NISSHINBO

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Transforming Strengths into New Value

Integrated Report 2017

Fiscal Year Ended March 2017

NISSHINBO

The Company Everyone Needs

NISSHINBO

Environment and Energy Company group

As an *Environment and Energy Company* group working to create a sustainable society, Nisshinbo Holdings Inc. is targeting long-term goals of net sales of ¥1 trillion and ROE of 12% in the fiscal year ending March 2026.

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, we aim to continue growing as a company that delivers solutions for today's global society.

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 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 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

Contents

Editing Policy

In addition to the usual financial data and information about business strategies, Nisshinbo's Integrated Report 2017 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 the environment, complementing efforts to increase value through earnings growth.

Nisshinbo Group Corporate Philosophy

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.

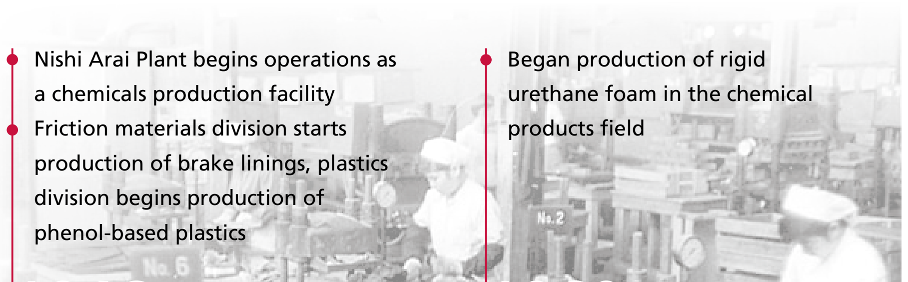
*2 A stakeholder is any person or organization involved in or affected by our corporate activities, including customers, shareholders, employees, business partners, community residents, and governmental organizations.

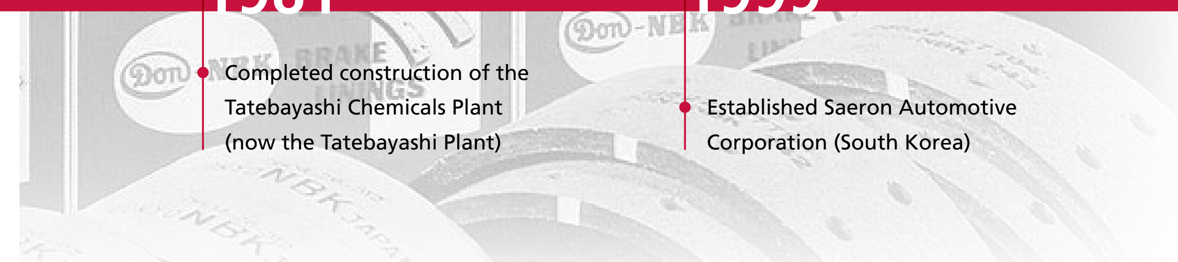
The Nisshinbo Group's Corporate History

Nisshinbo Holdings Inc. traces its roots back to Nisshin Cotton Spinning Co., Ltd., which was founded in 1907 to mass produce high-grade cotton yarn. After the war, the Company actively started to develop its operations by moving into non-textile businesses. Led by one of the key principles in its Corporate Philosophy – Public Entity – Nisshinbo's mission is to contribute to society through its business activities.

From 1945 onwards, amid Japan's post-war recovery and rapid economic growth, the Nisshinbo Group shifted its focus from its core, founding business of textiles to automobile brakes, chemicals and other non-textile businesses. In the 1960s, the automobile brakes business expanded, spurred by the growing popularity of cars in Japan. Nisshinbo also actively developed its precision instruments and chemicals businesses, building new plants and adding capacity.

The yen appreciated following the Plaza Accord in 1985, forcing the Company to restructure its operations. Textile and non-textile businesses also stepped up moves into overseas markets. In 1990, non-textile businesses generated more than half of the Group's sales for the first time.





1907
- Established Nisshin Cotton Spinning Co., Ltd.

1944
- Began production of friction materials

1946
- Nishi Arai Plant begins operations as a chemicals production facility
- Friction materials division starts production of brake linings, plastics division begins production of phenol-based plastics

1958
- Established Nihon Kohbunshikan Co., Ltd., begins production of plastic bobbins

1960
- Began production of rigid urethane foam in the chemical products field

1981
- Completed construction of the Tatebayashi Chemicals Plant (now the Tatebayashi Plant)

1997
- Established Nisshinbo Automotive Manufacturing Inc. (U.S.A.)

1999
- Established Saeron Automotive Corporation (South Korea)

2000
- Established Continental Teves Co., Ltd. (joint venture) (Now Continental Automotive Co., Ltd.)

2005
- Acquired additional shares in New Japan Radio Co., Ltd.

Committed to Consistent Integrity

Another key principle in Nisshinbo's Corporate Philosophy is Consistent Integrity. This was rigorously enforced by the Company's second president, Seijiro Miyajima, who began efforts to create a sincere and strong corporate culture that remains part of the Group's corporate DNA to this day.

After his appointment as executive director in 1914, Miyajima took a rigorous, rational approach to business management, taking the Company from loss to profits in the space of just six months. He also expanded the Group by actively acquiring other firms in the sector and by building new plants.

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.

A strong business base built over time

The Company's fourth president, Takeshi Sakurada, set out Five Key Functions of Business Management, which he linked to the first principle in Nisshinbo's Corporate Philosophy—Public Entity.

Sakurada made the decision to lead Nisshinbo into non-textile business fields, showing his foresight and skills as a business leader.

The Five Key Functions of Business Management

— Look after capital entrusted to the company by its owners
— Bring together skilled people and technologies in an organization
— Combine those skills and technologies with capital to create value
— Generate profits from goods and services at the distribution stage
— Redistribute profits

A New Era
as an *Environment and Energy Company* Group

After adopting a holding company structure in 2009, Nisshinbo Holdings Inc. embarked on a new era as an *Environment and Energy Company* group. The Company set out to transform the Group's earnings structure by combining technologies from across the Group to create new businesses and by actively acquiring companies through M&A deals. Focusing on four strategic business fields – wireless communications and electronics, automotive parts and devices, lifestyle and materials, and new energy and smart society – Nisshinbo will continue working to create a sustainable society.

▸ Challenge 2012

Three-Year Management Plan

Fiscal year ended March 2011
to fiscal year ended March 2013

Plan objectives
- Generate sustained growth in the environmental business
- Establish unique technologies and new businesses in the environment and energy fields

▸ Next 2015

Three-year Management Plan

Fiscal year ended March 2014
to fiscal year ended March 2016

Plan objectives
- Regenerate and expand the electronics business
- Strengthen the automobile brakes business
- Improve profitability and enhance global competitiveness in each business
- Expand the environmental business
- Generate synergies

▸ Long-term goals

for the fiscal year ending March 2026

The Nisshinbo Group is targeting net sales of ¥1 trillion and ROE of 12% in the fiscal year ending March 2026. To achieve those long-term goals, the Group will expand existing businesses, create new businesses and actively conduct M&A.

Guided by our corporate slogan, *Challenging towards a New Era of Technological Innovation & Super Smart Society*, we will work to raise the presence of the Nisshinbo Group in innovation, technology, marketing and business systems.

Long-term goals
Net sales: ¥1 trillion
ROE 12%

Net Sales of Nisshinbo Group

(billions of yen)

April 2009
Adopted a holding company structure

December 2010
Japan Radio Co., Ltd. and Nagano Japan Radio Co., Ltd. become consolidated subsidiaries

November 2011
TMD Friction Group S.A. becomes a wholly owned consolidated subsidiary

May 2015
TOKYO SHIRTS CO., LTD. becomes a wholly owned consolidated subsidiary

October 2015
Nanbu Plastics Co., Ltd. becomes a wholly owned consolidated subsidiary

March 2016
Nagano Japan Radio Co., Ltd. and Ueda Japan Radio Co., Ltd. become wholly owned consolidated subsidiaries of Japan Radio Co., Ltd.

April 2017
Papers business sold

October 2017
Japan Radio Co., Ltd. becomes a wholly owned consolidated subsidiary

Highlights

(For the years ended March 31)

	2013	2014	2015	2016	2017 (millions of yen)	2017 (thousands of US dollars)
Operating Results						
Net Sales	¥450,693	¥494,350	¥523,758	¥533,989	**¥527,274**	**$4,793,400**
Electronics	175,308	187,743	209,116	205,368	**190,852**	**1,735,018**
Automobile Brakes	118,849	148,699	161,887	165,037	**146,062**	**1,327,836**
Precision Instruments	24,520	28,655	28,608	29,525	**60,687**	**551,700**
Chemicals	8,150	8,810	8,138	8,285	**9,483**	**86,209**
Textiles	54,736	54,630	51,073	60,127	**55,842**	**507,655**
Papers	30,524	31,686	31,280	32,585	**32,648**	**296,800**
Real Estate	15,367	10,567	9,246	8,358	**8,084**	**73,491**
Other Businesses	23,239	23,560	24,410	24,704	**23,616**	**214,691**
Operating Income	13,394	13,175	13,744	12,617	**4,890**	**44,455**
Net Income Attributable to Nisshinbo Holdings Inc.	6,418	9,012	13,694	10,776	**3,575**	**32,500**
Financial Position						
Total Assets	¥551,933	¥611,311	¥678,486	¥651,793	**¥646,288**	**$5,875,345**
Equity	242,623	276,865	306,938	284,472	**275,753**	**2,506,845**
Cash Flows						
Net Cash Provided by Operating Activities	¥34,095	¥26,075	¥37,120	¥39,566	**¥26,768**	**$243,345**
Net Cash Used in Investing Activities	(10,973)	(19,862)	(21,271)	(22,793)	**(31,429)**	**(285,718)**
Net Cash Provided by (Used in) Financing Activities	(24,073)	(2,321)	(6,238)	(9,044)	**3,595**	**32,682**
					(yen)	(dollars)
Per Share						
Net Income Attributable to Nisshinbo Holdings Inc.	¥36.74	¥51.60	¥80.33	¥67.93	**¥22.52**	**$0.20**
Shareholders' Equity	1,198.67	1,369.78	1,634.07	1,472.26	**1,444.94**	**13.14**
Cash Dividends	15.00	15.00	15.00	30.00	**30.00**	**0.27**
					(%)	
Key Ratios						
Return on Assets (ROA)	1.2	1.5	2.1	1.6	**0.6**	
Return on Equity (ROE)	3.2	4.0	5.5	4.4	**1.5**	
ESG Indicators						
Number of Employees	22,083	22,052	21,387	23,055	**23,256**	
Number of Patents Approved	2,293	2,448	2,424	2,441	**2,402**	
Greenhouse Gas Emissions per Unit of Sales ($t\text{-}CO_2$/million yen)	1.62	1.48	1.43	1.37	**1.51**	

Notes: 1.The U.S. dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥110 = US$1.

2.In the fiscal year ended March 2017, Iwao & Co., Ltd. was merged with Nisshin Toa Inc., both of which are consolidated subsidiaries. The apparel textile operations of Iwao & Co., Ltd. included in the other businesses segment were reclassified under the textiles business segment as a result. Figures for the previous fiscal years have been adjusted to reflect this change.

To Our Shareholders

Transforming Strengths into New Value

Targeting continued growth as a solutions provider for today's global society in line with our new slogan: *Challenging towards a New Era of Technological Innovation & Super Smart Society.**

* A super smart society is defined as "a society where the various needs of society are finely differentiated and met by providing the necessary products and services in the required amounts to the people who need them when they need them, and in which all people can receive high-quality services and live a comfortable and active life that makes allowances for their various differences such as age, gender, region, or language." (Science and Technology Basic Plan, January 22, 2016).

Financial results for the fiscal year ended March 2017

In the fiscal year ended March 31, 2017, net sales declined 1.3% year on year to ¥527,274 million, operating income fell 61.2% to ¥4,890 million and net income attributable to Nisshinbo Holdings Inc. declined 66.8% to ¥3,575 million. There were two main reasons for the lower sales and profits.

The first reason was a weak performance by our electronics business. Segment profit in electronics declined ¥11,558 million, resulting in a segment loss of ¥3,240 million. Earnings deteriorated sharply at Japan Radio Co., Ltd., the segment's core company, due to a poor performance in the marine equipment business* amid a weak shipbuilding market and a slump in the marine transportation market. Japan Radio's solutions and specialized equipment business was also affected by a cyclical decline in large disaster prevention system projects.

The second reason was the strong yen. Shipments at New Japan Radio Co., Ltd. increased year on year, but profits declined, mainly due to forex factors, which had a large impact on earnings in our electronics business. Similarly, forex factors led to lower sales in the automobile brakes business. Excluding the impact of the strong yen, there was a steady recovery in profitability in the automobile brakes business, which reported operating income before goodwill amortization related to TMD Friction Group of ¥5,914 million, up ¥224 million year on year.

Performance in other business segments was largely firm.

* Effective from the fiscal year ending March 2018, the marine equipment business was renamed the marine systems business.

Japan Radio's restructuring program

Over the last few years, Japan Radio has been implementing a major restructuring program that included some radical reforms, such as the relocation of operations from Mitaka in Tokyo to Nagano and the conversion of Nagano Japan Radio Co., Ltd. and Ueda Japan Radio Co., Ltd. to wholly owned subsidiaries. However, one reason for the deterioration in earnings this fiscal year was the company's continued high exposure to domestic public-sector demand and to the market for large merchant vessels, reflecting a lack of speed in executing its business strategy.

Japan Radio is now working to end its dependence on domestic public-sector projects in the solutions business by actively reinforcing its sales network overseas. Aiming to grow sales of disaster prevention systems and other products, Japan Radio established a new joint-venture company in Indonesia in January 2017 with local partner the Warga Djaja Group, a major business conglomerate and a long-term business partner in our textiles business. The joint venture has already started sales and aftermarket service operations. We also plan to set up local subsidiaries in the Philippines and Vietnam.

Amid continued economic growth, we forecast rising demand in various countries across Asia as they improve port infrastructure and upgrade weather radar and disaster prevention systems. The Japanese government is also stepping up its support in this area, including the creation of a new project team by the Ministry of Internal Affairs and Communications to promote public-private sector partnerships. Our disaster prevention systems, which have captured a large share of the domestic market, are already widely used in Asia, where they have won strong support from users. Going forward, we plan to accelerate growth in this field by focusing on direct sales and the provision of maintenance services.

In the marine systems business, Japan Radio, led by subsidiary Alphatron Marine Beheer B.V., plans to actively convert global representative offices to full local subsidiaries and boost sales by expanding its lineup of products for small and mid-size vessels such as fishing boats and pleasure craft. Capturing overseas demand, particularly in Asia, also holds the key to growth in the marine systems business. We aim to become the world's leading integrated supplier of marine systems by providing data and service solutions to complement our existing operations developing and selling marine equipment. Our services will give users the ability to centrally control all types of shipping data, enabling the rapid gathering and sharing of information on ship-to-ship and ship-to-shore positions, leading to safer and more efficient shipping movements.

Harnessing the Group's strengths to develop ADAS

For the medium and long term, our main focus is on advanced driving assistance systems (ADAS) and other areas related to autonomous driving. Autonomous driving comprises three key areas of functionality — recognition, decision-making and control. At Nisshinbo, we are focusing on devices and systems related to recognition. Our goal is to develop and expand our ADAS business by drawing on the strengths of Japan Radio and New Japan Radio in radar, laser, sensor and semiconductor technologies. As part of that approach, we will convert Japan Radio into a wholly owned consolidated subsidiary of Nisshinbo Holdings Inc. in October, leading to faster and more effective decision-making and helping to accelerate growth in ADAS-related operations.

The Nisshinbo Group has supplied high-quality parts to automakers and Tier 1 parts suppliers in Japan and overseas for many years through its automobile brakes and precision instruments businesses. We aim to create a new growth business by combining the trust we have built up through those business relationships with the technological expertise in our electronics business.

It may take several years before we can launch products that contribute to earnings, but we are confident our ADAS and autonomous driving-related business can become a key part of the Group in the future.

Challenging towards a new era of technological innovation & super smart society

Challenging towards a New Era of Technological Innovation & Super Smart Society is the Nisshinbo Group's corporate slogan for 2017. Advances in technology are accelerating. Companies will fail to grow and develop if they do not consistently respond to new developments in the operating environment, such as smart societies and super smart societies. Our response is to think more carefully about what end-users really need from our products so that we can improve outcomes and the services we provide to customers. That will lead to greater satisfaction and more rewarding experiences for our customers, increasing the Nisshinbo Group's competitiveness.

Strengthening cooperation across the Group

As shown by the launch of our ADAS business, which harnesses synergies in our electronics, automobile brakes and precision instruments businesses, the Nisshinbo Group's greatest strength, and its greatest potential, lies in its ability to bring together diverse businesses and technologies to create new businesses. That means an optimal Groupwide approach is vital, which is dependent on internal cooperation.

In a Group as diverse as Nisshinbo operating in a wide range of regions and business fields, synergies will not materialize if employees communicate only with people in their narrow business fields. By venturing out of their respective areas and interacting with employees in other fields, our employees will help to create new businesses and increase the Group's corporate value.

Specific examples include efforts to optimize the Group, such as reinforcing manufacturing technology and upgrading IT infrastructure. We are also creating more opportunities for interaction between different R&D teams, enhancing our ability to identify promising business themes, and encouraging young employees to meet with counterparts across the Group to learn from each other and stimulate exchanges of ideas. We are rolling out a range of other initiatives as well: developing the ADAS and automotive business, adopting a shared services model for Group businesses, promoting information sharing between Group companies that are in the same country but in different business fields, and improving the efficiency of back office operations. All these initiatives are grounded in the Group's corporate DNA.

Groupwide cooperation also has a crucial to role to play in generating synergies with companies that have been acquired by or merged with the Nisshinbo Group. Nanbu Plastics Co., Ltd., which joined the Group in the previous fiscal year, has a strong position in molded plastic parts for medical equipment, as well as automotive parts. We plan to identify more business opportunities by combining the company's expertise in plastics with our manufacturing technologies in microwave products and medical ultrasound devices in the electronics business.

Our aim is to use M&A deals, existing businesses and R&D to generate new synergies and increase the number of new businesses to drive Nisshinbo's exponential growth. To support that, we will accelerate efforts to create a corporate culture that fosters diverse thinking and creates groundbreaking new business fields.

Our goals for the fiscal year ending March 2026

Our long-term goals are sales of ¥1 trillion and ROE of 12% in the fiscal year ending March 2026, although we are putting more importance on profit margins than sales. We envision sales growth of ¥250 billion from M&A deals and another ¥250 billion from growth in existing businesses and the creation of new businesses driven by successes in R&D. Again, cooperation across the Group will be key to generating synergies that support sales growth. In the period through to March 2026, we intend to invest around ¥400 billion in our business to drive growth. By stepping up cash flow management, we aim to exceed our current estimate for annual operating cash flow of ¥40–50 billion, providing more funds to invest in growth.

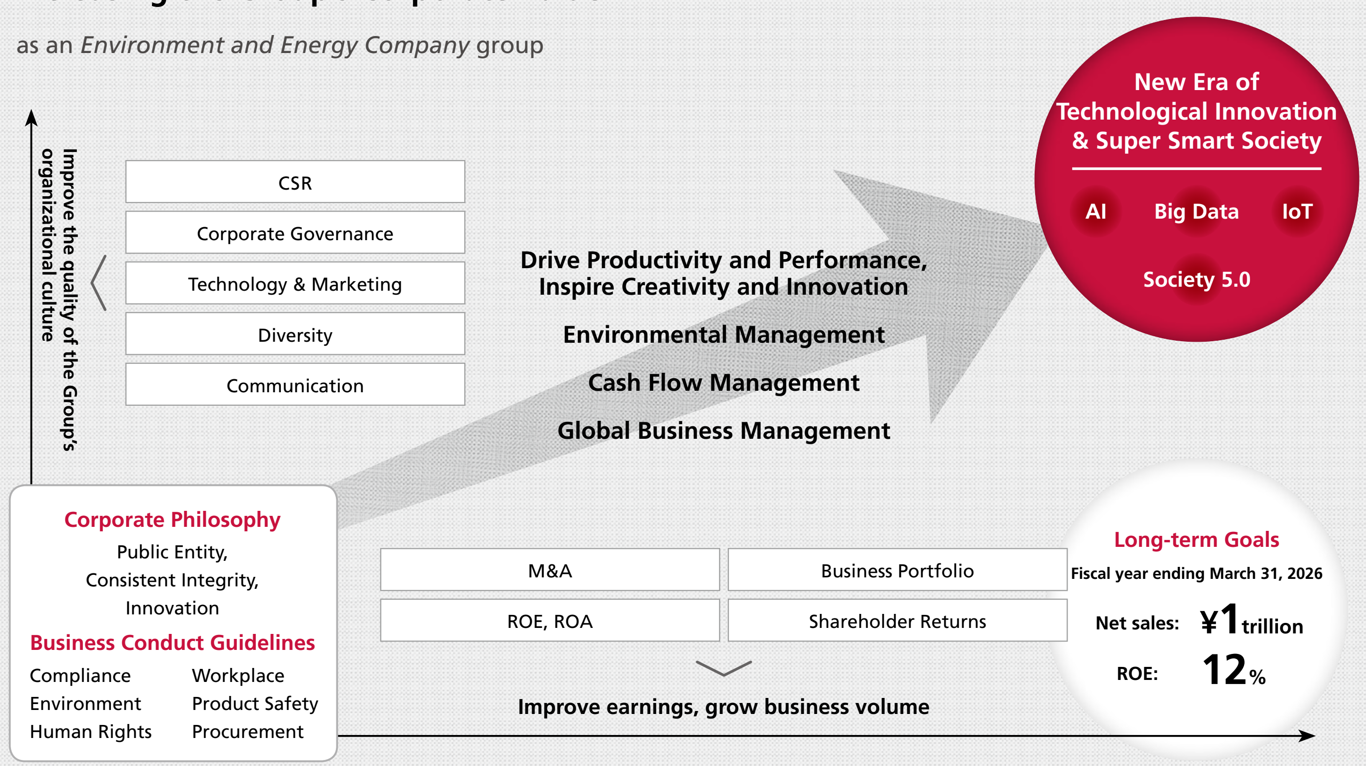
Our policy is to channel management resources into automotive and super smart society-related businesses, which offer good prospects for growth. The disposal of our papers business in April 2017 is in line with that strategy, and we intend to continue implementing our growth strategy backed up by similar decisions to optimize the Group based on a long-term perspective. We will work to boost profitability by improving asset efficiency, while taking into account the strength of the Group's finances and maintaining the shareholders' equity ratio at 30–40%.

We also plan to pay a stable and continuous dividend to shareholders. When the Group has sufficient internal reserves to fund investment in growth, such as R&D, increased capital investment and M&A deals, we will endeavor to return profits to shareholders through dividend hikes and share buybacks after considering factors such as financial stability.

After our acquisition of TMD, we booked annual goodwill amortization costs of nearly ¥6 billion for five years. The fiscal year ended March 2017 was the final year of that amortization schedule. During that period, TMD implemented a restructuring program that saw it consolidate, transfer and expand certain manufacturing sites, leading to an improvement in profitability. TMD is also generating synergies with Nisshinbo Brake Inc. in areas such as joint raw material procurement and workplace safety. With our global Groupwide strategy taking shape, the fiscal year ending March 2018 is set to be a major step forward for the Nisshinbo Group.

Increasing the Group's Corporate Value

as an *Environment and Energy Company* group



Our vision for the Nisshinbo Group

Our vision is to transform Nisshinbo into an *Environment and Energy Company* group that provides solutions for today's global society. To enhance the Group's presence, we need to provide new outcomes and services that society needs, supported by our strengths in manufacturing. We have identified seven key areas where we believe Nisshinbo can create new value: security, safety, disaster prevention, health, comfort, convenience and smart society. By reinforcing cooperation across the Group, every one of our employees can help create a deep-thinking corporate culture backed up by a connected, optimized organization.

The Group's business fields and classifications may change over the next ten years. Autonomous driving could develop into smart mobility or smart transportation covering ships, aircraft and all areas of land, sea and air transport. As changes emerge, we will employ flexible approaches and channel business resources into promising strategic areas to help realize a super smart society.

Meanwhile, we are continuing to implement corporate governance reforms as part of our efforts to become an even better global company. The Nomination Committee and Remuneration Committee, which were established voluntarily and largely comprise outside directors, started their activities during the fiscal year ended March 2017. Also, in June 2017, we put even greater emphasis on transparency by abolishing an internal system that allowed previous Presidents and Chairmen to stay on at the Company in an advisory role.

Geopolitical risk is rising worldwide and the business outlook is increasingly uncertain. Against that backdrop, we will strive to make an even greater contribution to global society in line with our vision for the Group — in the short term, medium term and long term.

June 2017

Masaya Kawata
President

The Nisshinbo Group's Financial Strategy

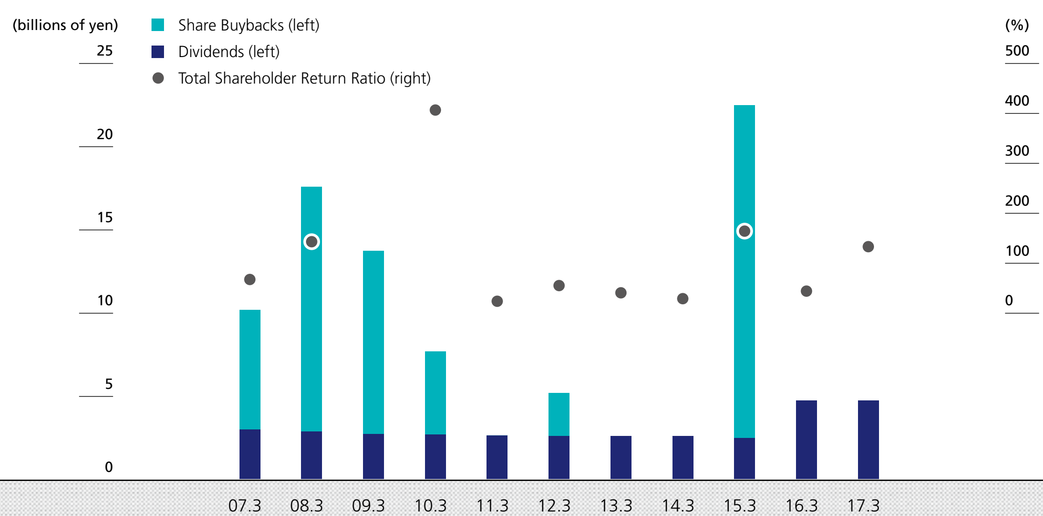
Takayoshi Okugawa
Executive Managing Officer
Chief of Business Support Center

The Nisshinbo Group's long-term goals are sales of ¥1 trillion and ROE of more than 12% in the fiscal year ending March 2026. To achieve those goals, we will use capital investment to grow existing businesses, invest in R&D to create new businesses and advance strategic M&A deals. We are implementing the following financial strategy to secure funds in support of those efforts.

Shareholder return policy

The Nisshinbo Group is targeting a consolidated dividend payout ratio of roughly 30% through stable and consistent dividends. For the fiscal year ended March 2017, we paid an annual dividend of ¥30 per share, the same as the previous fiscal year. Going forward, we are committed to paying a base-level dividend of ¥30 per share. When the Group has sufficient internal reserves to fund investment in growth, such as R&D, increased capital investment and M&A deals, we will endeavor to return profits to shareholders through dividend hikes and share buybacks after taking into account the Group's financial stability.

Dividends, Share Buybacks and Total Shareholder Return Ratio



Note: Total shareholder return ratio not shown for the fiscal year ended March 2009 due to losses in that year.

Promoting cash flow management

The Nisshinbo Group is using cash flow management to maximize funds from business earnings. Specifically, we have set working capital targets for each business and subsidiary, covering areas such as balance sheet inventories and receivables. Those targets are used to monitor operating results based on a PDCA cycle.

We have also introduced a cash management system (CMS). Domestic subsidiaries channel their funds to Nisshinbo Holdings Inc., which minimizes the amount of idle excess funds in the Group by transferring surplus cash to businesses with funding requirements. Our subsidiary in Shanghai carries out the same operations for local subsidiaries in China, while our subsidiary in Singapore is responsible for cash pooling for subsidiaries in the ASEAN region. In other regions, the Business Support Center at Nisshinbo Head Office carefully monitors the situation, using inter-company loans to balance cash surpluses and deficits.

Optimizing the business portfolio

Increasing return on sales (ROS) is the most important factor in improving return on equity (ROE).

In the fiscal year ended March 2017, we sold the Nisshinbo Group's papers business. This move was in line with our policy of channeling management resources into promising growth areas, such as automotive and super smart society-related businesses. Going forward, we will continue to implement our growth strategy while also boosting capital efficiency, in line with our goal of optimizing the Group's business portfolio.

The Nisshinbo Group closely monitors profitability at individual businesses in each business segment. When a business posts three successive fiscal years of losses, the management team begins discussions on whether to continue with the business. Potential new investment projects are analyzed by relevant business divisions and the Corporate Strategy Center, as well as by the Business Support Center, which develops feasibility studies examining the appropriate level of investment returns based on fund procurement strategy.

The Nisshinbo Group is currently considering whether to adopt December as a unified fiscal year-end for the whole Group, which would make it easier to monitor and compare the performance of businesses across the Group.

Procuring funds to achieve our long-term goals

To achieve our long-term goals, we envision sales growth of ¥250 billion from M&A deals and another ¥250 billion from growth in existing businesses and the creation of new businesses built on successes in R&D. During the period covered by our long-term goals, we plan to invest a total of roughly ¥400 billion to drive growth, including M&A deals, which are likely to require funding of approximately ¥250 billion. Over the whole period, capital investment should be fully offset by depreciation costs.

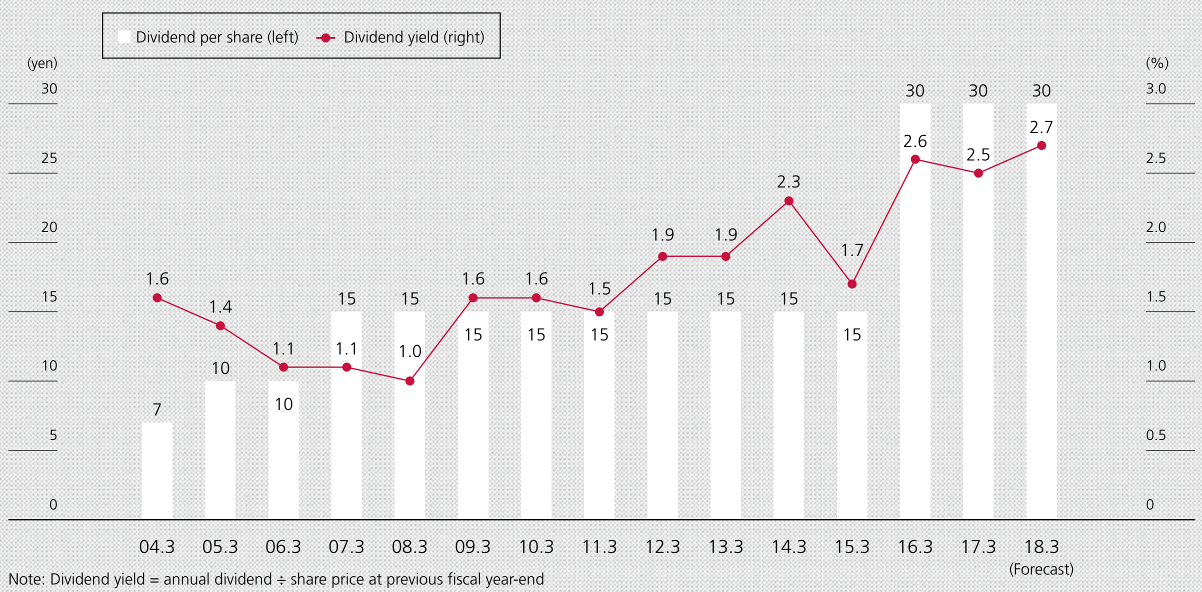
We intend to use cash generated by existing businesses to cover about 80% of the ¥250 billion in planned M&A spending. The Group's real estate business is set to play a key role here by redeveloping former business sites, leasing large commercial facilities and selling housing lots in partnership with major real estate developers to generate stable cash flow. We plan to procure the remaining 20% of required funds through borrowings, while ensuring a stable and robust financial position for the Group.

The Nisshinbo Group has a number of strategic shareholdings. In line with the Group's Corporate Governance Policy, we regularly assess the purpose and economic rationale for holding those shares. The results of the assessments are reported to the Board of Directors, which decides whether to retain or dispose the shares. Through this process, we have been steadily selling cross shareholdings and strategic shareholdings.

The shareholders' equity ratio was 35.5% as of March 31, 2017 and the balance of interest-bearing debt stood at around ¥110 billion as of May 31, 2017. To achieve our ROE target of at least 12% in the fiscal year ending March 2026, we do not envisage increasing the Company's financial leverage to an excessive level. We plan to maintain the shareholders' equity ratio at around 30-40% while continuing to take into account the Group's financial stability. We may issue corporate bonds as needed, in line with that policy. We recognize that improving the Group's earnings capabilities is also an important factor in reducing funding costs when bonds are issued.

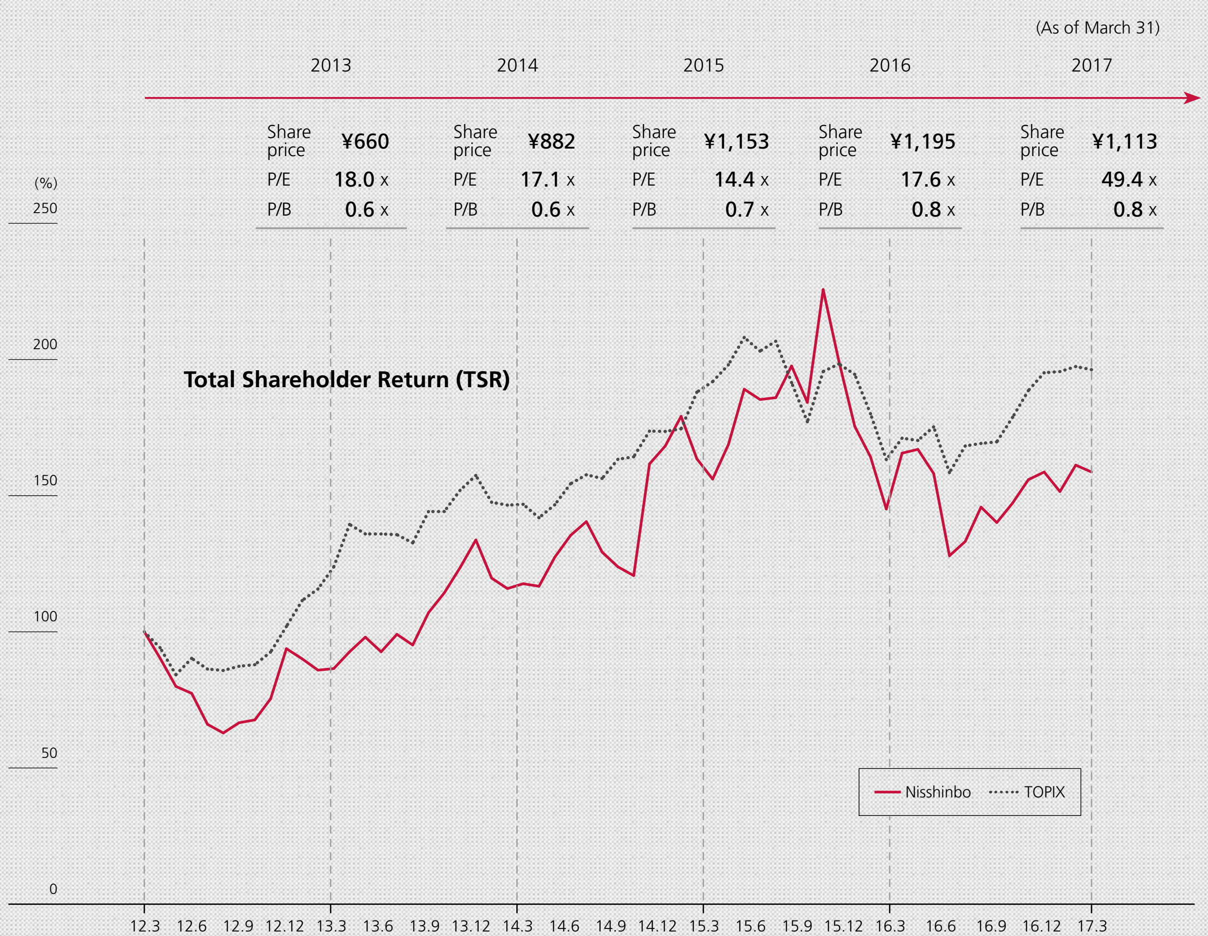
The Nisshinbo Group's Shareholder Value

Dividend per Share / Dividend Yield



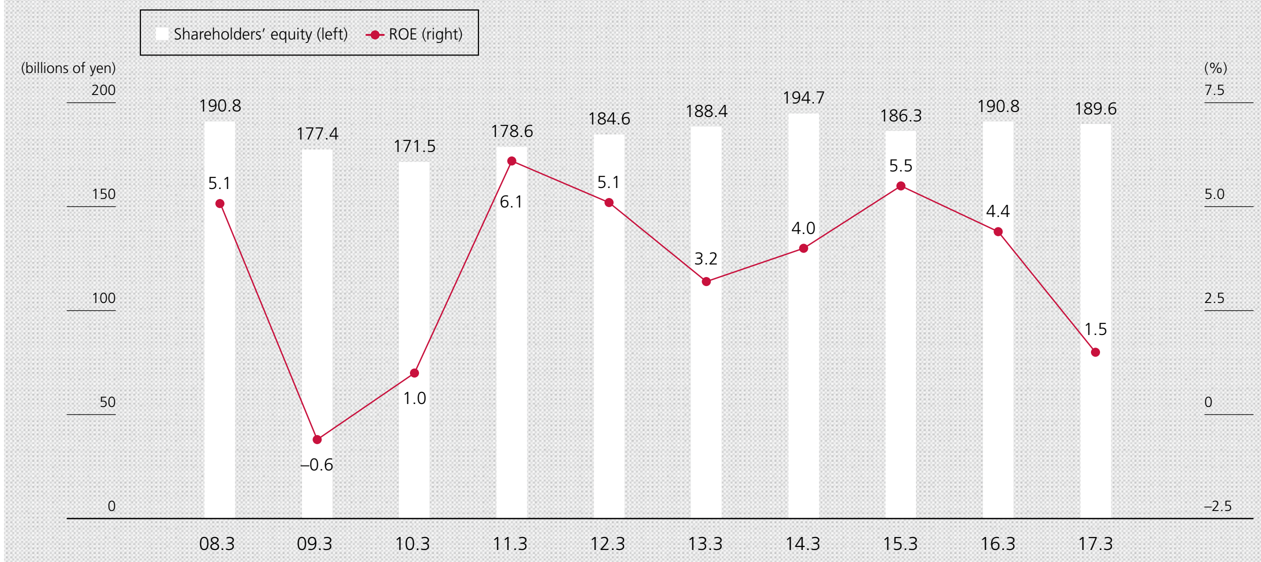
Note: Dividend yield = annual dividend ÷ share price at previous fiscal year-end

Share Price, P/E, P/B and TSR



Notes: 1. P/E = year-end share price ÷ net income per share (actual)
2. Total shareholder return = share price appreciation + dividends paid

ROE and Shareholders' Equity



Stock and Shareholder Information

Stock Basic Information

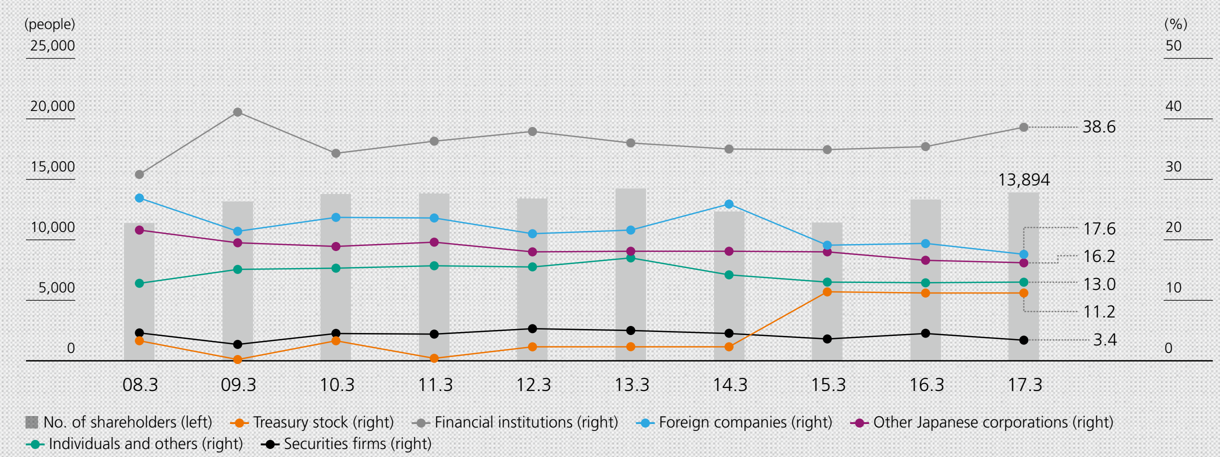
Stock market listings	Tokyo Stock Exchange, First Section; Nagoya Stock Exchange, First Section; Fukuoka Stock Exchange; Sapporo Stock Exchange
Sector	Electrical equipment
Stock code	3105
Number of shares per trading unit	100 shares
Business year	April 1 to March 31
Shareholder record date for dividends	March 31 (September 30 for interim dividend)
Total shares issued	178,798,939 shares (As of March 31, 2017)
Treasury stock	20,013,820 shares (As of March 31, 2017)

Major Shareholders

(As of March 31, 2017)

Shareholder name	Number of shares held (thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd.	24,225	13.55
Japan Trustee Services Bank, Ltd.	19,451	10.88
Fukoku Mutual Life Insurance Company	12,000	6.71
Trust & Custody Services Bank, Ltd.	7,302	4.08
Teijin Ltd.	6,028	3.37
Shikoku Chemicals Corporation	2,600	1.45
Mizuho Bank, Ltd.	2,300	1.29
The Japan Wool Textile Co., Ltd.	2,282	1.28
THE BANK OF NEW YORK MELLON 140044	2,188	1.22
Goldman Sachs Japan Co., Ltd.	2,000	1.12

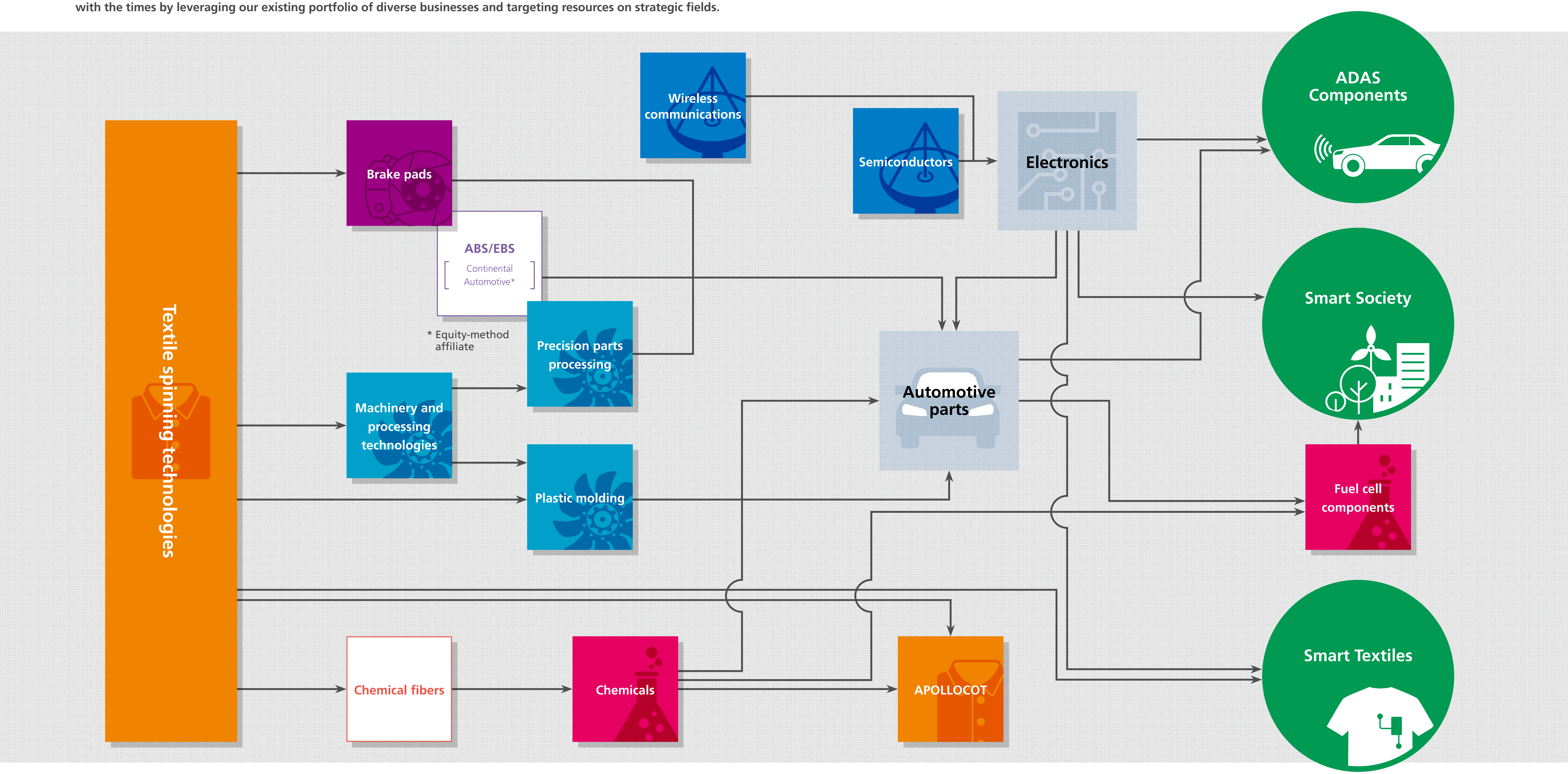
Number and Composition of Shareholders



The Nisshinbo Group's Business Model

Creating new value by mixing and matching technologies and businesses

Since the earliest days of the Company, the Nisshinbo Group has grown and developed by constantly mixing and matching technologies and businesses. Our business model is based on a process of creating new businesses in tune with the times by leveraging our existing portfolio of diverse businesses and targeting resources on strategic fields.



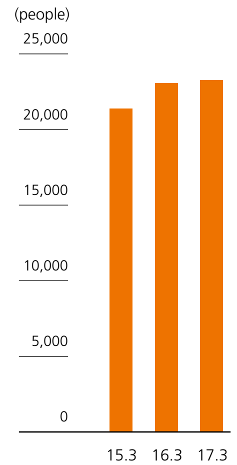
The Nisshinbo Group's Management Capital

The Nisshinbo Group aims to create corporate value by appropriately investing various management capital in business processes such as research and development, material procurement, manufacturing and sales activities, rather than simply increasing financial capital through its operations.

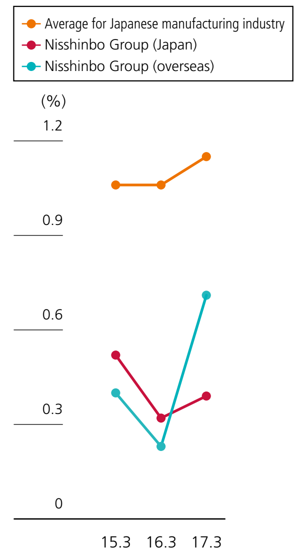
Underpinning this approach is the Corporate Philosophy of the Nisshinbo Group (see page 3 for more details). Based on this philosophy, the Business Conduct Guidelines of the Nisshinbo Group define standards of behavior expected of its executives and employees in six areas: compliance, the environment, human rights, workplace safety, product safety and procurement. We have also formulated the Nisshinbo Group CSR Procurement Basic Policy, 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



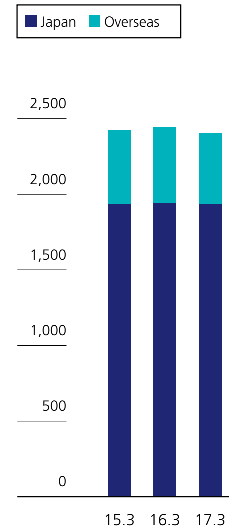
Frequency of injuries with lost work*



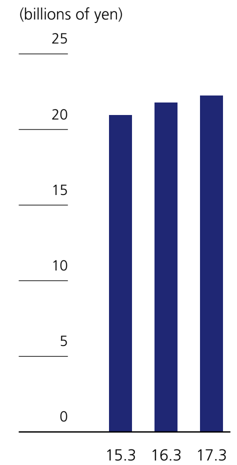
* Frequency of Injuries with lost work = (number of employees injured with lost work ÷ aggregate number of working hours x 1 million)

Intellectual Capital

Number of patents approved

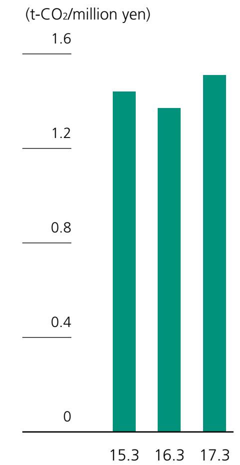


Research and development expenses

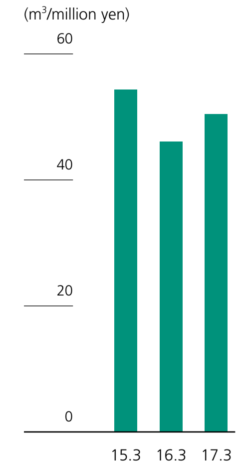


Natural Capital

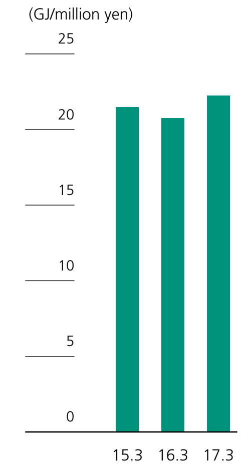
Greenhouse gas emissions per unit of sales



Water usage per unit of sales



Energy consumption per unit of sales



MATERIAL PROCUREMENT

We have formulated the Nisshinbo Group CSR Procurement Basic Policy, which sets out our basic stance on CSR initiatives across the entire supply chain.

In the fiscal year ending March 2018, we also formulated CSR Procurement Guidelines for Group companies to support steady progress in CSR procurement, which has now been added to the list of KPIs for Group companies. Going forward, we plan to work closely with our suppliers to implement CSR procurement.

MANUFACTURING

In workplace safety the Nisshinbo Group's conduct guidelines place top priority on safety in its business activities. Based on those guidelines, we strive to ensure a safe and agreeable workplace environment for all our employees. In the fiscal year ended March 2017, Nisshinbo Brake Inc. conducted safety training at its overseas business sites using hands-on training equipment. The aim of the program, which was also implemented at the company's domestic sites in the fiscal year ended March 2016, is to raise awareness of safety issues by giving each employee simulated first-hand experiences of dangers in the workplace.

DISTRIBUTION

The Nisshinbo Group is restructuring its logistics systems and improving distribution efficiency. TOKYO SHIRTS CO., LTD. has outsourced all its logistics operations to a major distribution company under a 3PL* contract. The company's logistics systems have been integrated into the distribution firm's infrastructure, leading to faster receiving, shipping and inventory management.

* Third-party logistics: A service provided by third-party distribution companies that offer cargo owners comprehensive and innovative outsourced logistics solutions covering product ordering, inventory management and IT systems.

SALES

The Nisshinbo Group is working to enhance product safety and quality to increase customer satisfaction. Japan Radio Co., Ltd. gathers information on any product failures and adds it to a product database. The information is used widely by the company to improve new and existing designs. To ensure the knowledge and lessons learned are passed on to future generations of product designers, Japan Radio has set out rules about registering information in the database and when to use it during the design stage. The chemicals business introduced a new sales support system in November 2016. The system allows us to rapidly gather product quality data and customer feedback and share it with all divisions, ultimately leading to improvements in customer satisfaction.

Feature: 01

Increasing Value in the Automobile Brakes Business

— Discussion with Senior Management

Koji Nishihara
Chairman
Nisshinbo Brake Inc.

John Hudson
President and Group CEO
TMD Friction Group

The first NISTMD Kaizen Activities Conference was held at the Tatebayashi Plant in April 2017.

It's now been five years since TMD joined the Nisshinbo Group. What have your companies gained from the relationship so far?

John Hudson: Before Nisshinbo Holdings became our principal shareholder, TMD had around 12 years in the private equity investor community, which tends to be focused more on the next one to two years. It was very good coming back under the ownership of a strategic investor. With the Nisshinbo Group, we now have the support of a large organization, and together with our Nisshinbo Brake (NISB) colleagues, we're able to look at a much longer time-frame of five to seven years, and sometimes 10 years or longer, when developing strategies for growing the business.

The benefits of that approach are numerous. The employees feel part of a much larger family, and that's important when we explain our long-term vision to them. We've been able to discuss openly with our NISB colleagues about common product development projects and share ideas and approaches on how to develop next-generation manufacturing technology.

Koji Nishihara: In the fiscal year ended March 2013, the first year after TMD became part of the Nisshinbo Group, the automobile brakes business reported an operating loss of ¥4.3 billion after goodwill amortization costs. In the most recent fiscal year, profits were almost back to breakeven. That ¥4.3 billion improvement in operating income over the last three years was driven by profits of ¥3.0 billion from TMD and profits of ¥2.5 billion from NISB, partly offset by an increase of ¥1.2 billion in goodwill due to a drop in the value of the yen. That illustrates just how important TMD has been in turning round the segment's earnings in recent years.

NISB made its first move into overseas markets in the late 1990s. After building several plants overseas, NISB appeared to be transforming itself into a more global company. But once we started working with TMD, it became clear that our overseas operations were merely an extension of our domestic business, retaining a strong Japanese business culture. With its different customers, origins and business approaches, TMD gave us a valuable insight into how to make NISB a truly global company.

To what extent have TMD and NISB integrated their businesses?

Koji Nishihara: Even before we completed the acquisition of TMD in November 2011, we were talking to their management team about our corporate mission, values and vision. We knew it was vital to create a common set of principles in order to bring together two companies with completely different backgrounds. Of course, it wasn't all plain sailing. It took time to work out how to combine our Japanese approach with TMD's Western business culture.

The main principles of the Nisshinbo Group's Corporate Philosophy are Public Entity, Consistent Integrity and Innovation. To help TMD employees understand our philosophy, we introduced PASSION, a catchword from a book written by Kazuo Inamori, founder of Kyocera Corporation.

John Hudson: PASSION stands for Profit, Ambition, Sincerity, Strength, Innovation, Optimism and Never giving up. We have created a related pamphlet and distributed it to all TMD employees to encourage them to think about the Nisshinbo Group's corporate principles.

One of the really positive aspects of the discussions we've had over the last five years is that both sides have identified processes and approaches they would like to adopt from each other. That sharing has highlighted different skills and different strengths that both parties can benefit from. To give an example, TMD and NISB took different approaches to strategic planning and long-term business planning. We combined the best parts from both companies to create a new NISB-TMD long-range planning process, in the same way that we shared understanding and knowledge in the joint development of next-generation, copper-free materials.

Koji Nishihara: After the merger, our first step was to create an Opportunity Team. TMD and NISB each selected several experts to join the team. Together they embarked on a global tour of TMD and NISB business sites to help them kick-start the process of integration.

In R&D, we developed a common set of green guidelines, including environmental standards on the type of base materials we should and shouldn't use in our future friction materials.

In procurement, probably the easiest area to make shared progress, we established a joint team to find ongoing cost savings in procurement.

We have taken several steps to integrate logistics operations, including relocating TMD Japan to NISB's Tatebayashi Plant.

We also created the Global Management Team (GMT), comprising myself, John Hudson, Seo In-Seok, who is President of Saeron Automotive Corporation (SAC) in Korea, and other key individuals. The GMT is a forum to share common challenges and discuss and decide the strategic direction of the business.

John Hudson: I think one of the most important aspects of the GMT is that it allows us to sit in the same room together and talk face to face about common topics. It's part of how we build the long-term working relationship inside the NISB-TMD organization. Without that forum, I think we'd lose a lot of opportunities.

We also run cultural awareness training sessions. Our organization is global, spanning Japan, Korea, Europe, China, Brazil, and Mexico, all home to different cultures. We have a lot of international business people in senior management roles at TMD, which has helped us support the Nisshinbo Group in its desire to become a more international business. But we still need to keep reminding our people that there are different cultures, as it's easy for them to automatically revert to what they understand and remember. So, we have to keep talking. We have to keep meeting. And by doing that, we steadily build a unified team approach.

Koji Nishihara: One German employee from TMD and a Korean employee from SAC currently work with us at NISB head office. We are also about to launch a joint CSR training program for TMD and NISB personnel, and every year we hold global meetings for each function in our operations, such as R&D, quality assurance and manufacturing technology.

John Hudson: And we do this also for HR and IT, so nearly all of the functions have regular meetings. Inside TMD, we hold a number of international conferences. We have an HR conference, an R&D conference and so on, and we invite NISB colleagues to attend. NISB itself has similar conferences, and we send people from TMD to participate. It's all part of a learning process to understand each other better, but it also helps us develop the next generation of products and manufacturing technology.

Koji Nishihara: In 2016, we launched a new project called Mission Zero, Step by Step to drive improvements across all business sites operated by TMD, NISB and SAC.

John Hudson: The goal is to reduce the accident rate to zero and quality issues to zero. At every business site in the NISB-TMD world, we've been running Kaizen improvement projects. Some of them are focused on safety, some on quality assurance, and others on efficiency in the factory. Drawing on the best of those Kaizen projects, we invite about 20 people from Kaizen teams across TMD to attend a joint event – this year it was in Tatebayashi. We then select the best Kaizen project in the whole NISB-TMD organization. But the greatest reward from bringing the teams together is that they start to understand what colleagues in Tatebayashi have been doing compared with their colleagues in Queretaro in Mexico, or colleagues in Romania, helping to share best practice around the group.

What progress have you made in realigning manufacturing in Germany and Brazil?

John Hudson: Both projects are on time and progressing well. In Brazil, we have a factory that is 50 years old. It's in the middle of a very desirable residential area with narrow streets, which makes it hard to bring in raw materials and ship finished goods. Local people also don't want to have a factory next door. So, with support from Nisshinbo Holdings, we set up a project to relocate the factory to a dedicated industrial area around 20 kilometers away. We plan to complete the move by the end of 2017. The existing site will undergo remediation before being sold.

In Germany, we have two factories less than 75 kilometers away from each other supplying original equipment (OE) parts for passenger car automakers. For a number of reasons, we decided to merge them into a single site. One site, like our existing Brazilian factory, is close to a residential area, but the main reason is to reduce costs, as running two factories is more expensive than one factory with a larger output. We've started building new facilities at our site in Essen and we plan to complete the project by the end of 2018.

We're installing next-generation manufacturing technology at both our new sites in Brazil and Germany. That should generate significant benefits, as the new technology will help us reduce headcount in manufacturing processes. We're bringing in the NISB philosophy on raw materials storage, raw materials handling, and raw materials mixing as part of efforts to further improve the quality of our products. We're making big investments and taking big steps in technology for both Brazil and Germany, in line with our agreed roadmap for next-generation manufacturing.

So, there are big improvements in the pipeline for manufacturing in terms of both unit cost and quality. Our employees will also have the opportunity to learn new skills. More computer and IT technology will be needed to automate the equipment but also to carry out online quality control checks.

What steps will you take to deepen cooperation between TMD and NISB?

Koji Nishihara: The most important thing is to maintain momentum in existing areas of cooperation. After studying numerous M&A deals, I'm convinced that basic business mergers are not the best way to ensure the Japanese approach to manufacturing takes root across a global organization. In my view, the easiest way to integrate two business entities is to retain the best parts of each company and gradually increase the scope of cooperation. However, management structures will, eventually, need to be combined. We plan to do this but the timeframe has not been finalized yet.

John Hudson: I think there are some areas where we've already made good progress. For example, in the independent aftermarket, we've agreed that the TMD independent aftermarket team will grow the business for NISB-TMD. So that's already under way. In sourcing, we have set up a project team to use the skills and processes within the TMD world and spread them across the whole organization.

Koji Nishihara: The emergence of regenerative brake systems* and automatic brake systems could lead to significant changes in our business. In the face of change, the most important thing we need to remember is that we have to leverage our technologies and problem-solving capabilities to keep our customers happy. We will enhance those strengths while also adding capacity and building networks to ensure our global customers worldwide are satisfied.

John Hudson: I think if we can keep communicating, keep the learning process going, and keep exchanging personnel, then we have a very strong future together.

* Hybrid and electrical vehicles are fitted with regenerative brake systems. Energy generated during braking is recovered as electrical energy, which is used to power the vehicle. Friction materials used in hybrid systems that use a combination of regenerative and conventional hydraulic brake systems are likely to last longer.

ADAS—A Promising New Field for the Nisshinbo Group

Based on our passion for innovation — an integral part of the Nisshinbo Group's Corporate Philosophy — we are committed to contributing to society through our business activities, aiming to provide value that leads to a safer and more secure society for everyone. We are now harnessing innovation in the automotive field to develop new products for advanced driving assistance systems (ADAS).

Masahiro Murakami
Senior Executive Managing Officer
Chief of Corporate Strategy Center

Using in-house technology to help solve social issues

As an *Environment and Energy Company* group, the Nisshinbo Group is working to help solve environmental issues and other challenges faced by society by channeling management resources into fields where it can make society safer and more secure. The automotive field is one area where we are already making a difference by supplying copper-free brake friction materials and parts for fuel cell vehicles (carbon bipolar plates). We are now moving into the field of ADAS by combining our strengths in wireless communication technology and electronic parts fabrication.

The internet of things (IoT) is an emerging trend in society. That trend is also spreading to the automotive field, where companies are pushing ahead with the development of the connected car and autonomous driving systems that can automatically perceive their surroundings, make decisions and control the vehicle. Those systems require large numbers of sensors and radars, which have to be more precise than ever before.

Using the wireless communication and sensing technologies of Japan Radio Co., Ltd. and the electronic device fabrication technology of New Japan Radio Co., Ltd., the Nisshinbo Group is well-positioned to address those needs. To maximize the value offered by both companies, we are leveraging the relationships built up by the automobile brakes business with automakers and Tier 1 parts suppliers and rapidly stepping up research and development activities, aiming to become a supplier of key components in the coming ADAS era.

Japan Radio's radar and sensing technologies hold the key to ADAS

Most ADAS currently rely on a combination of high-precision cameras and radars to detect obstacles. Japan Radio's radar technology is highly regarded in the industry and we have teamed up with one Tier 1 automotive parts suppliers in Europe to adapt and launch our technology for automotive applications.

Japan Radio is also working on other development projects for next-generation transport support systems, such as 11th generation GPS receivers with centimeter-level positioning accuracy (current receivers only achieve meter-level accuracy), ultrasound sensors, radars to detect cars travelling in the wrong direction on expressways, and radar-based traffic counters (poor weather and glare affects the accuracy of current camera-based systems). Japan's network of expressways already has various infrastructure in place to support those systems. Consequently, compared with other countries, Japan is well-placed to lead the global push towards autonomous driving on expressways.

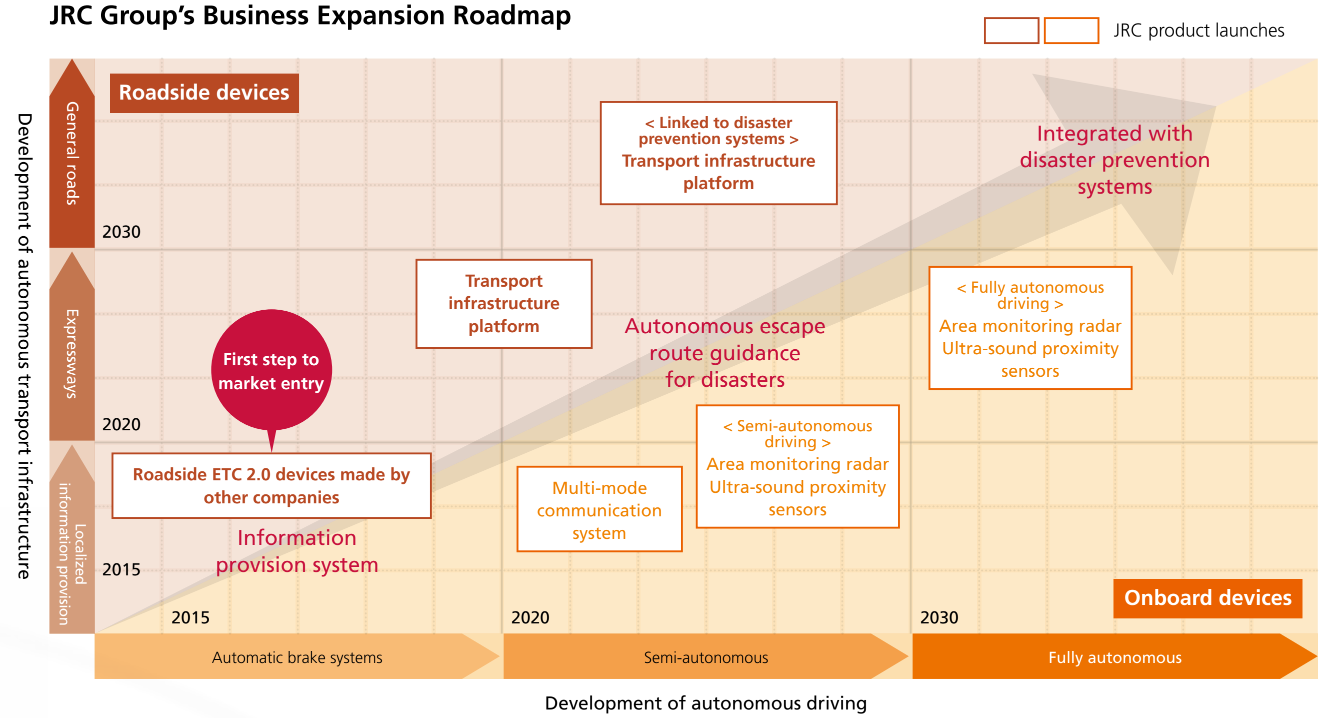
The global market for ADAS is projected to reach ¥1 trillion in the 2020s. Based on that outlook, we see the potential for sales worth tens of billions of yen for each of the Group's ADAS-related products from the late 2020s onward. Electronics companies are competing aggressively to develop ADAS products, but we believe the Nisshinbo Group can be one of the leaders in the field by harnessing its technologies and existing user base.

New Japan Radio making clear progress in the automotive field

New Japan Radio has been focusing on the promising field of automotive electronics for some time. Previous growth categories included power ICs for car navigation and car audio systems. As part of a joint Nisshinbo Group development team, the company has built closer links with automakers and Tier 1 parts suppliers. Those efforts are now translating into higher sales of automotive parts in new application fields, such as system control, powertrain and power supplies for onboard cameras. The company's sales of automotive electronic parts have doubled over the last few years, reaching around ¥10 billion in the fiscal year ended March 2017.

New Japan Radio also established a new business site in Frankfurt and secured VDA 6.3 certification, a Germany quality management system standard, in the fiscal year ended March 2017. The company is now ready to start expanding its automotive parts business in Europe.

JRC Group's Business Expansion Roadmap



Japan Radio, along with a Tier 1 Japanese automotive parts supplier, helped to develop the world's first GPS device for car navigation systems. Under its JRC brand, the company also has a large share of the ETC market for motorbikes and the top share in the ETC market for imported cars.

Japan Radio's 11th generation GPS receiver unit, due for release in 2018, achieves a step-change in positioning accuracy by reducing the margin of error from meters down to centimeters. The improved device is likely to play a key role in autonomous control for construction machinery, agricultural machinery and a wide range of other modes of transport, as well as passenger cars.

Meanwhile, Japan Radio's radar technology for ships, weather observation and aircraft was developed from a completely different perspective to the approach used by conventional automotive parts suppliers. Our prototype automotive radar device is highly regarded by our Tier 1 supplier partner, which was surprised by the radar's outstanding performance during testing.

In ADAS, vehicles need to recognize their surroundings, and radar is better-suited than cameras to that role because of excellent distance perception and an ability to operate in poor weather and detect obstacles. Japan Radio will leverage its technologies and the Nisshinbo Group's close links with automakers and Tier 1 suppliers to develop its ADAS business going forward.

Nisshinbo's work in the field of autonomous driving has only just begun.

Kinji Kato
Executive Officer
Communications Products Division
Japan Radio Co., Ltd.

The Nisshinbo Group's Human Resources Strategy

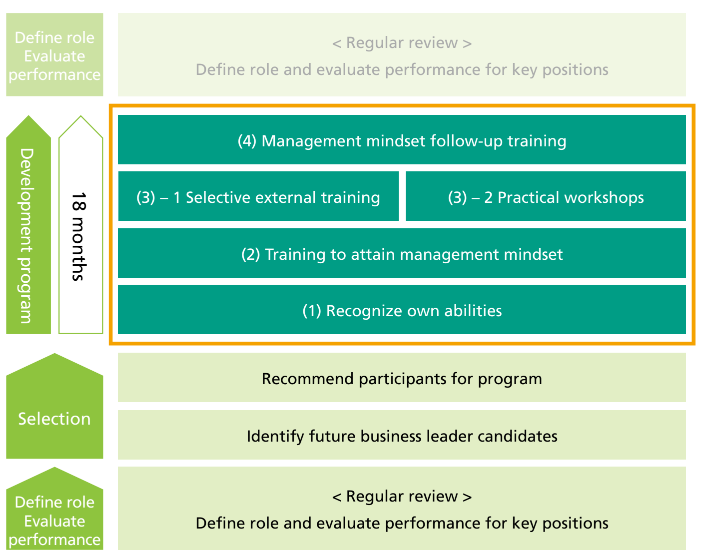
Based on the idea that people are vital to the success of companies, the Nisshinbo Group is training and enhancing its human resources to support its business operations. We are currently implementing our long-term goals, targeting net sales of ¥1 trillion and ROE of more than 12% in the fiscal year ending March 2026. To achieve those targets, we need to systematically support the development of human resources, particularly the people who manage our business. The key elements of our strategy are: (1) cultivate the next generation of business leaders, (2) promote diversity, (3) radically overhaul personnel systems, and (4) create a shared services model for the Group.

Makoto Sugiyama
Managing Officer
Human Resources and Administration Service Department
Diversity Development Department

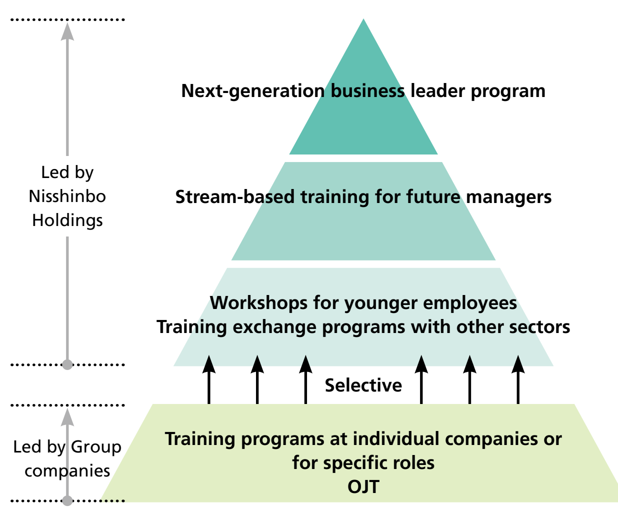
Systematically cultivating the next generation of business leaders

Personnel training starts as soon as new employees join the Company. General training programs are separated into streams that can eventually lead to promotion to mid-Level manager, section head and division head positions. In the fiscal year ended March 2015, we introduced a new specialist program for personnel who are earmarked to become senior managers. Participants in the program are selected based on recommendations from Group companies and must pass a vetting process carried out by the Board of Management. They then undergo 18 months of external training and practical workshops to give them the mindset and presence they need to fill their roles as business leaders. Every year we select around 10 employees to undergo this leadership training program.

Systematic process for cultivating the next generation of business leaders — overview



Systematic process for cultivating the next generation of business leaders — training framework



As a growing company planning to launch many new businesses in the near future as part of its business strategy, we believe it is vital to ensure we have people who can develop and expand those new businesses. One of the key roles of Nisshinbo Holdings Inc. is to put in place mechanisms that support the systematic development of the Group's human resources.

Promoting diversity

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 announced our own voluntary action plan in December 2014 to promote women to leadership positions. Under our plan, which has an end-date of 2020, we aim to (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. In line with this plan, Group companies have also developed general business action plans based on the Act on Promotion of Women's Participation and Advancement in the Workplace. Under their plans, Group companies have set concrete targets for the number of female managers and new recruits as part of efforts to actively support women in the workplace. We have already made progress towards our goals. In 2015, we appointed a woman to the Board of Directors and in 2017 we achieved our female recruitment ratio targets for clerical positions. We will continue to implement initiatives, such as tailored training programs for female employees and their line managers, to achieve all our final-year targets before the 2020 end-date.

Amid Japan's declining birthrate and aging population, older workers are increasingly important for the Group. We need to make it easier for them to continue working for us so that they pass on their wealth of skills and expertise.

Our goal is to ensure that our best employees, regardless of gender, age or other characteristics, continue to work for us as long as possible, helping to contribute to the Group's ongoing development.

Training our employees to be global business people

The Nisshinbo Group started expanding into overseas markets in the 1970s. Today, the Group has 131 business sites in 24 countries and regions. Due to the international nature of our operations, we are training our employees to give them global business skills. In Japan, we encourage employees aged below 35 to gain experience overseas and improve their language skills. We also hire overseas students who have studied in Japan to fill administrative positions in our domestic operations, and overseas subsidiaries are giving locally hired employees greater responsibility, including senior management positions. To drive Nisshinbo's development as a global company, we need to step up cooperation between management teams at all our companies to improve the Group's ability to expand overseas.

Improving communication between businesses

We believe a dynamic organization is vital to drive the Company's growth. Before we adopted the holding company system in 2009, communication between different departments and divisions was healthy. However, the holding company system led to the creation of separate operating companies, reducing opportunities for the exchange of ideas between employees at mid-Level manager and lower levels. To address that issue, the Business Development Division and the Human Resources and Administration Service Department started running workshops in December 2016 to encourage younger employees at Group companies, aged up to around 30, to develop future business ideas. Group company employees who are selected to take part in the workshops conduct interviews with senior managers and have detailed discussions with other participants, helping them to develop proposals for the Group's future business portfolio, which they then present to Nisshinbo's leaders. We believe this approach has the potential to play a significant role in driving the Group's growth going forward.

Overhauling personnel systems and introducing shared services

The Nisshinbo Group continues to move away from its legacy business of textiles, transforming itself into an *Environment and Energy Company* group that contributes to society by harnessing technologies in the electronics and automotive fields. Based on that strategic direction, we need to build a Groupwide framework for personnel systems and performance evaluation in order to drive growth by energizing communication between employees and generating synergies between different businesses. Specifically, we are adjusting seniority-based pay systems and progressively moving to compensation based on job type and ability.

Also, as the Group becomes bigger, business operations are becoming more complex and cumbersome, leading to inefficiencies in some areas. To address that issue, we are now rationalizing back office departments such as human resources, accounting, legal and general affairs, and intellectual property, and shifting to a shared services model to increase management efficiency.

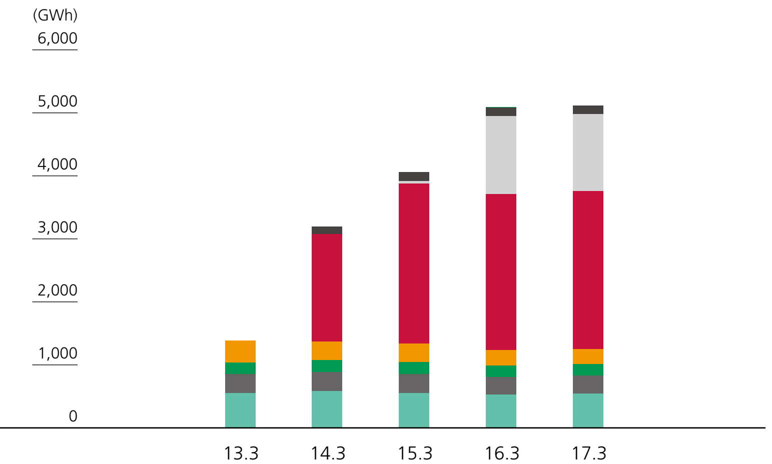
Implementing **Environmental Management**

As an *Environment and Energy Company* group providing solutions to help tackle humanity's greatest challenge – global environmental issues – the Nisshinbo Group is creating a framework to support the implementation of environmental management. We have set medium- and long-term environmental targets that dovetail with our business plans. By achieving those targets, we aim to help create a sustainable society.

Solar power generation in the Nisshinbo Group

We are actively installing solar power generation systems at business sites that require large amounts of energy, such as facilities that use thermal processing. In the fiscal year ended March 2017, installation work was mainly carried out at domestic sites, helping to lift the Group's total solar power generation to 5,118GWh.

Breakdown of business sites and subsidiaries with solar power systems:
Miai Machinery ■ Shimada ■ Chiba ■ Tatebayashi ■ Tokushima
Nisshinbo Precision Instrument & Machinery Hiroshima ■ other sites



Medium-term Environmental Targets: Key Themes and Results

(Fiscal year ended March 2016 to fiscal year ending March 2019)

Key themes	Step up efforts to maintain biodiversity	Promote Life Cycle Assessments (LCAs)	Increase the sales ratio for products that contribute to a sustainable society	Reduce energy consumption per unit of sales	Reduce greenhouse gas emissions per unit of sales	Reduce the volume of PRTR substance emissions per unit of sales	Improve the recycling rate
Targets for the fiscal year ending March 2019	Implement at one chosen business site in each core company	Ratio of total sales: 40% or more	Ratio of total sales: 40% or more	Reduction of 5% or more compared with fiscal year ended March 2015	Reduction of 5% or more compared with fiscal year ended March 2015	Reduction of 10% or more compared with fiscal year ended March 2015	90% or more
Initiatives	Protect rare species and implement initiatives to preserve forest and river environments.	LCAs involve quantifying the environmental burden and potential environmental impact on the planet and ecosystems of all inputs during a product's lifecycle, from materials sourcing through to disposal. LCAs provide a useful benchmark for designing environmentally friendly products.	Products and services that contribute to the realization of a sustainable society are defined in accordance with the OECD classification for environmental businesses. Products and services that do not come under that definition are assessed using rigorous internal standards. To contribute to humanity through our business activities, we are working to grow sales based on a holistic approach to production and sales.	We are installing solar power generation systems and switching to LNG and other gas-based energy supplies for key fossil fuel energy sources. The Group also selects highly efficient energy systems when upgrading facilities.	Most greenhouse gases originate from energy sources, so lowering greenhouse gas emissions and reducing energy usage are closely linked. Another key measure is reducing CFCs, which have a high global warming potential. CFCs are used in semiconductor fabrication processes. We are installing systems that break down those CFCs, leading to lower emissions.	PRTR substances are chemical compounds that are harmful to people and ecosystems. We have minimized emissions of PRTR substances by switching to alternative low-toxic chemical substances in manufacturing processes.	We are working to reduce raw material and packaging material volumes and effectively reuse waste. We are focusing on raising recycling rates at overseas sites.
Fiscal year ended March 2017	Implemented measures to protect the environment through nine specific projects	Ratio of total sales: 23%	Ratio of total sales: 45%	Energy usage up 5.1% compared with fiscal year ended March 2015	Emissions of greenhouse gases up 5.3% compared with fiscal year ended March 2015	Emissions of PRTR substances up 4.5% compared with fiscal year ended March 2015	84.7%
Progress and factors	Steady progress	Steady progress	Target for the fiscal year ending March 2019 already achieved; now expanding number of products.	Increase in usage reflected lower sales and higher energy usage in the electronics business.	Increase in usage reflected lower sales and higher emissions in the electronics business.	Increase in emissions was due to the addition of Nanbu Plastics Co., Ltd. to the Group.	Effectively reusing waste materials in manufacturing processes is an issue at overseas sites.

For more details, please visit the Nisshinbo Group's CSR website.
https://www.nisshinbo.co.jp/english/csr/

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

At a Glance

The Nisshinbo Group comprises six businesses: electronics, automobile brakes, precision instruments, chemicals, textiles 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.

Note: The papers business is no longer part of the Nisshinbo Group following its disposal in April 2017. Sales in the papers business totaled ¥32.6 billion in the fiscal year ended March 2017.

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 systems 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 systems:
  — Marine radar and communications equipment
+ 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

Manufactures plastic products for home appliance and automotive applications and supplies processed precision automotive parts and customized production equipment for customers worldwide, primarily in Asia.

+ Plastic products
+ Precision parts processing including parts for electronic brake systems (EBS)
+ 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 for biodegradable plastics and waterborne resins, 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

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

Segment Share

Net Sales (billions of yen)

	Electronics	Automobile Brakes	Precision Instruments	Chemicals	Textiles	Real Estate
Segment Share	36.2%	27.7%	11.5%	1.8%	10.6%	1.5%
Net Sales 16.3	205.3	165.0	29.5	8.2	60.1	8.3
Net Sales **17.3**	**190.8**	**146.0**	**60.6**	**9.4**	**55.8**	**8.0**

Overview of Business Segments

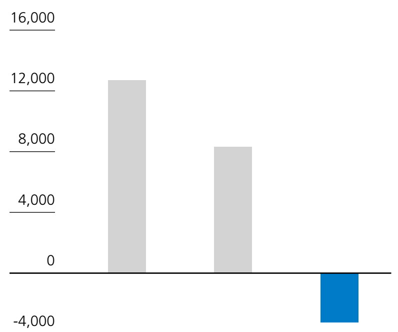
Electronics

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

Electronics is the largest segment in the Nisshinbo Group. Japan Radio Co., Ltd. is focused on wireless communications equipment and supplies disaster prevention systems and other public infrastructure-related products and mobile communications products for marine and automotive applications. New Japan Radio Co., Ltd. is focused on electronic components, supplying analog semiconductors, SAW filters and other electronic devices and microwave products.*

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

Segment Profit
(millions of yen)



Segment Profit Breakdown
(millions of yen)

	15.3	16.3	17.3
Japan Radio	7,713	3,183	**(5,486)**
New Japan Radio	2,918	3,127	**1,792**
Nagano Japan Radio	217	586	**—**
Ueda Japan Radio	974	743	**—**
Eliminations	881	679	**454**
Total	12,704	8,318	**(3,240)**

X band compact weather radar

Summary of financial results for the fiscal year ended March 2017

In the fiscal year ended March 2017, the electronics business reported net sales of ¥190,852 million, down 7.1% year on year, and a segment loss of ¥3,240 million, a deterioration of ¥11,558 million compared with the previous fiscal year.

In the marine systems field, Japan Radio Co., Ltd. reported lower sales of equipment for new merchant vessels and retrofit projects amid weak conditions in the shipbuilding and marine freight markets. Sales also fell sharply in the solutions and specialized equipment field, mainly due to a cyclical decline in major projects in the disaster prevention system business.

In the fiscal year ended March 2017, Japan Radio completed its new business site in Kawagoe. The company now has a research and development center and a fully integrated aftermarket servicing facility in the Tokyo area that can serve the entire Kanto region. Japan Radio also established PT. JRC SPECTRA INDONESIA, a joint-venture with a local partner in Indonesia. Amid continued growth in the Indonesian economy, the new company will target rising demand for improved coastal and port infrastructure and for upgraded disaster prevention systems.

Earnings at New Japan Radio Co., Ltd. were affected by the negative impact of the strong yen on sales of mainstay electronic devices, but demand was firm for automotive devices, particularly from domestic customers, resulting in higher overall sales year on year. However, the company was unable to offset the impact of the strong yen, leading to a sharp fall in profits compared with the previous fiscal year.

Targeting further business growth, New Japan Radio converted its sales office in Frankfurt, Germany into a company called NJR Europe GmbH, which will work to increase sales of automotive devices to car parts suppliers in Europe.

Business strategies for the fiscal year ending March 2018

In the electronics business, the priority issue is a recovery in earnings at Japan Radio. Domestic public-sector demand and equipment for large merchant vessels generate a high proportion of sales at Japan Radio, which is one reason for the slump in earnings in the fiscal year ended March 2017. To address that issue, we plan to strengthen the disaster prevention business in Indonesia and other emerging markets in Asia, expand operations in the automotive field and other private-sector markets and work together with subsidiary Alphatron Marine Beheer B.V. to enhance our lineup of products and services for small vessels.

Also, amid improvements in internet connectivity in the marine environment, we have launched an information service called J-Marine Cloud to support safe and smart ship operations. The service gives users access to a wide range of content, including weather information and optimal route planning tools. Taking that approach even further, we are looking into developing new value-added services that provide integrated vessel support. Specifically, we plan to harness big data such as information about the operational status of wireless and radar equipment supplied by Japan Radio and build systems that link various onboard equipment and systems to each other and the internet (marine IoT).

In the automotive field, we will continue to work towards the early launch of next-generation GPS receivers and cutting-edge radars for advanced driving assistance systems (ADAS). Automated control is likely to spread from passenger cars to construction machinery, agricultural machinery, small aircraft and other areas.

To accelerate the execution of our growth strategy, we plan to make Japan Radio a wholly owned subsidiary of Nisshinbo Holdings Inc. on October 2, 2017. We expect this move to enhance integrated business management through faster and more effective decision-making.

New Japan Radio is targeting automotive & industrial equipment, communication and microwave devices as three promising application markets. The company has overhauled its organization, creating a structure based on three businesses targeting those markets.

In the ADAS electronics parts business, the market for New Japan Radio's devices is expanding, supported by growth in the number of sensors required for each vehicle. ADAS typically use a combination of cameras and radars. To address growth in the ADAS market, New Japan Radio is working to rapidly develop power management ICs (PMICs) for those ADAS systems.

In Europe, we established a sales office in 2013 and started actively promoting our products. Those efforts have resulted in close business relationships with leading Tier 1 automotive parts suppliers in the region. Our parts have been certified to Germany quality standards and we are now targeting sustained growth in sales with the establishment of a new subsidiary in Germany.

A Center of Excellence with a Global Outlook

— Japan Radio's Advanced Technology Center in Nagano

The Nisshinbo Group has positioned wireless communications and electronics as a strategic business field. Japan Radio Co., Ltd., which is the core Group company in that field, transferred its operations from Mitaka in Tokyo to a new technology development center in Nagano two years ago. Since its creation in 1915, Japan Radio has played a pioneering role in communication and IT devices in Japan. The company is now aiming to step up its game as a manufacturer of cutting-edge electronic devices for the global market. In this section, we look at how Japan Radio's Advanced Technology Center is leading the company's technological development efforts.

After more than a century in business, Japan Radio worked with group companies Nagano Japan Radio Co., Ltd. and Ueda Japan Radio Co., Ltd. to restructure its business to support growth for another hundred years. The Advanced Technology Center, which was a key element of the restructuring program, was equipped with the latest equipment and facilities and given the remit to accelerate technology development as a center of excellence.

The building itself is designed to promote teamwork among engineers. The aim is to create an environment that maximizes innovation in manufacturing by harnessing the unlimited power of imagination to create a steady stream of new ideas that benefit society. The center's spiral atrium is used as a meeting space and presentation area, while also allowing people from different departments and teams to meet and exchange ideas easily. The roof and balconies on each floor have been designed as field testing areas and a well-equipped facility next to the center gives engineers a place to conduct environmental testing. The Advanced Technology Center's key mission is to cultivate the senses and imaginative power of every engineer, helping them to create new products and services that can compete in today's tough market environment.

Interview with the CTO

Takeshi Koarai
Director and Executive Officer
CTO
Japan Radio Co., Ltd.

Q1. It's now been two years since Japan Radio moved from Mitaka in Tokyo to Nagano. What is your take on the last two years?

We designed the Advanced Technology Center as a place to harness the creative power of our engineers, guided by our vision for the facility — a center of excellence in Nagano creating new products and services for the world. We also launched World Café, an event held with Nagano Japan Radio and Ueda Japan Radio once or twice each month to energize communication across the Japan Radio Group. The aim is to promote new ideas and creative thinking by encouraging topic-based discussion among small, fluid groups of four to five people in a relaxed setting.

Compared with our approach at Mitaka, these and other initiatives have created a stronger sense of cooperation between engineers across different teams. Efforts by the architects to embed the Advanced Technology Center in the surrounding natural environment have also reinvigorated our employees, spurring an even stronger desire to innovate.

Q2. What role does the Advanced Technology Center play in the Nisshinbo Group?

The Nisshinbo Group's growth was driven by its original focus on textiles, but it is now aiming to become an *Environment and Energy Company* group. Japan Radio and the electronics business as a whole have been given a key role in driving that transformation.

Research and development related to artificial intelligence (AI) and the internet of things (IoT), or the internetworking of physical devices, is vital to support the continued growth of the Japanese economy. Developments in those fields will make sensors that handle information and connected devices increasingly important, presenting a major opportunity for the IT sector.

Against that backdrop, Japan Radio is also targeting the field of mobility, including the highly promising growth market of autonomous driving, where we are working to adapt our existing radar technology to automotive applications. By maximizing the role of the Advanced Technology Center, we aim to foster close cooperation between technology and business divisions in order to grow automotive electronics into a major business for the Nisshinbo Group.

Insights from Engineers at the Advanced Technology Center

Makoto Shigeta
Radar Design Group
Product Design Department
Japan Radio Co., Ltd.

Committed to developing new products from the standpoint of customers

I develop marine radar systems for small vessels, such as fishing boats, merchant ships and working boats. As the eyes of the boat, radar systems are vital to protecting the lives of the crew. Developing products with that kind of crucial role gives me a great deal of job satisfaction.

The Advanced Technology Center has an open-plan design, making it easier to arrange and hold meetings with other teams. The move from Mitaka to the new center has helped energize communication between engineers, which is also driving forward our research projects.

At the moment, my focus is on ensuring we develop new marine radar systems that are reliable and satisfy customers. Going forward, I hope to create new products that give Nisshinbo a foothold in new markets, while always being mindful of customer needs.

Hitoshi Ito
Component Group
Technical Development Department
Japan Radio Co., Ltd.

Leveraging our marine technologies to move into new business fields

I develop satellite tracking antenna for ships. Ship antenna always need to be facing the satellite to ensure unbroken communication. Marine antenna therefore need control systems to compensate for the ship's motions on the water. As more satellites are positioned in orbit, control systems are becoming more advanced to prevent interference with other satellite communication links.

One of the strengths of the Advanced Technology Center is the way it encourages greater cooperation between engineers. When I was asked to develop new devices for automotive applications, it was easy for me to organize meetings with the automotive team, helping to foster good communication.

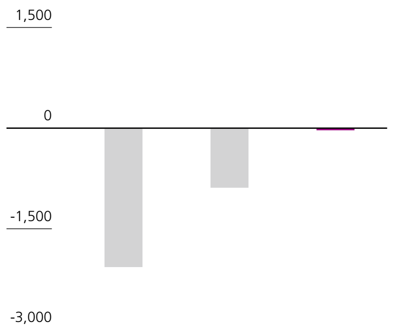
We have a high degree of confidence in the technologies we accumulated through the development of marine systems. We now plan to transfer that expertise to cars and other modes of land transport, contributing to the creation of a new business for the Nisshinbo Group.

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 Loss
(millions of yen)



Segment Loss Breakdown
(millions of yen)

	15.3	16.3	17.3
NISB* —Domestic	1,950	1,142	**1,486**
NISB —Overseas	5,267	5,722	**5,045**
TMD	1,013	1,725	**2,068**
TMD acquisition costs, etc.	(10,298)	(9,475)	**(8,606)**
Total	(2,069)	(887)	**(7)**

* Nisshinbo Brake Inc.

Disc pads

Summary of financial results for the fiscal year ended March 2017

In the fiscal year ended March 2017, the automobile brakes business reported net sales of ¥146,062 million, down 11.5% year on year, and operating income before goodwill amortization of ¥5,914 million, up 3.9% year on year. The automobile brakes business booked goodwill amortization costs of ¥5,921 million related to the acquisition of TMD, resulting in a segment loss of ¥7 million, an improvement of ¥879 million from the previous fiscal year. The amortization schedule for goodwill related to the acquisition of TMD was completed in the fiscal year ended March 2017.

In domestic operations, sales declined due to the impact of lower sales volumes for light vehicles, but an improvement in the product mix and other factors lifted profits year on year. Overseas, sales and profits rose in the US, China and Thailand on a local currency basis, but the impact of the strong yen resulted in lower sales and profits after foreign currency translation. In South Korea, domestic auto sales were healthy, but overall sales and profits declined amid weak auto exports.

Sales contracted at TMD, reflecting weaker demand for after-market products and the impact of the strong yen on sales after foreign currency translation. However, the operating loss narrowed due to cost reduction measures.

Business strategies for the fiscal year ending March 2018

In the fiscal year ending March 2018, we forecast domestic new car sales in line with the previous fiscal year. In the US, new car sales have been trending at a high level, but we forecast sluggish sales volume as replacement demand tails off. We expect new car sales to remain on an upward trend in China, but growth is likely to be modest. In Thailand, we anticipate a recovery in the new car market, supported by growth in the economy and replacement demand. In Europe, the UK's decision to leave the EU is a potential downside risk for new car sales, but we forecast continued modest growth as sales in Central Europe are firm and sales in Eastern Europe are currently in a medium- and long-term recovery phase.

Against this backdrop, the automobile brakes business will step up efforts to expand and realign its production framework, with TMD planning to complete the move to a new plant in Brazil during 2017 and finish integrating two manufacturing sites in Germany during 2018. In 2016, the automobile brakes business started selling Nisshinbo-branded aftermarket products in the Middle East market and we are planning to build a global production, sales and supply framework with TMD.

TMD has already started volume production of low-steel friction materials that are compatible with new regulations on copper content*[1]. We forecast further growth in production of these materials after TMD completes the integration of its manufacturing sites in Germany. Nisshinbo Brake Inc. has started volume production of NAO*[2] materials and the pace of output is scheduled to rise from summer 2018.

Next-generation vehicles such as electric, plug-in hybrid and fuel cell vehicles are projected to gain ground in the car market. As the world's leading maker of brake friction materials, the Nisshinbo Group will rapidly develop new products to address changes in the market in order to further expand market share.

*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

A Mother Plant Supplying the World

— Nisshinbo Brake's Tatebayashi Plant

The Tatebayashi Plant is the main domestic manufacturing site of Nisshinbo Brake Inc. The plant produces brake pads and brake linings for the automotive sector in Japan and for export markets. As the mother plant in the Nisshinbo Group's automobile brakes business, Tatebayashi has developed manufacturing approaches that achieve high levels of operational safety, product quality and efficiency. These approaches are transferred worldwide to other plants in the Nisshinbo Group. Tatebayashi is also responsible for developing new products such as copper-free brake friction materials.

Overview of the Tatebayashi Plant

The Tatebayashi Plant is located in Ora-machi on the outskirts of Tatebayashi City in Gunma Prefecture. The vast site of more than 120,000m^2 houses two disc pad production plants and one brake lining production plant. Tatebayashi also has a research center and a testing center. The plant's onsite facilities and prime location make it an ideal place to develop and manufacture brake products.

Disc pad production started in 1981, followed by brake lining production in 1989. The friction materials division at the Tokyo Plant was transferred to the Tatebayashi Plant in 2000, resulting in today's integrated automobile brake product facility. The plant had a workforce of 670 as of March 31, 2017.

Safety-first manufacturing

Nisshinbo Brake puts the highest priority on workplace health and safety at the Tatebayashi Plant. After many years of workplace safety initiatives, only a handful of incidents occur at the plant each year, down sharply from levels in the past. Our analysis of incidents in recent years shows that almost no accidents are caused by physical factors that create unsafe conditions inside the plant. Many accidents are in fact caused by unsafe practices by experienced employees as a result of over familiarity with processes or inattention. Based on that analysis, we launched a program to eliminate accidents with lost work days and accidents with no lost work days (full recovery seven days or more) in the fiscal year ended March 31, 2017. Under the program, we implemented a number of priority safety initiatives that limited workplace accidents to just one during the entire fiscal year. The sole accident involved no loss of work days and the employee recovered fully in less than seven days.

We are transferring these health and safety activities to overseas plants in the automobile brakes business. Initiatives include assessing the quality of health and safety management systems and running Safety Dojo* training sessions overseas. In July 2016, we invited representatives from Nisshinbo Brake's Chinese plant, Saeron Automotive's Korean and Chinese plants, and TMD's three Chinese plants to take part in a health and safety seminar to raise awareness and exchange ideas.

* A mobile training facility used to teach employees about the importance of workplace safety through 13 hands-on training tools that simulate being caught in machinery and other accidents.

Priority Safety Activities

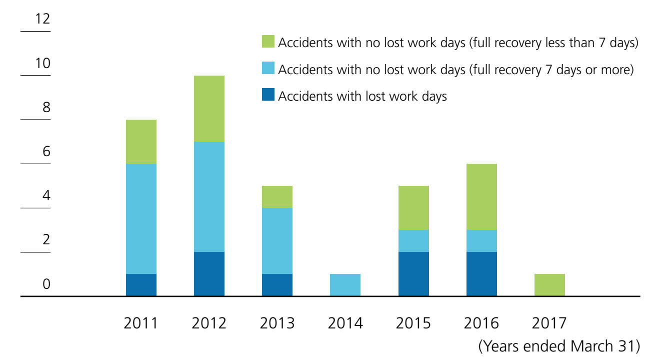
1. Conduct risk assessment
2. Establish forklift safety instruction
3. Establish safety instructions for dangerous area (which could have serious accidents)
4. Ensure compliance with internal safety regulations
5. Ensure standard procedures regarding accidents

Toshiyuki Takazawa
General Manager
Friction Material Manufacturing Department
Nisshinbo Brake Inc.

Yasuki Hattori
Managing Officer
Research & Development
Nisshinbo Brake Inc.

Yasuji Ishii
President
Nisshinbo Brake Inc.

Number of Workplace Accidents



Continuous Kaizen activities

The Tatebayashi Plant began Kaizen activities in 1998 after learning about the Toyota Kaizen approach from Toyota Motor Corporation. Nisshinbo Brake subsequently developed its own Kaizen program, which has been progressively rolled out to plants overseas during the last five years.

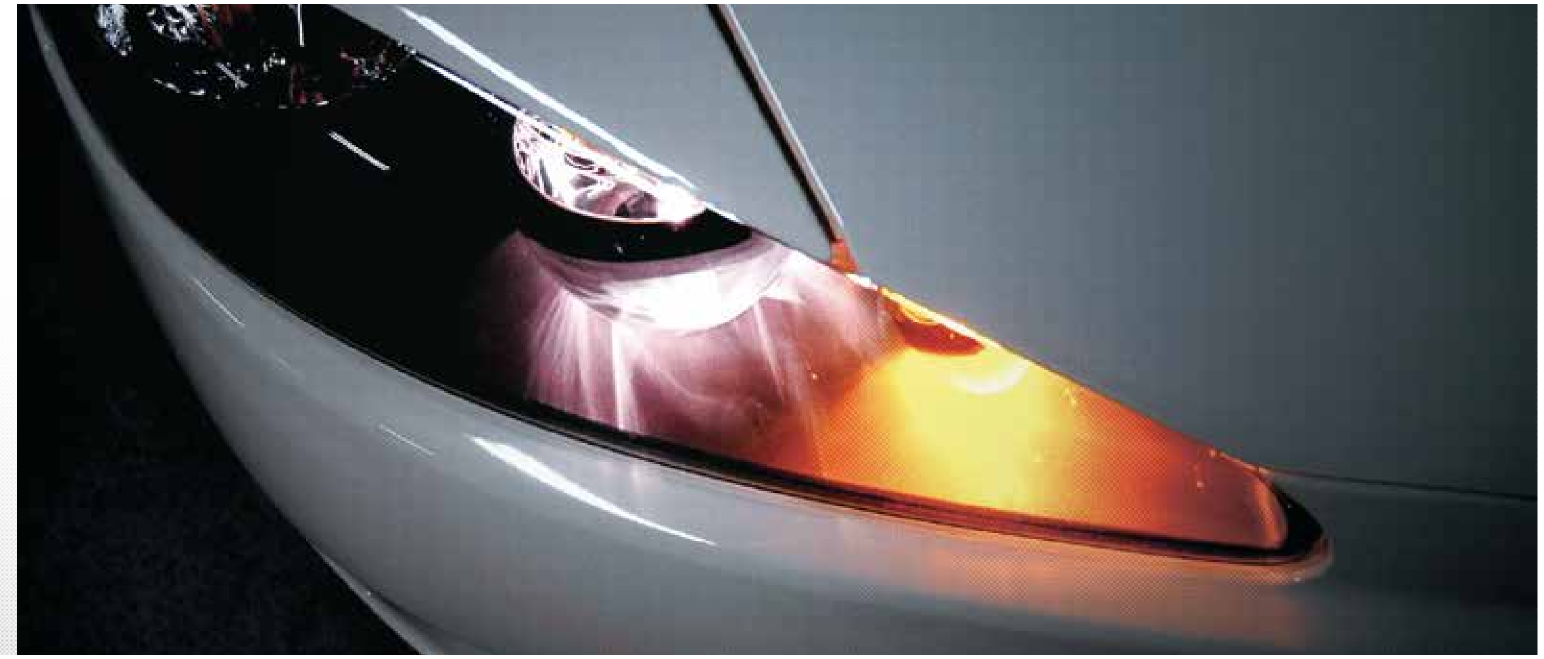
The Kaizen program was extended to TMD in 2016 under the Mission ZERO Step by Step banner. We are using Kaizen activities to improve the Group's entire operating structure by building stronger links between our employees, regardless of division and country, to promote sharing of best practices, invigorate teams and further improve cost competitiveness. An emphasis on profits based on KPIs and human resources training are two key elements of the activities.

Each business site also runs presentations about Kaizen activities at their facilities. In the fiscal year ended March 31, 2017, 108 people who took part in those presentations at business sites in ten countries worldwide were invited to the first NISTMD Kaizen Activities Conference, which was held at the Tatebayashi Plant in April 2017.

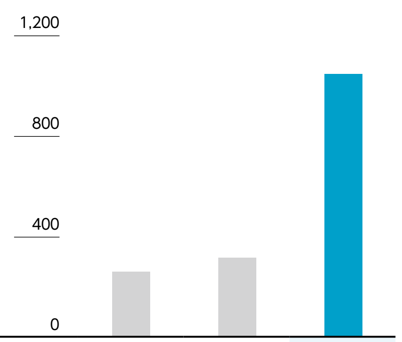
Precision Instruments

Nisshinbo Mechatronics Inc.

Utilizing various areas of expertise accumulated over more than 70 years, this segment focuses on plastic products, mainly for the home appliance and automotive sectors, and precision parts processing, primarily metal processing for the automotive sector. The segment also makes customized production equipment to meet the specific needs of customers. We are developing these businesses globally, centered on Asia.



Segment Profit
(millions of yen)



Segment Profit Breakdown
(millions of yen)

	15.3	16.3	17.3
Mechatronics	(509)	(88)	**808**
Plastic products	853	448	**1,204**
Eliminations	(81)	(42)	**(964)**
Total	264	318	**1,049**

Automotive EBS valve block

Summary of financial results for the fiscal year ended March 2017

In the fiscal year ended March 2017, the precision instruments business reported net sales of ¥60,687 million, up 105.5% year on year, and segment profit of ¥1,049 million, up 229.4%, mainly reflecting the consolidation of Nanbu Plastics Co., Ltd. in October 2016.

In precision parts processing, sales and profits both rose year on year, mainly due to the full-scale start of volume production parts for electronic steering systems at Nisshinbo-Continental Precision Machining (Yangzhou) Co., Ltd., a joint venture with Continental Automotive Holding Co., Ltd.

In plastic products, sales and profits both increased year on year, supported by the consolidation of Nanbu Plastics Co., Ltd., rising orders for air conditioner fans and an improvement in productivity. In automotive parts, Nanbu Plastics Co., Ltd. is working to increase orders for high value-added lamp components such as thick-walled lenses. To generate business synergies, Nisshinbo Mechatronics Inc. and Nanbu Plastics Co., Ltd. are exploring ways of sharing their domestic and overseas business sites and the customer network of Nanbu Plastics Co., Ltd. in order to further increase orders for automotive parts.

In customized production equipment, sales declined due to a contraction in photovoltaic module manufacturing operations, but cost savings helped to narrow losses.

Business strategies for the fiscal year ending March 2018

In the precision instruments business segment, we are focusing on plastic products as our core business, targeting expansion in the home appliance and automotive fields. We forecast sales growth for plastic parts in the automotive field, which is a growing market, and also in the home appliance field, where Japanese air conditioner makers are stepping up global expansion. Nanbu Plastics Co., Ltd. became a consolidated subsidiary 18 months ago. We are exchanging personnel with the company, sharing information between departments and exploring ways to realize synergies by sharing business resources. By leveraging those synergies, we aim to expand our presence in both the home appliance and automotive fields.

In precision parts processing, Nisshinbo-Continental Precision Machining (Yangzhou) Co., Ltd. is bringing forward its capital investment plans to address rising demand from customers. It is also accelerating efforts to add extra production capacity.

In customized production equipment, we plan to strengthen our presence in automotive components, the aerospace and energy fields, and OEM products. We also aim to increase margins by improving design efficiency and productivity.

ESG information

Training activities at Nanbu Plastics

Nanbu Plastics Co., Ltd., which joined the Nisshinbo Group in October 2015, has created a pamphlet summarizing the Nisshinbo Group's Corporate Philosophy and Business Conduct Guidelines in a single document. The company distributed the compact and easy-to-carry pamphlet to its employees and those of its subsidiaries and held a training course as part of a management policy briefing in January 2017. Nanbu Plastics uses the pamphlet to share the Corporate Philosophy and Business Conduct Guidelines with new employees and mid-career recruits during training when they join the company.

Nanbu Plastics also conducted human rights awareness training for some 70 management-level employees to instill the Nisshinbo Group's stance on human rights, part of the Business Conduct Guidelines.

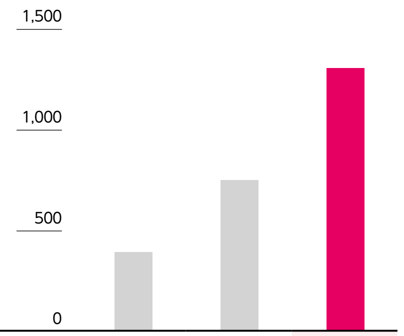
Pamphlet containing Corporate Philosophy and Business Conduct Guidelines

Chemicals

Nisshinbo Chemical Inc.

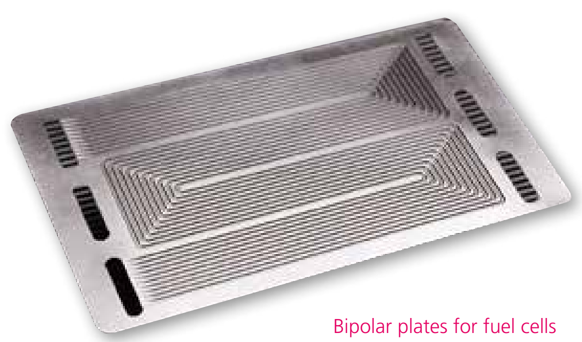
This segment is pushing ahead with the development of environment-related products on a global basis, drawing on a broad base of expertise and intellectual property in the chemical field. Our environment- and energy-related products include bipolar plates for fuel cells and Carbodilite, a high-performance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

Segment Profit
(millions of yen)



Segment Profit Breakdown
(millions of yen)

	15.3	16.3	17.3
Environmental & Energy Business	457	636	**1,098**
Others	(102)	18	**137**
Subsidiaries	41	97	**74**
Eliminations	0	1	**0**
Total	396	753	**1,309**



Bipolar plates for fuel cells

Summary of financial results for the fiscal year ended March 2017

In the fiscal year ended March 2017, the chemicals business reported net sales of ¥9,483 million, up 14.5% year on year, and segment profit of ¥1,309 million, up 73.9%.

In thermal insulation products, orders increased for insulation base solution for civil engineering and spray-on applications, and for rigid urethane insulation blocks and refrigeration panels for LNG carriers, leading to higher sales and profits compared with the previous fiscal year. In bio-carriers for wastewater treatment, private-sector companies in China started adopting our products to address tighter environmental regulations. We are working to expand sales of bio-carriers for wastewater treatment in the private sector, while also stepping up sales promotion activities to encourage public-sector sewage treatment facilities to adopt our products.

In functional chemicals, sales and operating income both exceeded our forecasts due to strong demand for Carbodilite. We are receiving a high level of inquiries about Carbodilite, particularly for use as a safe, environmentally friendly waterborne cross-linking agent that strengthens molecular bonds and as a biodegradable modifier that improves the durability of plastic.

Sales of fuel cell bipolar plates declined, mainly due to weaker shipments of residential fuel cells.

In carbon products, orders increased amid strong demand for semiconductors and OLED panels, with sales and operating income both reaching our forecasts.

Business strategies for the fiscal year ending March 2018

The chemicals business will continue to step up development and marketing efforts for Carbodilite, fuel cell-related products, bio-carriers for wastewater treatment and carbon products.

We will work to expand sales of Carbodilite as a cross-linking agent for waterborne resins and as a biodegradable plastic modifier. Over the medium and long term, we also see prospects for growth in Carbodilite demand for automotive coating applications. Meanwhile, more countries, particularly in Europe, are introducing restrictions on the use of non-biodegradable plastics.

In fuel cell bipolar plates, growth in the residential fuel cell market is slowing.

In bio-carriers for wastewater treatment, we forecast rising demand in the public-sector sewage treatment field, as well as continued growth in the private-sector wastewater treatment market. We plan to run field tests for sewage treatment applications in the near future as part of efforts to promote our bio-carriers for use in major projects. We have also started targeting demand for sewage control in agricultural communities.

In glass-like carbon, which has excellent heat-resistance properties, demand is growing for semiconductor applications such as processors and memory devices, and we forecast rising demand for plate-type products. We also anticipate increased demand for glass-like carbon for molding tools, which are used to make curved glass screens for smartphones and other devices and neodymium magnets for a wide range of industrial products.

ESG information

Protecting the Golden Orchid (cephalanthera falcata)

The R&D Center of Nisshinbo Holdings Inc. and the Toke Plant of Nisshinbo Chemical Inc. have become members of the Chiba Business Network for Biodiversity, established by Chiba Prefecture. Both facilities are working to protect the Golden Orchid (cephalanthera falcata), which grows within the Toke Midorinomori Industrial Park. The Golden Orchid, a perennial plant belonging to the Orchidaceae class, relies on carbon produced from organic matter in the soil broken down by mycorrhizal fungi, in addition to carbon they produce themselves through photosynthesis. Artificial cultivation of the Golden Orchid is therefore difficult.

Golden Orchids at a Nisshinbo business site

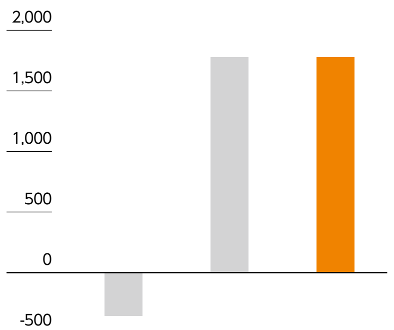
Overview of Business Segments

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 Profit*
(millions of yen)



Segment Profit Breakdown
(millions of yen)

	15.3	16.3	17.3
Domestic	(968)	1,672	**1,790**
Overseas	606	423	**351**
Eliminations	5	(317)	**(364)**
Total	(357)	1,779	**1,777**

* Consolidated subsidiaries Iwao & Co., Ltd. and Nisshin Toa Inc. merged in October 2016. As a result of the merger, the apparel textile operations of Iwao & Co., Ltd., previously included in the other businesses segment, were reclassified under the textiles business segment. Figures for the previous fiscal year have been adjusted to reflect this change.

Non-woven cotton fabric Oikos

Summary of financial results for the fiscal year ended March 2017

In the fiscal year ended March 2017, the textiles business reported net sales of ¥55,842 million, down 7.1% year on year, and segment profit of ¥1,777 million, down 0.1%.

In the domestic market, sales of APOLLOCOT shirt fabric increased, supported by rising awareness of wrinkle-free shirts in the retail market. Sales also rose in the materials development business, which covers non-woven fabric, spandex and elastomers, driven by higher sales of unique products. However, overall sales and profits declined year on year and fell short of our projections, due to weaker sales of shirt fabric for export, work uniform fabric and summer shirts sold by TOKYO SHIRTS CO., LTD.

Overseas, sales of products made in Indonesia for the Japanese market were firm, but amid rising competition from overseas companies, sales to third countries and regions, including the local Indonesian market, the US and Europe, were weak. In Brazil, sales rose year on year, reflecting lower imports of imported fibers due to the weak Brazilian real, and a decline in inventories in domestic retail channels.

Business strategies for the fiscal year ending March 2018

The textiles business has positioned shirts and materials development as its core operations, aiming to boost sales of high value-added products and increase earnings.

In the shirt business, we are targeting an increase in market share for our wrinkle-free shirt fabric and secondary products.

In Indonesia, our main production region, we are implementing the Nisshinbo Textile group's proprietary improvement program called T-KAIZEN, in line with our slogan, "Realize global costs and global quality." We also plan to continue upgrading our facilities and reviewing quality assurance systems, aiming to realize small-lot, high-quality, low-cost operations, boost international competitiveness and expand sales of overseas-made products in Japan and in third countries.

In the materials development business, we are targeting higher sales of products such as stretchable non-woven fabric and thermal adhesive fiber.

In the textiles business, we have started looking into a possible joint initiative in smart textiles with the electronics business, primarily Japan Radio Co., Ltd. Specifically, we are assessing the potential for harnessing the Group's ability to provide integrated solutions, with the electronics business drawing on its data collection and management skills and system construction expertise, and Nisshinbo Textile Inc. developing a new type of textile with embedded sensors that can read vital signs.

ESG information

APOLLOCOT Wins Frontier Award 2016

Nisshinbo Textile Inc. received the Frontier Award 2016 from the Japan Research Association for Textile End-Uses for its wrinkle-free shirt fabric APOLLOCOT. Newly established in fiscal 2016, the award is presented to researchers and developers of unique textile products that make a positive contribution to everyday life and play a role in creating new value.

APOLLOCOT is the first 100% cotton shirt fabric to achieve level 4 wash-and-wear characteristics*.

In addition to being free of wrinkles after washing, the material provides wrinkle resistance when the shirt is worn. APOLLOCOT received the award for this contribution to consumer lifestyles.

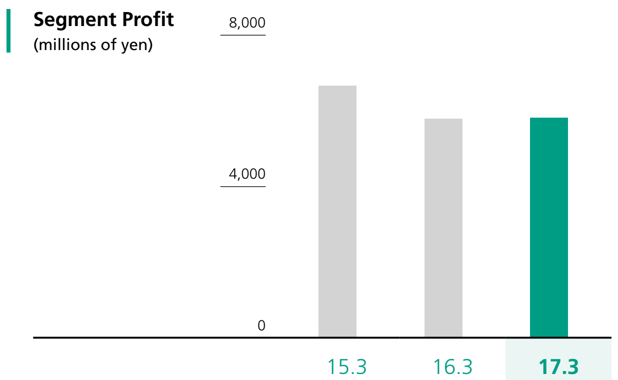
Frontier Award ceremony

* Wash and wear characteristics: An index of the degree of wrinkling after washing. A level 5 rating means that the material is completely free of wrinkles, as if freshly ironed. A rating of 4 or higher means that wrinkles are reduced by 90% or more.

Real Estate

Nisshinbo Holdings Inc.

Nisshinbo's real estate business redevelops properties that have become vacant as a result of business changes at Group companies. Income from those activities is used to fund the Group's growth strategy, such as launching new businesses and expanding global operations. Income is generated from two main sources — property leasing and the sale of housing lots. Nisshinbo has actively developed the housing lot sales business since 2009, when the Group moved to a holding and operating company structure. The Group's domestic real estate portfolio includes many land and property sites with excellent locations, generating strong earnings for the real estate business.



Summary of financial results for the fiscal year ended March 2017

In the fiscal year ended March 2017, the real estate business reported net sales of ¥8,084 million, down 3.3% year on year, and segment profit of ¥5,811 million, up 0.3%.

In the property leasing business, leasing operations were firm for office buildings, commercial facilities and other properties. Efforts to reduce costs also contributed to higher profits. During the fiscal year under review, the business began leasing out a site in Mitaka, Tokyo, which was vacated by Musashino Electronics Co., Ltd.*

In the housing lot sales business, lots were sold at former plant sites in Kawagoe (Saitama), Nagoya (Aichi) and Okazaki (Aichi), but net sales declined year on year due to the end of housing lot sales at the former Harisaki Plant site (Aichi) in the previous fiscal year. The sale of lots at the former Nagoya Plant site was completed in the fiscal year under review.

* A former subsidiary of Japan Radio Co., Ltd., liquidated in August 2015

Business strategies for the fiscal year ending March 2018

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 continued stable operations, supported by the large number of highly competitive premium stores operated by tenants in large-scale commercial properties owned by the Group.

In the housing lot sales business, we will continue to sell lots at former plant sites in Kawagoe (256 total lots) and Okazaki (6 total lots). We will also begin sales of lots in the north section of the former Japan Radio Co., Ltd. site in Mitaka, Tokyo. The site has a total potential development area of around 29,000m^2. At the former Nisshinbo Textile Inc. Miai Plant site (Aichi), which has a total potential development area of roughly 140,000m^2, we plan to sell around 350 detached homes and land for commercial, medical and welfare facilities.

Management Framework

Interview with Outside Director:

What is the Ideal Board of Directors?

Tomofumi Akiyama
Outside Director
Chairman,
Fukoku Mutual Life Insurance Company

Corporate governance in Japan continues to develop. The Nisshinbo Group is part of that trend, implementing successive improvements to its corporate governance system in recent years. However, the Japanese government is calling on the business community to do even more. At Nisshinbo, the need for stronger corporate governance is growing as the Group's operations become increasingly global. For this year's integrated report, we discussed the role of the Board of Directors with Tomofumi Akiyama, who has been an outside director at Nisshinbo Holdings for 11 years.

Q1. The Nisshinbo Group has been accelerating the pace of corporate governance reforms. The number of directors has been cut and more outside directors have been appointed. A Remuneration Committee and a Nomination Committee have also been established — a discretionary measure. Most recently, Nisshinbo abolished its internal system of advisors and consultants, posts that were filled by previous Company presidents and chairmen. What is your view on these changes?

Nisshinbo has a serious-minded corporate culture, so it tends to fully commit to reform when something needs to be changed. Improving corporate governance is a topic that all Japanese companies need to address, but the speed and effectiveness with which Nisshinbo has tackled the issue has impressed me.

Nisshinbo has put the necessary systems and structures in place, but our work to improve corporate governance has only really just begun. The effectiveness of those systems will now be tested. Nisshinbo needs to continuously enhance its corporate governance systems by identifying any issues and making improvements.

One area we need to look at is ensuring the right balance of inside and outside directors. As the number of outside directors increases, there is a risk that the Board of Directors could become too distant from the Group's frontline operations. Outside directors tend to take a more objective standpoint in decision-making, but they also need to have the right information to make informed decisions. As a company, we need to ask ourselves how to achieve that. With outside directors taking a greater role in management in Japan, this is an important question for all Japanese companies, not just Nisshinbo.

Under the committee-based corporate governance system, outside directors who sit on committees approve or reject proposals made by senior management. When making their decisions, outside directors need to be more informed about the proposal in order to avoid simple Yes or No responses. External consultants can have a role in that process, but either way, outside directors have to be given room to discuss the thrust of management proposals more thoroughly.

I agree with the decision to abolish the internal advisor and consultant system, which allowed previous presidents and chairmen to stay on at the Company in an advisory role. That system is now out of place in today's corporate governance environment, but the end of the system raises a new issue: is it good for major companies to lose top personnel who have valuable experience at the highest level of their organization? Given the knowledge those individuals have and their status in the business community, the answer probably lies in creating a separate external framework that continues to advise, support and communicate with the company. In the US and Europe, business leaders typically gain wider public recognition based on their track record, but it is hard for executives in Japan to exert influence and leverage their skills after leaving their companies.

I believe we can build an even stronger corporate governance system by putting the right systems in place to resolve these issues over time.

Q2. What role do you think directors should play in business management?

Fiduciary duty is the primary responsibility of directors. We have a duty to shareholders to protect the value of assets entrusted to the Company through their investments.

Senior managers have to take certain risks to increase corporate value. Sticking to the same business for many years may look like a stable approach, but before long, companies that follow that approach lose competitiveness and fall by the wayside. Companies have to take a hard look at their business portfolio and identify what makes them different to their peers, then take risks based on those strengths. That sits at the heart of corporate leadership. The Nisshinbo Group's management team deserves high marks for taking that approach.

However, the phrase "corporate growth" should be used with care. The bigger a company becomes, the greater the risks. Companies must not put priority on growth to the detriment of shareholder value. Management should shun markets with high volatility and avoid targeting growth for growth's sake and excessive risk taking.

From that standpoint, one of the roles of directors is to promote risk taking, while at the same time closely monitoring that risk. They have to envisage the outcome of decisions from two main angles — what would happen if the company chose a certain route, and what would happen if it did not. In a worst-case scenario, directors have to be ready to fulfill their responsibility to shareholders by making decisions that protect shareholder value.

In those situations, directors have a vital role to play in advising the management team. Nisshinbo Holdings' outside directors are all involved in highly specialist fields. Ideally, the management team should actively take on board their advice and use it to develop the Group's next business strategy. At Nisshinbo, everybody is free to speak their mind during Board of Directors meetings, with outside directors taking an active part in those discussions. I believe it is important for the Company to try new ideas, from both a business perspective and an organizational perspective. If the first attempt does not work out, we need to analyze what went wrong and try again.

Q3. Nisshinbo sold its papers business in April 2017 and Japan Radio Co., Ltd. is set to become a wholly owned subsidiary in October 2017. What is your take on those decisions?

Both moves have been a major topic of discussion at the senior management level for several years amid the Group's wider efforts to concentrate management resources on strategic areas. We have had careful in-depth discussions about the best route to follow on both issues.

The papers business has been sold at the best time, in my view. We have worked hard to increase the value of the business while taking into account the interests of all stakeholders. The decision now to exit the business follows careful consideration about our future strategy. I believe the deal offers significant merits for all three parties — the papers business, the Nisshinbo Group and the buyer.

In the case of Japan Radio, we have taken a number of steps to reinforce the company, such as implementing a restructuring program to boost profitability and generating synergies by enhancing its automotive communications equipment business. However, the next challenge will be to integrate Japan Radio into the Nisshinbo Group's corporate culture. We decided to make Japan Radio a wholly owned subsidiary now because the time is right to accelerate that cultural integration process.

As seen with the acquisitions of TMD Friction Group S.A. and Nanbu Plastics Co., Ltd., the Nisshinbo management team has a good track record of making the right steps at the right time with M&A deals. That is set to be a key strength for us going forward as M&A activity increases.

Q4. Nisshinbo is working towards its long-term goals of net sales of ¥1 trillion and ROE of at least 12% in the fiscal year ending March 2026. What is your view on these targets?

The goals are in line with Nisshinbo's vision of becoming an *Environment and Energy Company* group. However, I do not want Nisshinbo to overemphasize the importance of those goals at the expense of its corporate vision or philosophy. Sustainable growth should be the focus.

Also, without a more detailed business plan, investors and other stakeholders will lack confidence in the goals. That is one issue we are currently discussing with senior management. The outside directors will obviously be involved in developing that business plan.

In contrast to recent years, the Group faces a great deal of uncertainty in the global operating environment caused by non-economic factors. However, the management team must not make knee-jerk reactions to unexpected events. In these uncertain times, I believe the Nisshinbo Group is on the right track. As a Group, we are looking forward to the future and making steady progress on a daily basis.

Q5. What is an effective Board of Directors?

An effective Board of Directors should be made up of people with a strong sense of fiduciary duty. Through free and open discussion at board meetings that is clearly reflected in the day-to-day management of the Company, the Board of Directors should contribute to sustained growth in corporate value and build win-win relationships with shareholders and all other stakeholders.

After many years working at the senior management level in the life insurance sector, I believe "coexistence" is the basis for the ideal relationship between a company and its investors. When only the rights of investors and shareholders are asserted, companies will become overly defensive. That's why it is important to build a dialog based on a common approach that is beneficial for both investors and companies.

That thinking applies to other stakeholder groups as well. To achieve that, we need to make management more transparent and communicate closely with all stakeholders. The role of outside directors is to moderate the interests of the Company and its stakeholders, leading to a highly effective Board of Directors.

Corporate Governance

Nisshinbo believes it needs to increase corporate value over the medium and long term as an *Environment 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

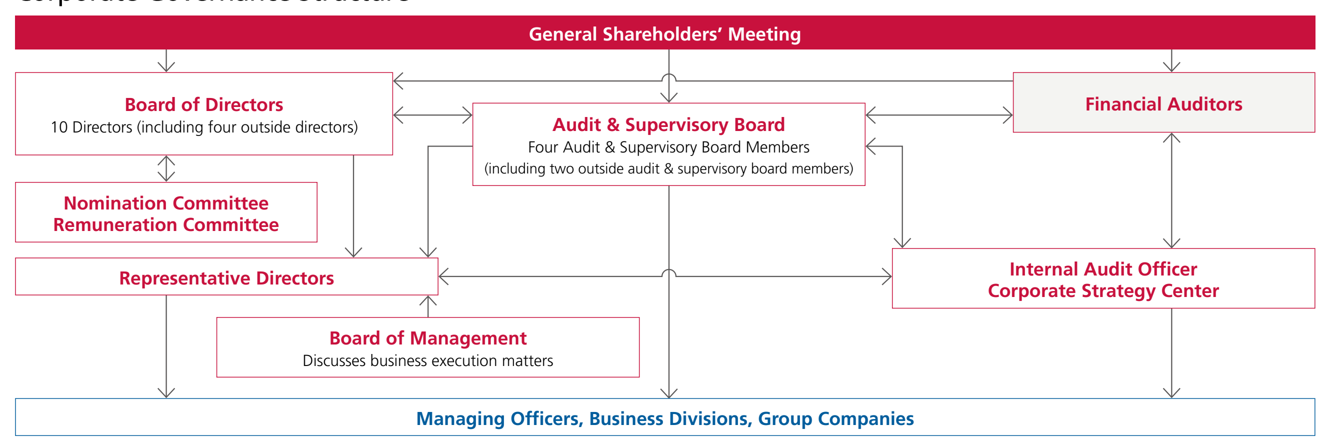
We have formulated the Nisshinbo Corporate Governance Policy, which clearly states our basic thinking on corporate governance and related initiatives. By steadily implementing the principles of the policy and revising and improving its content as needed, we aim to improve the effectiveness of governance 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.

Corporate Governance Structure



Representative Directors

Representative directors are appointed by resolutions of the Board of Directors. As of June 29, 2017, the president and a senior executive managing officer were the Company's two representative directors.

Directors

As of June 29, 2017, 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, 2017, the Company had 15 managing officers, including five with dual roles as directors. Managing officers are also appointed for one-year terms.

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.

Securing the rights and equal treatment of shareholders

The Company shall ensure that the exercise of minority shareholder rights is not impeded and will take appropriate measures to fully protect shareholder rights. The Company will implement various measures related to communication with shareholders and investors and ensure the appropriate operation of the General Shareholders' Meeting.

With respect to cross-shareholdings, the Company may hold shares of business partners with the goal of maintaining and strengthening the business or alliance relationship, to the extent deemed necessary from the standpoint of raising corporate value. These cross-shareholdings are regularly assessed to determine the necessity of the holdings and the presence or absence of economic rationality. The results of the assessments are reported to the Board of Directors, which discusses the merits of continuing to hold the shares or selling them. The exercise of voting rights related to cross-shareholdings 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.

In 2015, the Company abolished anti-takeover measures that were introduced in 2006. If an outside party attempts to purchase a large number of the Company's shares or puts forward a takeover proposal, the Company is required by law to provide shareholders with sufficient information, including the opinions of the Board of Directors, to allow them to make informed decisions about the merits of the deal. The Company is also required to take other appropriate steps, such as providing shareholders with the necessary time to consider their decision.

Appropriate cooperation with stakeholders other than shareholders

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. The Company has also 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.

Remuneration for Directors and Auditors (Fiscal year ended March 2017)

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)	176	137	9	28	—	10
Audit and Supervisory Board members (Excluding outside audit and supervisory board members)	32	32	—	—	—	2
Outside directors and outside Audit and Supervisory Board members	52	52	—	—	—	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 10 directors and four Audit & Supervisory Board members as of March 31, 2017.

Ensuring appropriate information disclosure and transparency

The Company carries out active corporate communication by appropriately combining statutory disclosures with voluntary information. When disclosing information, the Company takes into account the convenience and accessibility of the information for the user, including high value-added non-financial information. In addition, the Company shall disseminate information in English such as by preparing English-language annual integrated reports.

To increase the transparency and objectivity of the nomination and appointment process for directors, Audit & Supervisory Board members and managing officers, the Company has appointed independent outside directors to the Remuneration Committee and the Nomination Committee, which are positioned as advisory bodies of the Board of Directors.

Responsibilities of the board

Directors and the Board of Directors recognize that they have a fiduciary duty to shareholders and thus strive to appropriately reflect shareholders' intentions within the board. By overseeing the preparation and management of internal control and risk management systems, directors and the board help to monitor business execution and decision-making. At the same time, the Company fearlessly confronts risk and works to achieve governance that is focused on quick and bold decision-making. In this manner, the Company aims to achieve greater accountability to stakeholders, increased profitability, and higher returns for shareholders.

In light of the above, the Board of Directors deliberates and decides on important management matters at board meetings, such as the formulation of management strategies and plans, changes to the business portfolio group structure, and the implementation of M&As. These management matters are determined based on the criteria for agenda items stipulated under the Companies Act of Japan, other statutory and regulatory requirements, and various internal rules that govern the Board of Directors and the delegation of authority. Further, in its deliberations and decisions, the board keeps the following matters in mind.

- Alignment with corporate philosophy and management policy
- Compliance with laws and regulations and corporate ethics
- Increasing medium- to long-term corporate value
- Securing the trust of various stakeholders including shareholders, customers, employees, business partners, and local communities

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 maximum number of directors is set at 14 in the Company's Articles of Incorporation.

Independent Outside Directors at Nisshinbo Holdings Inc.

Name	Reasons for appointment
Tomofumi Akiyama	Mr. Akiyama has extensive experience in corporate management through his previous role as President of Fukoku Mutual Life Insurance Company. Drawing on his extensive management experience and judgment, Mr. Akiyama provides oversight of management activities at the Nisshinbo Group.
Noboru Matsuda	Mr. Matsuda has experience as a public prosecutor and lawyer and has specialist legal knowledge. Drawing on his highly specialist expertise, long track record and judgment, Mr. Matsuda provides oversight of management activities at the Nisshinbo Group.
Yoshinori Shimizu	Mr. Shimizu has specialist knowledge, mainly in the fields of finance and monetary affairs, in his role as a university professor. Drawing on his highly specialist expertise, long track record and judgment, Mr. Shimizu provides oversight of management activities at the Nisshinbo Group.
Shinobu Fujino	Ms. Fujino has specialist knowledge and experience, mainly in the field of personnel development, in her role as a career counselor. Drawing on her extensive expertise and experience and her perspective as a woman, Ms. Fujino provides oversight of management activities at the Nisshinbo Group and contributes to the promotion of diversity management.

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

Dialogue with shareholders

The IR Director, who oversees policies and measures related to 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 senior 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.

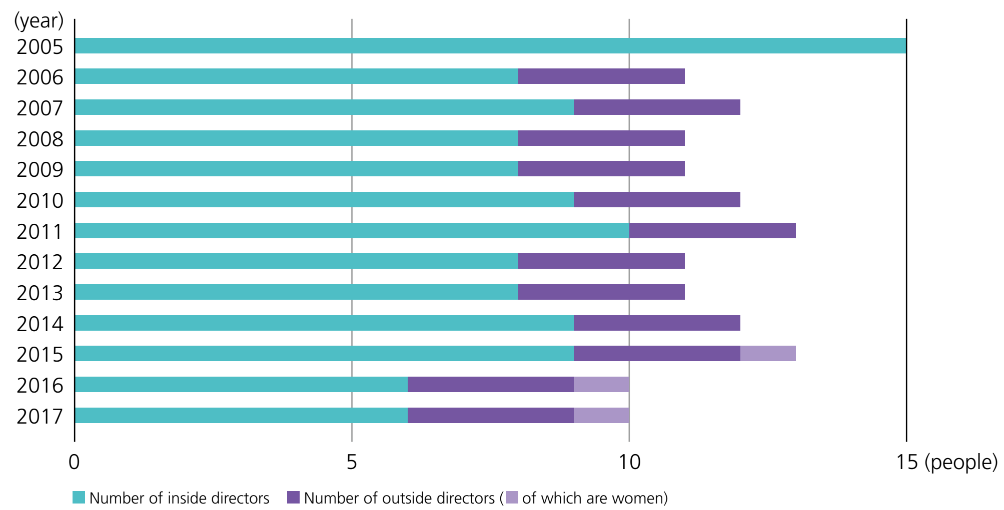
If deemed necessary, the IR Director and other directors and managing officers take part in responding to applications for interviews from shareholders and investors.

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.

Corporate Governance Reforms

2006	Introduced outside director system and managing officer system, reduced term of office for directors from two years to one
2015	Increased number of outside directors from three to four
2016	Reduced number of board members from 13 to 10 (including four outside directors) Established Remuneration Committee and Nomination Committee (both discretionary bodies), started evaluating effectiveness of Board of Directors
2017	Abolished internal advisor and consultant system

Composition of the Board of Directors



Measures to improve the effectiveness of the Board of Directors

As part of efforts to improve the effectiveness of the Board of Directors, the Company is taking a number of steps to ensure outside directors participate appropriately in board meeting discussions by putting forward their opinions.

At the start of board meetings, the chairperson provides an overview of the Company's operating environment and current strategic direction, giving board members the necessary background to discuss the subsequent agenda points. In the case of highly specialist topics, outside directors are briefed beforehand to deepen their understanding. Key statements made during meetings are recorded in the minutes, allowing for appropriate feedback.

When necessary, board members are also given the opportunity to visit business sites and attend business briefings. In addition to board meetings, regular meetings are held between outside directors, Audit & Supervisory Board members and the president. Board members are also required to attend twice-yearly Management Policy Meetings with business managers and candidates for management posts, in order to deepen their understanding of the Group's business activities.

Survey of Directors and Audit & Supervisory Board Members

In April each year, the Company surveys all the board members about the effectiveness of the Board of Directors. Responses to this year's survey were again collated and reported to the board. The survey was used to assess the effectiveness of the Board of Directors and to discuss improvements by helping the board understand the current situation, identify and analyze any issues and compare responses with those in the previous year's survey. The following areas were assessed:

1. Operation of the Board of Directors
2. Discussions by the Board of Directors
3. Composition of the Board of Directors
4. Provision of information and training opportunities to the Board of Directors

In addition to reducing the size of the Board of Directors, Nisshinbo has made changes such as reviewing criteria for matters to be discussed by the board and improving the quality of documents and briefings. This has led to more dynamic discussions by the 10 directors, including the four outside directors. The results of the survey indicate that the board is appropriately fulfilling its decision-making role for key management matters and its oversight role for business execution. The survey also confirmed the need to enhance the quality and depth of discussion by increasing the amount of time allocated to debating management strategy and medium- to long-term business policy, in order to further improve the board's effectiveness.

Board of Directors, Audit & Supervisory Board Members and Managing Officers

(As of June 29, 2017)

Board of Directors

Director,*1
President
Masaya Kawata

Director,*1
Senior Executive Managing Officer
Masahiro Murakami

Chief of Corporate Strategy Center
Responsible for Property Management Department

Director,
Senior Executive Managing Officer
Kenji Ara

President, Japan Radio Co., Ltd.

Director,
Executive Managing Officer
Koji Nishihara

Responsible for Brake Business
Chairman, Nisshinbo Brake Inc.

Director,
Executive Managing Officer
Ryo Ogura

President, New Japan Radio Co., Ltd.

Director,
Executive Managing Officer
Takayoshi Okugawa

Chief of Business Support Center

Director*2
Tomofumi Akiyama

Chairman,
Fukoku Mutual Life Insurance Company

Director*2
Noboru Matsuda

Lawyer

Director*2
Yoshinori Shimizu

Professor Emeritus at Hitotsubashi University

Director*2
Shinobu Fujino

Career Counselor

*1 Representative director *2 Outside director

Audit & Supervisory Board Members

Yoichi Fujiwara

Takumi Ohmoto

Yo Kawakami*

Shiro Manabe*

Director and Managing Executive Officer,
Shikoku Chemicals Corporation

* Outside Audit & Supervisory Board member

Managing Officers

President
Masaya Kawata*

Senior Executive Managing Officers
Masahiro Murakami*
Kenji Ara*

Executive Managing Officers
Koji Nishihara*
Ryo Ogura*
Takayoshi Okugawa*

* Concurrent board member

Executive Managing Officer
Toshihiro Kijima

General Manager,
Business Development Division

Executive Managing Officer
Kazunori Baba

President, Nisshinbo Textile Inc.

Managing Officer
Masahiro Kawamura

President,
Nisshinbo Mechatronics Inc.

Managing Officer
Hajime Sasaki

President, Nisshinbo Chemical Inc.

Managing Officer
Yasuji Ishii

President, Nisshinbo Brake Inc.

Managing Officer
Kazuhiro Iwata

President, Nisshinbo Automotive Manufacturing Inc.

Managing Officer
Akihiro Ishizaka

Senior Manager of Corporate Strategy Department, Corporate Governance Department and Automotive Business Strategy Department

Managing Officer
Makoto Sugiyama

Senior Manager of CSR Department, Diversity Development Department, Human Resources and Administration Service Department and Overseas Administration Service Department

Managing Officer
Toshihiro Masuda

Executive Managing Officer,
Nisshinbo Mechatronics Inc.

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 its 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.

Initiatives to ensure business continuity

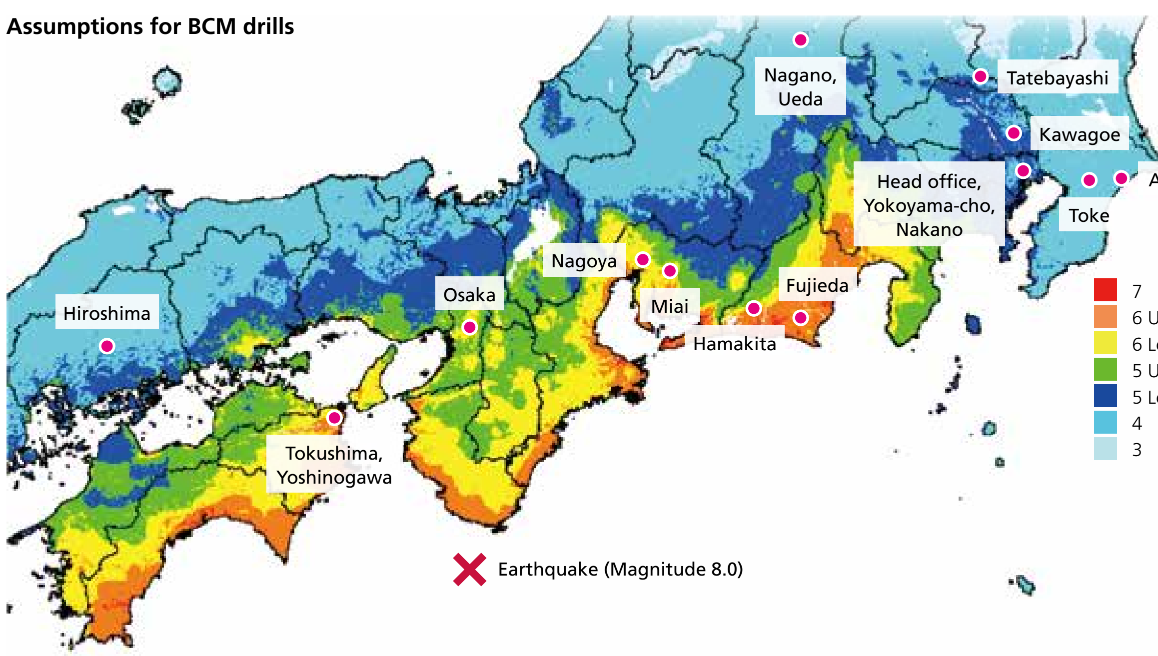
The Nisshinbo Group has conducted disaster drills as part of disaster readiness inspections for some time, helping to adjust and improve disaster and fire prevention plans. In the past, disaster drills focused on first-response training at individual business sites, but the Group now recognizes that a coordinated and joint response by damaged facilities, business segments, head office divisions and Nisshinbo Holdings is an essential part of responding to a major earthquake or other disaster that causes widespread damage. After the initial response phase, when human and physical damage is ascertained following the disaster (usually completed within 72 hours), the management team decides whether to activate the Group's business continuity plan (BCP).

To prepare for that kind of scenario, we started running business continuity management (BCM) drills in the fiscal year ended March 2016. The drills cover the period from immediately after a disaster until the point when the response team has to make a judgment on activating the BCP. In the fiscal year ended March 2016, we also conducted safety confirmation and emergency contact system drills, emergency reporting drills and training to improve coordination with head office.

In the fiscal year ended March 2017, concerns that a major earthquake could affect any area of Japan increased after the Kumamoto earthquakes. Against that backdrop, on September 1, 2016, we conducted a BCM drill based on the scenario of widespread damage caused by a Nankai Trough earthquake. A similar drill was conducted in the previous fiscal year. Group Crisis Response Team drills were a key focus of disaster training in the fiscal year ended March 2017. During the drills, a Nisshinbo Holdings Emergency Headquarters with group management functions was set up in the access plaza (multipurpose space) on the second floor of the head office building, which was used to conduct role-playing drills involving the president and other senior executives. Participants were divided into four teams with specific roles – information gathering, analysis, reporting and disclosure.

Role-playing drills

Assumptions for BCM drills



This year, TOKYO SHIRTS CO., LTD. and Nanbu Plastics Co., Ltd. took part in the training for the first time and a drill involving roughly 13,000 Nisshinbo Group personnel in Japan was carried out to test the safety confirmation and emergency contact system.

Initiatives to protect personal information

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

To ensure each one of our employees understands the importance of protecting personal information, we provide basic training to newly recruited personnel and run training programs at individual business sites in line with annual plans. From the fiscal year ended March 2014, we introduced learning modules about protecting personal information into the curriculum used to train managers when they are promoted. 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. Using these tools, we are working to prevent and control internal data leaks and block external attacks on our systems.

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. We are working to raise awareness of information security among users of IT systems across the Group through regular training programs using learning materials that clearly set out rules to be 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 to them, 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. In the fiscal year ended March 2016, we published a Corruption Prevention Guidebook with information about related laws and regulations overseas, as well as in Japan. The guidebook is provided to all Group companies, including subsidiaries overseas. In addition to information about Article 18 of Japan's Unfair Competition Prevention Act (prohibition of provision of illicit profit, etc. to foreign public officials, etc.), the guidebook provides information about international treaties and laws designed to prevent corruption, such as the United Nations Convention Against Corruption (UNCAC), OECD treaties on preventing corruption of overseas public officials in international transactions, the US Foreign Corrupt Practices Act (FCPA) and its related guidelines, and the UK Bribery Act. An updated guidebook containing the latest information was distributed to all the Group's subsidiaries in the fiscal year ended March 2017.

Ensuring business confidentiality

Nisshinbo signs non-disclosure agreements with suppliers to prevent any leak of confidential information such as intellectual property, technologies and expertise disclosed to them during the product design and development stage.

We also conduct annual internal audits to check whether the Group's trade secrets are being managed appropriately.

CSR procurement basic policy

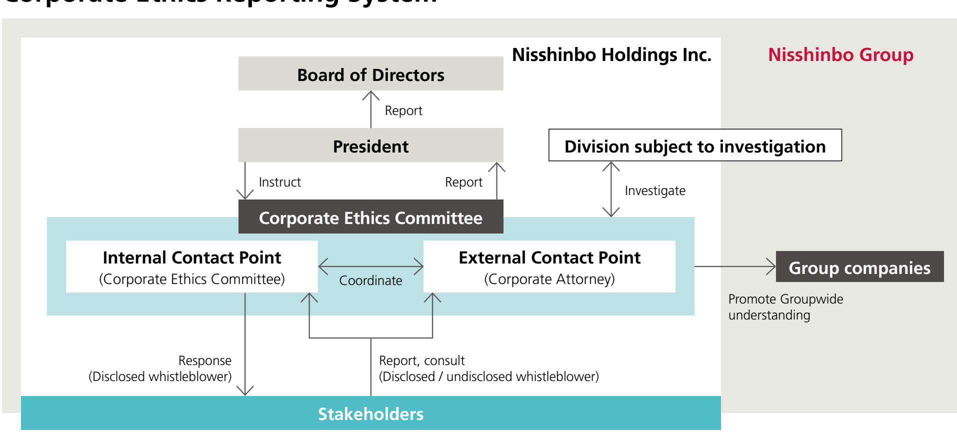
As part of its corporate social responsibility (CSR) initiatives, the Nisshinbo Group has set out its policy on procurement in the Nisshinbo Group Business Conduct Guidelines. The Group has also formulated the Nisshinbo Group CSR Procurement Basic Policy, clarifying its stance on seven specific areas: legal compliance, fair trade, information security, environmental protection, human rights, health and safety, and quality assurance.

1. To strictly observe all legal obligations and social norms
2. To always pursue business in a sound and fair manner
3. To properly manage all information
4. To give due consideration to protection of the environment
5. To respect all basic human rights
6. To strive for a secure and healthy living and working environment
7. To aim to ensure the quality and safety of all products and services

We are working to extend our CSR initiatives across the entire supply chain by asking suppliers to adhere to our principles in those seven areas.

To support further progress in CSR procurement, we formulated CSR Procurement Guidelines for Group companies in the fiscal year ending March 2018. Also, Group companies are now required to carry out CSR surveys of their suppliers as a new KPI. Going forward, we will work closely with our suppliers to implement CSR procurement.

Corporate Ethics Reporting System



Financials

Eleven-Year Summary

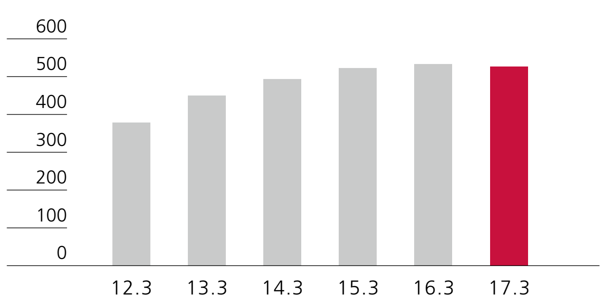
(For the years ended March 31)

(millions of yen)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Sales	312,825	322,412	286,167	242,409	325,555	379,340	450,693	494,350	523,758	533,989	**527,274**
Operating Income	11,551	12,034	408	3,570	19,843	4,170	13,394	13,175	13,744	12,617	**4,890**
Net Income (Loss) Attributable to Nisshinbo Holdings Inc.	15,107	12,290	(1,286)	1,896	11,185	9,416	6,418	9,012	13,694	10,776	**3,575**
Equity	282,015	245,909	193,698	193,639	211,557	213,751	242,623	276,865	306,938	284,472	**275,753**
Total Assets	472,670	424,706	366,858	358,110	479,852	534,584	551,933	611,311	678,486	651,793	**646,288**
Shareholders' Equity Ratio (%)	55.3	53.0	49.0	51.1	38.0	34.7	37.9	39.1	38.2	35.9	**35.5**
Return on Assets (%)	3.1	2.7	(0.3)	0.5	2.7	1.9	1.2	1.5	2.1	1.6	**0.6**
Return on Equity (%)	5.7	5.1	(0.6)	1.0	6.1	5.1	3.2	4.0	5.5	4.4	**1.5**
Payout Ratio (%)	20.0	23.6	—	144.5	23.7	27.9	40.8	29.1	18.7	44.2	**133.2**
Capital Expenditures	18,306	24,280	16,872	13,027	12,800	15,705	20,123	19,896	36,909	22,862	**30,505**
Depreciation and Amortization	14,984	16,890	18,025	12,960	13,158	14,550	18,969	21,486	23,111	22,571	**22,264**
Common Shares Issued	201,698,939	198,698,939	184,098,939	184,098,939	178,798,939	178,798,939	178,798,939	178,798,939	178,798,939	178,798,939	**178,798,939**
Per Share (in yen):											
Net Income (Loss) Attributable to Nisshinbo Holdings Inc.	74.19	63.34	(7.08)	10.38	63.32	53.83	36.74	51.60	80.33	67.93	**22.52**
Shareholders' Equity	1,301.14	1,179.43	985.19	1,034.04	1,036.80	1,063.19	1,198.67	1,369.78	1,634.07	1,472.26	**1,444.94**
Cash Dividends	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	30.00	**30.00**
Number of Employees	12,744	13,253	12,726	12,488	18,292	22,304	22,083	22,052	21,387	23,055	**23,256**

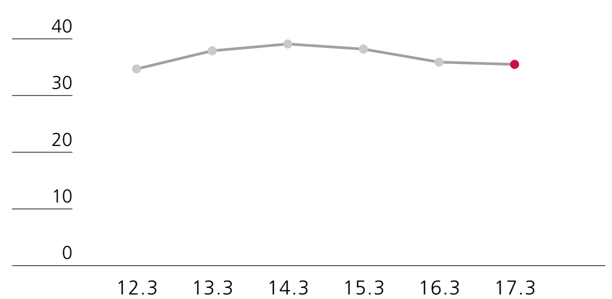
Net Sales

(billions of yen)



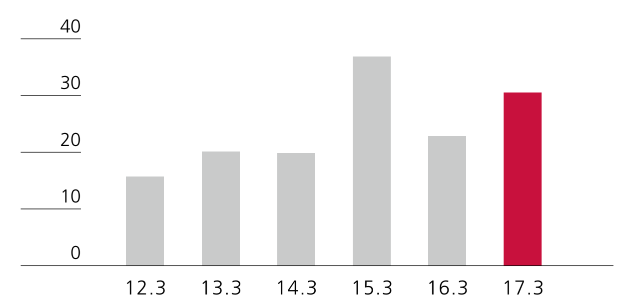
Shareholders' Equity Ratio

(%)



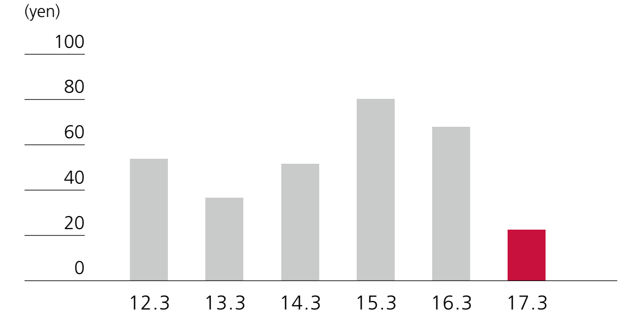
Capital Expenditures

(billions of yen)



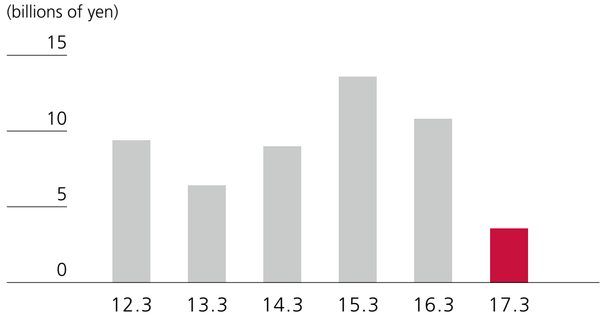
Net Income Attributable to Nisshinbo Holdings Inc. per Share

(yen)



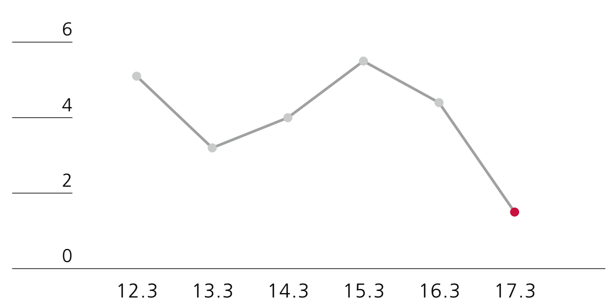
Net Income Attributable to Nisshinbo Holdings Inc.

(billions of yen)



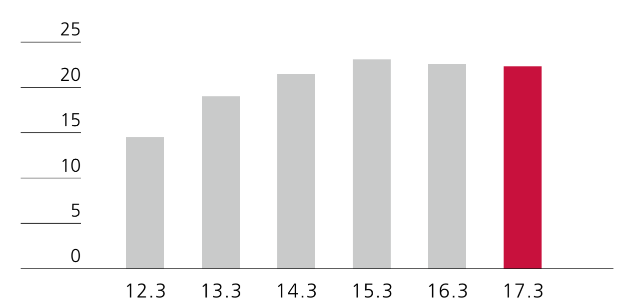
Return on Equity

(%)



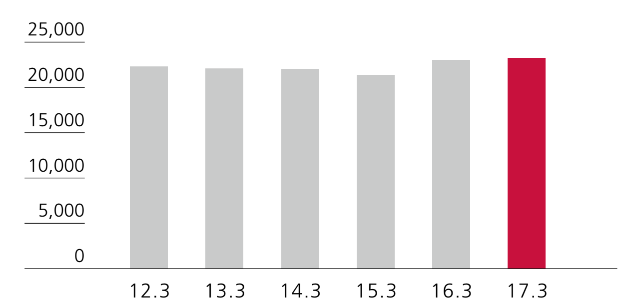
Depreciation and Amortization

(billions of yen)



Number of Employees

(people)



Highlights

- Group sales and profits declined year on year, reflecting a sharp drop in profits at Japan Radio Co., Ltd. amid a deteriorating operating environment. The automobile brakes business, New Japan Radio Co., Ltd. and other operations were also affected by negative forex factors.
- Sales and profits rose sharply in the precision instruments business due to a full-year earnings contribution from Nanbu Plastics Co., Ltd., which became a consolidated subsidiary in the previous fiscal year.
- The Company sold its papers business to Daio Paper Corporation in April 2017.

Operating Results

Economic Environment

During the fiscal year ended March 2017, corporate earnings and the employment environment in Japan continued to improve at a moderate pace. Overseas, the US economy continued to expand gradually, supported by firm consumer spending and an upturn in the employment environment. The European economy remained on a moderate recovery path and the Chinese economy improved overall, mainly due to public-sector investment from the second half of the fiscal year. However, the outlook became increasingly uncertain due to slowing growth in emerging economies and the risk of an economic impact from geopolitical issues such as instability in the Middle East and on the Korean peninsula and the UK's decision to leave the EU.

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

The Nisshinbo Group reported net sales of ¥527,274 million (US$4,793 million), down 1.3% year on year. Although the precision instruments business achieved sales growth, mainly reflecting the consolidation of Nanbu Plastics Co., Ltd., sales declined in the electronics business due to weakness in shipbuilding and marine transport markets and a drop off in major public-sector project deliveries at Japan Radio Co., Ltd. Sales also contracted year on year in the automobile brakes business, which was mainly caused by the impact of the stronger yen in foreign currency translation adjustments.

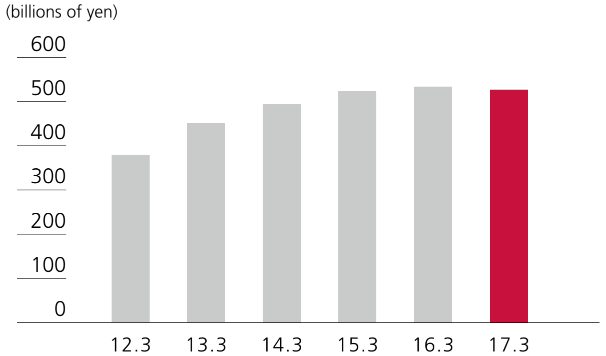
Operating income declined 61.2% year on year to ¥4,890 million (US$44 million), mainly reflecting lower profits in the electronics business due to operating losses at Japan Radio Co., Ltd. and the impact of the stronger yen on New Japan Radio Co., Ltd. Operating income before goodwill amortization fell 37.9% year on year to ¥12,300 million (US$112 million).

Despite an increase in equity in earnings of a nonconsolidated subsidiary and affiliates, net income attributable to Nisshinbo Holdings Inc. declined 66.8% year on year to ¥3,575 million (US$33 million), mainly due to the drop in operating income.

On October 1, 2016, two consolidated subsidiaries, Nisshin Toa Inc. and Iwao & Co., Ltd., merged to form a new company called Nisshintoa Iwao Inc. As a result of the merger, the apparel textile operations of Iwao & Co., Ltd., which were previously included in the other businesses segment, were reclassified under the textiles business segment, effective from the fiscal year ended March 2017.

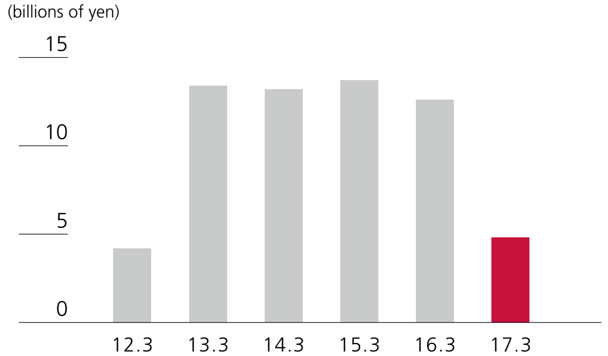
Net Sales

(billions of yen)



Operating Income

(billions of yen)



Current Business Strategies and Future Prospects

As an *Environmental and Energy Company* group that contributes to global society, the Nisshinbo Group aims to provide solutions that address some of the biggest issues faced by society today, such as environmental destruction and global warming, in order to realize its goal of making life safer and more secure. Based on that approach, the Group is working towards its long-term goals of net sales of ¥1 trillion and ROE of 12% 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 automobile brakes field, we have started production of friction materials that are compatible with new regulations on copper content, demand for which is projected to expand worldwide. In the US, new regulations are scheduled to come into effect from 2021 that will limit the use of copper in brake friction materials to prevent water pollution. The Nisshinbo Group has moved quickly to develop friction materials with less or no copper and is one of the first in the industry to start mass production of materials that are compatible with the new regulations. We plan to steadily expand our lineup of those materials, aiming to grow our business by helping to protect the environment.

In the chemicals field, we are working towards the commercialization of parts for fuel cell vehicles (carbon bipolar plates and catalysts to replace platinum) by accelerating development through our strengthened alliance with Canadian company Ballard Power Systems Inc., a global pioneer in fuel cells.

In the electronics field, we are preparing to move into advanced driving assistance systems (ADAS) by leveraging the Group's strengths in wireless communication technology and electronic component manufacturing technology.

We will continue to focus on existing public infrastructure businesses such as disaster prevention systems and wireless communication systems for marine applications, but with Industry 4.0, the internet of things (IoT) and artificial intelligence (AI) gaining momentum, we plan to bring together our sensing and communication technologies to help create super smart societies. We will draw on our technologies and expertise in electronics, mechatronics and chemicals and seek M&A targets that fit well with our approach, aiming to build a cohesive Group from our diverse workforce and deliver results as an *Environmental and Energy Company* group.

In the fiscal year ending March 2018, we will implement our growth strategy by continuing to channel management resources into businesses in the automotive field and the super smart society field. In the electronics business, we will continue to push ahead with efforts to generate new growth by restructuring operations, aiming to create a solid operating base. In the automobile brakes business, we will step up the production of friction materials that are compatible with new regulations on copper content, demand for which is projected to expand worldwide. We will also reinforce the earnings structure at TMD. In the precision instruments business, we aim to expand our business by integrating operations with Nanbu Plastics Co., Ltd.

Our estimates are based on average exchange rates for the fiscal year of ¥110/US$ and ¥120/€.

	Net Sales (millions of yen)		Segment Profit (Loss) (millions of yen)	
Electronics	190,852	down 7.1%	(3,240)	deterioration of ¥11,558 million
Automobile Brakes	146,062	down 11.5%	(7)	improvement of ¥880 million
Precision Instruments	60,687	up 105.5%	1,049	up 229.4%
Chemicals	9,483	up 14.5%	1,309	up 73.9%
Textiles	55,842	down 7.1%	1,777	down 0.1%
Papers	32,648	up 0.2%	2,603	up 250.7%
Real Estate	8,084	down 3.3%	5,811	up 0.3%
Other Businesses	23,616	down 4.4%	(91)	improvement of ¥32 million

Note: Changes in net sales and segment profit (loss) are year-on-year figures; please refer to pages 34 to 48 for details on performance in individual segments, except for the papers business.

Dividend

The full-year dividend for the fiscal year ended March 2017 is ¥30 (US$0.27) per share, the same amount as for the previous fiscal year.

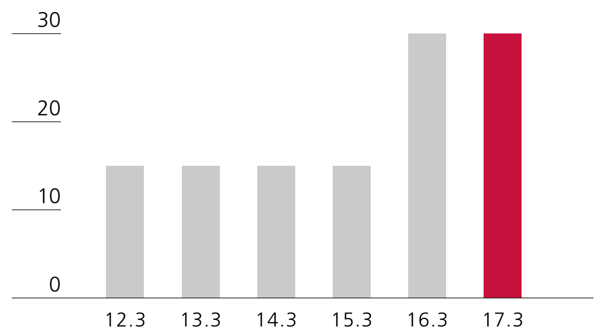
By focusing on ROE, Nisshinbo is aiming to deliver sustained increases in shareholder value through the distribution of profits and other means. We also intend to accelerate investment in areas that drive growth, such as R&D, capital expenditures and M&A, aiming to secure even greater support and trust 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 ¥646,288 million (US$5,875 million), a decrease of ¥5,505 million from the end of the previous fiscal year. This mainly reflected increases of ¥4,191 million in time deposits, ¥4,901 million in receivables and ¥2,969 million in inventories, versus decreases of ¥6,283 million in property, plant and equipment, ¥6,529 million in goodwill and ¥3,633 million in deferred tax assets.

Total liabilities at the end of the fiscal year were ¥370,535 million (US$3,369 million), an increase of ¥3,214 million from the end of the previous fiscal year. This was mainly due to decreases of ¥6,421 million in short-term bank loans, ¥7,354 million in the current portion of long-term debt and ¥3,534 million in deferred tax liabilities (long-term liabilities), versus an increase of ¥20,330 million in long-term debt.

Equity at the end of the fiscal year totaled ¥275,753 million (US$2,507 million), a decrease of ¥8,719 million from the end of the previous fiscal year. This primarily reflected a decline of ¥1,227 million in retained earnings, an increase of ¥1,091 million in net unrealized gain on available-for-sale securities, a decrease of ¥4,172 million in foreign currency translation adjustments and a decrease of ¥4,458 million in noncontrolling interests. As a result of the above, the shareholders' equity ratio declined 0.4 of a percentage point year on year to 35.5%.

Cash Flows

Cash Flows from Operating Activities

Cash provided by operating activities totaled ¥26,768 million (US$243 million), mainly reflecting cash provided of ¥6,717 million from income before income taxes, ¥22,264 million from depreciation and amortization and ¥8,264 million from amortization of goodwill, against cash used of ¥9,630 million for income taxes–paid and ¥6,997 million for increase in receivables.

Cash Flows from Investing Activities

Cash used in investing activities totaled ¥31,429 million (US$286 million), primarily reflecting cash provided of ¥4,568 million from sale of investment securities, against cash used of ¥29,219 million for purchase of property, plant and equipment, ¥4,372 million for increase in time deposits and ¥3,443 million for purchase of shares of subsidiaries.

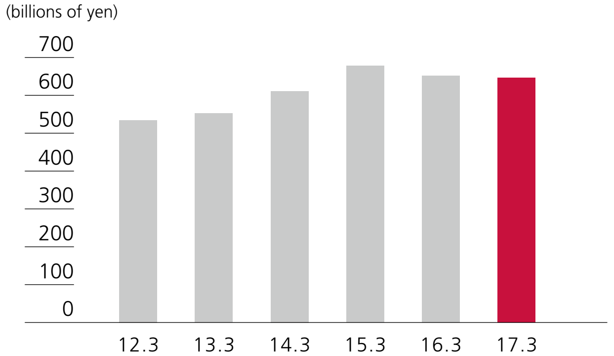
Cash Flows from Financing Activities

Cash provided by financing activities totaled ¥3,595 million (US$33 million), mainly reflecting cash provided of ¥30,415 million from proceeds from issuance of long-term debt, against cash used of ¥14,809 million for repayment of long-term debt, ¥5,978 million for decrease in short-term bank loans and ¥4,762 million for cash dividends paid.

As a result of the above, cash and cash equivalents at the end of year totaled ¥39,850 million (US$362 million), a decrease of ¥2,422 million from the end of the previous fiscal year.

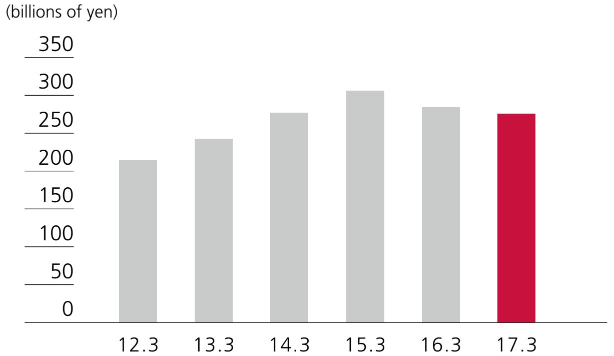
Total Assets

(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	190,266	-12.6
Automobile Brakes	114,761	-13.2
Precision Instruments	55,317	+95.3
Chemicals	6,555	+13.2
Textiles	35,073	-8.5
Papers	25,727	-9.3
Other Businesses	542	-0.1
Total	428,241	-5.1

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.

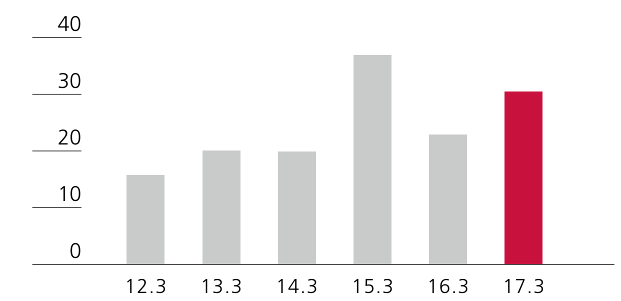
Capital Expenditures

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 2017, capital expenditures totaled ¥30,505 million (US$277 million). In the electronics business, Japan Radio Co., Ltd. invested ¥5,828 million in the construction of new facilities, including system engineering and research and development sites, and New Japan Radio Co., Ltd. invested ¥2,768 million, mainly in electronic device manufacturing and research and development facilities. In the automobile brakes business, the Group invested ¥7,335 million, mainly to expand friction material manufacturing facilities at TMD consolidated subsidiary TMD Friction GmbH. In the other businesses segment, Nisshinbo Singapore Pte. Ltd. used ¥2,931 million to acquire rental real estate to secure a stable source of income.

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, 2017.

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 products and raw materials procured by the Group such as cotton, 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 expenditures 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.

Consolidated Balance Sheets

(March 31, 2017 and 2016)

ASSETS	(millions of yen) 2017	2016	(thousands of US dollars) (Note 1) 2017
Current assets:			
Cash and cash equivalents	¥39,850	¥42,272	$362,273
Time deposits (Note 5)	7,841	3,650	71,282
Marketable securities (Note 4)	—	1	—
Receivables			
Notes receivable, trade	7,011	7,992	63,736
Accounts receivable, trade (Note 5)	141,288	138,227	1,284,436
Nonconsolidated subsidiaries and affiliates	1,034	1,050	9,400
Other	5,388	2,803	48,982
	154,721	150,072	1,406,554
Less allowance for doubtful receivables	(579)	(831)	(5,264)
	154,142	149,241	1,401,290
Inventories (Notes 3 and 5)	99,770	96,801	907,000
Deferred tax assets (Note 7)	6,001	7,216	54,555
Other current assets	7,196	5,215	65,418
Total current assets	314,800	304,396	2,861,818
Property, plant and equipment (Note 5)**:**			
Land	39,215	47,679	356,500
Buildings and structures	176,205	175,956	1,601,863
Machinery, equipment and tools	321,119	323,688	2,919,264
Construction in progress	9,130	7,346	83,000
	545,669	554,669	4,960,627
Less accumulated depreciation	(360,184)	(362,901)	(3,274,400)
Property, plant and equipment, net	185,485	191,768	1,686,227
Investments and other assets:			
Investment securities (Notes 4 and 5)	80,514	80,232	731,946
Investments in and advances to nonconsolidated subsidiaries and affiliates	27,713	26,017	251,936
Deferred tax assets (Note 7)	9,744	12,162	88,582
Goodwill	8,078	14,607	73,436
Other	19,954	22,611	181,400
Total investments and other assets	146,003	155,629	1,327,300
Total assets	¥646,288	¥651,793	$5,875,345

See Notes to Consolidated Financial Statements.

LIABILITIES AND EQUITY	(millions of yen) 2017	2016	(thousands of US dollars) (Note 1) 2017
Current liabilities:			
Short-term bank loans (Note 5)	¥48,977	¥55,398	$445,246
Commercial paper (Note 5)	30,000	30,000	272,727
Current portion of long-term debt (Note 5)	8,661	16,015	78,736
Payables			
Notes and accounts payable, trade (Note 5)	72,422	72,177	658,382
Nonconsolidated subsidiaries and affiliates	11	36	100
Other	10,578	12,671	96,164
	83,011	84,884	754,646
Accrued expenses	16,837	16,660	153,064
Accrued income taxes	3,030	5,350	27,545
Deferred tax liabilities (Note 7)	190	0	1,727
Other current liabilities	15,468	11,463	140,618
Total current liabilities	206,174	219,770	1,874,309
Long-term liabilities:			
Long-term debt (Note 5)	70,476	50,146	640,691
Liabilities for retirement benefits (Note 6)	49,282	47,181	448,018
Deferred tax liabilities (Note 7)	30,741	34,275	279,464
Other long-term liabilities (Note 5)	13,862	15,949	126,018
Total long-term liabilities	164,361	147,551	1,494,191
Total liabilities	370,535	367,321	3,368,500
Contingent liabilities and commitments (Note 10)			
Equity:			
Shareholders' equity:			
Common stock:			
Authorized—371,755,000 shares			
Issued 2017 and 2016—178,798,939 shares	27,588	27,588	250,800
Capital surplus	17,587	17,599	159,882
Retained earnings	167,598	168,825	1,523,618
Less treasury stock at cost			
2017—20,013,820 shares	(23,090)	—	(209,909)
2016—20,071,007 shares	—	(23,156)	—
Total shareholders' equity	189,683	190,856	1,724,391
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	37,310	36,219	339,182
Deferred gain (loss) on derivatives under hedge accounting	3	(56)	27
Foreign currency translation adjustments	7,715	11,887	70,136
Post-retirement liability adjustments	(5,276)	(5,216)	(47,964)
Total accumulated other comprehensive income	39,752	42,834	361,381
Stock acquisition rights (Note 11)	163	169	1,482
	229,598	233,859	2,087,254
Noncontrolling interests	46,155	50,613	419,591
Total equity	275,753	284,472	2,506,845
Total liabilities and equity	¥646,288	¥651,793	$5,875,345

Consolidated Statements of Income

(Years ended March 31, 2017 and 2016)

	2017 (millions of yen)	2016 (millions of yen)	2017 (thousands of US dollars) (Note 1)
Net sales	¥527,274	¥533,989	$4,793,400
Costs and expenses:			
Cost of sales	420,610	419,402	3,823,727
Selling, general and administrative expenses	101,774	101,970	925,218
	522,384	521,372	4,748,945
Operating income	4,890	12,617	44,455
Other income (expenses):			
Interest and dividend income	2,730	3,124	24,818
Interest expenses	(969)	(1,007)	(8,809)
Equity in earnings of a nonconsolidated subsidiary and affiliates	4,406	2,874	40,055
Other, net (Note 9)	(4,340)	4,572	(39,455)
	1,827	9,563	16,609
Income before income taxes	6,717	22,180	61,064
Income taxes (Note 7)**:**			
Current	4,982	8,016	45,291
Deferred	(98)	(177)	(891)
	4,884	7,839	44,400
Net income	1,833	14,341	16,664
Net income (loss) attributable to noncontrolling interests	(1,742)	3,565	(15,836)
Net income attributable to Nisshinbo Holdings Inc.	¥3,575	¥10,776	$32,500

Per share:	2017 (yen)	2016 (yen)	2017 (US dollars)
Net income	¥22.52	¥67.93	$0.20
Cash dividends	30.00	30.00	0.27

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income (Loss)

(Years ended March 31, 2017 and 2016)

	2017 (millions of yen)	2016 (millions of yen)	2017 (thousands of US dollars) (Note 1)
Net income	¥1,833	¥14,341	$16,664
Other comprehensive income (loss):			
Net unrealized gain (loss) on available-for-sale securities	1,281	(15,061)	11,645
Deferred gain (loss) on derivatives under hedge accounting	59	(119)	536
Foreign currency translation adjustments	(4,559)	(11,076)	(41,445)
Post-retirement liability adjustments	(51)	(5,179)	(464)
Equity in earnings of a nonconsolidated subsidiary and affiliates	(559)	(544)	(5,081)
	(3,829)	(31,979)	(34,809)
Comprehensive income (loss)	¥(1,996)	¥(17,638)	$(18,145)
Comprehensive income (loss) attributable to:			
Nisshinbo Holdings Inc.	¥493	¥(18,999)	$4,482
Noncontrolling interests	(2,489)	1,361	(22,627)

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

(Years ended March 31, 2017 and 2016)

(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, 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
Cash dividends, ¥30.00 per share			(4,762)		(4,762)							(4,762)
Net income attributable to Nisshinbo Holdings Inc.			3,575		3,575							3,575
Change in scope of consolidation—transactions with noncontrolling interests		(6)			(6)							(6)
Purchase of treasury stock				(2)	(2)							(2)
Disposal of treasury stock		(6)		68	62							62
Adjustment due to increase in consolidated subsidiaries			(39)		(39)							(39)
Other			(1)		(1)							(1)
Net change in the year						1,091	59	(4,172)	(60)	(6)	(4,458)	(7,546)
Balance at March 31, 2017	**¥27,588**	**¥17,587**	**¥167,598**	**¥(23,090)**	**¥189,683**	**¥37,310**	**¥3**	**¥7,715**	**¥(5,276)**	**¥163**	**¥46,155**	**¥275,753**

(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, 2016	$250,800	$159,991	$1,534,773	$(210,509)	$1,735,055	$329,264	$(509)	$108,063	$(47,418)	$1,536	$460,118	$2,586,109
Cash dividends, $0.27 per share			(43,291)		(43,291)							(43,291)
Net income attributable to Nisshinbo Holdings Inc.			32,500		32,500							32,500
Change in scope of consolidation—transactions with noncontrolling interests		(55)			(55)							(55)
Purchase of treasury stock				(18)	(18)							(18)
Disposal of treasury stock		(54)		618	564							564
Adjustment due to increase in consolidated subsidiaries			(355)		(355)							(355)
Other			(9)		(9)							(9)
Net change in the year						9,918	536	(37,927)	(546)	(54)	(40,527)	(68,600)
Balance at March 31, 2017	**$250,800**	**$159,882**	**$1,523,618**	**$(209,909)**	**$1,724,391**	**$339,182**	**$27**	**$70,136**	**$(47,964)**	**$1,482**	**$419,591**	**$2,506,845**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(Years ended March 31, 2017 and 2016)

	2017 (millions of yen)	2016 (millions of yen)	2017 (thousands of US dollars) (Note 1)
Cash flows from operating activities:			
Income before income taxes	¥6,717	¥22,180	$61,064
Adjustments to reconcile net income to net cash provided by operating activities:			
Income taxes—paid	(9,630)	(7,797)	(87,545)
Depreciation and amortization	22,264	22,571	202,400
Amortization of goodwill	8,264	7,189	75,127
Equity in earnings of a nonconsolidated subsidiary and affiliates	(4,406)	(2,874)	(40,055)
Provision for (reversal of) doubtful receivables	(133)	(1,073)	(1,209)
Provision for contingent loss	2,046	575	18,600
Provision for accrued pension and retirement benefits	5,929	5,385	53,900
Payment of accrued pension and retirement benefits	(3,907)	(4,420)	(35,518)
(Gain) loss on sale of property, plant and equipment, net	662	(972)	6,018
Impairment of long-lived assets	4,093	414	37,209
Gain on sale of investment securities and investments in and advances to nonconsolidated subsidiaries and affiliates, net	(2,358)	(6,252)	(21,436)
Loss on write-down of investment securities and investments in and advances to nonconsolidated subsidiaries and affiliates	76	249	691
Other	2,022	1,915	18,381
Changes in operating assets and liabilities:			
Receivables	(6,997)	13,531	(63,609)
Inventories	1,235	(969)	11,227
Payables	(1,259)	(6,297)	(11,445)
Other, net	2,150	(3,789)	19,545
Net cash provided by operating activities	26,768	39,566	243,345
Cash flows from investing activities:			
Sale of property, plant and equipment	955	2,312	8,682
Sale of investment securities and investments in and advances to nonconsolidated subsidiaries and affiliates	4,568	8,775	41,527
Purchase of property, plant and equipment	(29,219)	(24,727)	(265,627)
Purchase of investment securities and investments in and advances to nonconsolidated subsidiaries and affiliates	(135)	(2,549)	(1,227)
Decrease (increase) in time deposits	(4,372)	4,658	(39,745)
Cash paid for newly consolidated subsidiaries, net of payment for purchase of companies	—	(10,188)	—
Purchase of shares of subsidiaries	(3,443)	—	(31,300)
Other, net	217	(1,074)	1,972
Net cash used in investing activities	(31,429)	(22,793)	(285,718)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	30,415	27,214	276,500
Repayment of long-term debt	(14,809)	(10,304)	(134,627)
Decrease in short-term bank loans	(5,978)	(20,485)	(54,345)
Cash dividends paid	(4,762)	(3,568)	(43,291)
Purchase of treasury stock	(2)	(26)	(18)
Proceeds from treasury stock sold of consolidated subsidiaries	49	284	445
Decrease in other long-term liabilities	(605)	(634)	(5,500)
Purchase of additional shares of consolidated subsidiaries	(80)	(919)	(727)
Other, net	(633)	(606)	(5,755)
Net cash provided by (used in) financing activities	3,595	(9,044)	32,682
Effect of exchange rate changes on cash	(1,388)	(2,245)	(12,618)
Net increase (decrease) in cash and cash equivalents	(2,454)	5,484	(22,309)
Cash and cash equivalents of newly consolidated subsidiaries	32	82	291
Cash and cash equivalents at beginning of year	42,272	36,706	384,291
Cash and cash equivalents at end of year	¥39,850	¥42,272	$362,273

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 ¥110 =$1, the approximate exchange rate at March 31, 2017. 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

(1) 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.

(2) 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 currency exchange gains and losses from translation are recognized in the consolidated statements of income 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.

(3) Foreign currency financial statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate at the balance sheet date except for equity, which is translated by the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average annual exchange rate.

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

(4) 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.

(5) 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.

(6) 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.

(7) 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.

(8) 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 over five to seven years.

(9) 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.

(10) 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.

Actuarial gains and losses are amortized on a straight-line basis mainly over 10 to 15 years within the average remaining service period.

Expenses for post-retirement benefits are allotted on a straight-line basis over 13 to 15 years within the average remaining service period.

However, at certain consolidated subsidiaries, actuarial gains and losses and past service cost that arose in the current period are recognized in profit or loss in the current period.

(11) 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.

(12) Research and development costs

Research and development costs are charged to income as incurred.

(13) 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.

(14) 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.

(15) 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.

(16) Changes in accounting estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(A) Japan Radio Co., Ltd, a consolidated subsidiary, was inspected by Japan Fair Trade Commission (hereinafter the "JFTC") on November 18, 2014 due to suspicion of violation of the Antimonopoly Act, with regard to the transactions related to the emergency first aid digital radio equipment. Based on the new notification asking JFTC's opinion about the matter received on October 20, 2016, the estimated provision for contingent loss of Japan Radio Co., Ltd. is changed based on the draft of the disbursement order. The effect of the increase in provision for contingent loss is the decrease in income before income taxes for the fiscal year by ¥1,687 million ($15,336 thousand).

(B) The estimated provision for business structure improvement of TMD Friction EsCo GmbH, a consolidated subsidiary, is changed based on the current agreement with related laborers' party as to conditions of the factory relocation, early retirement, etc. The effect of reversal of provision for business structure improvement is the increase of income before income taxes for the fiscal year by ¥267 million ($2,427 thousand).

3. Inventories

Inventories at March 31, 2017 and 2016 were as follows:

	(millions of yen) 2017	2016	(thousands of US dollars) 2017
Finished products	¥34,192	¥39,003	$310,836
Work in process	44,559	36,781	405,082
Materials and supplies	21,019	21,017	191,082
	¥99,770	¥96,801	$907,000

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, 2017 and 2016 were as follows:

	(millions of yen) 2017	2016	(thousands of US dollars) 2017
Cost	¥22,982	¥24,475	$208,927
Unrealized gains	55,259	53,775	502,355
Unrealized losses	(166)	(502)	(1,509)
Fair value	¥78,075	¥77,748	$709,773

Aggregate cost of non-marketable securities accounted for under the cost method totaled ¥2,439 million ($22,173 thousand) and ¥2,485 million at March 31, 2017 and 2016, respectively.

5. Short-Term and Long-Term Debt

The weighted average interest rates applicable to the short-term bank loans at March 31, 2017 and 2016 were 0.6% to 0.7%.

The weighted average interest rates applicable to the short-term debt of commercial paper at March 31, 2017 and 2016 were △0.0% to 0.0%.

Long-term debt at March 31, 2017 and 2016 consisted of the following:

	(millions of yen) 2017	2016	(thousands of US dollars) 2017
Long-term debt with collateral:			
Loans from banks maturing serially to 2025, weighted average interest rates 0.8% in March 2017, 1.0% in March 2016	¥30,372	¥35,323	$276,109
Long-term debt without collateral:			
Loans from banks maturing serially to 2023, weighted average interest rates 0.5% in March 2017, 0.5% in March 2016	46,693	28,114	424,482
Capital lease obligations, due through 2025	2,072	2,724	18,836
	79,137	66,161	719,427
Less current portion	(8,661)	(16,015)	(78,736)
	¥70,476	¥50,146	$640,691

Annual maturities of long-term debt were as follows:

	(millions of yen)	(thousands of US dollars)
Year ending March 31,		
2018	¥8,277	$75,245
2019	12,813	116,482
2020	27,235	247,591
2021	21,618	196,528
2022 and thereafter	533	4,845
	¥70,476	$640,691

At March 31, 2017 and 2016, net book value of assets pledged as collateral for short-term bank loans and long-term debt were as follows:

	2017 (millions of yen)	2016 (millions of yen)	2017 (thousands of US dollars)
Property, plant and equipment	¥13,196	¥17,480	$119,963
Inventories	108	—	982
Accounts receivable, trade	704	561	6,400
Investment securities	—	392	—
	¥14,008	¥18,433	$127,345

At March 31, 2017 and 2016, in addition, pledged assets as collateral for liabilities other than the above were as follows:

	2017 (millions of yen)	2016 (millions of yen)	2017 (thousands of US dollars)
Assets pledged:			
Property, plant and equipment	¥6,760	¥7,125	$61,455
Investment securities	870	901	7,909
	¥7,630	¥8,026	$69,364

	2017 (millions of yen)	2016 (millions of yen)	2017 (thousands of US dollars)
Liabilities with collateral:			
Other long-term liabilities (Guarantee deposits)	¥5,772	¥6,336	$52,472
Notes and accounts payable, trade	1,020	1,107	9,273
	¥6,792	¥7,443	$61,745

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, 2017 and 2016 was ¥102 million ($927 thousand) and ¥95 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, 2017 and 2016 were as follows:

	2017 (millions of yen)	2016 (millions of yen)	2017 (thousands of US dollars)
Projected benefit obligation			
Balance at beginning of year	¥109,011	¥101,611	$991,009
Service cost	5,650	5,111	51,364
Interest cost	922	1,366	8,382
Recognized actuarial loss	2,259	5,894	20,536
Prior service cost	—	(337)	—
Actual payment of retirement benefits	(4,583)	(4,926)	(41,664)
Exchange differences	(1,506)	(1,382)	(13,691)
Increase due to newly consolidated subsidiaries	—	1,674	—
Other	(123)	—	(1,118)
Balance at end of year	¥111,630	¥109,011	$1,014,818
Fair value of plan assets			
Balance at beginning of year	¥64,599	¥66,375	$587,264
Expected return on plan assets	1,497	1,595	13,609
Recognized actuarial (gain) loss	1,216	(2,493)	11,054
Contributions to the defined pension plan	1,961	2,246	17,827
Payment	(2,654)	(2,759)	(24,127)
Exchange differences	(1,314)	(595)	(11,945)
Increase due to newly consolidated subsidiaries	—	230	—
Balance at end of year	¥65,305	¥64,599	$593,682

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, 2017 and 2016 were as follows:

	2017 (millions of yen)	2016 (millions of yen)	2017 (thousands of US dollars)
Funded retirement benefit obligation	¥63,457	¥69,500	$576,882
Fair value of plan assets	(65,305)	(64,599)	(593,682)
	(1,848)	4,901	(16,800)
Unfunded retirement benefit obligation	48,173	39,511	437,936
Net amount of liabilities and assets in consolidated balance sheets	¥46,325	¥44,412	$421,136
Liabilities for retirement benefits	¥49,180	¥47,086	$447,091
Assets for retirement benefits	(2,855)	(2,674)	(25,955)
Net amount of liabilities and assets in consolidated balance sheets	¥46,325	¥44,412	$421,136

The components of net periodic retirement benefit costs for the years ended March 31, 2017 and 2016 were as follows:

	2017 (millions of yen)	2016 (millions of yen)	2017 (thousands of US dollars)
Defined benefits plans:			
Service cost	¥5,650	¥5,111	$51,364
Interest cost	922	1,366	8,382
Expected return on plan assets	(1,497)	(1,595)	(13,609)
Amortization of prior service cost	(198)	(290)	(1,800)
Recognized actuarial loss	1,027	782	9,336
	¥5,904	¥5,374	$53,673

Assumptions used for the years ended March 31, 2017 and 2016 were set forth as follows:

	2017	2016
Discount rate	△0.0%–0.9%	△0.0%–0.9%
Expected rate of return on plan assets	1.5%–3.5%	1.5%–5.0%
Rate of expected salary increase	1.4%–9.0%	2.0%–9.0%

7. Income Taxes

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows:

	(millions of yen)		(thousands of US dollars)
	2017	2016	2017
Deferred tax assets:			
Loss on devaluation of inventories	¥1,939	¥1,584	$17,627
Tax loss carryforwards	13,680	14,906	124,364
Unrealized gain caused by intercompany transactions	1,556	1,494	14,145
Accrued employees' bonuses	1,998	1,884	18,164
Accrued severance benefits	13,422	11,899	122,018
Impairment of long-lived assets and depreciation in excess of tax limitation	2,014	1,563	18,309
Devaluation of investment securities	2,373	2,488	21,573
Software costs	1,333	1,380	12,118
Loss of investment in subsidiary in liquidation	—	2,377	—
Other	5,301	5,127	48,191
Less valuation allowance	(21,534)	(21,178)	(195,763)
	¥22,082	¥23,524	$200,746
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥(17,056)	¥(16,569)	$(155,054)
Deferred gains on sale of property	(7,173)	(6,060)	(65,209)
Assets recognized in business combination	(5,815)	(9,319)	(52,864)
Other	(7,224)	(6,473)	(65,673)
	¥(37,268)	¥(38,421)	$(338,800)
Net deferred tax	¥(15,186)	¥(14,897)	$(138,054)

Net deferred taxes were included in the consolidated balance sheets as follows:

	(millions of yen)		(thousands of US dollars)
	2017	2016	2017
Current assets–deferred tax assets	¥6,001	¥7,216	$54,555
Investments and other assets–deferred tax assets	9,744	12,162	88,582
Current liabilities–deferred tax liabilities	(190)	(0)	(1,727)
Long-term liabilities–deferred tax liabilities	(30,741)	(34,275)	(279,464)
Net deferred tax	¥(15,186)	¥(14,897)	$(138,054)

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2017 and 2016 and the actual effective tax rates reflected in the accompanying consolidated statements of income was as follows:

	2017	2016
Normal effective statutory tax rate	30.9%	33.1%
Net changes in valuation allowance	22.7	(3.6)
Amortization of goodwill	37.9	10.6
Lower income tax rates applicable to income in certain foreign countries	(26.8)	(3.5)
Equity in earnings of a nonconsolidated subsidiary and affiliates	(20.2)	(4.2)
Additional taxes on retained earnings in foreign subsidiaries	7.0	(0.4)
Unrealized gain on inventories or property, plant and equipment	18.0	0.1
Other	3.2	3.2
Actual effective tax rate	72.7%	35.3%

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, 2017 and 2016 were as follows:

	(millions of yen)						(thousands of US dollars)		
	2017			2016			2017		
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)	$—	$—	$—
Commodity swap:									
Purchased raw materials	¥1,946	¥569	¥569	¥3,573	¥(319)	¥(319)	$17,691	$5,173	$5,173
Foreign currency forward contracts:									
Sold	¥1,804	¥13	¥13	¥1,150	¥26	¥26	$16,400	$118	$118
Purchased	¥3,554	¥19	¥19	¥2,572	¥27	¥27	$32,309	$173	$173

	(millions of yen)						(thousands of US dollars)		
	2017			2016			2017		
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	¥168	¥—	¥1	¥71	¥—	¥2	$1,527	$—	$9
Purchased	¥1,280	¥—	¥4	¥1,812	¥—	¥(84)	$11,636	$—	$36

9. Other Income (Expenses) — Other, Net

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

	(millions of yen)		(thousands of US dollars)
	2017	2016	2017
Gain (loss) on sale of property, plant and equipment, net	¥(662)	¥972	$(6,018)
Impairment of long-lived assets	(4,093)	(414)	(37,209)
Gain on sale of securities, net	2,358	6,252	21,436
Provision for contingent loss	(2,046)	(575)	(18,600)
Gain on transfer of business	958	—	8,709
Other, net	(855)	(1,663)	(7,773)
	¥(4,340)	¥4,572	$(39,455)

10. Contingent Liabilities and Commitments

Contingent liabilities at March 31, 2016 for trade notes discounted with banks amounted to ¥421 million.

Contingent liabilities at March 31, 2017 and 2016 for loans guaranteed amounted to ¥87 million ($791 thousand) and ¥89 million, respectively.

Commitments for capital expenditures outstanding at March 31, 2017 and 2016 were in the approximate amounts of ¥5,771 million ($52,464 thousand) and ¥1,189 million, respectively.

11. Subsequent Events

(1) Company demerger and transfer of shares in subsidiary

On April 3, 2017, the Company transferred the paper product business conducted primarily by a consolidated subsidiary, Nisshinbo Paper Products Inc. to Daio Paper Corporation. The Company's assets related to the paper product business were transferred to Nisshinbo Paper Products Inc. through a company demerger (simple absorption-type demerger), and all outstanding shares of Nisshinbo Paper Products Inc. were transferred to Daio Paper Corporation. The assets related to the paper product business include real estate, equipment, intellectual property rights, shares in subsidiaries, etc.

(2) Agreement of share exchange

The Company and Japan Radio Co., Ltd. (hereinafter "JRC"), a consolidated subsidiary of the Company, have approved a Share Exchange Agreement between the two companies that will make the Company the sole parent company and JRC its wholly owned subsidiary.

The Share Exchange is scheduled to be effective as of October 2, 2017.

Details of allotment of shares in the Share Exchange

Company name	The Company (The sole parent company in Share Exchange)	JRC (Wholly owned subsidiary in Share Exchange)
Details of allotment of shares in the Share Exchange	1	1.28
Number of shares to be delivered in the Share Exchange	Shares of common shares of the Company: 15,860,220 shares (planned)	

(3) Transfer of certain fixed assets

With the resolution of the meeting of the Board of Directors held on March 30, 2017, the Company approved the transfer of certain land, buildings and structures located in Nagoya, and concluded a relevant transfer agreement on May 26, 2017. The fixed assets are scheduled to be delivered on June 30, 2017. Booking of a gain from sale of fixed assets in the amount of approximately ¥5,000 million ($45,455 thousand) as an extraordinary income is to be envisaged for the first quarter (April-June 2017) of the fiscal year ended March 2018.

(4) Stock option plan

At the general shareholders meeting held on June 29, 2017, 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, 2019 to July 31, 2024.

12. Segment Information

Information about industry segments of the Company and its consolidated subsidiaries for the years ended March 31, 2017 and 2016 was as follows:

(millions of yen)

2017	Electronics	Automobile Brakes	Precision Instruments	Chemicals	Textiles	Papers	Real Estate	Other Businesses	Eliminations/ Corporate	Consolidated
Sales and Segment Profit (loss):										
Sales to customers	¥190,852	¥146,062	¥60,687	¥9,483	¥55,842	¥32,648	¥8,084	¥23,616	¥—	¥527,274
Intersegment sales	30	27	798	116	7	765	2,074	1,686	(5,503)	—
Total sales	¥190,882	¥146,089	¥61,485	¥9,599	¥55,849	¥33,413	¥10,158	¥25,302	¥(5,503)	¥527,274
Segment profit (loss) [Operating income (loss)]	¥(3,240)	¥(7)	¥1,049	¥1,309	¥1,777	¥2,603	¥5,811	¥(91)	¥(4,321)	¥4,890
Segment assets:	¥215,959	¥151,264	¥72,135	¥8,430	¥56,660	¥21,494	¥53,762	¥37,392	¥29,192	¥646,288
Other:										
Depreciation and amortization	¥4,832	¥9,556	¥3,048	¥307	¥1,493	¥989	¥1,556	¥194	¥289	¥22,264
Increase in property, plant and equipment and intangible assets	¥8,597	¥11,150	¥4,994	¥322	¥1,282	¥561	¥1,053	¥3,065	¥(519)	¥30,505

(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	¥60,127	¥32,585	¥8,358	¥24,704	¥—	¥533,989
Intersegment sales	51	20	331	104	6	760	2,073	1,432	(4,777)	—
Total sales	¥205,419	¥165,057	¥29,856	¥8,389	¥60,133	¥33,345	¥10,431	¥26,136	¥(4,777)	¥533,989
Segment profit (loss) [Operating income (loss)]	¥8,318	¥(887)	¥318	¥753	¥1,779	¥742	¥5,795	¥(123)	¥(4,078)	¥12,617
Segment assets:	¥218,040	¥160,018	¥72,294	¥7,799	¥61,948	¥22,976	¥43,280	¥35,655	¥29,783	¥651,793
Other:										
Depreciation and amortization	¥4,742	¥10,829	¥1,884	¥299	¥1,667	¥1,027	¥1,571	¥177	¥375	¥22,571
Increase in property, plant and equipment and intangible assets	¥9,945	¥8,519	¥3,647	¥412	¥822	¥696	¥575	¥62	¥(1,816)	¥22,862

(thousands of US dollars)

2017	Electronics	Automobile Brakes	Precision Instruments	Chemicals	Textiles	Papers	Real Estate	Other Businesses	Eliminations/ Corporate	Consolidated
Sales and Segment Profit (loss):										
Sales to customers	$1,735,018	$1,327,836	$551,700	$86,209	$507,655	$296,800	$73,491	$214,691	$—	$4,793,400
Intersegment sales	273	245	7,255	1,055	63	6,955	18,854	15,327	(50,027)	—
Total sales	$1,735,291	$1,328,081	$558,955	$87,264	$507,718	$303,755	$92,345	$230,018	$(50,027)	$4,793,400
Segment profit (loss) [Operating income (loss)]	$(29,455)	$(64)	$9,536	$11,900	$16,155	$23,664	$52,827	$(827)	$(39,281)	$44,455
Segment assets:	$1,963,264	$1,375,127	$655,773	$76,636	$515,091	$195,400	$488,745	$339,927	$265,382	$5,875,345
Other:										
Depreciation and amortization	$43,927	$86,873	$27,709	$2,791	$13,573	$8,991	$14,145	$1,764	$2,627	$202,400
Increase in property, plant and equipment and intangible assets	$78,155	$101,364	$45,400	$2,927	$11,655	$5,100	$9,573	$27,863	$(4,719)	$277,318

Independent Auditor's Report

To the Board of Directors of Nisshinbo Holdings Inc.

We have audited the accompanying consolidated balance sheet of Nisshinbo Holdings Inc. and its subsidiaries as of March 31, 2017, and the related 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 such internal control as management determines is necessary to enable the preparation 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. In making those risk assessments, the auditor considers internal control 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 consolidated financial position of Nisshinbo Holdings Inc. and its subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matters
As discussed in Note 11 (1) to the consolidated financial statements, the Company transferred the paper product business conducted primarily by a consolidated subsidiary, Nisshinbo Paper Products Inc. to Daio Paper Corporation.

As discussed in Note 11 (2) to the consolidated financial statements, the Company and Japan Radio Co., Ltd., a consolidated subsidiary of the Company, have approved a Share Exchange Agreement between the two companies that will make the Company the sole parent company and Japan Radio Co., Ltd. its wholly owned subsidiary.

Our opinion is not modified in respect of these matters.

Convenience Translations
Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Veritas & Co.

VERITAS & Co.
June 29, 2017
Tokyo, Japan

History

1907	Established Nisshin Cotton Spinning Co., Ltd.
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	Acquired additional shares in New Japan Radio Co., Ltd.
2006	Acquired additional shares of Japan Radio Co., Ltd. and Nagano Japan Radio 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 wholly consolidated subsidiaries of Japan Radio Co., Ltd.
2017	Sold the papers business
	Japan Radio Co., Ltd. became a wholly owned consolidated subsidiary

Key Companies in the Nisshinbo Group

Company	Location	Main Products and Services
Electronics		
Japan Radio Co., Ltd	Japan	Disaster prevention systems, mobile communications equipment
New Japan Radio Co., Ltd	Japan	Analog semiconductors, SAW filters
Alphatron Marine Beheer B.V.	The Netherlands	Mobile communications equipment
PT. JRC SPECTRA INDONESIA	Indonesia	Disaster prevention systems, mobile communications equipment
Automobile Brakes		
Nisshinbo Brake Inc.	Japan	Automobile brake friction materials
TMD FRICTION GROUP S.A.	Luxembourg	Automobile brake friction materials
SAERON AUTOMOTIVE CORPORATION	South Korea	Automobile brake friction materials
NISSHINBO AUTOMOTIVE MANUFACTURING INC.	U.S.A.	Automobile brake friction materials
NISSHINBO SOMBOON AUTOMOTIVE CO., LTD.	Thailand	Automobile brake friction materials
NISSHINBO COMMERCIAL VEHICLE BRAKE LTD.	Thailand	Automobile brake friction materials
Nisshinbo Saeron Changshu Automotive Corporation	China	Automobile brake friction materials
Precision Instruments		
Nisshinbo Mechatronics Inc.	Japan	Plastic products, automotive precision parts
Nanbu Plastics Co., Ltd.	Japan	Plastic products
Nisshinbo Precision Instrument & Machinery Hiroshima Corporation	Japan	Automotive precision parts
Nisshinbo-Continental Precision Machining (Yangzhou) Co., Ltd.	China	Automotive precision parts
NISSHINBO MECHATRONICS (THAILAND) LTD.	Thailand	Plastic products
Continental Automotive Corporation	Japan	Automotive precision parts
Chemicals		
Nisshinbo Chemical Inc.	Japan	Urethane products, high-performance chemical products
Textiles		
Nisshinbo Textile Inc.	Japan	Shirt fabric, developed materials
NISSHINTOA IWAO INC.	Japan	Textile products
TOKYO SHIRTS CO., LTD.	Japan	Shirts
NISSHINBO DO BRASIL INDUSTRIA TEXTIL LTDA.	Brazil	Textile spinning
PT. NIKAWA TEXTILE INDUSTRY	Indonesia	Textile spinning and weaving
PT. NISSHINBO INDONESIA	Indonesia	Textile weaving and dyeing
Real Estate		
Nisshinbo Urban Development Co., Ltd.	Japan	Real estate operations
Other		
NISSHINBO SINGAPORE PTE. LTD.	Singapore	Group company support
Nisshinbo Business Management (Shanghai) Co., Ltd.	China	Group company support

Corporate Data

(As of March 31, 2017)

Founded
February 5, 1907

Head Office
2-31-11, Ningyo-cho, Nihonbashi, Chuo-ku,
Tokyo 103-8650, Japan
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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

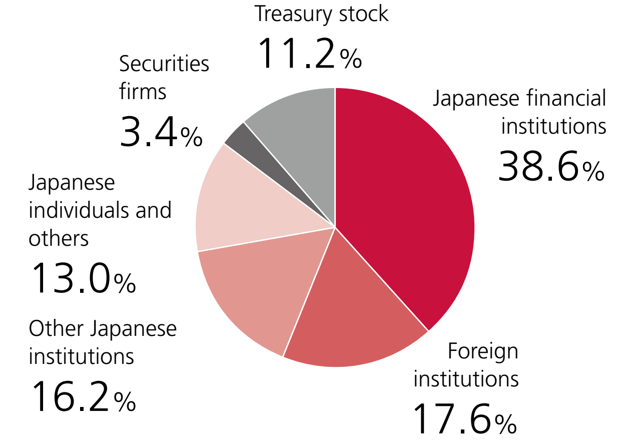
Employees

Parent Company	191
Subsidiaries	23,065
Total	23,256

Common Stock
Authorized 371,755,000 shares
Issued 178,798,939 shares
¥27,588 million (US$251 million)

Shareholders
13,894

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