly fulfill their roles and responsibilities, when nominating a candidate, the Company shall understand the status of officers who concurrently serve in other listed companies or companies and organizations that correspond to such, and verify that it will not interfere in their attendance of the Company's Board of Directors meetings, Audit & Supervisory Board meetings, or their work.

**Remuneration for Directors and Auditors (Fiscal year ended March 2016)**

| Classification | Total remuneration (Millions of yen) | Remuneration breakdown (Millions of yen) | | | | Total number of payees |
|---|---|---|---|---|---|---|
| | | Basic remuneration | Stock options | Bonus | Retirement benefit | |
| Directors (Excluding outside directors) | 227 | 170 | 170 | 43 | — | 9 |
| Audit and supervisory board members (Excluding outside audit and supervisory board members) | 29 | 29 | — | — | — | 3 |
| Outside directors and outside audit and supervisory board members | 49 | 49 | — | — | — | 6 |

Notes: 1. Total maximum compensation
Directors: ¥400 million per year
(Employee salaries of individuals simultaneously appointed as employee and director are not included in payments to directors. Directors are also eligible to receive subscription rights to new shares as stock options, up to a maximum value of ¥40 million per year).
Audit & Supervisory Board members: ¥70 million per year
2. The Company had 13 directors and four Audit & Supervisory Board members as of March 31, 2016.

**Independent Outside Directors at Nisshinbo Holdings Inc.**

| Name | Reasons for appointment |
|---|---|
| Tomofumi Akiyama | Mr. Akiyama is Chairman of Fukoku Mutual Life Insurance Company. Drawing on his experience in business management, he provides oversight of management activities at the Nisshinbo Group. |
| Noboru Matsuda | Mr. Matsuda has worked as a public prosecutor in the Tokyo District Court and in the Supreme Public Prosecutors Office. Drawing on his specialist expertise and experience as a public prosecutor and lawyer, as well as his extensive track record as an outside director for other companies, he provides oversight of management activities at the Nisshinbo Group. |
| Yoshinori Shimizu | Mr. Shimizu has held various posts during his career, including professor at Hitotsubashi University Faculty of Commerce and Management, head of the faculty and Vice Chancellor of the university. He has also served as President of the Japan Society of Monetary Economics. Drawing on this specialist expertise in finance, he provides oversight of management activities at the Nisshinbo Group. |
| Shinobu Fujino | Drawing on her specialist expertise and knowledge from her background as a career counselor, Ms. Fujino provides oversight of management activities at the Nisshinbo Group and contributes to the promotion of diversity management. |

General Principle 5

Our Initiatives

## Dialogue with Shareholders

In order to contribute to growth over the medium- to long-term, companies should engage in constructive dialogue with shareholders.

### Policy for Constructive Dialogue with Shareholders

The IR Director, who oversees policies and measures communication with shareholders and investors, accurately and fairly disseminates information outside the Company and proactively conducts IR activities. The IR Director also strives to enhance the General Shareholders' Meeting, where top management can interact directly with shareholders, and the results briefings and briefings to overseas investors. In addition, the Company plans and conducts individual meetings with domestic and overseas investors throughout the year. If deemed necessary, the IR Director, Finance and Accounting Director, and other directors and managing officers take part in responding to applications for interviews from shareholders and investors.

The status of IR activities including measures and policies about communication with shareholders and investors is routinely reported to the Board of Directors where it is reviewed.

# RISK MANAGEMENT

**In order to fulfill its corporate social responsibility by contributing to society through ongoing business activities, the Nisshinbo Group has established systems to ensure stable operations by mitigating a range of risks that could have a serious impact on the smooth operation of the business.**

## Crisis Management System and Disaster Rapid Response System

Firefighting teams at each Group business site have access to compact water pumps, chemical protection suits, life-saving equipment, chemical fire trucks and other equipment suited to the facilities and location of each site. As part of efforts to improve emergency response capabilities, business sites also conduct regular rapid response drills to increase readiness for early-stage fires, life-saving situations and other potential emergencies such as gas or chemical leaks.

Major business sites also conduct comprehensive disaster drills, which are reviewed by managing officers, to ensure disaster prevention management activities remain at a high state of readiness.

Disaster drill at the Japan Radio Advanced Technology Center

## Initiatives to Ensure Business Continuity

As part of concrete measures to reinforce risk management, we formulated the Nisshinbo Group Risk Management Rules in January 2016. We have also adopted global risk classification standards, which are the basis for identifying risks, introduced a review process for risk mitigation measures and overhauled the way risk reporting is conducted. Since the Great East Japan Earthquake in 2011, we have put priority on addressing risks associated with major earthquakes and other natural disasters. In the fiscal year ended March 2016, we conducted a training drill based on the scenario of widespread damage caused by a Nankai Trough earthquake. The training drill covered the period from immediately after the earthquake until the point when our business continuity plan (BCP) is activated. Our goal is to activate the plan within 72 hours of an earthquake. We used the drill to check the role of the Group Crisis Response Team and provide all related personnel, including senior managers, an opportunity to experience the team's activities in a real-world situation.

Group Crisis Response Team during training drill

## Initiatives to Protect Personal Information

The Nisshinbo Group recognizes that one of its key corporate responsibilities is to ensure important information related to customers, suppliers, employees and other individuals is protected appropriately. In order to fulfill this responsibility, we handle personal information in accordance with an internal privacy policy. In addition, internal audits are conducted based on Company regulations to ensure systems are working properly, and steps are taken to prevent information leaks and realize ongoing improvements.

Also, with the start of Japan's new national identity system in January 2016, we formulated new regulations governing the handling of personally identifiable information and ensured related personnel were familiar with the new rules.

## Initiatives to Ensure Information Security

The Nisshinbo Group is constantly reinforcing information security measures to prevent leaks of personal information about customers and other sensitive information.

Nisshinbo widely uses anti-virus software and installs security update programs to ensure its IT devices and systems are fully protected against attack from computer viruses. We also use an information security management system to monitor access to critical data and prevent unauthorized IT devices from accessing our network.

Group companies are required to follow information security guidelines. To ensure continuous improvement in information security, we conduct regular internal IT audits of domestic subsidiaries to confirm the guidelines are being followed.

In addition, we are migrating the Company's business servers from an internal location to an external data center to ensure business continuity in the event of a major natural disaster.



# COMPLIANCE

**Based on two principles in its Corporate Philosophy – Public Entity and Consistent Integrity – the Nisshinbo Group's mission is to act with fairness and integrity in order to contribute to society through its business activities. We have formulated the Nisshinbo Group Business Conduct Guidelines in order to win trust from the public through fair and honest business activities.**

## Corporate Ethics Committee

Nisshinbo has established a Corporate Ethics Committee to handle all compliance matters across the Group. The committee answers directly to the president and is led by a director with a dual role as a managing officer.

The Corporate Ethics Committee is responsible for (1) implementing corporate ethics systems and regulations, (2) deciding the content and methods of corporate ethics training for employees, and (3) formulating and implementing investigations, responses, procedures and remedial measures related to consultations and reports received through the Company's Corporate Ethics Reporting System.

## Corporate Ethics Reporting System

The Nisshinbo Group has established a Corporate Ethics Reporting System to rapidly identify and prevent any reoccurrence of potential or actual legal violations. Group employees and external parties can submit reports to the system. Group employees can use the system to communicate directly with the Corporate Ethics Committee or an outside corporate attorney. Every effort is made to protect those who have used the system from unfair treatment.

If the Corporate Ethics Committee receives a report via the system, it launches an investigation and takes appropriate action where necessary. If the outside corporate attorney receives a report, appropriate action is taken based on close cooperation with the Corporate Ethics Committee. Serious matters are promptly reported to the president. In the case of reports received from individuals who have provided their name and contact details, the Corporate Ethics Committee provides information such as updates on the investigation and a summary of its conclusions. Regular reports are also submitted to the Board of Directors and the Audit & Supervisory Board to ensure any information and concerns reported to the committee are dealt with in an objective manner. In addition, the Corporate Ethics Committee works to prevent any future violations of laws or corporate ethics by providing information to all companies in the Group about its response to the issue based on the results of the investigation.

## Compliance Education

In order to ensure fair and honest business practices, the Nisshinbo Group conducts compliance training for different employee levels and work sites and provides training to employees prior to overseas assignments.

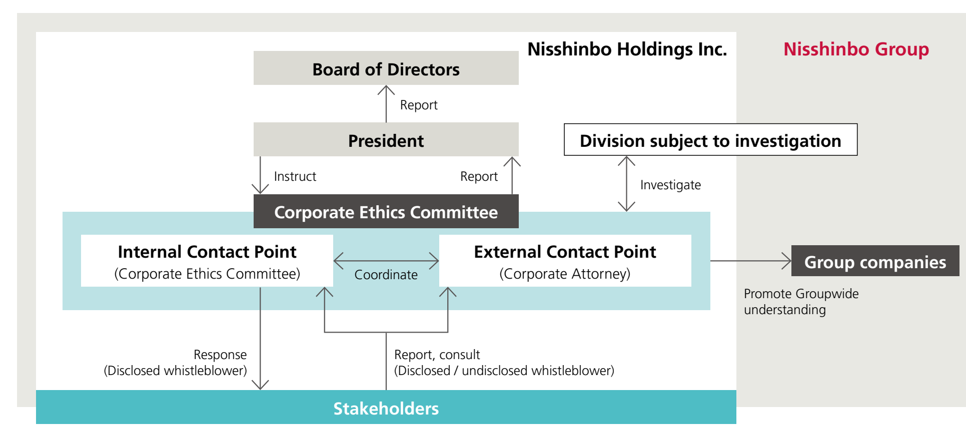
Compliance managers at subsidiaries also receive practical training about antimonopoly legislation and laws to protect subcontractors.

## Initiatives to Prevent Corruption

In recent years, countries worldwide have been reinforcing regulatory systems and stepping up efforts to prevent and expose bribery and corruption. Nisshinbo is working to prevent any such illegal activity, in line with rules in the Nisshinbo Group Business Conduct Guidelines.

Nisshinbo complies with Japan's antimonopoly laws and is now stepping up efforts to address antimonopoly legislation in overseas jurisdictions. In the fiscal year ended March 2015, we published a Corruption Prevention Guidebook specifically addressing overseas antimonopoly law. This guidebook is provided to all Group companies, including subsidiaries overseas.

**Corporate Ethics Reporting System**



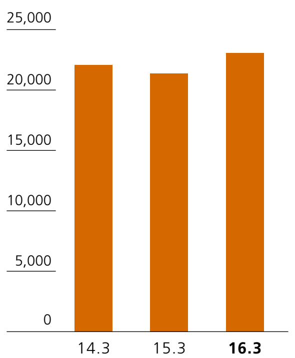
# The Nisshinbo Group's Management Capital

**The Nisshinbo Group aims to create corporate value through positive outcomes from the use of various capital in business processes such as research and development, material procurement, manufacturing and sales activities, rather than simply increasing financial capital through its operations.**

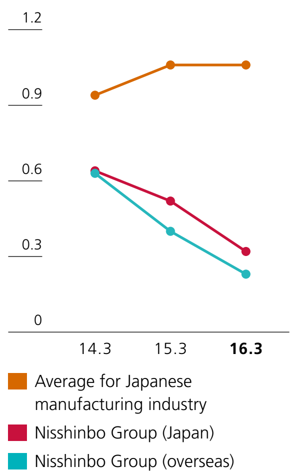
**Underpinning this approach is the Corporate Philosophy of the Nisshinbo Group (see page 27 for more details). Based on this philosophy, the Business Conduct Guidelines of the Nisshinbo Group define standards of behavior expected of its executives and employees in six areas: compliance, the environment, human rights, workplace safety, product safety and procurement. We have also formulated the Basic CSR Procurement Policy of the Nisshinbo Group, which covers seven areas: compliance, fair trade, information security, environmental preservation, human rights, safety and health, and quality and safety. Based on this policy, we work with suppliers to implement concrete CSR initiatives across the entire supply chain.**

## Human Capital

**Number of employees**

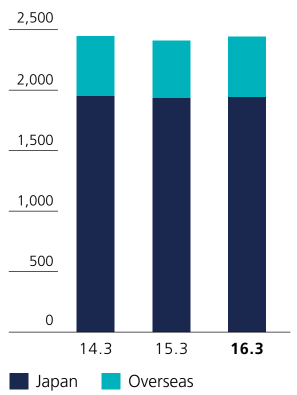



**Frequency of injuries with lost work***



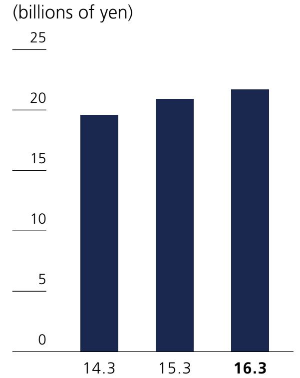

## Intellectual Capital

**Number of patents approved**




**Research and development expenses**

(billions of yen)

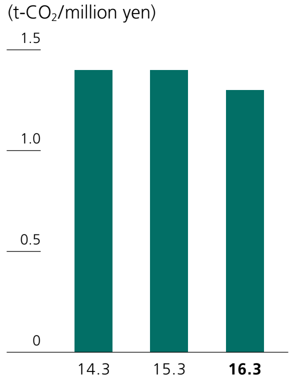



* Frequency of Injuries with lost work = (number of employees injured with lost work ÷ aggregate number of working hours x 1 million)

## Natural Capital

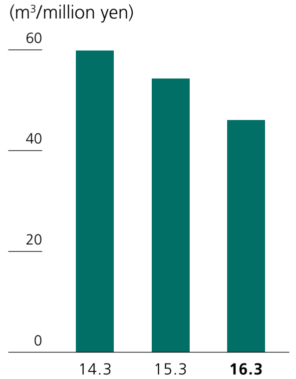
**Greenhouse gas emissions per unit of sales**

(t-$CO_2$/million yen)



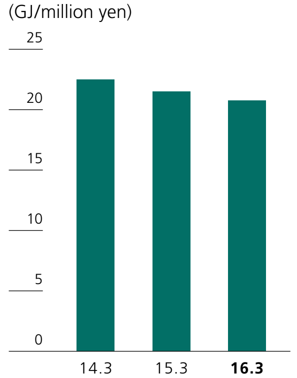

**Water usage per unit of sales**

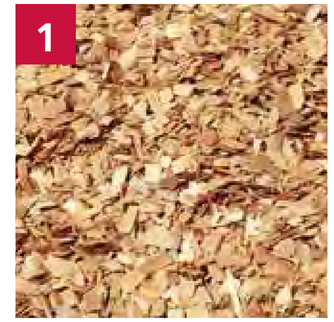
($m^3$/million yen)




**Energy consumption per unit of sales**

(GJ/million yen)




## MATERIAL PROCUREMENT

The Nisshinbo Group is working with suppliers to implement concrete CSR initiatives in order to fulfill its social responsibilities across its supply chain.

In 2015, the automobile brakes business issued the Nisshinbo Brake CSR Procurement Guidelines to 160 suppliers. Also, in May 2015, New Japan Radio Co., Ltd. established guidelines to promote CSR in its supply chain. We intend to work closely with all our suppliers to promote CSR procurement.


## MANUFACTURING

The Nisshinbo Group's production sites are distributed worldwide. All these sites are working to protect the global environment in accordance with the Business Conduct Guidelines of the Nisshinbo Group. In the automobile brakes business, we were one of the first in the industry to begin the development of friction materials with reduced levels of copper, which can cause water pollution. Volume production of these new friction materials has already started.

Workplace safety is also a key theme for the Group, with all our sites worldwide taking steps to reduce the rate of workplace accidents.


## DISTRIBUTION

The Nisshinbo Group is restructuring its logistics systems and improving distribution efficiency. New Japan Radio has launched a new project to overhaul logistics for electronic devices. Logistics flow and warehouse locations have already been improved and the company is now turning its attention to reducing logistics lead times. In the automobile brakes business, we are reducing the volume of packaging materials that cannot be recycled. We are also improving the efficiency of pallet usage to reduce transportation load.


## SALES

The Nisshinbo Group is working to enhance product safety and quality to increase customer satisfaction. As a supplier of marine equipment, Japan Radio Co., Ltd. has to supply products that operate reliably for many years in the harsh marine environment. To ensure product reliability, the company monitors usage and operating conditions in addition to testing product quality in the factory. Using this information, Japan Radio recommends regularly replacing expendable parts before they fail and exchanging equipment as part of a preventative maintenance program. This is just one of the ways Nisshinbo works to ensure safety and give users peace of mind.

# Human Capital and Diversity

*The skills and strengths of individual employees are vital to the sustained prosperity of companies. At the Nisshinbo Group, we strive to create fulfilling workplaces by respecting human rights and allocating human resources to optimal positions.*

## Basic Stance

The Nisshinbo Group emphasizes diversity in various areas, such as human rights and recruitment, while also striving to improve work-life balance for employees. The Group is also working to eliminate workplace accidents through occupational health and safety initiatives.

The Business Conduct Guidelines of the Nisshinbo Group define our standards for human rights and workplace safety. Based on those guidelines, we respect the diversity, character and individuality of all employees and strive to create workplaces that promote the mental and physical health of our workforce.

- **We respect the diversity, character, and individuality of each person and do not discriminate based on birth, nationality, creed, religion, gender, race, ethnicity, age, disability, health history, academic background, or social status.**
- **We engage in nondiscriminatory practices regarding opportunity and treatment in employment, thereby creating a dynamic workplace environment where a diverse range of people can flourish.**
- **We do not engage in harassment, bullying, or any other action that violates human rights.**
- **We do not tolerate forced labor, child labor, or any other inhumane treatment of any form whatsoever.**
- **We comply with regulations and standards in our home country and overseas related to occupational safety and health and place top priority on safety in our business activities.**
- **We implement systematic industrial accident prevention activities throughout the entire Nisshinbo Group, promote the mental and physical health maintenance of each employee, and create a safe and pleasant workplace environment.**
- **We follow established work procedures and always pay meticulous attention to ensure that we do not cause accidents.**
- **When an accident or disaster occurs, we do our best to minimize damage while placing maximum priority on human life, and we endeavor to prevent recurrence.**

An extract from the Business Conduct Guidelines of the Nisshinbo Group

## Training Human Resources

Based on the idea that people are vital to the success of companies, the Nisshinbo Group devotes considerable time and resources to training human resources. Training starts as soon as new graduates enter the Company. Our general training program is separated into streams that will eventually lead to promotion to mid-manager, section head and division head positions. Employees also take courses for specific skills and learn about safety, human rights and the environment. In our specialist training program, they acquire knowledge needed for each business and job function, such as technology, accounting and intellectual property. These units and courses combine to form a systemized training scheme. In the fiscal year ended March 2015, we began running a special program for personnel earmarked to become senior managers. The program is designed to foster the approaches, knowledge and behavior they will need for their senior manager roles in the future.

We also provide financial support for external training courses, online education and additional qualifications to encourage all employees to develop their skill sets further.

Another area we are focusing on is cultivating human resources that can handle the demands of international business. Before employees are sent overseas, we run courses to give them the skills they need in areas such as communication in different cultures, compliance and risk management. We also give employees aged below 35 opportunities to gain experience overseas.

Improving the language capabilities of our personnel is part of this process. Staff that are scheduled to be sent overseas are required to undergo training at language schools, while younger employees receive 2-6 months of language training in the US and China. We provide support through online English learning courses and web-based language skill assessment tools. In the fiscal year ended March 2016, we also launched English courses and business Japanese courses in partnership with Group companies.



## Interview with Managing Officer

*The Nisshinbo Group established a Diversity Development Department in July 2015. Promoting diversity is one of the Group's most important management strategies, as it will play a key role in driving sustained growth and increasing corporate value across our operations worldwide.*
*We spoke to Managing Officer Makoto Sugiyama, Head of the Diversity Development Department, about Nisshinbo's strategy and outlook for diversity.*

### Q1 Why did Nisshinbo set up the Diversity Development Department?

The Nisshinbo Group made a new start in April 2009 when it moved to a holding company structure focused on six core businesses. This step was taken to increase the Group's corporate value. At the time, the Group employed roughly 13,000 people. Since then, our business has grown, and we now employ 23,000 people at business sites around the world. Roughly half our workforce is not Japanese and our operations are more wide-ranging than ever before. To achieve our performance targets and deliver sustained growth while tapping into this diversity, we will have to make full use of our female, overseas and senior employees. By promoting diversity management, we aim to create a globally competitive company that leverages the full potential of our diverse workforce.

**Makoto Sugiyama**

Managing Officer
Diversity Development Department

### Q2 What steps have you taken since the department was established?

To ensure female employees take a more active role in the Company, we have to gain the understanding of their immediate bosses and senior managers, as well as women themselves. First, to get a picture of the situation in the Group, we conducted a survey of women in middle management positions and their line managers to understand how they work and their attitudes to promotion. Using the results of the survey, we held a presentation for executives and then conducted training for managers and female employees.

In April 2014, Keidanren, the Japan Business Federation, unveiled an Action Plan on Women's Active Participation in the Workforce. In line with the goals of this plan, we have established a number of targets that we aim to achieve by 2020: (1) promote women to director positions, (2) triple the number of female managers compared with the present level, and (3) increase the recruitment ratio for new female graduates to 40% for clerical positions and to 20% for technical positions. We have already made progress towards these goals, appointing a woman to the Board of Directors in June 2015. In the 2016 graduate recruitment round, we achieved our target for clerical positions, but fell short of our target for technical positions. We intend to step up our female recruitment initiatives next fiscal year.

### Q3 What challenges do you need to overcome in diversity management and what are your goals?

I am convinced that promoting diversity will have positive outcomes for the Nisshinbo Group. But we have only just started, so a number of challenges need to be overcome. First, we need to change the attitudes of male and female employees to the active promotion of women to management positions. At this stage, it is vital to build support for this policy across the workforce. In the fiscal year ending March 2017, we will run training for younger female employees to show them how the right candidates can access career paths that will eventually take them to management positions.

In Japan, diversity management tends to be focused on encouraging women to take a more active role, but in the Nisshinbo Group, we also focus on overseas employees and senior employees.

The Nisshinbo Group hires local people overseas and also actively recruits people from other countries in Japan. We employ as many nationalities as the number of countries we operate in. Employee exchanges between business sites are also flourishing. We want to see our overseas employees develop and eventually become leaders of our businesses.

Nisshinbo aims to maximize the capabilities of its senior employees by establishing systems and positions that allow them to pass on their wealth of skills and experience. Another goal is to create a working environment that enables people with disabilities to contribute to the Group.

# Intellectual Capital and R&D

*The Nisshinbo Group is focusing on the environment and energy, two areas that are becoming increasingly important to society. In these areas, we are channeling our efforts into developing competitive high-performance, high-quality products and technologies.*

## R&D Framework

The Group has set up research and development divisions at the holding company and its operating companies. Nisshinbo Holdings is responsible for conducting R&D projects not related to existing businesses and projects that span different business fields. The Company also leads efforts to commercialize newly developed technologies and products. The Group's operating companies conduct R&D to increase the added value of products in their respective business fields.

The Group has also set up a specialist division at the holding company to manage intellectual property.

## R&D Themes by Business Segment

**ELECTRONICS**
Development of systems to improve the reliability and usability of electronic equipment for ships, devices for vehicle-vehicle and vehicle-road communication* to realize safer, more intelligent transport systems, weather radar systems for early monitoring of abnormal weather conditions, and electronic devices for automotive and communication applications

**AUTOMOBILE BRAKES**
Development of friction materials with reduced environmental impact to address new rules on copper content and products to reduce the weight of brake assemblies; cost reduction activities such as reinforcing R&D support structures at overseas subsidiaries

**PRECISION INSTRUMENTS**
Development of plastic components for automotive and other applications using forming and molding technologies

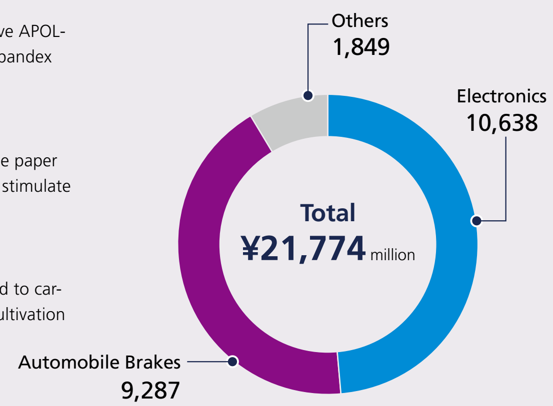
**CHEMICALS**
Development of additives that support the uptake of environmentally friendly products, and high-performance fuel cell bipolar plates that exploit the characteristics of carbon

**TEXTILES**
Development of next-generation thin-weave APOLLOCOT shirts and new products that use spandex fiber thermal adhesive technology

**PAPERS**
Development of new toilet tissue and tissue paper products that stand out in the market and stimulate demand

**COMMON THEMES**
Research and development activities related to carbon alloy catalysts and hydroponic plant cultivation

**Breakdown of R&D costs by business segment**




* Vehicle-vehicle communication: Communication between cars.
Vehicle-road communication: Communication between vehicles and transport infrastructure such as traffic lights and road signs.

### Carbon Bipolar Plates for Fuel Cells

The Nisshinbo Group is currently working on the development of carbon bipolar plates ahead of the expected widespread adoption of fuel cell vehicles (FCVs) from 2020.

Carbon bipolar plates exploit the excellent anticorrosion, conduction and weight characteristics of carbon materials, making it easier to design fuel cells with channels* on both sides of bipolar plates. Using proprietary processing technology, we have succeeded in making the plates thinner but also less prone to cracking. Nisshinbo has a dominant share of the domestic market for bipolar plates used in residential fuel cells.

We are stepping up research and development to strengthen our plates and enhance performance in other areas to take advantage of an expected takeoff in demand for FCVs. Going forward, we aim to maintain and expand our market share in residential fuel cells, grow sales of bipolar plates for fixed fuel cells in overseas markets and promote their adoption for automotive applications.

* Channel structures in bipolar plates that supply hydrogen and oxygen to the fuel stack to generate electricity and take away water emitted from the process.



# Protecting the Environment

*As an "Environmental and Energy Company" group, Nisshinbo is working to protect the environment through its business activities. We have established Groupwide rules to promote environmental management and we are implementing a plan–do–check–act (PDCA) process in our operations, aiming to contribute to the creation of a sustainable society.*

## Reducing Environmental Impact: Results

**Reduced** use of water resources by **15%**

In the fiscal year ended March 2016, the Nisshinbo Group used 24.6 million m³ of water, equating to a reduction of 15% year on year per unit of sales.

**Reduced** volume of freight transport by **4%**

In the fiscal year ended March 2016, the Nisshinbo Group's freight transport volume totaled 74.38 million tons, equating to a reduction of 4% year on year per unit of sales.

**Reduced** emissions of greenhouse gases by **4%**

In the fiscal year ended March 2016, greenhouse gas emissions by the Nisshinbo Group totaled 730,600 tons ($CO_2$), equating to a reduction of 4% year on year per unit of sales.

**Medium-term environmental target: Reduce emissions by 5% by the fiscal year ending March 2019, compared with levels in the fiscal year ended March 2015.**

**Reduced** industrial waste by **7%**

In the fiscal year ended March 2016, the Nisshinbo Group's industrial waste totaled 65,300 tons, equating to a reduction of 7% year on year per unit of sales. The recycling rate was 85.7%.

### Long-term Environmental Targets
(fiscal year ending March 2026)

1. Increase the ratio of products that contribute to a sustainable society to 65% or more of total sales
2. Reduce greenhouse gas emissions per unit of sales by 15% or more compared with fiscal year ended March 2015
3. Improve the recycling ratio to 95% or more

### Improve Product Packaging to Boost Logistics Efficiency


The papers business segment accounts for 55% of the Nisshinbo Group's logistics volume. We aim to boost logistics efficiency in the segment by launching new toilet tissue packaging that is one third smaller than existing packaging without any change in product volume.

# Board of Directors (As of June 29, 2016)

Director,*1
President
Masaya Kawata

Director,*1
Senior Executive Managing Officer
Masahiro Murakami

Director,
Senior Executive Managing Officer
Takayoshi Tsuchida

Director,
Executive Managing Officer
Koji Nishihara

Director,
Executive Managing Officer
Ryo Ogura

Director,
Executive Managing Officer
Takayoshi Okugawa

Director,*2
Tomofumi Akiyama

Director,*2
Noboru Matsuda

Director,*2
Yoshinori Shimizu

Director,*2
Shinobu Fujino

*1 Representative director *2 Outside director

### Audit & Supervisory Board Members
(As of June 29, 2016)

Yoichi Fujiwara
Takumi Ohmoto

Outside Audit & Supervisory Board Members
Yo Kawakami
Toshihiko Tomita

### Managing Officers
(As of June 29, 2016)

President
Masaya Kawata*

Senior Executive Managing Officers
Masahiro Murakami*
Takayoshi Tsuchida*

Executive Managing Officers
Koji Nishihara*
Ryo Ogura*
Takayoshi Okugawa*
Toshihiro Kijima
Kazunori Baba

Managing Officers
Masahiro Kawamura
Akihiro Yoshino
Hajime Sasaki
Kazuhiro Iwata
Akihiro Ishizaka
Makoto Sugiyama
Yasuji Ishii
Toshihiro Masuda

* Concurrent board member



# Financial Section

# Management's Discussion and Analysis

## Highlights

- Sales rose sharply in the textiles business, mainly due to the consolidation of TOKYO SHIRTS CO., LTD.
- All outstanding shares in Nanbu Plastics Co., Ltd. acquired in October 2015.
- Full-year dividend raised to ¥30 per share, up from ¥15 in the previous fiscal year.

## OPERATING RESULTS

**Economic Environment**

During the fiscal year ended March 2016, the employment environment and capital investment improved in Japan, supported by firm corporate earnings. However, exports weakened amid slowing growth in emerging economies, consumer spending was lackluster and the yen strengthened rapidly from early 2016, leading to an increasingly uncertain outlook.

Overseas, the US economy continued to expand led by domestic demand, supported by strong job creation. Europe recovered at a moderate pace amid a pickup in consumer spending. However, the Chinese economy continued to lose momentum, weighed down by weak consumer spending. The slowdown in other emerging economies also gathered pace, partly due to weaker growth in China.

**Results of Operations in the Current Term and Comparison with the Previous Term**

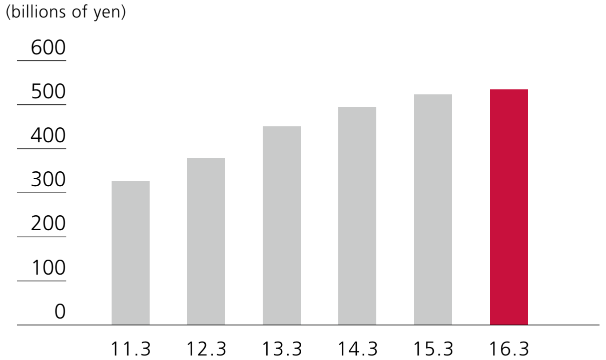
The Nisshinbo Group reported net sales of ¥533,989 million (US$4,643 million), an increase of 2.0% year on year, mainly reflecting strong sales growth in the textiles business due to the consolidation of TOKYO SHIRTS CO., LTD.

Operating income declined 8.2% year on year to ¥12,617 million (US$110 million). Profits rose in the textiles business, but the electronics business reported lower profits year on year due to weakness in the solutions field and the communications equipment field at Japan Radio Co., Ltd. Operating income before goodwill amortization declined 6.0% year on year to ¥19,807 million (US$172 million).

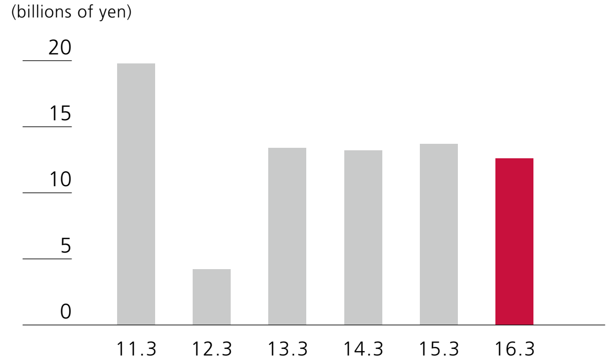
Net income attributable to Nisshinbo Holdings Inc. declined 21.3% year on year to ¥10,776 million (US$94 million), reflecting the drop in operating income and declines in equity in earnings of a nonconsolidated subsidiary and affiliates.

In October 2015, Nisshinbo acquired all outstanding shares in Nanbu Plastics Co., Ltd., which mainly produces plastic parts for automotive wire harnesses and headlamps. The acquisition of Nanbu Plastics, which is now a wholly owned subsidiary, is intended to strengthen the Group's plastic parts manufacturing operations, a key part of the precision instruments business. The financial position of Nanbu Plastics and its nine subsidiaries was reflected in the Group's consolidated balance sheets as of March 31, 2016. Also, after the valuation and allocation of assets and liabilities arising from the business combination, Nisshinbo recorded goodwill of ¥5,895 million, which will be amortized over a period of seven years. Goodwill amortization costs and the earnings of Nanbu Plastics will be reflected in Nisshinbo's consolidated statements of income from the first quarter of the fiscal year ending March 2017.

**Net Sales**
(billions of yen)




**Operating Income**
(billions of yen)




## CURRENT BUSINESS STRATEGIES AND FUTURE PROSPECTS

As an "Environmental and Energy Company" group, the Nisshinbo Group is targeting net sales of ¥600 billion and return on equity (ROE) of 9% in the fiscal year ending March 2018. Nisshinbo is also working towards its Strategic Plan targets of net sales of ¥1 trillion and ROE of at least 12% ten years from now, in the fiscal year ending March 2026.

To achieve those targets, the Group is focusing on four strategic business areas: wireless communications and electronics, automotive parts and devices, lifestyle and materials, and new energy and smart society. Specifically, we are pursuing tireless innovation to reinforce existing businesses, leveraging the results of R&D projects and actively seeking M&A opportunities.

Going forward, we will implement our growth strategy by first channeling management resources into businesses in the automotive field and the super smart society field.

In the fiscal year ending March 2017, we will continue to focus on the slogan "Drive Productivity and Performance, Inspire Creativity and Innovation." We will also accelerate efforts to improve cash flow management in order to achieve our targets. In the electronics business, we will accelerate business integration and complete our program of business restructuring based on the three-way merger between Japan Radio Co., Ltd., Nagano Japan Radio Co., Ltd. and Ueda Japan Radio Co., Ltd. In the automobile brakes business, we plan to further strengthen TMD's earnings structure, and we aim to expand the precision instruments business by integrating the operations of Nanbu Plastics Co., Ltd., which is now a consolidated subsidiary. Our estimates are based on average exchange rates for the fiscal year of ¥120/US$ and ¥130/€.

| | Net Sales (millions of yen) | | Operating Income (Loss) (millions of yen) | |
|---|---|---|---|---|
| Electronics | 205,368 | down 1.8% | 8,318 | down 34.5% |
| Automobile Brakes | 165,037 | up 1.9% | (887) | an improvement of ¥1,181 million |
| Precision Instruments | 29,525 | up 3.2% | 318 | up 20.6% |
| Chemicals | 8,285 | up 1.8% | 753 | up 89.9% |
| Textiles | 57,504 | up 19.4% | 1,873 | an improvement of ¥2,230 million |
| Papers | 32,585 | up 4.2% | 742 | up 74.6% |
| Real Estate | 8,358 | down 9.6% | 5,795 | down 13.1% |
| Other Businesses | 27,327 | up 0.04% | (217) | a deterioration of ¥107 million |

Note: Changes in net sales and operating income (loss) are year-on-year figures; please refer to pages 14 to 26 for details on performance in individual segments.

## DIVIDEND

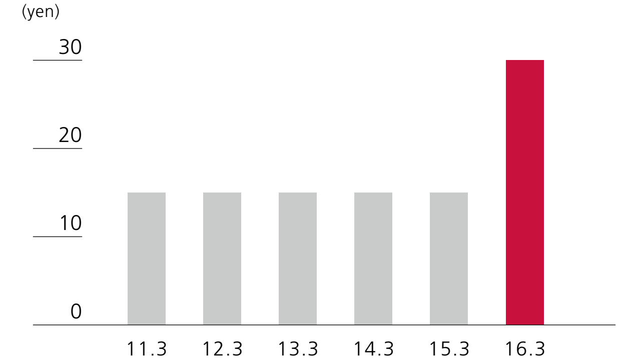
The full-year dividend for the fiscal year ended March 2016 is ¥30 per share, up from ¥15 per share in the previous fiscal year.

By focusing on ROE, Nisshinbo is aiming to deliver sustained increases in shareholder value through the distribution of profits and other means. We also intend to accelerate investment in areas that drive growth, such as R&D, capital expenditure and M&A, aiming to secure even greater support and trust from the public, markets and stakeholders as an "Environmental and Energy Company" group.

In principle, we intend to pay an interim dividend and a year-end dividend, targeting stable and consistent dividends based on a consolidated payout ratio target of around 30%.

Also, when the Group holds sufficient internal reserves to fund growth strategies, we plan to actively return profits to shareholders through share buybacks and other means after considering factors such as financial stability. In principle, Nisshinbo intends to retire treasury stock, but this stock may be used in share swaps as part of M&A deals aimed at significantly increasing shareholder value.

**Cash Dividends**
(yen)



## FINANCIAL POSITION

Total assets at the end of the fiscal year stood at ¥651,793 million (US$5,668 million), a drop of ¥26,693 million from the end of the previous fiscal year. This mainly reflected a decrease of ¥8,775 million in receivables, an increase of ¥6,883 million in property, plant and equipment and a decrease of ¥22,434 million in investment securities.

Total liabilities at the end of the fiscal year were ¥367,321 million (US$3,194 million), a drop of ¥4,227 million from the end of the previous fiscal year. This was mainly due to a decrease of ¥15,883 million in short-term bank loans, an increase of ¥8,921 million in the current portion of long-term debt, an increase of ¥11,193 million in long-term debt, an increase of ¥4,648 million in liabilities for retirement benefits and a decrease of ¥9,697 million in deferred tax liabilities (long-term liabilities).

Equity at the end of the fiscal year totaled ¥284,472 million (US$2,474 million), a decline of ¥22,466 million from the end of the previous fiscal year. This primarily reflected an increase of ¥7,034 million in retained earnings, a decrease of ¥14,779 million in net unrealized gain on available-for-sale securities, a decrease of ¥10,787 million in foreign currency translation adjustments and a decrease of ¥4,089 million in post-retirement liability adjustments. As a result of the above, the shareholders' equity ratio declined 2.3 percentage points year on year to 35.9%.

## CASH FLOWS

**Cash Flows from Operating Activities**

Cash flows provided by operating activities totaled ¥39,566 million (US$344 million), mainly reflecting cash provided of ¥22,180 million from income before income taxes, ¥22,571 million from depreciation and amortization, and ¥13,531 million from receivables, against cash used of ¥6,297 million for payables and ¥7,797 million for income taxes–paid.

**Cash Flows from Investing Activities**

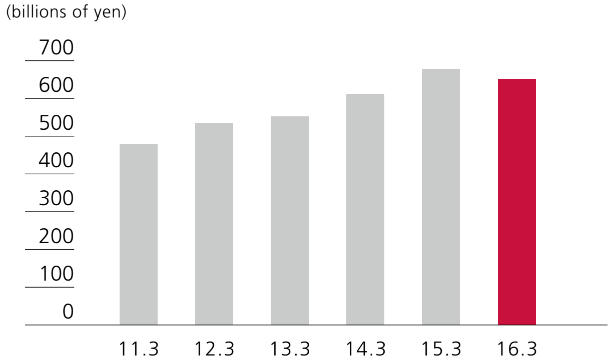
Cash flows used in investing activities totaled ¥22,793 million (US$198 million), primarily reflecting cash provided of ¥4,658 million from decrease in time deposits and ¥8,775 million from sale of investment securities, against cash used of ¥24,727 million for purchase of property, plant and equipment, and ¥10,188 million for purchase of newly consolidated subsidiaries.

**Cash Flows from Financing Activities**

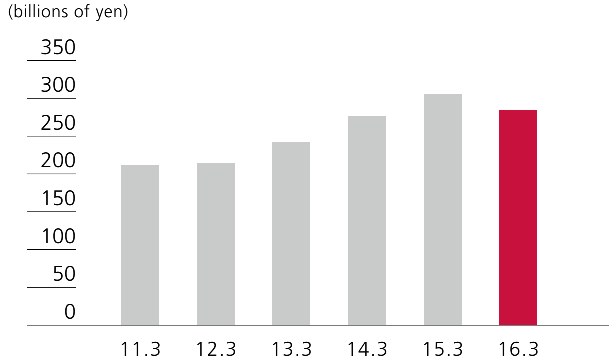
Cash flows used in financing activities totaled ¥9,044 million (US$79 million), mainly reflecting cash provided of ¥27,214 million from proceeds from issuance of long-term debt, against cash used of ¥20,485 million for repayment of short-term debt, ¥10,304 million for repayment of long-term debt, and ¥3,568 million for cash dividends paid.

As a result of the above, cash and cash equivalents at the end of the fiscal year totaled ¥42,272 million (US$368 million), an increase of ¥5,566 million from the end of the previous fiscal year.

**Total Assets**
(billions of yen)




**Equity**
(billions of yen)






## PRODUCTION RESULTS

Production results in each segment for the fiscal year under review were as follows:

| Industry Segment | Amount (millions of yen) | Year-on-Year Change (%) |
|---|---|---|
| Electronics | 217,776 | -0.6 |
| Automobile Brakes | 132,210 | +0.7 |
| Precision Instruments | 28,310 | -1.7 |
| Chemicals | 5,787 | -12.3 |
| Textiles | 38,354 | -9.7 |
| Papers | 28,367 | -1.4 |
| Other Businesses | 552 | +1.9 |
| Total | 451,359 | -1.4 |

Notes: 1. Amounts are calculated based on manufacturing costs.
2. The real estate business does not engage in manufacturing, and therefore the above table does not include any amounts from this segment.

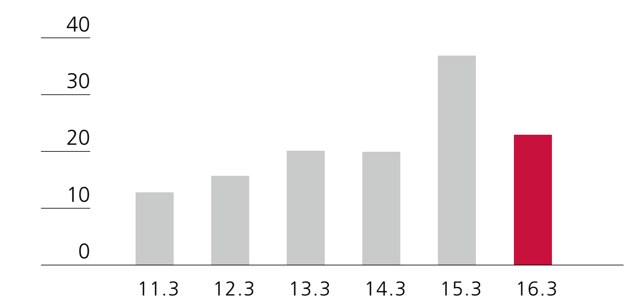
## CAPITAL EXPENDITURES

The Nisshinbo Group channels capital expenditures into priority product fields that offer the potential for long-term growth and into upgrading manufacturing equipment to raise product quality. It also invests in environmental measures such as the reduction of greenhouse gases and in manufacturing facilities in China and Southeast Asia in response to rising demand driven by market expansion.

As a result, in the fiscal year ended March 2016, capital expenditures totaled ¥22,862 million. In the electronics business, Japan Radio Co., Ltd. invested ¥5,650 million, mainly in a new Advanced Technology Center and for the transfer of key manufacturing facilities, while New Japan Radio Co., Ltd. invested ¥3,449 million, primarily in new semiconductor manufacturing and research facilities.

In the automobile brakes business, the Group invested ¥4,987 million to increase friction material production capacity at TMD consolidated subsidiary TMD Friction GmbH.

**Capital Expenditures**
(billions of yen)




## RISK INFORMATION

Forward-looking statements in this report are based on information available to the Nisshinbo Group as of March 31, 2016.

**Risks Associated with New Businesses**

The Nisshinbo Group is actively developing new businesses such as carbon catalysts in order to expand sales and profits. However, uncertainties are inherent in new businesses and the development of appealing new products and the formation of new markets may not proceed as anticipated. This could delay or prevent the recovery of prior investments.

**Risk of Fluctuation in the Value of Investment Securities**

Investment securities held by Nisshinbo are marked to market in accordance with accounting standards for financial products, and the Company implements impairment accounting based on even stricter internal standards for a portion of these securities. Based on current accounting standards and standards for asset impairment, there is a limited possibility that impairment losses will have an impact on net income, as the acquisition cost of the investment securities was low. However, comprehensive income may fluctuate significantly owing to changes in market value. Also, the Company plans to limit increases in interest-bearing liabilities by selling investment securities to procure capital needed for mergers and acquisitions, overseas business development, and capital investment, but misalignment of the timing between sale and investment may give rise to unforeseen circumstances.

### Risks Associated with Product Quality

The majority of the Nisshinbo Group manufactures products in accordance with international quality control standards, but there is no guarantee that quality-related problems will not occur in the future. The Company has product liability insurance, but the occurrence of a large liability could have an adverse impact on the Group's financial results.

### Risks Associated with Market Shifts Relating to Product Sales Prices and Raw Material Procurement

Some of the Nisshinbo Group's products can be significantly affected by fluctuations in market prices owing to market developments and competition with other companies. Sales prices for textile and paper products and raw materials procured by the Group such as cotton, pulp, steel and other materials are particularly susceptible to these market trends. The New Japan Radio Group (New Japan Radio Co., Ltd. and its consolidated subsidiaries) generates more than 80% of its consolidated sales from semiconductor devices. Significant fluctuations in demand in the semiconductor market may therefore have a large impact on the Nisshinbo Group's financial results.

### Risks Associated with Changes in Customer Business Performance

The customers of the Nisshinbo Group's automobile brakes business are automobile manufacturers that conduct business globally. The cancellation of contracts or requests to sharply reduce prices owing to changes in the business results of such client companies are factors outside the control of Nisshinbo, and consequently may have an impact on the Group's financial results.

The Japan Radio Group has a relatively high ratio of business with central and local governments, so sales tend to be concentrated toward the end of the fiscal year. In addition, trends in central and local government spending plans and capital expenditure in the telecommunications sector may affect the Group's financial results.

### Risks Associated with the Supply Chain

The Group may face difficulties in securing necessary components owing to changes in the economic environment. For example, rapid developments in specific parts supply regions and product fields may affect supply capacity at parts companies and lead to delivery delays. This in turn could impact the Group's shipment plans or lead to deterioration in margins owing to sharp increases in the price of components.

### Risks Associated with Fluctuations in Exchange Rates

Fluctuations in foreign exchange rates can have an impact on the yen value of the Nisshinbo Group's revenues, expenses, receivables and payables arising from business transactions that are denominated in foreign currencies and on foreign currency translation adjustments in the financial statements related to overseas consolidated subsidiaries, which prepare their statements in foreign currencies. While the Group takes steps to mitigate the risk of exchange rate fluctuations, not all this risk can be avoided. Fluctuations in exchange rates may therefore affect the Group's financial results, with periods of yen appreciation putting pressure on profits.

### Risks Associated with Unforeseen Revisions to Laws and Regulations

Products supplied by the Japan Radio Group (Japan Radio Co., Ltd. and its consolidated subsidiaries) are subject to a range of laws and regulations governing areas such as national security. These laws include export restrictions, import regulations and environmental and recycling laws. The Japan Radio Group has established clear internal regulations regarding compliance with these laws. However, unforeseen revisions to laws and regulations may limit the Group's business activities and lead to an increase in costs.

### Risks Associated with Overseas Business Development

The Nisshinbo Group owns many production bases overseas. Risks inherent to this international presence include unforeseen changes in laws and regulations, unfavorable political or economic factors and social turmoil.

### Risks Associated with Financial Covenants Related to Capital Procurement

The Nisshinbo Group has secured funding from multiple financial institutions. The Company and some consolidated subsidiaries have entered into commitment line contracts and term loan contracts. These companies are bound by certain financial covenants.

### Risks Associated with Disasters and Accidents

The Nisshinbo Group takes steps to manage risk related to disasters and accidents. However, a large earthquake or other major disaster or a sudden accident such as a fire may cause significant damage to the Group's manufacturing facilities, leading to the suspension of production activities that causes shipment delays. The Group may also incur considerable costs to restore damaged buildings or facilities.

In addition, the outbreak and spread of a new infectious disease may have an impact on the Group's operations.



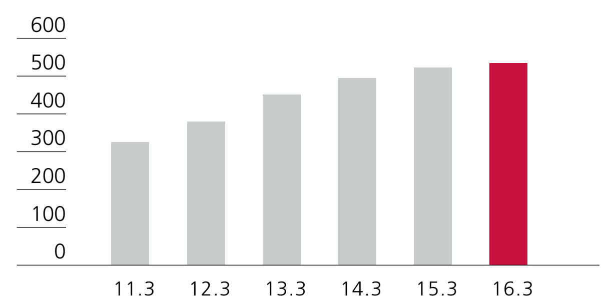
# Six-Year Summary

For the years ended March 31 (millions of yen)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Net Sales | 325,555 | 379,340 | 450,693 | 494,350 | 523,758 | **533,989** |
| Operating Income | 19,843 | 4,170 | 13,394 | 13,175 | 13,744 | **12,617** |
| Net Income Attributable to Nisshinbo Holdings Inc. | 11,185 | 9,416 | 6,418 | 9,012 | 13,694 | **10,776** |
| Equity | 211,557 | 213,751 | 242,623 | 276,865 | 306,938 | **284,472** |
| Total Assets | 479,852 | 534,584 | 551,933 | 611,311 | 678,486 | **651,793** |
| Shareholders' Equity Ratio (%) | 38.0 | 34.7 | 37.9 | 39.1 | 38.2 | **35.9** |
| Return on Assets (%) | 2.7 | 1.9 | 1.2 | 1.5 | 2.1 | **1.6** |
| Return on Equity (%) | 6.1 | 5.1 | 3.2 | 4.0 | 5.5 | **4.4** |
| Payout Ratio (%) | 23.7 | 27.9 | 40.8 | 29.1 | 18.7 | **44.2** |
| Capital Expenditures | 12,800 | 15,705 | 20,123 | 19,896 | 36,909 | **22,862** |
| Depreciation and Amortization | 13,158 | 14,550 | 18,969 | 21,486 | 23,111 | **22,571** |
| Common Shares Issued | 178,798,939 | 178,798,939 | 178,798,939 | 178,798,939 | 178,798,939 | **178,798,939** |
| Per Share (in yen): | | | | | | |
| Net Income Attributable to Nisshinbo Holdings Inc. | 63.32 | 53.83 | 36.74 | 51.60 | 80.33 | **67.93** |
| Shareholders' Equity | 1,036.80 | 1,063.19 | 1,198.67 | 1,369.78 | 1,634.07 | **1,472.26** |
| Cash Dividends | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | **30.00** |
| Number of Employees | 18,292 | 22,304 | 22,083 | 22,052 | 21,387 | **23,055** |

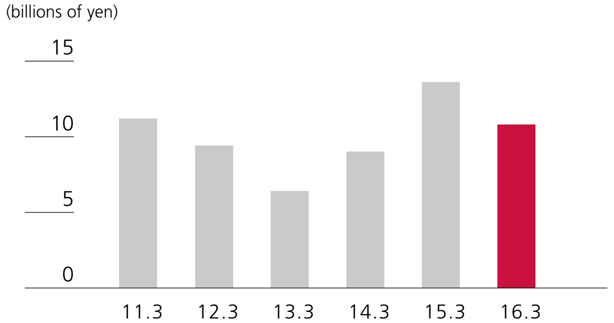
### Net Sales

(billions of yen)



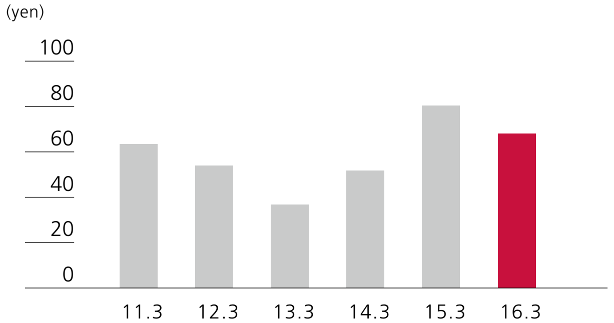

### Net Income Attributable to Nisshinbo Holdings Inc.

(billions of yen)




### Net Income Attributable to Nisshinbo Holdings Inc. per Share

(yen)



# Consolidated Balance Sheets

(March 31, 2016 and 2015)

| ASSETS | 2016 (millions of yen) | 2015 (millions of yen) | 2016 (thousands of US dollars) (Note 1) |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents | ¥42,272 | ¥36,706 | $367,582 |
| Time deposits (Note 5) | 3,650 | 8,981 | 31,739 |
| Marketable securities (Note 4) | 1 | 4 | 9 |
| Receivables | | | |
| Notes receivable, trade | 7,992 | 8,116 | 69,496 |
| Accounts receivable, trade (Note 5) | 138,227 | 143,792 | 1,201,974 |
| Nonconsolidated subsidiaries and affiliates | 1,050 | 1,155 | 9,130 |
| Other | 2,803 | 5,784 | 24,374 |
| | 150,072 | 158,847 | 1,304,974 |
| Less allowance for doubtful receivables | (831) | (943) | (7,226) |
| | 149,241 | 157,904 | 1,297,748 |
| Inventories (Note 3) | 96,801 | 94,074 | 841,748 |
| Deferred tax assets (Note 7) | 7,216 | 7,758 | 62,748 |
| Other current assets | 5,215 | 5,043 | 45,348 |
| Total current assets | 304,396 | 310,470 | 2,646,922 |
| **Property, plant and equipment** (Note 5)**:** | | | |
| Land | 47,679 | 45,654 | 414,600 |
| Buildings and structures | 175,956 | 171,969 | 1,530,052 |
| Machinery, equipment and tools | 323,688 | 310,818 | 2,814,679 |
| Construction in progress | 7,346 | 4,490 | 63,878 |
| | 554,669 | 532,931 | 4,823,209 |
| Less accumulated depreciation | (362,901) | (348,046) | (3,155,661) |
| Property, plant and equipment, net | 191,768 | 184,885 | 1,667,548 |
| **Investments and other assets:** | | | |
| Investment securities (Notes 4 and 5) | 80,232 | 102,666 | 697,670 |
| Investments in and advances to nonconsolidated subsidiaries and affiliates | 26,017 | 25,032 | 226,235 |
| Deferred tax assets (Note 7) | 12,162 | 9,526 | 105,756 |
| Goodwill | 14,607 | 16,013 | 127,017 |
| Other | 22,611 | 29,894 | 196,617 |
| Total investments and other assets | 155,629 | 183,131 | 1,353,295 |
| **Total assets** | ¥651,793 | ¥678,486 | $5,667,765 |

See Notes to Consolidated Financial Statements.

| LIABILITIES AND EQUITY | 2016 (millions of yen) | 2015 (millions of yen) | 2016 (thousands of US dollars) (Note 1) |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans (Note 5) | ¥55,398 | ¥71,281 | $481,721 |
| Commercial paper (Note 5) | 30,000 | 30,000 | 260,870 |
| Current portion of long-term debt (Note 5) | 16,015 | 7,094 | 139,261 |
| Payables | | | |
| Notes and accounts payable, trade (Note 5) | 72,177 | 70,680 | 627,626 |
| Nonconsolidated subsidiaries and affiliates | 36 | 197 | 313 |
| Other | 12,671 | 14,573 | 110,183 |
| | 84,884 | 85,450 | 738,122 |
| Accrued expenses | 16,660 | 15,820 | 144,869 |
| Accrued income taxes | 5,350 | 5,468 | 46,522 |
| Deferred tax liabilities (Note 7) | 0 | 17 | 0 |
| Other current liabilities | 11,463 | 11,048 | 99,678 |
| Total current liabilities | 219,770 | 226,178 | 1,911,043 |
| **Long-term liabilities:** | | | |
| Long-term debt (Note 5) | 50,146 | 38,953 | 436,052 |
| Liabilities for retirement benefits (Note 6) | 47,181 | 42,533 | 410,270 |
| Deferred tax liabilities (Note 7) | 34,275 | 43,972 | 298,043 |
| Other long-term liabilities (Note 5) | 15,949 | 19,912 | 138,687 |
| Total long-term liabilities | 147,551 | 145,370 | 1,283,052 |
| **Commitments and contingencies** (Note 10) | | | |
| **Equity:** | | | |
| **Shareholders' equity:** | | | |
| Common stock: | | | |
| Authorized—371,755,000 shares | | | |
| Issued 2016 and 2015—178,798,939 shares | 27,588 | 27,588 | 239,896 |
| Capital surplus | 17,599 | 20,401 | 153,035 |
| Retained earnings | 168,825 | 161,791 | 1,468,043 |
| Less treasury stock at cost | | | |
| 2016—20,071,007 shares | (23,156) | — | (201,357) |
| 2015—20,354,072 shares | — | (23,478) | — |
| Total shareholders' equity | 190,856 | 186,302 | 1,659,617 |
| **Accumulated other comprehensive income:** | | | |
| Net unrealized gain on available-for-sale securities | 36,219 | 50,998 | 314,948 |
| Deferred gain (loss) on derivatives under hedge accounting | (56) | 64 | (487) |
| Foreign currency translation adjustments | 11,887 | 22,674 | 103,365 |
| Post-retirement liability adjustments | (5,216) | (1,127) | (45,356) |
| Total accumulated other comprehensive income | 42,834 | 72,609 | 372,470 |
| **Stock acquisition rights** (Note 11) | 169 | 222 | 1,470 |
| **Noncontrolling interests** | 50,613 | 47,805 | 440,113 |
| Total equity | 284,472 | 306,938 | 2,473,670 |
| **Total liabilities and equity** | ¥651,793 | ¥678,486 | $5,667,765 |

# Consolidated Statements of Income

(Years ended March 31, 2016 and 2015)

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) (Note 1) 2016 |
|---|---|---|---|
| **Net sales** | ¥533,989 | ¥523,758 | $4,643,383 |
| **Costs and expenses:** | | | |
| Cost of sales | 419,402 | 415,608 | 3,646,974 |
| Selling, general and administrative expenses | 101,970 | 94,406 | 886,696 |
| | 521,372 | 510,014 | 4,533,670 |
| **Operating income** | 12,617 | 13,744 | 109,713 |
| **Other income (expenses):** | | | |
| Interest and dividend income | 3,124 | 2,745 | 27,165 |
| Interest expenses | (1,007) | (1,024) | (8,757) |
| Equity in earnings of a nonconsolidated subsidiary and affiliates | 2,874 | 3,280 | 24,991 |
| Other, net (Note 9) | 4,572 | (786) | 39,757 |
| | 9,563 | 4,215 | 83,156 |
| **Income before income taxes** | 22,180 | 17,959 | 192,869 |
| **Income taxes** (Note 7)**:** | | | |
| Current | 8,016 | 6,891 | 69,704 |
| Deferred | (177) | (9,738) | (1,539) |
| | 7,839 | (2,847) | 68,165 |
| **Net income** | 14,341 | 20,806 | 124,704 |
| **Net income attributable to noncontrolling interests** | 3,565 | 7,112 | 31,000 |
| **Net income attributable to Nisshinbo Holdings Inc.** | ¥10,776 | ¥13,694 | $93,704 |

See Notes to Consolidated Financial Statements.



# Consolidated Statements of Comprehensive Income (Loss)

(Years ended March 31, 2016 and 2015)

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) (Note 1) 2016 |
|---|---|---|---|
| **Net income** | ¥14,341 | ¥20,806 | $124,704 |
| **Other comprehensive income (loss):** | | | |
| Net unrealized gain (loss) on available-for-sale securities | (15,061) | 18,578 | (130,965) |
| Deferred gain (loss) on derivatives under hedge accounting | (119) | 106 | (1,035) |
| Foreign currency translation adjustments | (11,076) | 8,185 | (96,313) |
| Post-retirement liability adjustments | (5,179) | 3,345 | (45,035) |
| Equity in earnings of a nonconsolidated subsidiary and affiliates | (544) | 722 | (4,730) |
| | (31,979) | 30,936 | (278,078) |
| Comprehensive income (loss) | ¥(17,638) | ¥51,742 | $(153,374) |
| **Comprehensive income (loss) attributable to:** | | | |
| Nisshinbo Holdings Inc. | ¥(18,999) | ¥41,857 | $(165,209) |
| Noncontrolling interests | 1,361 | 9,885 | 11,835 |

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Equity

(Years ended March 31, 2016 and 2015)

(millions of yen)

| | Common stock | Capital surplus | Retained earnings | Treasury stock at cost | Total shareholders' equity | Net unrealized gain (loss) on available-for-sale securities | Deferred gain (loss) on derivatives under hedge accounting | Foreign currency translation adjustments | Post-retirement liability adjustments | Stock acquisition rights | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at April 1, 2014 | ¥27,588 | ¥20,404 | ¥150,347 | ¥(3,553) | ¥194,786 | ¥32,707 | ¥(42) | ¥15,265 | ¥(3,485) | ¥264 | ¥37,370 | ¥276,865 |
| Cumulative effect of changes in accounting policies | | | 388 | | 388 | | | | | | 101 | 489 |
| Restated balance at April 1, 2014 | ¥27,588 | ¥20,404 | ¥150,735 | ¥(3,553) | ¥195,174 | ¥32,707 | ¥(42) | ¥15,265 | ¥(3,485) | ¥264 | ¥37,471 | ¥277,354 |
| Cash dividends, ¥15.00 per share | | | (2,620) | | (2,620) | | | | | | | (2,620) |
| Net income attributable to Nisshinbo Holdings Inc. | | | 13,694 | | 13,694 | | | | | | | 13,694 |
| Purchase of treasury stock | | | | (20,032) | (20,032) | | | | | | | (20,032) |
| Disposal of treasury stock | | (3) | | 107 | 104 | | | | | | | 104 |
| Adjustment due to increase in consolidated subsidiaries | | | (18) | | (18) | | | | | | | (18) |
| Net change in the year | | | | | | 18,291 | 106 | 7,409 | 2,358 | (42) | 10,334 | 38,456 |
| Balance at March 31, 2015 | ¥27,588 | ¥20,401 | ¥161,791 | ¥(23,478) | ¥186,302 | ¥50,998 | ¥64 | ¥22,674 | ¥(1,127) | ¥222 | ¥47,805 | ¥306,938 |
| Cash dividends, ¥22.50 per share | | | (3,568) | | (3,568) | | | | | | | (3,568) |
| Net income attributable to Nisshinbo Holdings Inc. | | | 10,776 | | 10,776 | | | | | | | 10,776 |
| Change due to stock exchange transactions with and within subsidiaries | | (2,489) | | | (2,489) | | | | | | | (2,489) |
| Change in scope of consolidation—transactions with noncontrolling interests | | (323) | | | (323) | | | | | | | (323) |
| Purchase of treasury stock | | | | (26) | (26) | | | | | | | (26) |
| Disposal of treasury stock | | 10 | | 348 | 358 | | | | | | | 358 |
| Adjustment due to increase in consolidated subsidiaries | | | (174) | | (174) | | | | | | | (174) |
| Net change in the year | | | | | | (14,779) | (120) | (10,787) | (4,089) | (53) | 2,808 | (27,020) |
| **Balance at March 31, 2016** | **¥27,588** | **¥17,599** | **¥168,825** | **¥(23,156)** | **¥190,856** | **¥36,219** | **¥(56)** | **¥11,887** | **¥(5,216)** | **¥169** | **¥50,613** | **¥284,472** |

(thousands of US dollars) (Note 1)

| | Common stock | Capital surplus | Retained earnings | Treasury stock at cost | Total shareholders' equity | Net unrealized gain (loss) on available-for-sale securities | Deferred gain (loss) on derivatives under hedge accounting | Foreign currency translation adjustments | Post-retirement liability adjustments | Stock acquisition rights | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at April 1, 2015 | $239,896 | $177,400 | $1,406,878 | $(204,157) | $1,620,017 | $443,461 | $556 | $197,165 | $(9,800) | $1,931 | $415,696 | $2,669,026 |
| Cash dividends, $0.20 per share | | | (31,026) | | (31,026) | | | | | | | (31,026) |
| Net income attributable to Nisshinbo Holdings Inc. | | | 93,704 | | 93,704 | | | | | | | 93,704 |
| Change due to stock exchange transactions with and within subsidiaries | | (21,643) | | | (21,643) | | | | | | | (21,643) |
| Change in scope of consolidation—transactions with noncontrolling interests | | (2,809) | | | (2,809) | | | | | | | (2,809) |
| Purchase of treasury stock | | | | (226) | (226) | | | | | | | (226) |
| Disposal of treasury stock | | 87 | | 3,026 | 3,113 | | | | | | | 3,113 |
| Adjustment due to increase in consolidated subsidiaries | | | (1,513) | | (1,513) | | | | | | | (1,513) |
| Net change in the year | | | | | | (128,513) | (1,043) | (93,800) | (35,556) | (461) | 24,417 | (234,956) |
| **Balance at March 31, 2016** | **$239,896** | **$153,035** | **$1,468,043** | **$(201,357)** | **$1,659,617** | **$314,948** | **$(487)** | **$103,365** | **$(45,356)** | **$1,470** | **$440,113** | **$2,473,670** |

See Notes to Consolidated Financial Statements.



# Consolidated Statements of Cash Flows

(Years ended March 31, 2016 and 2015)

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) (Note 1) 2016 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Income before income taxes | **¥22,180** | ¥17,959 | **$192,869** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Income taxes—paid | **(7,797)** | (4,408) | **(67,800)** |
| Depreciation and amortization | **22,571** | 23,111 | **196,270** |
| Amortization of goodwill | **7,189** | 7,239 | **62,513** |
| Equity in earnings of a nonconsolidated susidiary and affiliates | **(2,874)** | (3,280) | **(24,991)** |
| Provision for (reversal of) doubtful receivables | **(1,073)** | 219 | **(9,330)** |
| Provision for accrued pension and retirement benefits | **5,385** | 4,716 | **46,826** |
| Payment of accrued pension and retirement benefits | **(4,420)** | (6,216) | **(38,435)** |
| Gain on sale of property, plant and equipment, net | **(972)** | (3,313) | **(8,452)** |
| Impairment of long-lived assets | **414** | 1,668 | **3,600** |
| Gain on sale of investment securities and investments in and advances to nonconsolidated subsidiaries and affiliates, net | **(6,252)** | (1,539) | **(54,365)** |
| Loss on write-down of investment securities and investments in and advances to nonconsolidated subsidiaries and affiliates | **249** | 132 | **2,165** |
| Other | **1,915** | 4,233 | **16,652** |
| Changes in operating assets and liabilities: | | | |
| Receivables | **13,531** | (7,870) | **117,661** |
| Inventories | **(969)** | (4,848) | **(8,426)** |
| Payables | **(6,297)** | 4,934 | **(54,757)** |
| Other, net | **(3,214)** | 4,383 | **(27,948)** |
| Net cash provided by operating activities | **39,566** | 37,120 | **344,052** |
| **Cash flows from investing activities:** | | | |
| Sale of property, plant and equipment | **2,312** | 12,282 | **20,104** |
| Sale of investment securities and investments in and advances to nonconsolidated subsidiaries and affiliates | **8,775** | 6,104 | **76,304** |
| Purchase of property, plant and equipment | **(24,727)** | (32,508) | **(215,017)** |
| Purchase of investment securities and investments in and advances to nonconsolidated subsidiaries and affiliates | **(2,549)** | (552) | **(22,165)** |
| Decrease (increase) in time deposits | **4,658** | (5,495) | **40,504** |
| Cash paid for newly consolidated subsidiaries, net of payment for purchase of companies | **(10,188)** | — | **(88,591)** |
| Other, net | **(1,074)** | (1,102) | **(9,339)** |
| Net cash used in investing activities | **(22,793)** | (21,271) | **(198,200)** |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance of long-term debt | **27,214** | 28,205 | **236,643** |
| Repayment of long-term debt | **(10,304)** | (33,174) | **(89,600)** |
| Increase in short-term bank loans | **(20,485)** | 22,032 | **(178,130)** |
| Cash dividends paid | **(3,568)** | (2,620) | **(31,026)** |
| Purchase of treasury stock | **(26)** | (20,032) | **(226)** |
| Proceeds from treasury stock sold of consolidated subsidiaries | **284** | — | **2,470** |
| Decrease in other long-term liabilities | **(634)** | (833) | **(5,513)** |
| Purchase of additional shares of consolidated subsidiaries | **(919)** | — | **(7,991)** |
| Other, net | **(606)** | 184 | **(5,270)** |
| Net cash used in financing activities | **(9,044)** | (6,238) | **(78,643)** |
| **Effect of exchange rate changes on cash** | **(2,245)** | 1,606 | **(19,522)** |
| **Net increase in cash and cash equivalents** | **5,484** | 11,217 | **47,687** |
| **Cash and cash equivalents of newly consolidated subsidiaries** | **82** | 664 | **713** |
| **Cash and cash equivalents at beginning of year** | **36,706** | 24,825 | **319,182** |
| **Cash and cash equivalents at end of year** | **¥42,272** | ¥36,706 | **$367,582** |

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In addition, the accompanying notes include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

The United States dollar ($) amounts included herein are given solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥115=$1, the approximate exchange rate at March 31, 2016. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into United States dollars.

## 2. Summary of Significant Accounting Policies

### (a) Consolidation

The consolidated financial statements include the accounts of Nisshinbo Holdings Inc. (hereinafter the "Company") and its significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Parent, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in nonconsolidated subsidiaries and affiliated companies are accounted for by the equity method.

Investments in the remaining nonconsolidated subsidiaries and affiliated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

### (b) Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

Investments in and advances to nonconsolidated subsidiaries and affiliates in foreign currencies are translated at the historical rates effective at the dates of transaction from which such accounts were originated.

### (c) Foreign currency financial statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

Translation adjustments are presented under noncontrolling interests and foreign currency translation adjustments as a component of equity.

### (d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits placed with banks on demand and highly liquid investments with insignificant risk of changes in value which have maturities of six months or less when purchased.

### (e) Inventories

Inventories are measured principally at the lower of cost or net realizable value, cost being substantially determined by the actual cost method or the average cost method.

### (f) Marketable and investment securities

The Group classifies all of its marketable and investment securities as available-for-sale, which are reported at fair value, with unrealized gains and losses included in equity as net unrealized gain on available-for-sale securities. Other investment securities without quoted market prices are stated at cost. Realized gains or losses on the sale of securities are based on the average cost of a particular security held at the time of sale.

Marketable and investment securities are regularly reviewed for other-than-temporary declines in carrying amount based on criteria that include the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and the Company's intent and ability to retain securities for a period of time sufficient to allow for any anticipated recovery in market value.

When such a decline exists, the Company recognizes an impairment loss to the extent of such decline.

### (g) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed principally on the straight-line method over their estimated useful lives. Contributions in aid of purchases of property, plant and equipment from national and local governments are deducted from the acquisition costs of related assets in accordance with tax regulations.

### (h) Goodwill

The difference between the cost and underlying fair value of the equity of investments in subsidiaries at acquisition is included in goodwill and amortized on a straight-line basis five to seven years.

### (i) Impairment of long-lived assets

Long-lived assets are evaluated for impairment using an estimate of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the estimate of undiscounted cash flow is less than the carrying amount of the asset, an impairment loss is recorded based on the fair value of the asset. Fair value is determined primarily by using the anticipated cash flows discounted at a rate commensurate with the risk involved. For assets held for sale, an impairment loss is further increased by costs to sell. Long-lived assets to be disposed of other than by sale are considered held and used until disposed of.

### (j) Retirement benefits and pension plans

The Company, domestic consolidated subsidiaries and certain foreign consolidated subsidiaries have defined benefit plans and defined contribution plans that cover substantially all employees. Under the defined benefit plans, the annual provision for retirement benefits is calculated to state the asset and liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors are provided at the amount that would be required if all directors and corporate auditors retired at the balance sheet date.

### (k) Stock options

The accounting standard for stock options requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. On the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

### (l) Research and development costs

Research and development costs are charged to income as incurred.

### (m) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

### (n) Derivative financial instruments

The Group uses a variety of derivative financial instruments, including foreign currency forward contracts, commodity swap contracts and interest rate swaps, as a means of hedging exposure to foreign currency and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income, and (b) for derivatives used for hedging purposes if derivatives qualify for hedge accounting because of the high correlation and effectiveness between the hedging instruments and hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense.

**(o) Asset retirement obligation**

The asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of such tangible fixed assets under the Japanese accounting standard.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made.

The asset retirement cost is allocated to expense through depreciation over the remaining useful life of the assets.

**(p) Changes in accounting policy**

The "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued by the Accounting Standards Board of Japan (ASBJ), in September 2013, hereinafter "Business Combinations Accounting Standard"), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued in September 2013, hereinafter "Consolidation Accounting Standard") and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 issued in September 2013, hereinafter "Business Divestitures Accounting Standard") have been adopted from this fiscal year.

Under these accounting standards, the Company records the difference caused by changes in the Company's equity shares in subsidiaries that it continues to control as capital surplus and records acquisition-related expenses as expenses during the fiscal year in which the expenses were incurred. With regard to business combinations conducted on or after the beginning of the fiscal year ended March 31, 2016, the Company has changed its accounting method to reflect the revised allocation of acquisition costs arising from settlement of provisional accounting treatment in the consolidated financial statements in which the business combination occurs.

The Company has adopted these accounting standards as of the beginning of the fiscal year ended March 31, 2016 and has applied them thereafter in accordance with the transitional handling set forth in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard.

As the effect of this revised accounting standard, operating income and income before income taxes for the fiscal year have increased by ¥32 million ($278 thousand) and ¥1,053 million ($9,157 thousand), respectively, and capital surplus at the end of the fiscal year has decreased by ¥2,812 million ($24,452 thousand).

## 3. Inventories

Inventories at March 31, 2016 and 2015 were as follows:

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) 2016 |
|---|---|---|---|
| Finished products | ¥39,003 | ¥33,729 | $339,157 |
| Work in process | 36,781 | 37,808 | 319,835 |
| Materials and supplies | 21,017 | 22,537 | 182,756 |
| | ¥96,801 | ¥94,074 | $841,748 |

## 4. Marketable and Investment Securities

The carrying amounts and aggregate fair values of available-for-sale securities included in marketable and investment securities at March 31, 2016 and 2015 were as follows:

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) 2016 |
|---|---|---|---|
| Cost | ¥24,475 | ¥23,342 | $212,826 |
| Unrealized gains | 53,775 | 77,097 | 467,609 |
| Unrealized losses | (502) | (220) | (4,365) |
| Fair value | ¥77,748 | ¥100,219 | $676,070 |

Aggregate cost of non-marketable securities accounted for under the cost method totaled ¥2,485 million ($21,609 thousand) and ¥2,451 million at March 31, 2016 and 2015, respectively.

## 5. Short-Term and Long-Term Debt

The weighted average interest rates applicable to the short-term bank loans at March 31, 2016 and 2015 were 0.6% to 0.7%, respectively.

The weighted average interest rates applicable to the short-term debt of commercial paper at March 31, 2016 and 2015 were 0.0% to 0.1%, respectively.

Long-term debt at March 31, 2016 and 2015 consisted of the following:

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) 2016 |
|---|---|---|---|
| Long-term debt with collateral: | | | |
| Loans from banks maturing serially to 2025, weighted average interest rates 1.0% in March 2016, 1.3% in March 2015 | ¥35,323 | ¥10,078 | $307,157 |
| Long-term debt without collateral: | | | |
| Loans from banks maturing serially to 2020, weighted average interest rates 0.5% in March 2016, 1.0% in March 2015 | 28,114 | 34,719 | 244,469 |
| Capital lease obligations, due through 2025 | 2,724 | 1,250 | 23,687 |
| | 66,161 | 46,047 | 575,313 |
| Less current portion | (16,015) | (7,094) | (139,261) |
| | ¥50,146 | ¥38,953 | $436,052 |

Annual maturities of long-term debt were as follows:

| | (millions of yen) | (thousands of US dollars) |
|---|---|---|
| Year ending March 31, | | |
| 2017 | ¥7,267 | $63,191 |
| 2018 | 6,791 | 59,052 |
| 2019 | 5,944 | 51,687 |
| 2020 | 29,344 | 255,165 |
| 2021 and thereafter | 800 | 6,957 |
| | ¥50,146 | $436,052 |

At March 31, 2016 and 2015, net book values of assets pledged as collateral for short-term bank loans and long-term debt were as follows:

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) 2016 |
|---|---|---|---|
| Property, plant and equipment | ¥17,480 | ¥14,310 | $152,000 |
| Accounts receivable, trade | 561 | 242 | 4,878 |
| Investment securities | 392 | 744 | 3,409 |
| | ¥18,433 | ¥15,296 | $160,287 |

At March 31, 2016 and 2015, in addition, pledged assets as collateral for liabilities other than the above were as follows:

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) 2016 |
|---|---|---|---|
| Assets pledged: | | | |
| Property, plant and equipment | ¥7,125 | ¥9,096 | $61,956 |
| Investment securities | 901 | 821 | 7,835 |
| Time deposits | 0 | 1 | 0 |
| | ¥8,026 | ¥9,918 | $69,791 |

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) 2016 |
|---|---|---|---|
| Liabilities with collateral: | | | |
| Other long-term liabilities (Guarantee deposits) | ¥6,336 | ¥6,901 | $55,096 |
| Notes and accounts payable, trade | 1,107 | 1,182 | 9,626 |
| | ¥7,443 | ¥8,083 | $64,722 |

## 6. Retirement Benefits and Pension Plans

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at termination, years of service and certain other factors.

The Group provides defined benefit plans and defined contribution plans.

The liability for retirement benefits for directors and corporate auditors at March 31, 2016 and 2015 was ¥95 million ($826 thousand) and ¥39 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

Changes of the liability for employees' retirement benefits for the years ended March 31, 2016 and 2015 were as follows:

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) 2016 |
|---|---|---|---|
| **Projected benefit obligation** | | | |
| Balance at beginning of year | ¥101,611 | ¥105,484 | $883,574 |
| Cumulative effect of changes in accounting policies | — | (438) | — |
| Service cost | 5,111 | 5,310 | 44,443 |
| Interest cost | 1,366 | 1,480 | 11,878 |
| Recognized actuarial loss | 5,894 | 1,420 | 51,252 |
| Prior service cost | (337) | — | (2,930) |
| Actual payment of retirement benefits | (4,926) | (5,414) | (42,835) |
| Exchange differences | (1,382) | 1,094 | (12,017) |
| Increase due to newly consolidated subsidiaries | 1,674 | — | 14,557 |
| Decrease due to transfer of benefit obligation to defined contribution pension plan and other | — | (7,325) | — |
| Balance at end of year | ¥109,011 | ¥101,611 | $947,922 |
| **Fair value of plan assets** | | | |
| Balance at beginning of year | ¥66,375 | ¥64,057 | $577,174 |
| Expected return on plan assets | 1,595 | 1,616 | 13,869 |
| Recognized actuarial (gain) loss | (2,493) | 5,002 | (21,678) |
| Contributions to the defined pension plan | 2,246 | 2,840 | 19,530 |
| Payment | (2,759) | (2,881) | (23,991) |
| Exchange differences | (595) | 938 | (5,174) |
| Increase due to newly consolidated subsidiaries | 230 | — | 2,000 |
| Decrease due to transfer of benefit obligation to defined contribution pension plan | — | (5,197) | — |
| Balance at end of year | ¥64,599 | ¥66,375 | $561,730 |

Reconciliation of ending balance of retirement benefit obligation and pension assets, and the book value of liabilities and assets for retirement benefits for the years ended March 31, 2016 and 2015 were as follows:

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) 2016 |
|---|---|---|---|
| Funded retirement benefit obligation | ¥69,500 | ¥66,371 | $604,348 |
| Fair value of plan assets | (64,599) | (66,375) | (561,730) |
| | 4,901 | (4) | 42,618 |
| Unfunded retirement benefit obligation | 39,511 | 35,240 | 343,574 |
| Net amount of liabilities and assets in consolidated balance sheets | ¥44,412 | ¥35,236 | $386,192 |
| | | | |
| Liabilities for retirement benefits | ¥47,086 | ¥42,494 | $409,444 |
| Assets for retirement benefits | (2,674) | (7,258) | (23,252) |
| Net amount of liabilities and assets in consolidated balance sheets | ¥44,412 | ¥35,236 | $386,192 |

The components of net periodic retirement benefit costs for the years ended March 31, 2016 and 2015 were as follows:

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) 2016 |
|---|---|---|---|
| Defined benefits plans: | | | |
| Service cost | ¥5,111 | ¥5,310 | $44,443 |
| Interest cost | 1,366 | 1,480 | 11,878 |
| Expected return on plan assets | (1,595) | (1,616) | (13,869) |
| Amortization of prior service cost | (290) | (296) | (2,522) |
| Recognized actuarial loss | 782 | 811 | 6,800 |
| | ¥5,374 | ¥5,689 | $46,730 |

Retirement benefits paid due to restructuring of business operations for the year ended March 31, 2015 was ¥241 million.

Assumptions used for the years ended March 31, 2016 and 2015 were set forth as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | △0.0%–0.9% | 0.5%–1.0% |
| Expected rate of return on plan assets | 1.5%–5.0% | 0.0%–4.0% |
| Rate of expected salary increase | 2.0%–9.0% | 1.9%–8.3% |

## 7. Income Taxes

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) 2016 |
|---|---|---|---|
| Deferred tax assets: | | | |
| Loss on devaluation of inventories | ¥1,584 | ¥1,372 | $13,774 |
| Tax loss carryforwards | 14,906 | 18,024 | 129,617 |
| Unrealized gain caused by intercompany transactions | 1,494 | 1,368 | 12,991 |
| Accrued employees' bonuses | 1,884 | 2,046 | 16,383 |
| Accrued severance benefits | 11,899 | 12,025 | 103,470 |
| Impairment of long-lived assets and depreciation in excess of tax limitation | 1,563 | 1,780 | 13,591 |
| Devaluation of investment securities | 2,488 | 788 | 21,635 |
| Software costs | 1,380 | 1,471 | 12,000 |
| Loss of investment in subsidiary in liquidation | 2,377 | 2,531 | 20,670 |
| Other | 5,127 | 4,598 | 44,583 |
| Less valuation allowance | (21,178) | (23,992) | (184,157) |
| | ¥23,524 | ¥22,011 | $204,557 |
| Deferred tax liabilities: | | | |
| Unrealized gain on available-for-sale securities | ¥(16,569) | ¥(25,078) | $(144,078) |
| Deferred gains on sale of property | (6,060) | (6,427) | (52,696) |
| Assets recognized in business combination | (9,319) | (10,315) | (81,035) |
| Other | (6,473) | (6,896) | (56,287) |
| | ¥(38,421) | ¥(48,716) | $(334,096) |
| Net deferred tax | ¥(14,897) | ¥(26,705) | $(129,539) |



A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2016 and 2015 and the actual effective tax rates reflected in the accompanying consolidated statements of income was as follows:

| | 2016 | 2015 |
|---|---|---|
| Normal effective statutory tax rate | 33.1% | 35.6% |
| Net changes in valuation allowance | (3.6) | (43.9) |
| Amortization of goodwill | 10.6 | 14.4 |
| Loss of investment in subsidiary in liquidation | (0.1) | (14.1) |
| Lower income tax rates applicable to income in certain foreign countries | (3.5) | (7.2) |
| Equity in earnings of a nonconsolidated subsidiary and affiliates | (4.2) | (6.5) |
| Additional taxes on retained earnings in foreign subsidiaries | (0.4) | 4.8 |
| Other | 3.4 | 1.0 |
| Actual effective tax rate | 35.3% | (15.9)% |

As a result of changes in the corporate tax rate, the deferred tax assets using enacted tax rates in effect for the years in which differences are expected to reverse at 30.9% for the year ending March 31, 2018 and at 30.6% for the years ending March 31, 2019 and thereafter.

## 8. Derivatives

The Group enters into foreign currency forward contracts and commodity swap contracts to hedge exchange risk associated with certain assets and liabilities denominated in foreign currencies and also into interest rate swap contracts to manage its interest rate exposures on certain liabilities. Such contracts outstanding at March 31, 2016 and 2015 were as follows:

| | (millions of yen) 2016 | | | 2015 | | | (thousands of US dollars) 2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| Not hedged: | Contract amount | Fair value | Unrealized gain (loss) | Contract amount | Fair value | Unrealized gain (loss) | Contract amount | Fair value | Unrealized gain (loss) |
| Interest rate swap: | | | | | | | | | |
| Fixed rate payments, floating rate receipt | ¥34 | ¥(1) | ¥(1) | ¥103 | ¥(3) | ¥(3) | $296 | $(9) | $(9) |
| Commodity swap: | | | | | | | | | |
| Purchased raw materials | ¥3,573 | ¥(319) | ¥(319) | ¥2,926 | ¥(19) | ¥(19) | $31,070 | $(2,774) | $(2,774) |
| Foreign currency forward contracts: | | | | | | | | | |
| Sold | ¥1,150 | ¥26 | ¥26 | ¥2,461 | ¥(27) | ¥(27) | $10,000 | $226 | $226 |
| Purchased | ¥2,572 | ¥27 | ¥27 | ¥806 | ¥6 | ¥6 | $22,365 | $235 | $235 |

| | (millions of yen) 2016 | | | 2015 | | | (thousands of US dollars) 2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| Hedged: | Contract amount | Contract amount due after one year | Fair value | Contract amount | Contract amount due after one year | Fair value | Contract amount | Contract amount due after one year | Fair value |
| Foreign currency forward contracts: | | | | | | | | | |
| Sold | ¥71 | ¥— | ¥2 | ¥391 | ¥— | ¥(1) | $617 | $— | $17 |
| Purchased | ¥1,812 | ¥— | ¥(84) | ¥1,798 | ¥— | ¥96 | $15,757 | $— | $(730) |

## 9. Other Income (Expenses) — Other, Net

Other income (expenses) — Other, net consisted of the following:

| | (millions of yen) 2016 | 2015 | (thousands of US dollars) 2016 |
|---|---|---|---|
| Gain on sale of property, plant and equipment, net | ¥972 | ¥3,313 | $8,452 |
| Impairment of long-lived assets | (414) | (1,668) | (3,600) |
| Gain on sale of securities, net | 6,252 | 1,539 | 54,365 |
| Business structure improvement expenses | (684) | (3,714) | (5,947) |
| Other, net | (1,554) | (256) | (13,513) |
| | ¥4,572 | ¥(786) | $39,757 |

## 10. Commitments and Contingencies

Contingent liabilities at March 31, 2016 and 2015 for trade notes discounted with banks amounted to ¥421 million ($3,661 thousand) and ¥509 million, respectively.

Contingent liabilities at March 31, 2016 and 2015 for loans guaranteed amounted to ¥89 million ($774 thousand) and ¥100 million, respectively.

Commitments for capital expenditures outstanding at March 31, 2016 and 2015 were in the approximate amounts of ¥1,189 million ($10,339 thousand) and ¥2,363 million, respectively.

## 11. Subsequent Events

**Stock option plan**

At the general shareholders meeting held on June 29, 2016, the Company's shareholders approved a stock option plan to grant stock purchase rights up to 200 thousand shares of the Company's common stock to directors and key employees in the period from August 1, 2018 to July 31, 2023.

## 12. Segment Information

Information about industry segments of the Company and its consolidated subsidiaries for the years ended March 31, 2016 and 2015 was as follows:

(millions of yen)

| 2016 | Electronics | Automobile Brakes | Precision Instruments | Chemicals | Textiles | Papers | Real Estate | Other Businesses | Eliminations/ Corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales and Segment Profit (loss): | | | | | | | | | | |
| Sales to customers | ¥205,368 | ¥165,037 | ¥29,525 | ¥8,285 | ¥57,504 | ¥32,585 | ¥8,358 | ¥27,327 | ¥— | ¥533,989 |
| Intersegment sales | 51 | 20 | 331 | 104 | 219 | 760 | 2,073 | 1,434 | (4,992) | — |
| Total sales | ¥205,419 | ¥165,057 | ¥29,856 | ¥8,389 | ¥57,723 | ¥33,345 | ¥10,431 | ¥28,761 | ¥(4,992) | ¥533,989 |
| Segment profit (loss) [Operating income (loss)] | ¥8,318 | ¥(887) | ¥318 | ¥753 | ¥1,873 | ¥742 | ¥5,795 | ¥(217) | ¥(4,078) | ¥12,617 |
| Segment assets: | ¥218,040 | ¥160,018 | ¥72,294 | ¥7,799 | ¥60,789 | ¥22,976 | ¥43,280 | ¥36,814 | ¥29,783 | ¥651,793 |
| Other: | | | | | | | | | | |
| Depreciation and amortization | ¥4,742 | ¥10,829 | ¥1,884 | ¥299 | ¥1,663 | ¥1,027 | ¥1,571 | ¥181 | ¥375 | ¥22,571 |
| Increase in property, plant and equipment and intangible assets | ¥9,945 | ¥8,519 | ¥3,647 | ¥412 | ¥806 | ¥696 | ¥575 | ¥78 | ¥(1,816) | ¥22,862 |

(millions of yen)

| 2015 | Electronics | Automobile Brakes | Precision Instruments | Chemicals | Textiles | Papers | Real Estate | Other Businesses | Eliminations/ Corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales and Segment Profit (loss): | | | | | | | | | | |
| Sales to customers | ¥209,116 | ¥161,887 | ¥28,608 | ¥8,138 | ¥48,166 | ¥31,280 | ¥9,246 | ¥27,317 | ¥— | ¥523,758 |
| Intersegment sales | 123 | 24 | 670 | 120 | 314 | 742 | 2,266 | 2,723 | (6,982) | — |
| Total sales | ¥209,239 | ¥161,911 | ¥29,278 | ¥8,258 | ¥48,480 | ¥32,022 | ¥11,512 | ¥30,040 | ¥(6,982) | ¥523,758 |
| Segment profit (loss) [Operating income (loss)] | ¥12,704 | ¥(2,069) | ¥264 | ¥397 | ¥(358) | ¥425 | ¥6,669 | ¥(110) | ¥(4,178) | ¥13,744 |
| Segment assets: | ¥233,337 | ¥177,473 | ¥36,648 | ¥7,455 | ¥50,083 | ¥22,587 | ¥44,369 | ¥37,285 | ¥69,249 | ¥678,486 |
| Other: | | | | | | | | | | |
| Depreciation and amortization | ¥5,733 | ¥10,542 | ¥1,631 | ¥387 | ¥1,490 | ¥1,009 | ¥1,687 | ¥276 | ¥356 | ¥23,111 |
| Increase in property, plant and equipment and intangible assets | ¥17,997 | ¥10,042 | ¥5,588 | ¥250 | ¥3,220 | ¥504 | ¥506 | ¥37 | ¥(1,235) | ¥36,909 |

(thousands of US dollars)

| 2016 | Electronics | Automobile Brakes | Precision Instruments | Chemicals | Textiles | Papers | Real Estate | Other Businesses | Eliminations/ Corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales and Segment Profit (loss): | | | | | | | | | | |
| Sales to customers | $1,785,809 | $1,435,104 | $256,739 | $72,044 | $500,035 | $283,348 | $72,678 | $237,626 | $— | $4,643,383 |
| Intersegment sales | 443 | 174 | 2,878 | 904 | 1,904 | 6,609 | 18,026 | 12,470 | (43,408) | — |
| Total sales | $1,786,252 | $1,435,278 | $259,617 | $72,948 | $501,939 | $289,957 | $90,704 | $250,096 | $(43,408) | $4,643,383 |
| Segment profit (loss) [Operating income (loss)] | $72,331 | $(7,713) | $2,765 | $6,548 | $16,287 | $6,452 | $50,391 | $(1,887) | $(35,461) | $109,713 |
| Segment assets: | $1,896,000 | $1,391,461 | $628,643 | $67,817 | $528,600 | $199,791 | $376,348 | $320,122 | $258,983 | $5,667,765 |
| Other: | | | | | | | | | | |
| Depreciation and amortization | $41,235 | $94,165 | $16,383 | $2,600 | $14,461 | $8,930 | $13,661 | $1,574 | $3,261 | $196,270 |
| Increase in property, plant and equipment and intangible assets | $86,478 | $74,078 | $31,713 | $3,583 | $7,009 | $6,052 | $5,000 | $678 | $(15,791) | $198,800 |

# Independent Auditor's Report

**To the Board of Directors of Nisshinbo Holdings Inc.**

We have audited the accompanying consolidated financial statements of Nisshinbo Holdings Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nisshinbo Holdings Inc. and its consolidated subsidiaries as at March 31, 2016, and their financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*Convenience translations*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1 to the consolidated financial statements.

Veritas & Co.

VERITAS & Co.
June 29, 2016
Tokyo, Japan



# History

| | |
|---|---|
| 1907 | Established Nisshin Cotton Spinning Co., Ltd. |
| 1949 | Established Nihon Postal Franker Co., Ltd. (name changed to Nisshinbo Postal Chemical Co., Ltd. in 2006) |
| 1958 | Established Nippon Kohbunshikan Co., Ltd. (name changed to Nippon Kohbunshi Co., Ltd. in 1986) (acquired by Nisshinbo Mechatronics Inc. in 2010) |
| 1972 | Established Nisshinbo Do Brasil Industria Textil LTDA. (Brazil) |
| 1985 | Acquired Nisshin Denim Inc. |
| 1989 | Established Kohbunshi (Thailand) Ltd. (Thailand) (name changed to Nisshinbo Mechatronics (Thailand) Ltd. in 2011) |
| 1993 | Established Pudong Kohbunshi (Shanghai) Co., Ltd. (China) (name changed to Nisshinbo Mechatronics (Shanghai) Co., Ltd. in 2010) |
| 1995 | Established Nisshinbo Automotive Corporation (U.S.A.) |
| | Established Nisshinbo Urban Development Co., Ltd. |
| 1996 | Established Nisshinbo Somboon Automotive Co., Ltd. (Thailand) |
| 1997 | Established Nisshinbo Automotive Manufacturing Inc. (U.S.A.) |
| 1998 | Established P.T. Gistex Nisshinbo Indonesia (Indonesia) (name changed to P.T. Nisshinbo Indonesia in 2010) |
| 1999 | Established Saeron Automotive Corporation (South Korea) |
| 2000 | Purchased additional shares of P.T. Nikawa Textile Industry (Indonesia) |
| | Established Continental Teves Co., Ltd. through merger with Continental Teves AG & Co. oHG (name changed to Continental Automotive Co., Ltd. in 2007) |
| 2002 | Established Nisshinbo (Shanghai) Co., Ltd. (China) |
| | Acquired all shares of Iwao & Co., Ltd. |
| 2003 | Established Saeron Automotive Beijing Corporation (China) |
| 2004 | Established Continental Automotive Corporation (Lian Yun Gang) Co., Ltd. (China) |
| 2005 | Made tender offer for additional shares of New Japan Radio Co., Ltd. |
| 2006 | Acquired additional shares of Japan Radio Co., Ltd. and Nagano Japan Radio Co., Ltd. |
| 2007 | Acquired all shares of Daiwa Shiko Co., Ltd. |
| 2008 | Acquired all shares of Nisshinbo Brake Sales Co., Ltd. (acquired by Nisshinbo Brake Inc. in 2010) |
| 2009 | Spun off five businesses — Textiles, Automobile Brakes, Papers, Precision Instruments, and Chemicals — and converted to holding company; corporate name changed to Nisshinbo Holdings Inc. |
| 2010 | Established Nisshinbo-Yawei Precision Instruments & Machinery (Jiangsu) Co., Ltd. (China) (formerly Jiangsu Yawei Nisshinbo Precision Instruments & Machinery Co., Ltd.) |
| | Acquired additional shares in Japan Radio Co., Ltd., making it a consolidated subsidiary Nagano Japan Radio Co., Ltd. also became a consolidated subsidiary as a result |
| 2011 | Established Nisshinbo Saeron (Changshu) Automotive Co., Ltd. (China) |
| | Established Nisshinbo Singapore Pte. Ltd. (Singapore) |
| | Acquired all shares of TMD Friction Group S.A. (Luxembourg) |
| 2012 | Established Nisshinbo Business Management (Shanghai) Co., Ltd. (China) |
| 2013 | Established Nisshinbo Commercial Vehicle Brake Ltd. (Thailand) |
| 2014 | Established Nisshinbo-Continental Precision Machining (Yangzhou) Co., Ltd. (China) |
| 2015 | Acquired all outstanding shares in TOKYO SHIRTS CO., LTD. |
| | Changed Company's sector classification on stock markets from textile products to electrical equipment |
| | Acquired all outstanding shares in Nanbu Plastics Co., Ltd. |
| 2016 | Nagano Japan Radio Co., Ltd. and Ueda Japan Radio Co., Ltd. became consolidated subsidiaries of Japan Radio Co., Ltd. |

# Corporate Data

(As of March 31, 2016)

**Founded**
February 5, 1907

**Head Office**
2-31-11, Ningyo-cho, Nihonbashi, Chuo-ku,
Tokyo 103-8650, Japan
Tel: +81-3-5695-8833
Fax: +81-3-5695-8970

**Osaka Branch**
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Osaka 541-0057, Japan
Tel: +81-6-6267-5501
Fax: +81-6-6267-5529

**Nagoya Branch**
5-2-38, Sakae, Naka-ku,
Nagoya 460-0008, Japan
Tel: +81-52-261-6151
Fax: +81-52-263-9480

**Employees**

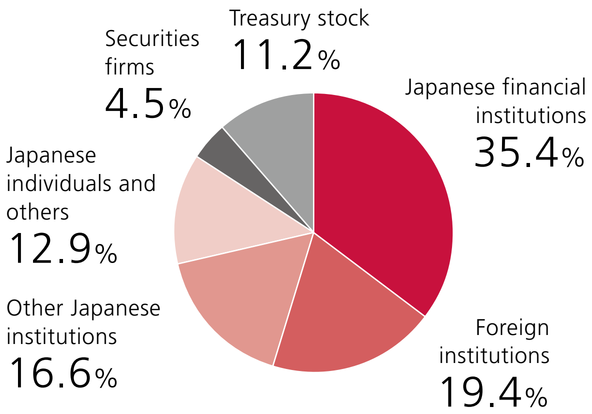
| | |
|---|---|
| Parent Company | 197 |
| Subsidiaries | 22,858 |
| Total | 23,055 |

**Common Stock**

| | |
|---|---|
| Authorized | 371,755,000 shares |
| Issued | 178,798,939 shares |
| | ¥27,588 million (US$240 million) |

**Shareholders**
13,335

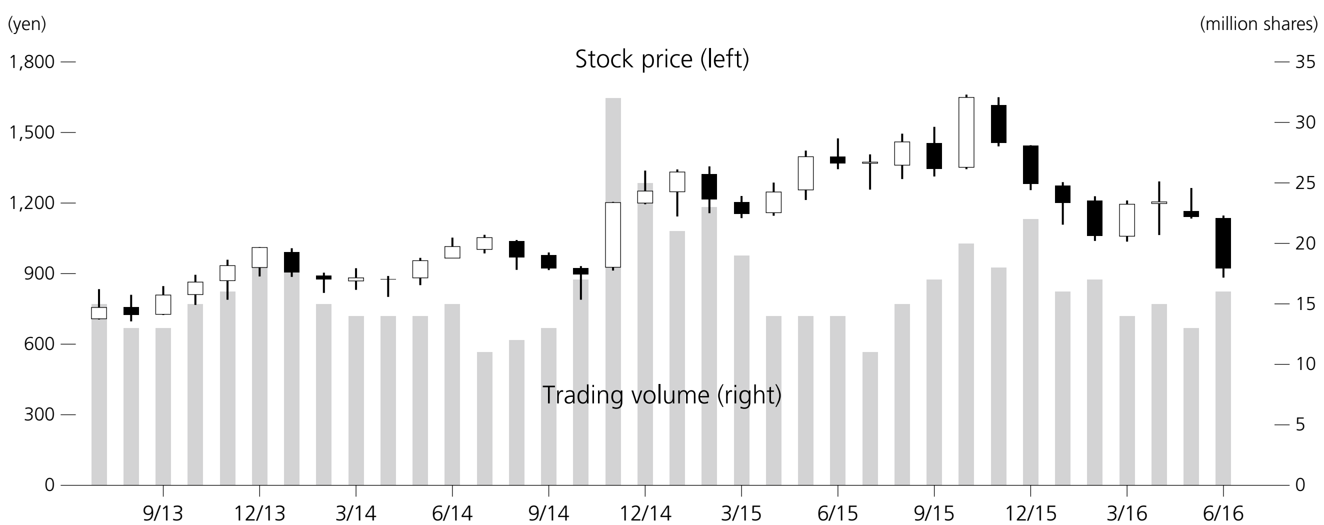
**Composition of Shareholders**




**Listings**
Tokyo, Nagoya, Fukuoka and Sapporo

**Transfer Agent**
Mitsubishi UFJ Trust and Banking Corporation
1-4-5, Marunouchi, Chiyoda-ku,
Tokyo 100-8212, Japan

**Stock Price and Trading Volume**

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