(Translation)

New Japan Radio Co., Ltd.

Finacial Statements of Nisshinbo Holdings Inc.

Note: This document is available on the New Japan Radio website.

Business Report

From April 1, 2017 to
March 31, 2018

1. Current Condition of Nisshinbo Group

(1) Progress and results of the business

During the consolidated fiscal year, the global economy continued to make a moderate recovery. The US economy continued a steady recovery, driven by increases in personal consumption and capital investment, and strong employment conditions, among other factors. Despite lingering concerns over the political situation in the region, the European economy moved onto a moderate recovery footing. The Chinese economy continued to rally on the back of rising external demand, amidst remaining concerns such as the effect of trade protectionism and, a rise in US interest rates on the global economy. The Japanese economy mostly continued a moderate recovery, along with the rallying of personal consumption as well as an ongoing improvement in corporate profits and the employment and income landscapes.

Under such conditions, the Nisshinbo Group has established its “Group Corporate Philosophy”, which comprises the three philosophies of “Public Entity”, “Consistent Integrity”, and “Innovation”, as the Nisshinbo Group’s fundamental management orientation, and its “Business Conduct Guidelines”, while consistently striving to increase corporate value. The Nisshinbo Group’s essential aim of the “Public Entity” philosophy is to contribute to society through its business activities while realizing corporate growth and returns for stakeholders. The Nisshinbo Group is aiming, as an “environment and energy company” group contributing to the global society, to realize its Group Corporate Philosophy by providing solutions to environmental destruction, global warming and other environmental problems which society is facing today and contributing to safer and more secure lifestyles, whilst achieving its medium-term business targets of reaching net sales of one trillion yen and an ROE of 12% in the 2025 fiscal year.

With respect to the consolidated results of the Nisshinbo Group in the consolidated fiscal year, while net sales in the electronics, automobile brakes, precision instruments, and chemicals business segments increased, as a result of the transfer of the paper products business, net sales were ¥512,047 million, which was a decrease of 2.9% compared to the previous fiscal year.

Operating profit was ¥15,085 million, which was an increase of 208.5% compared to the previous fiscal year, as a result of Japan Radio Co., Ltd.’s profits returning to the black, and, an increase of revenue in the automobile brakes business, in which the amortization of goodwill resulting from the acquisition of TMD FRICTION GROUP S.A. (“TMD”) was completed at the end of the previous consolidated fiscal year.

Ordinary profit was ¥19,700 million, which was an increase of 86.6% compared to the previous fiscal year, due to the increase in operating profit, etc. Profit attributable to the parent company shareholder was ¥26,352 million, which was a significant increase of 637.2% compared to the previous fiscal year, due to realization of capital gain resulting from the sale of shares of an affiliated company and the increased gain in sales of non-current assets in connection with the transfer of the paper manufacturing business.

Details of the current status of each business area are provided below.

① **Electronics business**

With respect to Japan Radio Co., Ltd., while its sales of after-market devices and equipment for small and medium-sized boats increased in the marine systems business and sales of products for use in automotive Intelligent Transport Systems (ITS) also increased in the communications products business, its revenue decreased due to a decrease of its sales in the large-scale disaster prevention business of its solutions and special equipment business segments. Overall, however, due to reduction of fixed costs, etc., it recorded a surplus.

With respect to New Japan Radio Co., Ltd., while its main business (, i.e. electronic device products business), was affected by inventory adjustment in the Chinese smartphone market, asits revenue and profit increased as a result that its sales of semiconductors for automotive and industrial applications remained steadyrevenue and profit increased.

As a result, in the overall electronics business segment, net sales were ¥193,620 million (increase of 1.5% compared to the previous fiscal year) and operating profit was ¥3,021 million (increase of ¥6,262 million compared to the previous fiscal year).

② **Automobile brakes business**

Total domestic sales of new cars increased compared to the previous fiscal year, due to a recovery from a slump in sales of microcars in the previous year resulting from the discovery that fuel economy figures had been falsified. Revenue in the Nisshinbo Group’s domestic business also increased with this rise in domestic automobile sales, but profit decreased as a result of changes such as aproduct range.

Overseas, revenue and profit of the US subsidiary decreased due to a plateau in demand in the North American market, and changes in the product range, among other factors.etc Revenue and profit of the Korean subsidiary also decreased, mainly due to a decrease in new car sales. However, due to the launch of new products as well as steady sales in the automotive market, revenue and profit of the Thai subsidiaries increased. Profit of the Chinese subsidiary also increased as a result of an increase in sales, etc. Revenue of TMD increased and TMD recorded a surplus as a result of an increase in sales of after-market products. Amortization of the goodwill resulting from the acquisition of TMD was completed in the previous consolidated fiscal year.

As a result, in the overall automobile brakes business segment, net sales were ¥154,204 million (increase of 5.6% compared to the previous fiscal year) and operating profit was ¥6,119 million (increase of ¥6,126 million compared to the previous fiscal year).

③ **Precision instruments business**

Revenue and profit of the engineering of precision parts for automobiles increased due to an increase in orders resulting from the expansion of Chinese subsidiaries' business, etc. Revenue and profit of the plastic molding and processing segment also increased due to an increase in orders of Chinese and Indian subsidiaries, an increase in orders of automotive products for Nanbu Plastics Co., Ltd., and cost reduction activities.

As a result, in the overall precision instruments business segment, net sales were ¥64,918 million (increase of 7.0% compared to the previous fiscal year) and operating profit was ¥1,724 million (increase of 64.4% compared to the previous fiscal year).

④ **Chemicals business**

Revenue and profit of insulation products increased due to an increase in sales of urethane stock solutions. Revenue of carbon separators for fuel cell use increased and this business area recorded a surplus, due to an increase in sales of domestic fuel cells, and reduction of costs. Revenue and profit of functional chemical products increased due to an increase in sales of water-based cross-linking.

As a result, in the overall chemicals business segment, net sales were ¥11,285 million (increase of 19.0% compared to the previous fiscal year) and operating profit was ¥2,112 million (increase of 61.3% compared to the previous fiscal year).

⑤ **Textiles business**

In Japan, while sales of fabrics for uniforms and spandex yarns increased, sales of denim and knit fabrics were slow and sales of shirt by Tokyo Shirts Co., Ltd. were dull, so revenue and profit of the textiles business decreased. Overseas, revenue and profit of the textiles business increased due to a reduction in distribution inventory by the Brazilian subsidiary and steady sales of products for the Japanese market by the Indonesian subsidiaries.

As a result, in the overall textiles business segment, net sales were ¥54,639 million (decrease of 2.2% compared to the previous fiscal year) and operating profit was ¥1,875 million (increase of 5.5% compared to the previous fiscal year).

⑥ **Real estate business**

Revenue of the real estate business increased due to the commencement of sales of housing lots on the north side of the site of Japan Radio’s former factory in Tokyo’s Mitaka district; however profit decreased due to the completion of sales of housing lots on the site of the former office in Nagoya (in Aichi Prefecture) at the end of the third quarter. Revenue and profit of the leasing business decreased due to the sale of large-scale commercial facilities.

As a result, in the overall real estate business segment, net sales were ¥8,405 million (increase of 4.0% compared to the previous fiscal year) and operating profit was ¥5,067 million (decrease of 12.8% compared to the previous fiscal year).

≪Net sales by business≫

Business category	174th fiscal year (Year ending March 2017)		175th fiscal year (Year ending March 2018)	
	Net sales	Segment share	Net sales	Segment share
Electronics business	Million yen 190,851	% 36.2	Million yen 193,620	% 37.8
Automobile brakes business	146,061	27.7	154,204	30.1
Precision instruments business	60,687	11.5	64,918	12.7
Chemicals business	9,482	1.8	11,285	2.2
Textiles business	55,842	10.6	54,639	10.7
Paper business	32,647	6.2	—	—
Real estate business	8,083	1.5	8,405	1.6
Other business	23,616	4.5	24,973	4.9
Total	527,274	100.0	512,047	100.0

(Note) The paper business was transferred to Daio Paper Corporation on April 3, 2017.

(2) Capital Investment

The Nisshinbo Group’s basic orientation has been to focus capital investment on product areas that display clear potential for long-term growth. At the same time, the Nisshinbo Group has been conducting capital investment that seeks to increase the quality of its products by upgrading the facilities, establish environmental measures that respond to the emission of greenhouse gases, etc., and respond to increasing demand in emerging markets such as China and Southeast Asia. As a result, the capital investment for the consolidated fiscal year was ¥30,103 million.

Within the electronics business segment, the Nisshinbo Group made a capital investment of ¥1,851 million in the marine systems business, etc. of Japan Radio Co., Inc. and a capital investment of ¥4,329 million, mainly focused on production facilities for the manufacture of electronic devices and R&D facilities for New Japan Radio Co., Inc. In the automotive brakes business segment, the Nisshinbo Group invested ¥8,754 million to reinforce the friction materials production facilities of TMD FRICTION ESCO GMBH, a consolidated subsidiary of TMD, etc. and ¥3,389 million in manufacturing facilities and R&D facilities for Nisshinbo Brake Inc.'s products that are compatible with regulations on copper materials, etc.

(3) Financing

During the consolidated fiscal year, Nisshinbo Holdings, Inc. renewed its commitment line contract with its main bank for a figure of ¥20,000 million in September 2017. In addition, it maintained an adequate fund procurement framework usingan overdraft and commercial papers to ensure the necessary liquidity.

(4) Business Reorganization, etc.

① On April 3, 2017, Nisshinbo Holdings Inc. transferred the entirety of the paper products business managed by the Nisshinbo Group to Daio Paper Corporation via a transfer of all outstanding shares in its consolidated subsidiary Nisshinbo Paper Products Inc.

② In September 2017, Nisshinbo Holdings Inc. established Nisshinbo Brake Split Preparation Co., Ltd. (trading name changed to AH Brake Co., Ltd. as of February 1, 2018) to succeed the foundation brake business managed by its consolidated subsidiary Nisshinbo Brake Inc. and assets, etc. of such business.

③ On October 2, 2017, Japan Radio Co., Ltd., formerly a consolidated subsidiary of Nisshinbo Holdings Inc., became a wholly owned subsidiary via a share exchange.

④ On March 1, 2018, Nisshinbo Holdings Inc. acquired shares of Ricoh Electronic Devices Co., Ltd. corresponding to 80% of voting rights and so Ricoh Electronic Devices Co., Ltd. became a consolidated subsidiary of Nisshinbo Holdings Inc.

(5) Issues to be Addressed

① Medium-term Corporate Business Strategy

The essential aim of of the Nisshinbo Group's "Public Entity"corporate philosophy is to enable the Nisshinbo Group to contribute to society through its business activities while realizing corporate growth and returns for stakeholders. Nisshinbo Group will work to accelerate the realization of its Group Corporate Philosophy by further intensifying its focus on the environment, society, and corporate governance, providing solutions to environmental destruction, global warming and those most urgent problems which thesociety is facing today, and contributing to safer and more secure lifestyles.

Based on the Group corporate philosophy and guidelines, the Nisshinbo Group has established wireless communications and electronics, automotive parts and devices, lifestyle and materials, and new energy and smart society as its strategic business focus areas, and continues to strive to use innovationit as its driving force to strengthen its existing businesses, leverage the outcomes of its R&D initiatives, and actively seek opportunities for M&A.

Looking to the future, the Nisshinbo Group will first focus its management resources on the automotive and “super-smart society”-related businesses and put its thegrowth strategy into effect.

In the automotive brakes business segment, the Nisshinbo Group has commenced production of brake friction materials that are compatible with regulations on copper content, for which global demands are expected. In the US, regulations are scheduled to come into effect from 2021 that limit the use of copper friction materials in automotive brakes as they are considereddeemed to be a cause of water pollution. The Nisshinbo Group has worked quickly to reduce or eliminate the copper content of its friction materials, and has already commenced production as one of the leading companies in this area. The Nisshinbo Group intends to steadily expand a lineup of compliant friction materials, and develop these business operations through contribution to the protection of the global environment.

In the chemicals business segment, the Nisshinbo Group is strengthening its cooperative relationship with the Canadian company Ballard Power Systems Inc., which is a world leader in the fuel cells business, and is accelerating development initiatives with the view to introduce parts for fuel cell vehicles (carbon separators and platinum-free catalysts) into the market.

In the electronics business segment, the Nisshinbo Group will fuse its expertise in wireless communications technology and electronic component manufacturing technology to, and enter the Advanced Driving Assistance Systems (ADAS) area.

In addition to its presence in the existing social infrastructure business through its businesses such as disaster prevention and marine wireless communications, the Nisshinbo Group will also work on the realization of the “super-smart society” by linking its sensing and communications technologies basing on developments of Industry 4.0, the IoT, and AI.

The Nisshinbo Group will promote the fusion of its expertise and knowledge in the fields of electronics, mechatronics, and chemicals, while also continuing to engage in M&A, and cooperate with business partners, and seek results as an environment and energy-focused corporate group that utilizesy group utilizing its diversity to achieve these results.

② **Issues to be Addressed for the Nisshinbo Company**

Important issues for the Nisshinbo Group and measures to address them are as follows:

○ **Electronics business segment**

The Nisshinbo Group will attempt, in working towards the integration of the three companies in the Japan Radio group, to optimize its business portfolio by returning its core businesses to a stable growth path via expanding its systems in anticipation of the automatic piloting of ships and the use of automation in the automotive and medical industries.

In addition, based on its growth strategy, New Japan Radio Co., Ltd., which is a company focused on the area of electronic components, will further expand its business by responding to new needs in the IoT field, which is expected to expand rapidly, and enhancing its microwave products business, while also maintaining steady sales in the automotive and industrial devices markets, which are displaying a healthy outlook. By making full use of the resources of the New Japan Radio Group and the Ricoh Electronic Devices Group in areas such as personnel, technology and capital investment (among others), the Nisshinbo Group will attempt to strengthen the foundations of the electronic devices business and promote a new level of growth.

○ **Automotive brakes business segment**

The Nisshinbo Group will earnestly put copper-free friction materials, that are compatible with regulations on copper content, on the market and attempt to enhance its copper regulated materials business. In addition, as the most important focus, it will attempt to revive TMD, restore its profitability and streamline the business.

In addition, the Nisshinbo Group will enhance its quality assurance processes and strengthen its thetechnological capabilities, to provide cost-competitive differentiated commodities.

○ **Precision instruments segment**

In the plastic products business, the Nisshinbo Group will attempt to expand its business globally, by the synergy resulting from propulsion of utilization ofof its production bases in Japan, China, and Thailand with Nanbu Plastics Co., Ltd. In the precision components business, the Nisshinbo Group will enhance profitability by expanding production of precision parts for electronic braking systems (EBS) in China to 10 million units.

○ **Chemical business**

The Nisshinbo Group will promote its growth strategy in each chemical business through the followings: advancing the growth strategy in the fields of insulation products and ultra low temperature products; accelerating the expansion of the water treatment business in China; advancing the strategy to increase demand for carbon products in the automotive and electronics markets; increasing the profitability of the domestic and stationary fuel cell separators and conducting activities towards their increased use in automotive applications (with consequent increased sales); promoting more widespread use and increased sales of the high-function plastic material "Carbodilite" by cultivating new customers, promoting the early adoption of developed products and enhancing customer response; and working to make its soil analysis business one of its core businesses.

○ **Textiles business**

In addition to opening up new sales channels in response to domestic and international market needs, the Nisshinbo Group will establish a foundation for increased profit by developing and marketing new products such as those related to its 100% cotton wrinkle-free fabric APOLLOCOT. It will also establish a highly efficient sales and manufacturing system with a priority on profit, by increasing competitiveness through the integration of its sales and production management system and structural reorganization.

○ **Real estate business**

Through the redevelopment of sites such as former office sites, and the development of new rental properties, the Nisshinbo Group will finance to support the realization of its group growth strategy, and it will promote the effective utilization of the real estate held by the Nisshinbo Group as a whole.

The Nisshinbo Group will continue to work to increase its corporate value, striving always to be a company that is valued and trusted by its shareholders, its trading partners, and all of its stakeholders.

The Nisshinbo Group looks forward to all shareholders' continuing guidance and support of the Nisshinbo Group.

(6) Changes in assets and income

Category	172nd	173rd	174th	175th

	(Year ending March 2015)	(Year ending March 2016)	(Year ending March 2017)	(Year ending March 2018)
Net sales	523,757 million yen	533,989 million yen	527,274 million yen	512,047 million yen
Operating profit	13,744 million yen	12,617 million yen	4,890 million yen	15,085 million yen
Ordinary profit	20,650 million yen	17,034 million yen	10,556 million yen	19,700 million yen
Profit attributable to owners of parent	13,693 million yen	10,775 million yen	3,574 million yen	26,352 million yen
Net income per share	80.33 yen	67.93 yen	22.52 yen	160.59 yen
Gross assets	678,486 million yen	651,793 million yen	646,288 million yen	654,227 million yen
Net assets	306,937 million yen	284,471 million yen	275,753 million yen	290,434 million yen

(Note) Net income per share is calculated based on the average number of outstanding shares during each period, with the exception of treasury shares.

(7) Key Parent Company and Subsidiaries (as of March 31, 2018)

① Relationships with parent company

There are no applicable matters.

② Situation of Key Subsidiaries

Company Name	Capital	Voting Rights Ratio	Main Business Content
Japan Radio Co., Ltd.	14,704 million yen	100.0 %	Manufacture and sales of maritime equipment and communications equipment, etc.
New Japan Radio Co., Ltd.	5,220 million yen	63.6	Manufacture and sales of electronic devices and microwave products, etc.
Nagano Japan Radio Co., Ltd.	3,649 million yen	100.0 (100.0)	Manufacture and sales of communications equipment and electronic components, etc.
Ueda Japan Radio Co., Ltd.	700 million yen	100.0 (100.0)	Manufacture and sales of wireless communication devices and medical electronic devices, etc.
RICOH Electronic Devices Co., Ltd.	100 million yen	80.0	Development, manufacture, and sales of electronic devices, etc., and electronic device design and manufacture contracting services
Nisshinbo Brake Inc.	9,447 million yen	100.0	Manufacture and sales of automotive friction materials, etc.
TMD FRICTION GROUP S.A.	31 thousand euros	100.0	Manufacture and sales of automotive friction materials, etc.
TMD FRICTION HOLDINGS (UK) LIMITED	121,000 thousand euros	100.0 (100.0)	Manufacture and sales of automotive friction materials, etc.
TMD FRICTION UK LIMITED	64,191 thousand British pounds	100.0 (100.0)	Manufacture and sales of automotive friction materials, etc.
TMD FRICTION DO BRASIL S.A.	157,919 thousand Real	100.0 (100.0)	Manufacture and sales of automotive friction materials, etc.
TMD FRICTION MEXICO SA DE CV	746 million Mexican pesos	100.0 (100.0)	Manufacture and sales of automotive friction materials, etc.
NISSHINBO AUTOMOTIVE MANUFACTURING INC.	88,000 thousand US dollars	100.0	Manufacture and sales of automotive friction materials
NISSHINBO SOMBOON AUTOMOTIVE CO., LTD.	732,600 thousand baht	97.1	Manufacture and sales of automotive friction materials, etc.
SAERON AUTOMOTIVE CORPORATION	9,600 million won	65.0	Manufacture and sales of automotive friction materials
AH COMMERCIAL VEHICLE BRAKE LTD.	270,000 thousand baht	100.0 (100.0)	Manufacture and sales of automotive brake devices, etc.
SAERON AUTOMOTIVE BEIJING CO., LTD.	8,300 thousand US dollars	100.0 (100.0)	Manufacture and sales of automotive friction materials
Nisshinbo Mechatronics Inc.	4,000 million yen	100.0	Manufacture and sales of industrial machinery and equipment, etc.

Company Name	Capital	Voting Rights Ratio	Main Business Content
Nanbu Plastics Co., Ltd.	1,800 million yen	100.0 (100.0) %	Manufacture and sales of plastic products, etc.
Nisshinbo Precision Instrument & Machinery Hiroshima Corp.	320 million yen	100.0 (100.0)	Manufacture and sales of automotive parts and precision processing parts
PT.NANBU PLASTICS INDONESIA	27,000 thousand US dollars	100.0 (100.0)	Manufacture and sales of plastic products, etc.
NISSHINBO MECHATRONICS (THAILAND)LTD.	100,000 thousand baht	100.0 (80.0)	Manufacture and sales of plastic products
NISSHINBO MECHATRONICS(SHANGHAI) CO.,LTD.	19,500 thousand US dollars	100.0 (80.0)	Manufacture and sales of plastic products, etc.
NISSHINBO YAWEI PRECISION INSTRUMENTS & MACHINERY (JIANGSU) CO.,LTD.	21,000 thousand US dollars	99.0	Manufacture and sales of industrial machinery and equipment, etc.
NISSHINBO-CONTINENTAL PRECISION MACHINING (YANGZHOU) CO.,LTD.	200 million yuan	70.0	Manufacture and sales of precision processing parts
Nisshinbo Chemical Inc.	3,000 million yen	100.0	Manufacture and sales of chemical industrial products, etc.
Nisshinbo Textile Inc.	10,000 million yen	100.0	Manufacture and sales of cotton cloth, etc.
Naigai Shirts Co., Ltd.	100 million yen	100.0 (100.0)	Manufacture and sales of clothing
Tokyo Shirts Co.	75 million yen	100.0 (100.0)	Manufacture and sales of gentlemen's shirts, etc.
NISSHINBO DO BRASIL INDUSTRIA TEXTIL LTDA.	20,075 thousand real	100.0	Manufacture and sales of cotton yarn
PT.NIKAWA TEXTILE INDUSTRY	53,584 thousand US dollars	70.0	Manufacture and sales of cotton cloth
PT.NISSHINBO INDONESIA	20,000 thousand US dollars	89.0	Manufacture, dyeing, and sales of short-fiber fabrics
NISSHINBO (SHANGHAI) CO.,LTD.	1,200 thousand US dollars	100.0	Sales of textile products
Nisshinbo Urban Development Co., Ltd.	480 million yen	100.0	Leasing and management of real estate
NisshinToa Iwao, Inc.	450 million yen	100.0	Sales of textile products, industrial materials, and food, etc.

(Notes) 1. Figures within parentheses under voting rights ratio refer to the indirect ownership ratio.
2. There are 109 consolidated subsidiaries, including the 34 major subsidiaries stated above, and there are eight companies accounted for by the equity method.

(8) Summary of principal businesses (as of March 31, 2018)

Business Classification	Main Business Content
Electronics business	Manufacture and sales of information communications equipment (including wireless communications), electronic parts, and semiconductor products, etc.
Automobile brakes business	Manufacture and sales of brake-related products, including friction materials and brake assemblies
Precision instruments business	Manufacture, processing, and sales, etc. of plastic products, precision parts (including EBS), and system devices (including automobile-related equipment)
Chemicals business	Manufacture and sales of urethane, carbon products, functional chemical products, and fuel cell separators, etc.
Textiles business	Manufacture and sales of cotton yarn, cotton fabrics, synthetic yarns, chemical synthetic textile fabrics (including cotton blended yarns and clothes), cotton non-woven fabrics, secondary products thereof, spandex products (Mobilon), and elastomers
Real estate business	Sales of land, leasing of land and buildings, etc.
Other businesses	Wholesale, etc. of foodstuffs and industrial materials, etc.

(9) Main Offices, Etc. (as of March 31, 2018)

① **Nisshinbo Holdings Inc.** Head office (2-31-11, Ningyo-cho, Nihonbashi, Chuo-ku, Tokyo)

② **Subsidiaries**

Electronics business

Domestic Bases: Japan Radio Co., Ltd. [Head office (Tokyo), Nagano Office (Nagano Prefecture), Kawagoe Office (Saitama Prefecture)], New Japan Radio Co., Ltd. [Head office (Tokyo), Kawagoe Factory (Saitama Prefecture)], Nagano Japan Radio Co., Ltd., Ueda Japan Radio Co., Ltd. (Nagano Prefecture), Ricoh Electronic Devices Co., Ltd. (Osaka)

Automobile brakes business

Domestic Bases: Nisshinbo Brake Inc. [Head office (Tokyo), Tatebayashi Office (Gunma Prefecture), Toyota Office (Aichi Prefecture)]

Overseas Bases: TMD FRICTION GROUP S.A. (Luxembourg), TMD FRICTION HOLDINGS (UK) LIMITED, TMD FRICTION UK LIMITED (United Kingdom), TMD FRICTION DO BRASIL S.A. (Brazil), TMD FRICTION MEXICO SA DE CV (Mexico), NISSHINBO AUTOMOTIVE MANUFACTURING INC. (United States), NISSHINBO SOMBOON

AUTOMOTIVE CO., LTD., AH COMMERCIAL VEHICLE BRAKE LTD. (Thailand), SAERON AUTOMOTIVE CORPORATION (Republic of Korea), SAERON AUTOMOTIVE BEIJING CO., LTD. (China)

Precision instruments business

Domestic Bases	Nisshinbo Mechatronics Inc. [Head office (Tokyo), Miai Machinery Plant (Aichi Prefecture), Hamakita Precision Office (Shizuoka Prefecture)], Nanbu Plastics Co., Ltd. (Shizuoka Prefecture), Nisshinbo Precision Instrument & Machinery Hiroshima Corp. (Hiroshima Prefecture)
Overseas Bases	PT.NANBU PLASTICS INDONESIA (Indonesia), NISSHINBO MECHATRONICS (THAILAND)LTD. (Thailand), Nisshinbo Mechatronics (Shanghai) Co., Ltd., Nisshinbo Yawei Precision Instruments & Machinery (Jiangsu) Co., Ltd., Nisshinbo-Continental Presition Machining (Yangzhou) Co., Ltd. (China)

Chemicals business

Domestic Bases	Nisshinbo Chemical Inc. [Head office (Tokyo), Tokushima Office (Tokushima Prefecture), Asahi Office, Chiba Office, Chuo Research Center (Chiba Prefecture)]

Textiles business

Domestic Bases	Nisshinbo Textile Inc. [Head office (Tokyo), Osaka Office (Osaka), Fujieda Office (Shizuoka Prefecture), Tokushima Office, Yoshinogawa Office (Tokushima Prefecture), Naigai Shirts Co., Ltd. (Osaka), Tokyo Shirts Co. (Tokyo)
Overseas Bases	NISSHINBO DO BRASIL INDUSTRIA TEXTIL LTDA. (Brazil), PT.NIKAWA TEXTILE INDUSTRY, PT.NISSHINBO INDONESIA (Indonesia), Nisshinbo (Shanghai) Co., Ltd. (China)

Real estate and Other businesses

Domestic Bases	Nisshinbo Urban Development Co., Ltd., NisshinToa Iwao, Inc. (Tokyo)

(10) Employees (as of March 31, 2018)

Business Classification	Number of Employees
Electronics business	9,032
Automobile brakes business	6,937
Precision instruments business	3,253
Chemicals business	258
Textiles business	3,297
Real estate business	23
Other businesses	100
Company-wide (common)	204
Total	23,104

(Notes) 1. The number of employees has decreased by 152 compared to the end of previous fiscal year.
2. The number of employees stated as company-wide (common) is the number of employees of the Administration Department of the Nisshinbo Holdings, Inc., which is the holding company.
3. The number of employees of Nisshinbo Holdings, Inc. is 219 (excluding 178 seconded employees and three full-time union official).

(11) Main Lenders and amount of Borrowings (as of March 31, 2018)

Lender	Borrowing Balance
Mizuho Bank, Ltd.	31,984 million yen
The Bank of Tokyo-Mitsubishi UFJ	27,401 million yen
The Shizuoka Bank Ltd.	10,650 million yen

(Note) The Bank of Tokyo-Mitsubishi UFJ changed its trade name to MUFG Bank, Ltd. on April 1, 2018.

(12) Other Key Matters Relating to the Current Situation of Corporate Group

① On April 1, 2018, Nisshinbo Brake Inc., a consolidated subsidiary of Nisshinbo Holdings, Inc., transferred its foundation brakes business to one of the major subsidiaries of the Aisin Seiki Group, Hosei Brake Industry Co., Ltd.

② Based on the resolution of the Board of Directors held on May 10, 2018, Nisshinbo Holdings, Inc. executed a share exchange agreement with its consolidated subsidiary, New Japan Radio Co. Ltd., pursuant to which Nisshinbo Holdings, Inc. will become a wholly owned parent company, and New Japan Radio Co., Ltd. will become a wholly owned subsidiary.

③ Subject to the approval of the ordinary general meeting of shareholders scheduled to be held on June 28, 2018, Nisshinbo Holdings, Inc. plans to change its fiscal year end (final day of the fiscal year) from March 31 to December 31.

2. Current Condition of the Company

(1) Share Status (as of March 31, 2018)

① **Total number of authorized shares** 371,755,000 shares

② **Total number of issued shares** 178,798,939 shares (No change year on year)

③ **Number of shareholders** 23,503 (year on year increase of 9,609)

④ **Major shareholders**

Name of Shareholder	Number of Shares Held	Shareholding Ratio
	Thousand shares	%
The Master Trust Bank of Japan, Ltd. (trust account)	21,638	13.4
Fukoku Mutual Life Insurance Company	12,000	7.4
Japan Trustee Services Bank, Ltd. (trust account)	10,373	6.4
Teijin Limited	6,028	3.7
The Master Trust Bank of Japan, Ltd. (retirement benefit trust account)	4,700	2.9
Trust & Custody Services Bank, Ltd. (securities investment trust account)	3,009	1.9
Shikoku Chemicals Corporation	2,600	1.6
Japan Trustee Services Bank, Ltd. (trust account 9)	2,395	1.5
Mizuho Bank, Ltd.	2,345	1.4
Japan Trustee Services Bank, Ltd. (trust account 5)	2,333	1.4

(Notes) 1. The Company holds 16,818,000 treasury shares, but has been excluded from the major shareholders stated above.
2. Shareholding ratio has been calculated upon excluding treasury shares.

(2) Stock Acquisition Rights, Etc.

① Summary of stock acquisition rights issued by the Company as of the final day of the fiscal year

Issuance Number (Date of Issue)	Number of Stock Acquisition Rights	Class and Number of Subject Shares	Issue Price	Right Exercise Price	Right Exercise Period	Subjects
6th Stock Acquisition Rights (August 1, 2011)	34 rights	Ordinary Shares 34,000	Free of charge	Per share: 819 yen	August 1, 2013 to July 31, 2018	Directors, managing officers, and employees
7th Stock Acquisition Rights (August 1, 2012)	35 rights	Ordinary Shares 35,000	Free of charge	Per share: 582 yen	August 1, 2014 to July 31, 2019	Directors, managing officers, and employees
8th Stock Acquisition Rights (August 1, 2013)	74 rights	Ordinary Shares 74,000	Free of charge	Per share: 821 yen	August 1, 2015 to July 31, 2020	Directors, managing officers, and employees
9th Stock Acquisition Rights (August 1, 2014)	117 rights	Ordinary Shares 117,000	Free of charge	Per share: 1,066 yen	August 1, 2016 to July 31, 2021	Directors, managing officers, and employees
10th Stock Acquisition Rights (August 3, 2015)	165 rights	Ordinary Shares 165,000	Free of charge	Per share: 1,425 yen	August 1, 2017 to July 31, 2022	Directors, managing officers, and employees
11th Stock Acquisition Rights (August 1, 2016)	1,760 rights	Ordinary Shares 176,000	Free of charge	Per share: 1,021 yen	August 1, 2018 to July 31, 2023	Directors, managing officers, and employees
12th Stock Acquisition Rights (August 1, 2017)	1,690 rights	Ordinary Shares 169,000	Free of charge	Per share: 1,192 yen	August 1, 2019 to July 31, 2024	Directors, managing officers, and employees

(Note) The number of shares subject to each stock acquisition right is 1,000 shares in the case of the 6th to 10th issuances, and 100 shares in the case of the 11th and 12th issuances.

② Stock acquisition rights issued as compensation for the execution of duties held by officers of the Company as of the final day of the fiscal year

Classification	Issuance Number	Number of Stock Acquisition Rights	Type and Number of Subject Shares	Number of Holders
Director	6th Stock Acquisition Rights	4 rights	Ordinary Shares 4,000	1
Director	8th Stock Acquisition Rights	9 rights	Ordinary Shares 9,000	2
Director	9th Stock Acquisition Rights	19 rights	Ordinary Shares 19,000	3
Director	10th Stock Acquisition Rights	25 rights	Ordinary Shares 25,000	4
Director	11th Stock Acquisition Rights	310 rights	Ordinary Shares 31,000	5
Director	12th Stock Acquisition Rights	370 rights	Ordinary Shares 37,000	6

(Note) "Director" stated above does not include outside directors.

③ Stock acquisition rights issued to managing officers and employees of the Company during the fiscal year

Classification	Issuance Number	Number of Stock Acquisition Rights	Class and Number of Subject Shares	Number of Recipients
Managing Officer	12th Stock Acquisition Rights	290 rights	Ordinary Shares 29,000	9
Employee	12th Stock Acquisition Rights	1,030 rights	Ordinary Shares 103,000	45
Total		1,320 rights	Ordinary Shares 132,000	54

(Note) "Managing officer" and "employee" stated above do not include those concurrently serving as directors.

(3) Overview of Company Officers

① **Directors and Audit & Supervisory Board Member** (as of March 31, 2018)

Position	Name	Duties and Important Concurrent Positions
*President and Director	Masaya Kawata	New Japan Radio Co., Ltd. Director
*Director	Masahiro Murakami	Senior Executive Managing Officer Director of Management Strategy Center Responsible for Real Estate Business
Director	Kenji Ara	Senior Executive Managing Officer Japan Radio Co., Ltd. President and Representative Director New Japan Radio Co., Ltd. Director
Director	Koji Nishihara	Executive Managing Officer Nisshinbo Brake Inc. President and Representative Director
Director	Ryo Ogura	Executive Managing Officer New Japan Radio Co., Ltd. President and Representative Director
Director	Takayoshi Okugawa	Executive Managing Officer Director of Business Support Center
Director	Tomofumi Akiyama	Fukoku Mutual Life Insurance Company Chairman and Director Fuji Kyuko Co., Ltd. Outside Director Imperial Hotel, Ltd. Outside Director Tokyo Dome Corporation Outside Director Showa Denko K.K. Outside Director
Director	Noboru Matsuda	Hakuhodo DY Holdings Outside Director Mitsubishi UFJ NICOS Co., Ltd. Outside Director Yomiuri Giants Co., Ltd. Outside Director
Director	Yoshinori Shimizu	Century Tokyo Leasing Corporation Outside Director
Director	Shinobu Fujino	
Full-time Audit & Supervisory Board Member	Yoichi Fujiwara	
Full-time Audit & Supervisory Board Member	Takumi Ohmoto	
Audit & Supervisory Board Member	Yo Kawakami	
Audit & Supervisory Board Member	Shiro Manabe	Shikoku Chemicals Corporation Director, Executive Managing Officer

(Notes) 1. An asterisk indicates representative director.

2. Directors Tomofumi Akiyama, Noboru Matsuda, Yoshinori Shimizu, and Shinobu Fujino are outside directors.

3. Audit & Supervisory Board Members Yo Kawakami and Shiro Manabe are outside Audit & Supervisory Board Members.

4. Directors Tomofumi Akiyama, Noboru Matsuda, Yoshinori Shimizu, and Shinobu Fujino, and Audit & Supervisory Board Members Yo Kawakami and Shiro Manabe, have been specified as independent officers as prescribed by the respective exchanges on which the company's shares are listed, and notification of this has been issued to the respective exchanges.

5. Full-time Audit & Supervisory Board Member Takumi Ohmoto has experience in finance and accounting and as a department head of the Company, and has considerable knowledge in finance and accounting.
6. Jun Yamashita was elected as substitute outside director at the 174th ordinary general meeting of shareholders held on June 29, 2017.
7. Director Ryuhei Tsuchida and Audit & Supervisory Board Member Toshihiko Tomita left their positions upon the conclusion of the 174th ordinary general meeting of shareholders held on June 29, 2017 due to expiration of his term and resignation, respectively.

②Summary of the Content of limited liability agreement

The Company has executed agreements with all outside directors and Audit & Supervisory Board Members that prescribe, in regard to the liability for damages under Article 423 Paragraph 1 of the Companies Act, that as long as duties have been performed with diligence and without gross negligence, the liability is limited to either 5 million yen or the minimum amount of responsibility prescribed by laws and regulations, whichever is higher.

③ Total amount of Directors' and Audit & Supervisory Board Members' remuneration, Etc. for the fiscal year

Classification	Number of Recipients	Amount of Compensation, Etc.	Summary
Director	11	208 million yen	Four outside directors 38 million yen
Audit & Supervisory Board Member	5	46 million yen	Three outside Audit & Supervisory Board Members 14 million yen
Total	16	255 million yen	

(Notes) 1. The amount of director compensation, etc. does not include the salary component of directors working concurrently as employees.
2. By resolution of an ordinary general meeting of shareholders, director compensation is limited to a maximum amount of 400 million yen per year. In addition to this limit, the amount of compensation in the form of stock acquisition rights issued to directors (excluding outside directors) as stock options is limited to a maximum amount of 40 million yen per year.
3. By resolution of an ordinary general meeting of shareholders, Audit & Supervisory Board Member compensation is limited to a maximum amount of 70 million yen per year.

④ Outside Officers

a) Main Concurrent Positions (as of March 31, 2018)

Classification	Name	Name of the company officer holding a concurrent position	Concurrent Position
Outside Director	Tomofumi Akiyama	Fukoku Mutual Life Insurance Company	Chairman and Director
		Fuji Kyuko Co., Ltd.	Outside Director

		Imperial Hotel, Ltd.	Outside Director
		Tokyo Dome Corporation	Outside Director
		Showa Denko K.K.	Outside Director
	Noboru Matsuda	Hakuhodo DY Holdings	Outside Director
		Mitsubishi UFJ NICOS Co., Ltd.	Outside Director
		Yomiuri Giants Co., Ltd.	Outside Director
	Yoshinori Shimizu	Century Tokyo Leasing Corporation	Outside Director
Outside Audit & Supervisory Board Member	Shiro Manabe	Shikoku Chemicals Corporation	Director, Executive Managing Officer

(Notes) 1. While Fukoku Mutual Life Insurance Company holds 12,000,000 shares of Nisshinbo Holdings, Inc., there is no major trading relationship between the company and Nisshinbo Holdings, Inc.

2. While Shikoku Chemicals Corporation holds 2,600,000 shares of Nisshinbo Holdings, Inc., there is no major trading relationship between the company and Nisshinbo Holdings, Inc.

3. There are no other special relationships between concurrent employers and Nisshinbo Holdings, Inc.

b) Overview of Main Activities During the fiscal year

Classification	Name	Main Activities
Outside Director	Tomofumi Akiyama	Has attended 13 of 16 Board of Directors meetings held during the fiscal year, and has given statements based on his abundant management experience and knowledge at life insurance companies.
	Noboru Matsuda	Has attended 15 of 16 Board of Directors meetings held during the fiscal year, and has given statements based on his practical experience as a prosecutor and attorney, his specialist knowledge of the law, and his abundant experience and knowledge.
	Yoshinori Shimizu	Has attended 15 of 16 Board of Directors meetings held during the fiscal year, and has given statements based on his specialist knowledge mainly in money and finance held as a university professor, and his abundant experience and knowledge.
	Shinobu Fujino	Has attended all 16 Board of Directors meetings held during the fiscal year, and has given statements based on her specialist knowledge mainly in HR development held as a career counsellor, and her abundant experience and knowledge.
Outside Audit & Supervisory Board Member	Yo Kawakami	Has attended all 16 Board of Directors meetings held during the fiscal year, as well as all 14 Audit & Supervisory Board meetings, and has given statements based on his abundant experience and knowledge gained at operating companies.
	Shiro Manabe	Has attended all 13 Board of Directors meetings as well as all 10 Audit & Supervisory Board meetings held during the fiscal year since his appointment on June 29, 2017, and has given statements based on his abundant experience and knowledge gained at operating companies.

(4) Accounting Auditor

① Names of Accounting Auditors

Veritas & Co.

Deloitte Touche Tohmatsu LLC

(Notes) The position of Veritas & Co. as a accounting auditor will end upon the conclusion of the 175th ordinary general meeting of shareholders held on June 28, 2018 due to expiration of the term.

② Total amount of Accounting Auditor's remuneration, etc for the fiscal year

	Payment Amount		Total
	Veritas & Co.	Deloitte Touche Tohmatsu LLC	
Amount of Compensation, Etc. as Accounting Auditor for the fiscal year	32 million yen	48 million yen	80 million yen
Total Amount of Money and Other Material Interest that should be Paid by the Company and its Subsidiaries	45 million yen	232 million yen	278 million yen

(Notes) 1. The above amounts reflect total amounts as the audit contract between the Company and accounting auditor does not classify the amount of compensation for audits under the Companies Act and audits under the Financial Instruments and Exchange Act.

2. The Audit & Supervisory Board has agreed to the amount of compensation, etc. for the Accounting Auditor as a result of confirmation and necessary verifications of the content of the Accounting Auditor audit plan, as well as the performance status of Accounting Auditor duties and the basis for the calculation of compensation estimates, etc.
3. The Company and its subsidiaries shall pay a fee to the Accounting Auditor, Deloitte Touche Tohmatsu LLC, for its advisory role relating mainly to changes to the accounting period, outside of the business of Article 2 Paragraph 1 of the Certified Public Accountants Act (non-audit work).

③ Policy regarding decision of dismissal or refusal of reappointment of the Accounting Auditor

The Audit & Supervisory Board may, in the event that a matter stated in the items of Article 340 Paragraph 1 of the Companies Act becomes applicable to the Accounting Auditor, and with the agreement of all Audit & Supervisory Board Members, dismiss the Accounting Auditor. In such case, the Audit & Supervisory Board Member appointed by the Audit & Supervisory Board will report to the first meeting of shareholders held after the dismissal on the fact of the dismissal and the reason(s) for this.

In addition, the Audit & Supervisory Board conduct comprehensive assessments on the performance status, etc. of Accounting Auditor duties, and in the event of deeming that the appropriateness and reliability of the audit cannot be secured, shall determine content for a proposal on the dismissal or non-reappointment of Accounting Auditor for submission to a general meeting of shareholders.

3. Systems and policies of the Company

(1) Overview of systems for ensuring the appropriateness of businesses and operating status of it

① Basic policy regarding creation and implementation of internal control systems

Nisshinbo Holdings, Inc. has established a Basic Policy Regarding Creation and Implementation of Internal Control Systems to ensure the appropriateness of operations. The following resolutions were adopted by the Board of Directors:

1. Systems to ensure that directors and employees execute their duties in compliance with laws and regulations and with the Articles of Incorporation

(1) Directors and managing officers take the initiative to serve as a model complying with the "Business Conduct Guidelines of the Nisshinbo Group" for the purpose of establishing compliance in the Nisshinbo Group as well as securing compliance with laws and regulations, the Articles of Incorporation, and Company regulations. In addition, they take thorough steps to make the importance of compliance with these Guidelines widely known by providing recurring education for employees.

(2) The president bears ultimate responsibility for compliance, and the Corporate Ethics Committee directly under the president is responsible for developing and implementing systems and regulations relating to corporate ethics in the Nisshinbo Group. Corporate Ethics Committee members and an outside corporate attorney act as contact points for a corporate ethics reporting system that acts to promptly detect and correct behavior that violates laws and regulations and other such improper behavior. The president reports important matters relating to corporate ethics to the Board of Directors and the Audit & Supervisory Board Members.

(3) By participation of outside directors, Nisshinbo Holdings, Inc. intends to enhance the oversight function of the Board of Directors and heighten management transparency. By adopting the managing officer system, Nisshinbo Holdings, Inc. intends to separate management decision-making and oversight functions from business execution functions and reinforce those various functions.

(4) Nisshinbo Holdings, Inc. establishes an Internal Audit Office as an organization that is responsible for internal Nisshinbo Group audits and that is independent of line business operations. The Internal Audit Office conducts internal audits of the status of business operations in every division and takes steps to ensure that business is executed appropriately and reasonably.

(5) The Nisshinbo Group rejects all contact with antisocial forces that pose a threat to the order and safety of civil society. Coordinating closely with relevant agencies, Nisshinbo Holdings, Inc. systematically takes an uncompromising stance in

addressing such forces, regardless of the circumstances.

2. Systems to retain and manage information relating to directors' execution of their duties

(1) In accordance with laws and regulations and Company regulations, Nisshinbo Holdings, Inc. creates and retains minutes of general shareholders meetings, Board of Directors meetings, and other such important meetings, records of important management decision and actions taken, and account books and other accounting records.

3. Regulations and other systems for risk management of losses

(1) The directors and managing officers develop systems and regulations for promptly and appropriately addressing all risks that interfere with the maintenance and improvement of Nisshinbo Group corporate value and the sustained growth of business activities, and implement risk management such as forecasting risks, formulating and verifying countermeasures, and responding to emergencies.

(2) The president bears ultimate responsibility for risk management, with a chief risk management officer and responsible managers appointed in every division to implement risk management. The Corporate Governance Department is established under the chief risk management officer to serve as the administrative office for the Nisshinbo Group and to coordinate the implementation of risk management as well as support for education.

(3) Policies for addressing important management risks and other such matters are fully deliberated by the Board of Management and other relevant bodies. Particularly important matters are reported to the Board of Directors.

(4) Every division selects those risks to which they should assign priority in connection with their operational responsibility. They then decide on specific countermeasures and implement appropriate risk management. Administrative divisions provide lateral support for the risk management implemented by business divisions in connection with the matters for which they have responsibility.

(5) In the case ofindividual risks that are common to every division, such as violation of laws and regulations, environmental and product safety, occupational health and safety, information security, natural disasters, regulations are developed to address the respective matters and risk management is implemented accordingly.

4. Systems to ensure that directors execute their duties efficiently

(1) The Board of Directors is maintained at an appropriate size in order to realize more rapid management strategy and decision-making. Directors are appointed for a one-year term and shareholder evaluation of the directors is confirmed each year at the annual general shareholders meeting as a measure to clarify responsibility for

the fiscal year.

(2) The managing officer system is adopted in order to facilitate decision-making in the carrying out of the business.

(3) Steps are taken to make the execution of duties more efficient by assigning duties and delegating authority on the basis of regulations on business and regulations on decision-making authority.

5. Systems to ensure the appropriateness of operations in the Nisshinbo Group

(1) Steps are taken to heighten the soundness and efficiency of Nisshinbo Group operations by developing systems and regulations concerning Nisshinbo Group business operations and risk management, and by implementing these systems and regulations appropriately.

(2) While Nisshinbo Holdings, Inc.Ringrespects the autonomy and independence of Nisshinbo Group companies, it receives regular reports and other communications regarding each company's operations in accordance with the relevant company's operating regulations.

(3) Nisshinbo Holdings, Inc. conducts transactions between Nisshinbo Group companies appropriately in light of laws and regulations, accounting principles, tax law, and other social norms.

(4) In order to ensure the reliability of Nisshinbo Group's financial reports, Nisshinbo Holdings, Inc. develops systems of internal controls relating to financial reporting. Activities to evaluate, maintain, and improve such reporting are also carried out continuously in accordance with the Financial Instruments and Exchange Law and other relevant laws and regulations.

(5) Directors and Audit & Supervisory Board Members are dispatched to Nisshinbo Group companies to supervise and audit the business.

6. Matters relating to employees assigned to assist Audit & Supervisory Board Members in their duties

(1) Audit & Supervisory Board Members are able to give instructions to those employees assigned to audit divisions, etc. on matters necessary for audit operations.

(2) Those employees who receive such instructions from Audit & Supervisory Board Members receive those instructions exclusively from the Audit & Supervisory Board Members.

(3) Directors and the superiors of the relevant divisions will provide the necessary environment for employees who have received instructions from Audit & Supervisory Board Members to implement those instructions.

7. Systems relating to reports to Audit & Supervisory Board Members and systems

to ensure that Audit & Supervisory Board Members carry out audits effectively

(1) Audit & Supervisory Board Members attend Board of Directors meetings and important Nisshinbo Group meetings, giving their opinions as necessary, and receive reports on the business and the status of audit operations from directors, Audit & Supervisory Board Members, managing officers, and employees of Nisshinbo Holdings, Inc. and Nisshinbo Group companies. They are also able to view the minutes of the Board of Directors and other records regarding operations.

(2) Directors, Audit & Supervisory Board Members, managing officers, and employees of Nisshinbo Holdings, Inc. and Nisshinbo Group companies report promptly to Audit & Supervisory Board Members either directly or through their office organization whenever behavior has occurred or there is the risk of behavior occurring that will significantly reduce the Nisshinbo Group's credibility, that will have a serious negative impact on business performance, or that will seriously conflict with corporate ethics. According to the substance of their duties, the responsible members of finance and accounting divisions, audit divisions, and other such units also make reports to the Audit & Supervisory Board Members.

(3) The directors, managing officers, and employees of Nisshinbo Holdings, Inc. and Nisshinbo Group companies must not take adverse action against employees or others who have reported matters relating to audit operations and so on to Audit & Supervisory Board Members, or treat them disadvantageously because they made said report.

(4) Liaison meetings with Audit & Supervisory Board Members and audit divisions are held regularly. Audit divisions report to Audit & Supervisory Board Members on important matters relating to internal audits and steps are taken for coordination between Audit & Supervisory Board Members and audit divisions.

(5) Expenses necessary to the execution of Audit & Supervisory Board Members' duties will be borne by Nisshinbo Holdings, Inc.

② Overview of the status of implementation of internal control systems

An overview of the status of implementation of the internal control systems of Nisshinbo Holdings, Inc. is as follows:

1. Systems to ensure that directors and employees execute their duties in compliance with laws and regulations and with the Articles of Incorporation

When engaged in deliberations and decision-making, the Board of Directors will keep in mind the following matters: “alignment with Group Corporate Philosophy and management policy”, “compliance with laws and regulations and corporate ethics”, “increasing medium- to long-term corporate value”, and “securing the trust of various stakeholders including shareholders, customers, employees, business partners, and local communities”. Four outside directors are included on the Board as a measure to enhance the oversight function and heighten management transparency.

Directors and managing officers take the initiative to serve as a model complying with Business Conduct Guidelines when executing their duties, taking thorough steps to emphasise the importance of compliance with these Guidelines by providing recurring education for employees. They also report to the Board of Directors regarding the status of implementation of all items prescribed by the Business Conduct Guidelines and any other important matters relating to corporate ethics, including cases reported under corporate ethics systems.

An Internal Audit Office, which is independent of other business operations, conducts internal audits of the status of Nisshinbo Group business operations. It reports the results to the Board of Directors.

2. Systems relating to retention and management of information relating to directors' execution of their duties

In accordance with laws and regulations and Company regulations, minutes from general shareholders meetings, Board of Directors meetings, and other such important meetings, along with other important records relating to management, account books and other accounting records, are retained as appropriate.

3. Regulations and other systems for risk management of losses

Risk management, such as forecasting risks, formulating and verifying countermeasures, responding to emergencies is implemented in accordance with certain systems and regulations for risk management. Policies for addressing important management risks and other such matters are fully deliberated by the Board of Management and other such bodies, and particularly important matters are reported to the Board of Directors.

In preparation for major natural disasters and other such events, a business continuity plan (BCP) has been formulated, business continuity management (BCM) documents have been created, and BCM training is conducted to make these measures widely known and to enhance their effectiveness.

4. Systems to ensure that directors execute their duties efficiently

The Board of Directors presently has ten directors, including four outside directors. In accordance with certain criteria for agenda items provided in the regulations on business and decision-making authority and other internal regulations, the Board engages in decision-making on management strategy and policy and other important management matters as well as supervision of the execution of duties by each director. Under the managing officer system, steps are taken to facilitate decision-making in the business by transferring to managing officers the requisite authority as appropriate required, and ensuring the accurate oversight of the execution of such authority.

To increase efficiency in the execution of duties and related matters, the criteria used to determine whether an agenda item presented to the Board of Directors is appropriate, and whether the scope of certain authority that is transferred to managing officers is appropriate, is regularly verified and improved as needed.

5. Systems for ensureing the appropriateness of business in the Nisshinbo Group

Systems and regulations concerning Nisshinbo Group business operations and risk management are developed, and these systems and regulations are implemented appropriately.

Directors and Audit & Supervisory Board Members are dispatched to the main Nisshinbo Group companies to supervise and audit the execution of business. Nisshinbo Holdings, Inc. respects the autonomy and independence of Nisshinbo Group companies, and Nisshinboit receives regular reports and other communications regarding each company's operations in accordance with the relevant company's operating regulations.

A system of internal controls relating to financial reporting is also developed, and activities to evaluate, maintain, and improve such system are implemented continuously in accordance with the Financial Instruments and Exchange Law and other relevant laws and regulations.

6. Matters relating to employees assigned to assist Audit & Supervisory Board Members in their duties

In accordance with Company regulations, employees and others assigned to the Internal Audit Office and other such units follow the instructions of Audit & Supervisory Board Members and assist Audit & Supervisory Board Members with their operations.

7. Systems relating to reports to Audit & Supervisory Board Members and systems to ensure that Audit & Supervisory Board Members carry out audits effectively

Audit & Supervisory Board Members attend Board of Directors meetings and important Nisshinbo Group meetings, giving their opinions as necessary, and they receive reports on the business and the status of audit operations from the Board of Directors, managing officers, and employees.

Steps are also taken for coordination between Audit & Supervisory Board Members and the Internal Audit Office. Liaison meetings with Audit & Supervisory Board Members and the Internal Audit Office are held on a monthly basis, and the Internal Audit Office reports to the Audit & Supervisory Board on the status of its internal audit activities.

Expenses necessary for the execution of Audit & Supervisory Board Members' duties are borne by Nisshinbo Holdings, Inc.

(2) Basic policy regarding control of the corporation

① **Description of the basic policy**

Nisshinbo Holdings, Inc. takes the view that control over decisions regarding the Nisshinbo Group’s financial and business policy (hereinafter referred to as the “Management Policy”) ultimately belongs to the shareholders. On the other hand, actual decisions on the Management Policy are made by the Board of Directors, which comprises directors who are appointed at a general shareholders meeting and entrusted to act on the shareholders' behalf. Consequently, Nisshinbo Holdings, Inc. has made it basic policy for the Board of Directors to make their best efforts to maintain and enhance the corporate value of the Company and, by extension, the common benefit of the Nisshinbo Holdings, Inc. shareholders (hereinafter simply the “Common Interest of the Shareholders”), and to decide on the Management Policy that promptly incorporates the intentions of the shareholders.

② **Measures contributing to realization of basic policy**

In order to realize the basic policy described in item ①, Nisshinbo Holdings, Inc. is pursuing measures to improve the corporate culture through the implementation and promotion of the Group Corporate Philosophy formulated by the three philosophies of “Public Entity”, “Consistent Integrity”, and “Innovation”, as well as through corporate governance and other qualitative improvements.Nisshinbo Holdings, Inc. is also pursuing measures for quantitative growth in terms of figures and performance (including a focus on ROE indices for increased profitability), amd management (with an emphasis on share prices),. The directors, whom the shareholders entrust with management, are appointed for a one-year term so that the directors’ responsibilities for that fiscal year are clearly identifiable. The Board of Directors exercises oversight of the execution of directors' duties, and in order to reinforce this function, a number of outside directors are also appointed.

③ **Measures to prevent control of the Management Policy decisions by parties who are inappropriate in light of basic policy**

With regard to outside parties that attempt to purchase a large number of the Company's shares or that put forward takeover proposals, Nisshinbo Holdings, Inc. will take appropriate measures, such as acting in accordance with relevant laws and regulations to provide shareholders with the information that is necessary and sufficient to make appropriate judgment on the merits of that takeover, disclosing opinions of the Board of Directors of Nisshinbo Holdings, Inc., and exercising its efforts to ensure that shareholders have the time they need to consider the matter.

④ **Nisshinbo Holdings, Inc. Board of Directors' judgment regarding the above measures and its rationale for those measures**

The measures described in item ② and ③ above are not intended to maintain the positions of Nisshinbo Holdings, Inc. officers. Rather, they are measures to secure and improve the Common Interest of the Shareholders, and Nisshinbo Holdings, Inc. considers them to be consistent with the basic policy described in item ① above.

(3) Policy regarding decisions on distribution of surplus etc.

Nisshinbo Holdings, Inc. aims to promote management that emphasizes ROE and to pursue sustained improvement of shareholder value, including the distribution of profits. Nisshinbo Holdings, Inc. also intends to accelerate investment in research and development, expansion of facilities, M&A, and other such areas that drive growth, and go forward to become a corporation that earns even greater regard and credibility from the public, from markets, and from stakeholders as an environment and energy-focused company group.

Nisshinbo Holdings, Inc.'s policy on dividends is to make twice-yearly payments of interim and year-end dividends in a stable and consistent manner with a consolidated payout ratio of 30% as the goal.

In cases when the Nisshinbo Group has secured sufficient internal reserves to fund future growth strategies, its policy will be to actively return profits to shareholders by buying back shares and other such means that also take stability into consideration. Nisshinbo Holdings, Inc. intends to cancel treasury stock, but may use this stock in share exchange if there are M&A opportunities that will contribute to significant increases in shareholder value.

It was determined by the Board of Directors on May 10, 2018, that the period-end cash dividend for the current period would be ¥15 per share. Together with the interim dividend, this brought the annual cash dividend to ¥30 per share for the period under review.

Consolidated Balance Sheet

As of March 31, 2018 (Millions of yen) (Rounded off)

Items	Amount	Items	Amount
Assets		**Liabilities**	
Current assets	**315,974**	**Current liabilities**	**209,055**
Cash and deposits	43,046	Notes and accounts payable－trade	55,526
Notes and accounts receivable－trade	136,348	Electronically recorded obligations	16,419
Electronically recorded monetary claims	15,802	Short-term loans payable	46,312
Merchandise and finished goods	34,954	Commercial papers	30,000
Work in process	46,889	Current portion of long-term loans payable	7,676
Raw materials and supplies	23,524	Lease obligations	568
Deferred tax assets	4,878	Income taxes payable	5,777
Other	11,314	Deferred tax liabilities	106
Allowance for doubtful accounts	(783)	Provision for product warranties	1,088
Non-current assets	**338,252**	Provision for directors' bonuses	258
Property, plant and equipment	**186,017**	Provision for loss on construction contracts	64
Buildings and structures	68,358	Provision for contingent loss	1,128
Machinery, equipment and vehicles	55,090	Provision for overseas litigation loss	219
Land	37,811	Other provisions	279
Leased assets	1,358	Other	43,629
Construction in progress	12,649	**Non-current liabilities**	**154,737**
Other	10,748	Long-term loans payable	64,107
Intangible assets	**19,206**	Lease obligations	898
Goodwill	8,945	Deferred tax liabilities	27,409
Other	10,261	Provision for directors' retirement benefits	22
Investments and other assets	**133,028**	Provision for business structure improvement	1,565
Investment securities	108,111	Provision for environmental measures	1,071
Long-term loans receivable	994	Provision for overseas litigation loss	378
Net defined benefit assets	4,938	Other provisions	51
Deferred tax assets	6,631	Net defined benefit liability	48,031
Other	13,764	Asset retirement obligations	815
Allowance for doubtful accounts	(1,411)	Other	10,385
		Total liabilities	**363,793**
		Net assets	
		Shareholders' equity	**218,882**
		Capital stock	27,587
		Capital surplus	26,719
		Retained earnings	189,186
		Treasury stock	(24,610)
		Accumulated other comprehensive income	**49,888**
		Valuation difference on available-for-sale securities	42,964
		Deferred gains or losses on hedges	(18)
		Foreign currency translation adjustments	10,360
		Defined benefit retirement plans	(3,418)
		Stock acquisition rights	**151**
		Non-controlling interests	**21,510**
		Total net assets	**290,434**
Total assets	**654,227**	**Total liabilities and net assets**	**654,227**

Consolidated Statement of Income

From April 1, 2017 to

March 31, 2018 (Millions of yen) (Rounded off)

Items	Amount	
Net sales		**512,047**
Cost of sales		406,069
Gross profit		**105,978**
Selling, general and administrative expenses		90,892
Operating income		**15,085**
Non-operating income:		
Interest and dividend income	2,818	
Share of profit of entities accounted for using equity method	4,375	
Miscellaneous income	1,771	8,965
Non-operating expenses:		
Interest expenses	862	
Sales discounts	671	
Foreign exchange losses	1,151	
Contribution	27	
Miscellaneous loss	1,638	4,350
Ordinary income		**19,700**
Extraordinary income:		
Gain on sales of non-current assets	5,472	
Gain on sales of investment securities	2,653	
Gain on sales of stocks of subsidiaries	11,745	
Gain on revision of retirement benefit plan	848	
Gain on reversal of stock acquisition rights	14	
Gain on reversal of provision for environmental measures	73	20,808
Extraordinary loss:		
Loss on sales of non-current assets	135	
Loss on disposal of fixed assets	245	
Impairment loss	4,521	
Loss on sales of investment securities	2	
Loss on valuation of investment securities	70	
Loss on valuation of investments in capital	41	
Loss on valuation of investments in capital of subsidiaries	8	
Subsidiaries’ business structure improvement expenses	538	
Losses on business liquidations	90	
Provision for environmental measures	1,086	
Provision of allowance for losses on foreign litigation	279	7,021
Income before income taxes		**33,487**
Income taxes－current	8,052	
Income taxes－deferred	(1,152)	6,900
Net income		**26,587**
Net income attributable to non-controlling interests		234
Income attributable to owners of the parent		**26,352**

Consolidated Statement of Changes in Net Equity

April 1, 2017 to

March 31, 2018

(Millions of yen) (Rounded off)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance on April 1, 2017	27,587	17,587	167,598	(23,089)	189,683
Changes in items during consolidated the year					
Cash dividends			(4,764)		(4,764)
Net income attributable to owners of the parent			26,352		26,352
Purchase of treasury stock				(20,010)	(20,010)
Disposal of treasury stock		(18)		193	175
Change due to share exchanges		9,150		18,296	27,446
Change in the parent's ownership interest due to transactions with non-controlling interests		0			0
Net change in the year					
Total changes of items during the year	-	9,132	21,588	(1,520)	29,199
Balance on March 31, 2018	27,587	26,719	189,186	(24,610)	218,882

	Accumulated other comprehensive income					Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on investment securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Post-retirement liability adjustments	Total accumulated other comprehensive income			
Balance on April 1, 2017	37,310	3	7,714	(5,276)	39,751	162	46,155	275,753
Changes in items during the year								
Cash dividends								(4,762)
Net income attributable to owners of the parent								26,352
Purchase of treasury stock								(20,010)
Disposal of treasury stock								175
Change due to share exchanges								27,446
Change in the parent's ownership interest due to transactions with non-controlling interests								0
Net change in the year	5,654	(21)	2,646	1,858	10,136	(11)	(24,644)	(14,518)
Total changes of items during the year	5,654	(21)	2,646	1,858	10,136	(11)	(24,644)	14,680
Balance on March 31, 2018	42,964	(18)	10,360	(3,418)	49,888	151	21,510	290,434

Notes to Consolidated Financial Statements

Ⅰ. Important Matters Affecting the Preparation of Consolidated Financial Statements

１. Matters related to the scope of consolidation

(1) Number of consolidated subsidiaries and names of major consolidated subsidiaries

Number of consolidated subsidiaries: 109

Names of major consolidated subsidiaries:

Japan Radio Co., Ltd.; New Japan Radio Co., Ltd.; Nisshinbo Brake Inc.; TMD FRICTION GROUP S.A.; SAERON AUTOMOTIVE CORPORATION; Nisshinbo Mechatronics Inc.; Nanbu Plastics Co., Ltd.; Nisshinbo Chemical Inc.; and Nisshinbo Textile Inc.

In the current consolidated fiscal year, the newly established AH Brake Co., Ltd.; AH BRAKE (THAILAND) CO.; LTD., and O.O.O.TMD FRICTION EURASIA, newly established by the TMD FRICTION GROUP S.A., were included in the scope of consolidation. Moreover, Nisshinbo Holdings Inc. (the "Company") acquired 80% of the shares issued by Ricoh Electronic Devices Co., Ltd. and, as a result, only its balance sheet is consolidated in this consolidated fiscal year.

In addition, in the previous consolidated fiscal year, the liquidations of Nisshinbo Yarn Dyed Co., Ltd.; Ocean Link Co., Ltd.; CHOYA; and Standard Corporation, Nanbu Plastics Co., Ltd.'s subsidiary, were completed, and TMD FRICTION HOLDING SASU merged (absorption-type merger) with TMD FRICTION FRANCE, and Iwao Corporation merged (absorption-type merger) with Nisshin Toa Iwao, Inc. In the current fiscal year, Sasebo Japan Radio merged (absorption-type merger) with JRC tokki Co., Ltd., and the businesses of Nisshinbo Paper Products Co., Ltd.; Tokai Paper Co., Ltd.; Daiwa Shiko Co., Ltd.; Nisshinbo Postal Chemical Co., Ltd.; and Shanghai Nippo Industrial Art Corporation were transferred. As a result, all the above companies were removed from the scope of consolidation.

(2) Name of major non-consolidated subsidiary

Asashina Nichimu K.K.

(Reason for exclusion from scope of consolidation)

The non-consolidated subsidiary is excluded from the scope of consolidation because it is a small-scale company and does not have a material impact on the consolidated financial statements with respect to total assets, net sales, net income, and retained earnings.

２. Matters related to application of the equity method

(1) Number of affiliaties to which the equity method was applied: 8

Names of the major non-consolidated subsidiaries and affiliated companies to which the equity method is applied:

Continental Automotive Corporation and Continental Automotive Corporation (LYG) Co., Ltd.

(2) Name of the major non-consolidated subsidiaries and affiliated companies to which the equity method is not applied:

PT. MALAKASARI NISSHINBO DENIM INDUSTRY

(Reasons that equity method is not applied)

The non-consolidated subsidiaries and affiliated companies to which the equity method is not applied are small in scale in terms of net income and retained earnings, and do not have a material impact on the consolidated financial statements.

３. Matters related to fiscal years of consolidated subsidiaries

Of the Company's consolidated subsidiaries, SAERON AUTOMOTIVE CORPORATION and 75 other Group companies end their fiscal year on December 31, while Tokyo Shirts Co., Ltd. ends its fiscal year on February 28. When preparing consolidated financial statements, the Company in principle uses the respective financial statements for the aforementioned reporting period, and makes the necessary adjustments for important differences in transactions between consolidated companies that arise due to different reporting periods.

４． **Matters related to accounting policies**

(1) Standard and method of valuation of important assets

① Investment securities

Other investment securities

Investment securities with fair market value are stated at market value based on fair market value as of the consolidated fiscal closing date. (All valuation gains or losses are reported as a component of shareholders' equity; cost of sales is computed using the moving-average method.)

Investment securities without fair market value are stated at cost based on the moving-average method.

② Derivatives

Derivatives are stated at fair value using the mark-to-market method.

③ Inventories

Inventories are stated at historical cost mainly based on the specific identification method and the weighted-average method (values on the balance sheet are subject to the book value reduction method based on decreased profitability).

(2) Methods of depreciation for fixed assets

① Tangible fixed assets (excluding lease assets)

Straight-line method

The primary standard useful years are as follows:

Buildings and other structures: 2 to 60 years

Machinery, equipment and vehicles: 1 to 20 years

② Intangible fixed assets (excluding lease assets)

Straight-line method

Standard useful years for software used internally: 2 to 10 years

③ Lease assets

The Company depreciates lease assets for non-transferable financial leases by using the straight-line method where the useful life is equal to the lease period and the residual value is zero.

(3) Appropriation standards applicable to important provisions

① Allowance for bad debts

In order to provide for losses from bad debts, the Company calculates provisions individually based on the estimated uncollectible amounts. For other debts, provisions are calculated based on the actual ratio of the past doubtful debt losses.

② Provisions for product warranties

An amount deemed necessary in the future is posted to cover replacement costs and repair costs for products that have already been shipped.

③ Allowance for contingent losses

This allowance is an estimate of losses based on a rational estimation of risks at the present. These allowances are set aside primarily to prepare for potential future losses resulting from on-site inspections carried out by the Japan Fair Trade Commission (the "JFTC") on November 18, 2014 on the suspicion that transactions related to the delivery of digital radio equipment for firefighting emergencies sold by Japan Radio Co., Ltd. ("Japan Radio"), the Company's consolidated subsidiary, violated the Antitrust Law, and from the JFTC's order on February 2, 2017 that Japan Radio cease and desist from violating the Antimonopoly Act and pay surcharges for violating the Act.

④ Provision for business structure improvement

Some consolidated subsidiaries provide for a reasonable estimate of costs and losses anticipated in the future as a result of business structure improvements.

⑤ Provision for environmental measures

The provision for environmental measures is an estimate of costs incurred to prepare for the disposal of PCB waste, which is now required under the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes.

Moreover, soil contamination on some of the land owned by Japan Radio Co., Ltd., the Company's consolidated subsidiary, was discovered, and the Company posted an estimate of the loss to be incurred for soil contamination remediation.

⑥ Provisions for foreign litigation losses

The Company provides an allowance for loss for the estimated amount deemed necessary to prepare for potential future losses in litigation involving some foreign consolidated companies.

(4) Accounting treatment for retirement benefit payments

① Period attribution method for estimated retirement benefit payments

Retirement benefit obligations are calculated using the projected benefit method to attribute the estimated retirement payments in the period remaining until the end of the fiscal year in question.

② Method for expensing actuarial differences and past service liabilities

Unrecognized actuarial gain or loss is amortized mainly by the declining balance method over a portion (10 to 15 years) of the estimated average of remaining service years of employees from the following fiscal year. Prior service liabilities are amortized by the straight-line method over a period within the average remaining service years for employees (13 to 15 years). Some consolidated subsidiaries recognize actuarial differences and past service liabilities when they are incurred.

(5) Standards for recording important revenues and costs

Standards for recording revenue and costs related to construction contracts

Some consolidated subsidiaries applied the percentage-of-completion method (the construction-cost-percentage method for estimating the degree of completion of construction) for contracts whose outcome at the end of the consolidated fiscal year under review was deemed certain. The Company applied the completed contract method to contracts other than the above. The estimated percentage of completion at the end of the consolidated fiscal year in question for construction to which the percentage-of-completion method is applied shall be based on the ratio of the cost incurred to the estimated total cost.

(6) Criteria for converting important assets and liabilities in foreign currencies into Japanese yen

Claims and debts in foreign currencies are converted into Japanese yen at the spot foreign exchange rate prevailing on the consolidated fiscal closing date, and any conversion differences are treated as gain or loss. The assets and liabilities of overseas subsidiaries, etc. are converted into Japanese yen at the spot foreign exchange rate prevailing on the consolidated fiscal closing date; their earnings and expenses are converted into Japanese yen at an average foreign exchange rate for the relevant period, and the conversion difference is included in the accounts of non-controlling interests and foreign exchange translation adjustments within net assets.

(7) Important methods of hedge accounting

① Methods of hedge accounting

Deferral hedging is used in principle. Appropriation accounting is applied to foreign exchange forward contracts that meet the requirements for this treatment, and special accounting is applied to the interest rate swap transactions that require special accounting.

② Hedging instruments and hedged items

A. Hedging instruments: Foreign exchange forward contracts

Hedged items: Assets denominated in foreign currencies due to product exports, liabilities denominated in foreign currencies, and scheduled transactions in foreign currencies due to product imports and other transactions

B. Hedging instrument: Interest rate swaps

Hedged item: loans

③ Hedging policy

Based on the authorization rules and internal risk management rules regarding derivative transactions, expected risks such as fluctuations in foreign exchange and interest rate risks are hedged to a certain extent.

④ Method for assessing hedge effectiveness

The Company assesses the effectiveness of hedging based on the extent of the fluctuations of hedged items and hedging instruments by semi-annually comparing the fluctuations in the market value of hedged items or the fluctuations of accumulative cash flows with the fluctuations in the market value of hedging instruments.

However, the assessment of hedge effectiveness is omitted for foreign exchange contracts that meet the requirements for appropriation accounting and interest rate swaps that are treated under special exceptions.

(8) Application of the consolidated tax payments system

The Company and some of its consolidated subsidiaries apply the consolidated tax payments system.

(9) Accounting treatment for consumption taxes, etc.

For accounting purposes, amounts on the consolidated financial statements are reported net of consumption tax and local consumption tax. Consumption taxes and local consumption taxes that are not tax deductible are expensed in the consolidated fiscal year.

(10) Amortization of goodwill and amortization period

Goodwill is amortized evenly over a period from 5 to 7 years, with the exception of minor goodwill, which is expensed as incurred.

Ⅱ. Notes to Consolidated Balance Sheet

１． **Accumulated depreciation of fixed assets:** 384,712 million yen

２． **Accumulated reduced-value amount directly deducted from the acquisition price of tangible fixed assets received as government subsidies:** 755 million yen

３． **Reduced-value amount directly deducted from the acquisition price of the relevant tangible fixed assets received as government subsidies:** 78 million yen

４． **Assets submitted as collateral and secured debt**

(1) Assets submitted as collateral

Term deposits (cash and deposits)	0 million yen
Notes and accounts receivable-trade	426 million yen
Property, plant and equipment	17,066 million yen
Investment securities	845 million yen
Total	18,338 million yen

(2) Secured debt

Notes and accounts payable-trade	1,158 million yen
Short-term loans payable	1,550 million yen
Long-term loans payable (including loans scheduled for repayment within one year)	3,987 million yen
Long-term deposits (including deposits scheduled for return within one year)	5,206 million yen
Total	11,902 million yen

５． **Debt guarantees**

The Company has guaranteed an 81 million yen loan made to an affiliated company, PT. MALAKASARI NISSHINBO DENIM INDUSTRY, by a financial institution.

６． **Commitment line agreements**

The Company and three of its consolidated subsidiaries have commitment line agreements with nine banks in the consolidated fiscal year under review in order to raise operating funds efficiently. The balances of unused loans under these agreements at the end of the consolidated fiscal year March 31, 2018 were as follows:

Total commitment line	28,949 million yen
Outstanding loans	16,692 million yen
Balance of unused loans	12,257 million yen

７. **Trade notes outstanding at end of fiscal year**

Notes maturing on the last day of the fiscal year are settled on their clearing days. Since the settlement date for the Company and some of its consolidated subsidiaries was a holiday for financial institutions, notes that mature on the last day of the next fiscal period are included in the balance at March 31, 2018.

Notes receivable－trade	882 million yen
Notes payable－trade	654 million yen
Electronically recorded monetary claims	1,612 million yen
Electronically recorded monetary obligations	1,822 million yen
Notes payable－facilities (Other current liabilities)	83 million yen
Electronically recorded monetary obligations－facilities (Other current liabilities)	58 million yen

Ⅲ. Notes to Consolidated Statement of Income

The year-end inventories are carried at an amount that includes write-downs following reduced profitability; for the year end March 31, 2018, 198 million yen in inventory valuation losses are included in the cost of sales.

Ⅳ. Notes to Consolidated Statements of Changes Equity

１. Class and total number of outstanding shares at end of consolidated fiscal year under review

Common shares: 178,798,939

２. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
The Board of Directors on May 11, 2017	Common shares	2,381	15.00	March 31, 2017	June 8, 2017
The Board of Directors on November 9, 2017	Common shares	2,382	15.00	September 30, 2017	December 5, 2017

(2) Dividends with record dates within this consolidated fiscal year, but effective dates within the following fiscal year

Resolution	Class of shares	Source of funding for dividends	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
The Board of Directors on May 10, 2018	Common shares	Retained earnings	2,429	15.00	March 31, 2018	June 7, 2018

３. Class and number of shares subject to subscriptions rights to shares at the end of the consolidated fiscal year (excluding stock acquisition rights for which the starting date for the exercise period has not yet arrived)

Common shares: 425,000 shares

Ⅴ. Notes on Financial Instruments

１. Matters concerning status of financial instruments

(1) Policy for handling financial instruments

The Company raises funds required for working capital and capital investment plans primarily by borrowing from banks or issuing commercial paper. The Company temporarily invests unused funds in high quality financial assets and raises short-term working capital by borrowing from banks. The Company conducts derivatives transactions in order to avoid risks (described below) and does not enter into speculative transactions.

(2) Description of financial instruments and their risks

Operating receivables, including notes receivable and accounts payable and electronically recorded claims, are exposed to the credit risks of trading counterparties. In addition, since the Company conducts its activities globally, its operating assets denominated in foreign currencies are exposed to the risk of foreign currency fluctuations. However, the Company can hedge this risk in part by using foreign exchange contracts.

Marketable securities and investment securities are primarily held for the purpose of strengthening business relationships, for example by expanding transactions with business partners and ensuring stable fundraising. Such securities are exposed to the risk of fluctuations in market prices.

Most operating payables, including trade notes and accounts payable and electronically recorded obligations, are due and payable within one year. Raw materials face the risk of fluctuations in purchase prices, but the Company hedges this in part by using foreign exchange contracts and commodities futures transactions, among others.

Loans, commercial papers, and lease obligations related to finance lease transactions are used to raise funds needed for working capital and capital investment. The Company uses derivative transactions (interest rate swaps) to hedge those instruments with floating rates that are exposed to the risk of fluctuations in interest rates. In addition, some loans are subject to restrictive financial covenants.

Derivative transactions comprise forward exchange contract transactions for the purpose of hedging exchange rate fluctuation risk for trade payables and receivables denominated in foreign currencies and interest rate swap transactions for the purpose of hedging interest rate fluctuation risk for interest payable on loans. Please note that further information on hedge accounting, including hedging instruments, hedged items, hedging policy, and methods for assessing the effectiveness of hedging, may be found in a previous section entitled “7. Important methods of hedge accounting” in section “4. Matters Related to Accounting Policies.”

(3) Risk management system for financial instruments

① Management of credit risk (risk related to nonperformance of contractual obligations by transaction counterparties)

In the case of trade receivables and long-term loans, the Company sets credit limits in accordance with credit management rules, and each business division regularly monitors the conditions of major client firms. In addition, the Company monitors the payment dates and balances of each client firm to ensure early detection and reduction of uncollectible receivables due to deteriorated financial conditions. Consolidated subsidiaries also similarly manage credit risk in line with credit management rules.

The Company enters into derivative transactions only with financial institutions that have a high credit rating, and thus there is almost no credit risk.

② Management of market risk (risk of fluctuations in foreign exchange rates, interest rates, and other indicators)

The Company and some consolidated subsidiaries use foreign exchange futures contracts to some extent to hedge against the risk that fluctuations in foreign currency exchange rates, identified by currency and by month, exposed to foreign currency-denominated trade receivables and payables, and thus limit the Group’s potential losses. The Company also uses forward exchange contracts for foreign currency-denominated receivables and payables that are certain to arise from anticipated export transactions due to conditions in foreign exchange markets.

The Company and some of its consolidated subsidiaries enter into interest rate swap transactions to reduce risks of interest rate fluctuations affecting borrowings. The Company also engages in commodities futures trading to hedge the risk of fluctuations in the purchase price of raw materials.

For investment securities, the fair value and the financial conditions of issuing entities (client firms) are periodically reviewed, and the Company reviews its holdings on a regular basis, taking the relationship with the client firm into account.

Based on the approval of authorized personnel, the relevant department executes and manages derivative transactions according to the management policies that specify transaction authorizations and transaction amount limits. The monthly transaction results are reported to the Company’s executive officer in charge of such matters.

③ Management of liquidity risks in financing (risks of failure to pay by payment due date)

The relevant departments of the Company create and update cash flow plans as necessary based on reports from each department, and liquidity risk is managed by maintaining a certain level of liquidity on hand.

(4) Supplemental information on fair values of financial instruments

The fair values of financial instruments include both the amount based on market price, and when the market price is not available, a reasonably calculated amount. Factors causing fluctuation are incorporated into the calculation of such an amount, and therefore the amount may vary when different assumptions are applied.

２． Fair values of financial instruments

The reported amounts in the consolidated balance sheet, fair values, and their differences as of March 31, 2018 are as follows, which does not contain items with fair values that were impractical to measure (refer to Note 2).

(Millions of yen)

	Reported amount in balance sheet	Fair value	Difference
(1) Cash and deposits	43,046	43,046	—
(2) Notes and accounts receivable－trade	136,348		
Allowance for doubtful accounts (*1)	(239)		
Subtotal	136,109	136,109	—
(3) Electronically recorded claims	15,802	15,802	—
(4)Marketable securities and investment securities			
Other securities	83,196	83,196	—
Investment of subsidiaries and affiliates	619	2,460	1,840
(5) Long-term loans receivable	994		
Allowance for doubtful accounts (*2)	(331)		
Subtotal	663	668	5
Total assets	279,438	281,284	1,846
(1) Notes and accounts payable－trade	55,526	55,526	—
(2) Electronically recorded obligations	16,419	16,419	—
(3) Short-term loans payable	46,312	46,312	—
(4) Lease obligations (current liabilities)	568	549	(18)
(5) Commercial paper	30,000	30,000	—
(6) Income tax payable	5,777	5,777	—
(7) Long-term loans payable (including debt to be repaid within one year)	71,784	71,582	(201)
(8) Lease obligations (non-current liabilities)	898	809	(88)
Total liabilities	227,286	226,977	(309)
Derivative transactions (*3)			
(1) Hedge accounting-not applied	298	298	—
(2) Hedge accounting-applied	(27)	(27)	—

(*1) Notes and accounts receivable－trade are net of an allowance for doubtful accounts, which are listed separately.

(*2) Long-term loans receivable are net of an allowance for doubtful accounts, which are listed separately.

(*3) The assets and liabilities resulting from derivative transactions are indicated on a net basis. Values in parentheses indicate net liabilities.

(Note 1) Method for calculating fair value of financial instruments and matters related to securities and derivative transactions

Assets

(1) Cash and deposits, (2) Notes and accounts receivable－trade, and (3) Electronically recorded claims

Book values are applied since these items are settled in a short period of time and their book values approximate fair values.

(4) Marketable securities and investment securities

Fair values for equity securities are based on quoted market prices, while fair values for bonds are based on market prices or prices provided by financial institutions.

(5) Long-term loans receivable

Fair values for long-term loans receivable are calculated using the present value of future cash flows by discounting the future cash flows at an interest rate equal to an appropriate index, such as government bond yields, plus the credit spread.

Liabilities

(1) Notes and accounts payable－trade, (2) Electronically recorded obligations, (3) Short-term loans payable, (5) commercial paper, and (6) Income tax payable

Book values are applied since these items are settled in a short period of time and their book values approximate fair values.

(4) Lease obligations (current liabilities), (7) Long-term loans payable (including debt to be repaid within one year), and (8) Lease obligations (non-current liabilities)

Fair values for these are calculated by discounting the sum of the principal and interest at the interest rate assumed when new similar debt is taken on.

Derivative transactions

(1) Fair value of forward exchange contracts is calculated using quoted forward exchange rates.

(2) Fair value of interest rate swaps is calculated based on the prices indicated by the financial institution with which the Company does business.

(3) The amounts the gain/loss on foreign exchange forward contracts are included in the fair value of accounts and notes receivable－trade since they are settled together.

(Note 2) Financial instruments whose fair value is deemed extremely difficult to measure

The following marketable securities and investment securities are not included in the table above because it is recognized that their fair value is extremely difficult to determine since they have no market prices and it is not possible to reasonably estimate future cash flows.

Category	Reported amount in balance sheet (millions of yen)
Marketable securities and investment securities	
Unlisted stocks	2,194
Unlisted bonds	425
Unlisted investment of subsidiaries and affiliates	21,674

Ⅵ. Notes on Real Estate for Leasing

The Company and some of its consolidated subsidiaries own shopping centers, office buildings (including), and other properties for rental purposes in Tokyo and other regions. Rental revenue from these rental properties in the consolidated fiscal year totaled 3,465 million yen (rental revenue is primarily recorded as net sales, and rental costs are posted under cost of sales).

The amount recognized on the consolidated balance sheet, the amount of increase/decrease during the current fiscal year, and the fair value of such rental properties are as follows:

(Millions of yen)

Reported amount in balance sheet			Fair value
Balance at the start of the current consolidated fiscal year	Increase/decrease during the current consolidated fiscal year	Balance at the end of the current consolidated fiscal year	
21,993	(1,440)	20,553	73,222

(Note1)The amount recognized on the consolidated balance sheet equals the acquisition cost less accumulated depreciation and accumulated impairment loss.

(Note 2) The fluctuations during the current consolidated fiscal year were primarily due to an increase resulting from the acquisition of new rental properties (804 million yen) and decreases resulting from the sale of land and buildings in Tokyo and Nagoya (aggregating 987 million yen), impairment losses (624 million yen), depreciation costs (500 million yen), and reversion to Company use (90 million yen).

(Note 3) The fair value at the end of the current consolidated fiscal year is, in the case of major properties, the amount based on real estate appraisals by an external real estate appraiser. In the case of other properties, the amount is based on a certain other valuation real estate data.

Ⅶ. Notes on Information per Share

Net assets per share (yen): 1,659.29

Earnings per share (yen): 160.59

Ⅷ. Notes on Material Subsequent Events

1. Business demerger

The Company transferred (the “Transaction”) the Foundation Brake Business (the “Transferred Business”), part of the Automobile Brake Business of its consolidated subsidiaries, including Nisshinbo Brake Inc. (“Nisshinbo Brake”), to Hosei Brake Industry Co., Ltd. (“Hosei Brake Industry”), a major subsidiary of the Aisin Seiki Group (“the Aisin Group”).

This Transaction consisted of the transfer of the assets, liabilities, and other rights and obligations held by Nisshinbo Brake with respect to the Transferred Business to AH Brake Co., Ltd. (the “Successor Company”), established by Nisshinbo Brake as a wholly owned subsidiary on September 25, 2017 through a demerger on April 1, 2018, followed by the sale of all of the outstanding shares of the Successor Company to Hosei Brake Industry on the same day.

An overview of this transaction is as follows.

(1) Overview of demerger

① Name of the purchaser

Hosei Brake Industry Co., Ltd.

② Description of divested business

Manufacture and sale of drum brakes for passenger vehicles, commercial vehicles, and industrial machinery; disk brakes for commercial vehicles; and wheel cylinders for passenger vehicles; and shoe assembly

③ Main reason for business demerger

The Nisshinbo Group operates a wide range of businesses with the aim of being a group of Environment and Energy Companies that contribute to secure and safe lifestyles by offering solutions to the problems that humanity faces, such as environmental degradation and global warming. As the Company pursues its growth strategy of unity through diversity, the Company intends to focus its management resources on automotive and ultra-smart society businesses.

The Nisshinbo Group’s brake business has a 70-year history with a focus on automobile friction materials. The Friction Materials Business reached annual sales revenue of 130 billion yen through the 2011 acquisition of the prominent European friction materials manufacturer TMD Friction Group S.A. As part of its core business, the Company intends to establish and expand business locations to support global production by automotive manufacturers, and continue to make investments to maintain a strong market position in developing and producing friction materials that meet copper regulations.

At the same time, the Transferred Business’s sales revenue has remained low, at approximately 15 billion yen annually. The future of the brake market is uncertain, partly due to the move to electric park brakes, and large-scale capital expenditures and R&D investment will be necessary in order to maintain competitiveness.

In this context, the Company sought discussions about future technology with a manufacturer that possesses electric park brake technology, and expects the Transferred Business will have success with the Aisin Group, which possesses brake systems.

Having comprehensively considered aspects such as our growth strategy, the Transferred Business’s prospects within our own Group, and Hosei Brake Industry’s evaluation of the Transferred Business, we determined that it would bring further success for the Transferred Business and further satisfaction for our clients and suppliers if we were to sell the Transferred Business to Hosei Brake Industry, an automotive parts manufacturer which is the world’s top manufacturer of drum brakes and which possesses electric park brake technology within its group.

Nisshinbo Brake sold all of the outstanding shares of the Successor Company after transferring to the Successor Company all of the assets (including shares of AH Commercial Vehicle Brake (company name was changed from Nisshinbo Commercial Vehicle Brake)), liabilities, and other rights and obligations held by Nisshinbo Brake with respect to the Transferred Business. In the consolidated fiscal year, Nisshinbo Holdings made an in-kind contribution to Nisshinbo Brake of the real estate and other facilities and intellectual property rights that Nisshinbo Holdings Inc. held in connection with the Transferred Business. The employees of Nisshinbo Holdings Inc. who were employed in the Transferred Business were transferred to the Successor Company.

In conjunction with this transaction, all of the assets, liabilities, and other rights and obligations held by

Nisshinbo Somboon Automotive Co., Ltd. (a wholly owned subsidiary of Nisshinbo Holdings Inc.) with respect to the Transferred Business were transferred to AH BRAKE (THAILAND) CO., LTD., a company newly established in Thailand as a wholly owned subsidiary of the Successor Company.

After the Transaction, the Company will further focus management resources on automotive and ultra-smart society business, especially the Electronics and Friction Materials Businesses, and implement its growth strategy to increase corporate value.

④ Demerger date

April 1, 2018

⑤ Overview of transaction, including legal form

The shares were transferred with cash-only consideration.

(2) Overview of accounting treatment used

① Amount of transfer gains/losses

Currently under review

② Appropriate book value of assets and liabilities of transferred business and primary components

Currently under review

③ Accounting treatment

We plan to post the difference in the book value of the transferred assets and the sale amount as extraordinary gains/losses upon completed of the sales.

(3) Estimate of gains/losses related to demerged business recorded in the consolidated statement of income in the consolidated fiscal year ended March 31, 2018

Sales: 17,250 million yen

Operating income: 1,101 million yen

２. Finalization of share exchange agreement concerning Nisshinbo Holdings Inc. making New Japan Radio Co., Ltd. a wholly owned subsidiary

At a meeting of the Board of Directors on May 10, 2018, Nisshinbo Holdings Inc. ("Nisshinbo Holdings") resolved to implement a share exchange through which Nisshinbo Holdings would become a wholly owning parent company resulting from a share exchange (the "Share Exchange"), and New Japan Radio Co., Ltd. ("NJR") would become a wholly owned subsidiary resulting from the Share Exchange. Nisshinbo Holdings and NJR executed a share exchange agreement (the "Share Exchange Agreement").

An overview of this share exchange is as follows:

(1) Purposes of the Share exchange

The environment is becoming increasingly competitive in the run-up to a full-scale increase in demand for semiconductors and electronic devices in next-generation vehicle technology areas such as automated driving, electric vehicles, and connected cars. In these circumstances, it is all the more important that we respond quickly to the rapid change in the business environment and invest management resources effectively.

In order to expand NJR's business into automotive and instrial products, NJR must establish a solid financial basis that will allow even faster and more flexible decision-making and investment decisions, and will also allow for timely growth in investments, including M&A transactions. In addition, a system that will allow full utilization of the abundant human resources and knowledge possessed by the Group in this area must the reinforced, and growth strategies must be implemented at even faster speeds to raise NJR's and the Group's corporate value.

The Share Exchange will allow the optimal and efficient use of the Nisshinbo Group's management resources, and both companies will continue to build a framework that will succeed amid increasingly intense global competition by strengthening profitability and competitiveness.

(2) Effective date of the Share Exchange

September 1, 2018 (scheduled)

(3) Method for the Share Exchange

The Share Exchange is one in which Nisshinbo Holdings will become a wholly owning parent company NJR will become a wholly owned subsidiary as a result of the Share Exchange. The Share Exchange will be implemented, in the case of Nisshinbo Holdings, without approval by resolution of its general shareholders' meeting by way of a simplified share exchange as prescribed in Article 796, Paragraph 2 of the Companies Act, and in the case of NJR, with the Share Exchange Agreement being approved at its annual general shareholders' meeting to be held on June 25, 2018. The effective date of the Share Exchange is scheduled to be September 1, 2018.

(4) Allotments in the Share Exchange

	Nisshinbo Holdings (whollyownning parent company resulting from a share exchange)	NJR (whollyowned subsidiary resulting from a share exchange)
Allotment ratio following Share Exchange	1	0.65
Number of shares to be delivered in the Share Exchange	9,253,440 shares of common stock of Nisshinbo Holdings (planned)	

Allotment ratio in Share Exchange (the "Share Exchange Ratio")

Nisshinbo Holdings will furnish 0.65 shares of common stock of Nisshinbo Holdings per NJR share. The Share Exchange Ratio might be changed upon discussion and agreement between Nisshinbo Holdings and NJR if a significant change occurs in the terms and conditions that constitute the basis for the relevant calculations.

Number of Nisshinbo Holdings shares to be delivered in the Share Exchange

In the Share Exchange, Nisshinbo Holdings will deliver to the shareholders of NJR (meaning shareholders after the cancellation of treasury stock as described below, and excluding Nisshinbo Holdings) at the time (the "Record

Time") immediately prior to its acquisition of all of the issued shares of the NJR (excluding the NJR Shares held by Nisshinbo Holdings (24,885,000 shares as of May 10, 2018)), the number of the Nisshinbo Holdings Shares calculated in accordance with the Share Exchange Ratio described in the above table in exchange for the NJR Shares held by those shareholders.

Nisshinbo Holdings plans to allocate the treasury stock held by Nisshinbo Holdings (16,818,957 shares as of March 31, 2018) to all of the Nisshinbo Holdings shares to be delivered in the Share Exchange, and Nisshinbo Holdings will not issue any new shares.

NJR plans to cancel all of its treasury stock (including shares acquired by NJR in response to a share purchase demand by a dissenting shareholder as prescribed in Article 785, Paragraph 1 of the Companies Act that may be exercised in relation to the Share Exchange) at the Record Time by resolution of its Board of Directors held before the day prior to the Share Exchange effective date. The number of shares to be delivered in the Share Exchange might be changed due to the number of shares of treasury stock NJR holds before the Record Time or another reason.

(5) Basis and reason for allotments

In order to ensure that the Share Exchange Ratio to be used in the Share Exchange, and the Share Exchange itself, is fair and appropriate, Nisshinbo Holdings appointed SMBC Nikko Securities Inc., and NJR appointed Mizuho Securities Co., Ltd. as their respective third-party valuation agents, and Nisshinbo Holdings appointed Mori Hamada & Matsumoto, and NJR appointed City-Yuwa Partners, as their respective legal advisers.

The Share Exchange Ratio was calculated after taking into consideration the share exchange ratio valuation report received from Nisshinbo Holdings' and NJR's respective third-party valuation agents at their request for a Share Exchange Ratio to be used in the Share Exchange, advice from legal advisers, and the results of due diligence carried out by the two companies, and comprehensively considering the financial conditions, earnings trends, and stock market trends of both companies.

(6) Outline of the companies that are parties to the Share Exchange

		Nisshinbo Holdings (wholly owning parent company resulting from a share exchange)	NJR (wholly owned subsidiary resulting from a share exchange)
(1)	Name	Nisshinbo Holdings Inc.	New Japan Radio Co., Ltd.
(2)	Address	2-31-11 Ningyo-cho, Nihonbashi, Chuo-ku, Tokyo	3-10 Nihonbashi Yokoyama-cho, Chuo-ku, Tokyo
(3)	Name and title of representative	Masaya Kawata, President and Representative Director	Ryo Ogura, President and Representative Director
(4)	Description of business	Manufacturing and selling electronics, automobile brakes, precision instruments, chemicals, textiles, and other products, and selling, purchasing, and leasing real estate	Manufacturing, selling, and researching and developing electronic parts (microwave products and electronic devices) and other similar products
(5)	Stated capital	27,587 million yen	5,220 million yen

(7) Overview of accounting treatment

It is expected that the Share Exchange will be a common control transaction which constitutes a transaction with a non-controlling shareholder.

Ⅸ. Other Notes

1. Impairment loss

The Group has grouped assets by the lowest level that generates independent cash flows, based on business type.

The breakdown of the key assets for which the Group recognized impairment loss is as follows:

Location	Application	Type	Impairment loss (millions of yen)
Japan Radio Corporation Nagano office (Nagano City, Nagano Prefecture)	Assets used in the marine system business	Buildings and structures	39
		Machinery, equipment and vehicles	27
		Other tangible assets	222
		Other intangible assets	217
		Total	507
Nisshinbo Brake Co., Ltd. Toyota office (Toyota City, Aichi Prefecture)	Assets used in the manufacture of auto parts	Buildings and structures	400
		Machinery, equipment and vehicles	388
		Land	1,119
		Other tangible assets	105
		Other intangible assets	3
		Total	2,015
NISSHINBO SOMBOON AUTOMOTIVE CO., LTD. (Thailand)	Assets used in the manufacture of auto parts	Buildings and structures	521
		Machinery, equipment and vehicles	434
		Construction in progress	8
		Other tangible assets	108
		Total	1,072
Nanbu Plastics Co., Ltd. Susono Office (Susono City, Shizuoka Prefecture)	Assets used in the manufacture of plastic products	Buildings and structures	108
		Machinery, equipment and vehicles	110
		Land	11
		Construction in progress	31
		Other tangible assets	294
		Other intangible assets	0
		Total	556

In the case of Japan Radio's assets used in its marine system business, the book value of the asset groups in this business division was reduced to the recoverable value, and this reduction was posted as an impairment loss under extraordinary losses since it was not clear that this business could continuously post profits. The recoverable amount for this asset group was calculated using the utility value, but it was assessed at zero since it was not clear that future cash flow would be positive.

The book value of the assets used in the manufacture of auto parts at Nisshinbo Brake's Toyota Office was reduced to the recoverable value, and this reduction was posted as an impairment loss under extraordinary losses because it was decided that the Foundation Brake Business would be transferred to Hosei Brake Industry Corporation. The recoverable value was calculated using the transfer amount.

The book value of the assets used in the manufacture of auto parts at NISSHINBO SOMBOON AUTOMOTIVE CO., LTD. was reduced to the recoverable value, and this reduction was posted as an impairment loss under extraordinary losses because it was decided that the foundation brake business would be transferred to Hosei Brake Industry Corporation. The recoverable value was calculated using the transfer amount.

The book value of Nanbu Plastic's assets used in the manufacture of plastic products was reduced to the recoverable value, and this reduction was posted as an impairment loss under extraordinary losses because the profits from sales activities were consistently negative and the revenue that was initially anticipated could no longer be expected. The recoverable amount was calculated using the utility value, and the discount rate used in the calculation of future cash flows was principle 6.0%.

２． Business combinations

(1) Business demerger

Transfer of subsidiary's shares

The Company transferred the paper product business conducted by consolidated subsidiary Nisshinbo Paper Products Inc. ("Nisshinbo Paper Products") and four other companies to Daio Paper Corporation ("Daio Paper") on April 3, 2017.

In this transaction, the Company carried out an absorption-type company split in which it transferred assets held in the paper product business (including the real estate and other facilities, as well as intellectual property and other assets related to the paper product business and owned by the Company, and shares in the subsidiaries conducting the paper product business) and then transferred all of the outstanding shares in Nisshinbo Paper Products to Daio Paper.

① Overview of business demerger

A. Name of purchaser

Daio Paper Corporation

B. Description of divested business

Manufacture and sale of household paper, printed paper, and processed paper products

C. Main reasons for business demerger

The Nisshinbo Group operates its wide range of businesses with the aim of being a group of Environment and Energy Companies that contributes to secure and safe lifestyles by offering solutions to the problems that humanity faces, such as environmental degradation and global warming. As the Company pursues its growth strategy of unity through diversity, the Company intends to focus our management resources on automotive and ultra-smart society businesses.

The Nisshinbo Group's paper product business has a 70-year history and provides the market with distinctive high value-added products in the three businesses of household paper products, printing paper, and processed paper. Its highly competitive products have earned high acclaim in the market, for example with the premium tissue paper Cotton Feel, Toilet Paper with Double the Absorbency for Shower Toilets, and the Vent Nouveau fine paper series. However, the business remains relatively small, with annual sales of just 30 billion. Given the mature market of the increasingly oligopolistic paper products industry, achieving growth by delving into niche markets proved difficult.

In these circumstances, Daio Paper approached Nisshinbo Holdings with an offer to take over its paper product business. The Group comprehensively considered its growth strategy, the future of the paper product business within the Group, and the reputation of Daio Paper, and proceeded with discussions and negotiations. As a result, it determined that transferring the business to Daio Paper, for which paper products is its core business and which boasts formidable competitive power in the domestic market, would contribute to the development of the Company's paper products group, increase satisfaction among customers and client firms, and improve stability for employees involved in the relevant operations.

D. Date of business demerger

April 3, 2017

E. Overview of transaction, including legal form

The shares were transferred with cash-only consideration.

② Overview of accounting treatment used

A. Income/loss on transfer

Gain on sales of stocks of subsidiaries 11,745 million yen

B. Appropriate book value of assets and liabilities of transferred business and primary components

Current assets	13,901 million yen
Non-current assets	10,256 million yen
Total assets	24,157 million yen
Current liabilities	7,182 million yen
Non-current liabilities	3,644 million yen
Total liabilities	10,827 million yen

C. Accounting treatment

We recorded the difference between the book value of the transferred assets and the sale amount as gain on sales of stocks of subsidiaries under extraordinary income/loss.

③Estimate of income/loss related to the demerged business recorded in the consolidated statement of income for the current consolidated fiscal year

As the business demerger was carried out with a sale date at the start of the current consolidated fiscal year, income/loss related to the demerged business were not included in the consolidated income statement for the current consolidated fiscal year.

(2) Transactions under common control

Share exchange making consolidated subsidiary Japan Radio a wholly owned subsidiary

① Overview of transaction

A. Name and business description of company added to Group

Name: Japan Radio Co., Ltd. (“JRC”)

Business description: Manufacture and sale of wireless products for marine, self-defense, and disaster-prevention programs and wireless telecommunications equipment

B. Business combination date

October 2, 2017

C. Legal form of business combination

Share exchange (the ”Share Exchange”)

D. Name of company after combination

No change

E. Items related to overview of other transactions

The Company aims to strengthen the integrated business operations of JRC with rapid and bold decision-making, accelerate cost structure reforms, and enhance its level of governance. The Company determined that making JRC a wholly owned subsidiary would raise the corporate value of JRC, which is the center of the Group’s electronics business group, and the Company’s corporate value overall.

The Share Exchange was one in which Nisshinbo Holdings became a wholly owning parent company as a result of the share exchange and JRC became a wholly owned subsidiary as a result of the share exchange. The Share Exchange was implemented, in the case of Nisshinbo Holdings, without approval by resolution of its general shareholders’ meeting by way of a simplified share exchange as prescribed in Article 796, Paragraph 2 of the Companies Act, and in the case of NJR, with the Share Exchange Agreement being approved at its annual general shareholders’ meeting held on June 26, 2017. The effective date of the Share Exchange was October 2, 2017.

② Overview of accounting treatment

The Share Exchange is expected to constitute a transaction under common control that is a transaction with minority shareholders, based on the “Accounting Standard for Business Combinations” and the “Guidance on Accounting Standard for Business Combinations and Accounting Standards for Business Divestitures.”

③ Matters relating to additional acquisition of shares in subsidiary

A. Acquisition cost and breakdown

Company’s shares	21,107 million yen
Acquisition cost	21,107 million yen

B. Class of shares, share exchange ratio, and number of shares allotted

a. Class of shares, share exchange ratio, and number of shares exchanged

Class of shares	Nisshinbo Holding’s common shares (wholly owning parent company in Share Exchange)	JRC (wholly owned subsidiary in Share Exchange)
Share exchange ratio	1	1.28
Number of shares allotted in share exchange	Nisshinbo Holding’s common shares: 15,858,739 shares	

(Note) The Company's shares allotted in this share exchange will be allotted from treasury stock held by the Company.

b. Method for calculating share exchange ratio

In order to ensure that the Share Exchange Ratio to be used in the Share Exchange, and the Share Exchange itself, is fair and appropriate, Nisshinbo Holdings appointed GCA and JRC appointed Mizuho Securities Co., Ltd. as their respective third-party valuation agents, and Nisshinbo Holdings appointed Mori Hamada & Matsumoto and NJR appointed Nishimura & Asahi as their respective legal advisers.

The Share Exchange Ratio was calculated after taking into consideration the share exchange ratio valuation report received from Nisshinbo Holdings' and JRC's respective third-party valuation agents at their request for a Share Exchange Ratio to be used in the Share Exchange, advice from legal advisers, and the results of due diligence carried out by the two companies, and comprehensively considering the financial conditions, earnings trends, and stock market trends of both companies.

④ Matters related to Company's equity fluctuations related to transactions with non-controlling shareholders

A. Main factors behind fluctuations in capital surplus: Additional acquisition of shares in subsidiary

B. Increase in capital surplus due to transactions with non-controlling shareholders: 9,150 million yen

(3) Business combination by acquisition

Acquisition of shares in Ricoh Electronic Devices Co., Ltd., making it a subsidiary

① Overview of business combination

A. Name of acquired company

Ricoh Electronic Devices Co., Ltd.

B. Description of business of acquired company

Development, manufacturing, and sales of electronic devices and other products, and entrusted design service and entrusted manufacturing service for electronic devices

C. Main reasons for business combination

Nisshinbo Group's electronic business is engaged in a wide variety of fields, from wireless communications systems for infrastructure and shipping to electronic devices for vehicles and smartphones, mainly through our two subsidiaries Japan Radio Co., Ltd., which is focused on information and communications systems, and New Japan Radio Co., Ltd., which supplies analog semiconductors and microwave technology products.

On this occasion, by acquiring a majority of the shares of Ricoh Electronic Devices, which is focused on analog power management integrated circuits, and making it a subsidiary, we will strengthen our business foundation in the semiconductor and electronic devices fields, and accelerate the expansion and enhancement of our electronic devices business mainly in the automotive and IoT fields, in which future growth is expected.

D. Business combination date

March 1, 2018

E. Legal form of business combination

The shares were transferred with cash-only consideration.

F. Name of company after combination

No change in name

G. Acquired voting rights ratio

Voting rights ratio held just prior to the business combination:	0.00%
Voting rights ratio acquired on the day of the business combination:	80.00%
Voting rights ratio after acquisition:	80.00%

H. Grounds for deciding on acquired company

Nisshinbo Holdings decided to acquire the company so that it could acquire 80% of the voting rights in Ricoh Electronic Devices by acquiring shares and paying cash in exchange.

② Period of earnings for acquired company included in consolidated balance sheet

The acquired company's earnings are not included as the last day of the current consolidated fiscal year was deemed the acquisition date.

③ Acquisition cost of acquired company and breakdown by type of compensation

Payment for acquisition in cash	9,609 million yen
Acquisition cost	9,609 million yen

④ Main acquisition-related costs and amounts

Compensation and fees for advisors	31 million yen
Compensation and fees for legal advisors	60 million yen

⑤ Goodwill incurred, reason incurred, amortization method, and amortization period

Goodwill 2,371 million yen

Reason incurred The goodwill arose in relation to anticipated future profit.

Amortization method and amortization period:

Goodwill is amortized by the straight-line method over the period during which the influence of the goodwill shall apply. Moreover, the amortization period shall be determined by taking into account the results of the allocation of the acquisition costs.

The allocation of acquisition costs is not complete since the identification of the assets acquired and liabilities assumed as of the date of the business combination and estimates of their fair value is not complete, and thus the goodwill amount is a provisional estimate.

⑥ Assets acquired and liabilities assumed on date of business combination and main breakdown

Current assets	12,902 million yen
Non-current assets	5,856 million yen
Total assets	18,759 million yen
Current liabilities	7,647 million yen
Non-current liabilities	2,064 million yen
Total liabilities	9,712 million yen

３．Additional information

Transfer of fixed assets

The Company transferred fixed assets as described below on June 30, 2017.

(1) Reason for transfer

The Company reviewed its fixed asset holdings and comprehensively considered current trends in the real estate market and future profitability forecasts. As a result, the Company established trusts for the following fixed assets and transferred their trust beneficiary rights.

(2) Name of company to which assets were transferred

The trust beneficiary rights in this case were transferred to a domestic special purpose company (SPC), but the name will not be disclosed due to an agreement with the SPC. There are no capital relationships, personal relationships, or business relationships of note between the SPC and the Company or its affiliated companies. The SPC is not a party related to the Company.

(3) Type of assets transferred and use before transfer

Name of asset: Apita Nagoya Minima Store

Location: 4-chome Toyota, Minami-ku, Nagoya City, Aichi Prefecture

Land area: 33,186 ㎡

Floor space: 37,349 ㎡

Use before transfer: Rental property

(4) Impact on income/loss

The transfer of this fixed assets resulted in the posting of a 5,163 million yen gain on the sale of fixed assets, posted as an extraordinary income.

Non- Consolidated Balance Sheets

As of March 31, 2018 (Millions of yen) (Rounded off)

Items	Amount
Assets	
Current assets	**47,188**
Cash and deposits	1,432
Accounts receivable-trade	88
Merchandise and finished goods	69
Work in process	15,768
Raw materials and supplies	17
Prepaid expenses	208
Deferred tax assets	250
Short-term loans receivable	28,500
Accounts receivable-other	1,289
Other	38
Allowance for doubtful accounts	△473
Non-current assets	**277,883**
Property, plant and equipment	**31,859**
Buildings	18,232
Structures	731
Machinery and equipment	1,012
Vehicles and transportation equipment	29
Tools, furniture and fixtures	450
Land	11,323
Construction in progress	79
Intangible assets	**144**
Software	58
Other	85
Investments and other assets	**245,880**
Investment securities	74,832
Investment in affiliates	161,749
Investment in capital of subsidiaries and affiliaties	7,7291,4
Prepaid pension cost	95
Other	167
Allowance for doubtful accounts	△93
Total assets	**325,072**

Items	Amount
Liabilities	
Current liabilities	**79,844**
Accounts payable	1,820
Short-term loans payable	37,066
Commercial papers	30,000
Current portion of long-term loans payable	5,000
Accounts payable-other	1,859
Accrued expenses	222
Income taxes payable	2,534
Accrued consumption tax	293
Deposits received	652
Deferred income	362
Provision for directors' bonuses	32
Other	1
Non-current liabilities	**52,236**
Long-term loans payable	26,250
Deferred tax liabilities	16,613
Provision for retirement benefits	2,409
Provision for environmental measures	61
Asset retirement obligations	127
Long-term deposits	6,775
Total liabilities	**132,081**
Net assets	
Shareholders' equity	**153,631**
Capital stock	**27,587**
Capital surplus	**23,413**
Capital reserves	20,400
Other capital reserves	3,012
Retained earnings	**127,188**
Legal earnings reserve	6,896
Other retained earnings	**120,291**
Reserve for advanced depreciation of noncurrent assets	3,888
Reserve for special account for advanced depreciation of noncurrent assets	476
Reserve for special depreciation	10
General reserve	63,000
Retained earnings carried forward	52,916
Treasury shares	**△24,558**
Valuation and translation adjustments	**39,207**
Valuation difference on available-for-sale securities	39,207
stock acquisition rights	**151**
Total net assets	**192,990**
Total liabilities and net assets	**325,072**

Non-Consolidated Statements of Income

From April 1, 2017 to

March 31, 2018 (Millions of yen) (Rounded off)

Items	Amount	
Net sales		**9,931**
Cost of sales		4,413
Gross profit		**5,517**
Selling, general and administrative expenses		6,284
Operating loss		**△767**
Non-operating income		
Interest and dividend income	5,976	
Miscellaneous income	73	6,050
Non-operating expenses		
Interest expenses	146	
Stock-related expenses	78	
Foreign exchange losses	41	
Contribution	23	
Miscellaneous loss	57	347
Ordinary income		**4,935**
Extraordinary income		
Gain on sales of non-current assets	5,344	
Gain on sales of investment securities	2,152	
Gain on sales of stocks of subsidiaries	13,808	
Gain on sale of golf club membership	3	
Gain on reversal of stock acquisition rights	14	
Gain on reversal of provision for environmental measures	25	21,349
Extraordinary loss		
Loss on sales of non-current assets	52	
Loss on disposal of fixed assets	16	
Loss on sales of investment in securities	2	
Loss on valuation of investment securities	35	
Loss on valuation of investments in capital of subsidiaries and associates	8	
Loss on valuation of investments in capital	41	
Provision of allowance for doubtful accounts for affiliated companies	471	628
Income before income taxes		**25,656**
Income taxes－current	3,507	
Income taxes－deferred	1,017	4,525
Net income		**21,131**

Non-Consolidated Statements of Changes in Equity

April 1, 2017 to

March 31, 2018

(Millions of yen) (Rounded off)

	Shareholders' equity			
	Common stock	Capital surplus		
		Capital reserves	Other capital surplus	Total capital surplus
Balance on April 1, 2017	27,587	20,400	15	20,415
Changes in items during fiscal year				
Provision of reserve for advanced depreciation of non-current assets				
Reversal of reserve for advanced depreciation of non-current assets				
Reserve for special account for advanced depreciation of non-current assets				
Reversal of reserve for special depreciation				
Adjustment due to change in tax rate				
Cash dividends				
Net income				
Purchase of treasury stock				
Disposal of treasury stock			(17)	(17)
Change due to shares exchanges			3,014	3,014
Net change in the year				
Total changes of items during fiscal year	-	-	2,997	2,997
Balance on March 31, 2018	27,587	20,400	3,012	23,413

	Shareholders' equity								
	Retained earnings								
		Other retained earnings special account							
	Capital reserves	Reserve for advanced depreciation of noncurrent assets	Reserve for advanced depreciation of noncurrent assets	Reserve for special depreciation	General reserves	Retained earnings carried forward	Total retained earnings	Treasury stock	Total shareholders' equity
Balance on April 1, 2017	6,896	5,646	-	20	63,000	35,257	110,821	(22,833)	135,991
Changes in items during fiscal year									
Provision of reserve for advanced depreciation of non-current assets		100				(100)	-		-
Reversal of reserve for advanced depreciation of non-current assets		(1,859)				1,859	-		-
Reserve for special account for advanced depreciation of non-current assets			476			(476)	-		-
Reversal of reserve for special depreciation				(9)		9	-		-
Adjustment due to change in tax rate		0		0		(0)	-		-
Cash dividends						(4,764)	(4,764)		(4,764)
Net income						21,131	21,131		21,131
Purchase of treasury stock								(20,010)	(20,010)
Disposal of treasury stock								192	175
Change due to shares exchanges								18,093	21,107
Net change in the year									
Total changes of items during fiscal year	-	(1,758)	476	(9)	-	17,658	16,367	(1,725)	17,639
Balance on March 31, 2018	6,896	3,888	476	10	63,000	52,916	127,188	(24,558)	153,631

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on investment securities	Total valuation and translation adjustments		
Balance on April 1, 2017	33,496	33,496	162	169,651
Changes in items during fiscal year				
Provision of reserve for advanced depreciation of non-current assets				-
Reversal of reserve for advanced depreciation of non-current assets				-
Reserve for special account for advanced depreciation of non-current assets				-
Reversal of reserve for special depreciation				-
Adjustment due to change in tax rate				-
Cash dividends				(4,764)
Net income				21,131
Purchase of treasury stock				(20,010)
Disposal of treasury stock				175
Change due to stock exchanges				21,107
Net change in the year	5,710	5,710	△11	5,699
Total changes of items during fiscal year	5,710	5,710	△11	23,339
Balance on March 31, 2018	39,207	39,207	151	192,990

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

May 23, 2018

To the Board of Directors of
Nisshinbo Holdings Inc.:

VERITAS & Co.

Designated Partner,
Engagement Partner,
Certified Public Accountant:
Etsuko Nagashima

Designated Partner,
Engagement Partner,
Certified Public Accountant:
Takae Kamei

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Hidetsugu Tsuda

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Kentaro Sugimoto

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Takuma Ueki

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2018 of Nisshinbo Holdings Inc. (the "Company") and its consolidated subsidiaries, and the related consolidated statements of income and changes in equity for the fiscal year from April 1, 2017 to March 31, 2018, and the related notes.

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 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.

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nisshinbo Holdings Inc. and its consolidated subsidiaries as of March 31, 2018, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

As discussed in Note Ⅷ. 2 in the Notes to the Consolidated Financial Statements, following approval at a meeting of the Board of Directors held on May 10, 2018, Nisshinbo Holdings Inc. entered into a share exchange agreement with New Japan Radio Co., Ltd. in which New Japan Radio Co., Ltd. would become a wholly owned subsidiary of Nisshinbo Holdings Inc. Our opinion is not modified in respect of this matter.

Interest

Our firms and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

May 23, 2018

To the Board of Directors of
Nisshinbo Holdings Inc.:

VERITAS & Co.

Designated Partner,
Engagement Partner,
Certified Public Accountant:
Etsuko Nagashima

Designated Partner,
Engagement Partner,
Certified Public Accountant:
Takae Kamei

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Hidetsugu Tsuda

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Kentaro Sugimoto

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Takuma Ueki

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the non-consolidated financial statements, namely, the non-consolidated balance sheet as of March 31, 2018 of Nisshinbo Holdings Inc. (the "Company"), and the related non-consolidated statements of income and changes in equity for the 175th fiscal year from April 1, 2017 to March 31, 2018, and the related notes and the accompanying supplemental schedules.

Management's Responsibility for the Non-Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements and the accompanying supplemental schedules 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 non-consolidated financial statements and the accompanying supplemental schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and the accompanying supplemental schedules, 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 non-consolidated financial statements and the accompanying supplemental schedules 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 non-consolidated financial statements and the accompanying supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the non-consolidated financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of Nisshinbo Holdings Inc. as of March 31, 2018, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

Interest

Our firms and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the related notes and the accompanying supplemental schedules" referred to in this report are not included in the attached non-consolidated financial documents.

[Translation]

AUDIT REPORT

With respect to the Directors' performance of their duties during the 175th fiscal year (from April 1, 2017 to March 31, 2018), the Audit & Supervisory Board has prepared this audit report, upon deliberation, in accordance with the audit report prepared by each Audit & Supervisory Board Member and hereby reports as follows.

1. Method and Contents of the Audit by the Audit & Supervisory Board Members and the Audit & Supervisory Board

(1) The Audit & Supervisory Board determined the audit policy, allocation of duties, etc., received from each Audit & Supervisory Board Member a report on the status of implementation and results of the audit, received from the Directors, etc. and the Accounting Auditors reports on the status of performance of their duties, and requested explanations as necessary.

(2) In compliance with the standards for audits by the Audit & Supervisory Board Members prescribed by the Audit & Supervisory Board, and pursuant to the audit policy, allocation of duties, etc., each Audit & Supervisory Board Member conducted the audit by the following methods while endeavoring to facilitate a mutual understanding with the Directors, the internal audit division, and other employees, etc. and endeavoring to collect information and improve the audit environment.

(i) We have attended the meetings of the Board of Directors and other important meetings, received reports on the status of the performance of duties from the Directors and employees, etc., requested explanations as necessary, examined important approval/decision documents and other documents, and inspected the status of the corporate affairs and assets at the Company's head office and primary operation sites. With respect to subsidiaries, we endeavored to facilitate a mutual understanding and exchange information with the Directors and the Audit & Supervisory Board Members, etc. of each subsidiary, and received reports on their respective businesses as necessary.

(ii) In relation to (a) the contents of the Board of Directors' resolutions regarding the development of the system to ensure that the Directors' performance of their duties described in the Business Report complies with laws and regulations and the Articles of Incorporation, and the development of other systems stipulated in Article 100, Paragraph 1 and Paragraph 3 of the Ordinance for Enforcement of the Companies Act as being necessary for ensuring the appropriateness of the corporate affairs of a corporate group, comprised of a stock company and its subsidiaries and (b) the systems (internal control systems) developed based on those resolutions, we have regularly received reports from Directors and other employees, etc., requested explanations as necessary, and expressed our opinion on the structure and status of operation of those systems. In relation to internal controls concerning financial reporting, we have received from the Directors, etc. and the Accounting Auditors reports on the evaluations of the internal controls and the status of the audit, and requested explanations as necessary.

(iii) We have also reviewed the contents of the "Basic policy regarding control of the corporation" stated in the Business Report.

(iv) We monitored and verified whether the Accounting Auditors maintained its independence and properly conducted its audit, received a report from the Accounting Auditors on the status of the performance of its duties, and requested explanations as necessary. We were notified by the Accounting Auditors that they established a "system to ensure that the Accounting Auditor's duties will be executed in an appropriate manner" (the matters listed in the items of Article 131 of the Rules of Corporate Accounting) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council on October 28, 2005), and requested explanations as necessary.

Based on the above-described methods, we examined the Business Report and the supplementary statements, the Non-Consolidated Financial Statements (the Non-Consolidated Balance Sheet, the Non-Consolidated Profit and Loss Statement, the Non-Consolidated Statement of Changes in Net Assets, and the Notes to Non-Consolidated Financial Statements) and the supplementary statements, and the Consolidated Financial Statements (the Consolidated Balance Sheet, the Consolidated Profit and Loss Statement, the Consolidated Statement of Changes in Net Assets, and the Notes to Consolidated Financial Statements) for the fiscal year under consideration.

2. Results of Audit

(1) Results of Audit of the Business Report, etc.

(i) We acknowledge that the Business Report and the supplementary statements fairly present the status of the Company in accordance with laws and regulations and the Articles of Incorporation.

(ii) We acknowledge that no misconduct or material fact constituting a violation of laws and regulations or the Articles of Incorporation was found with respect to the Directors' performance of their duties.

(iii) We acknowledge that the Board of Director's resolutions concerning the internal control systems are appropriate. We did not find any matter in the Business Report or the Directors' performance of their duties concerning the internal control systems that requires mentioning.

In relation to internal controls concerning financial reporting, we have received from the Directors, etc. and VERITAS & Co. and Deloitte Touche Tohmatsu LLC reports to the effect that there is no material inadequacy to be disclosed at the time of the preparation of this audit report.

(iv) We did not find any matter that requires mentioning regarding the "Basic policy regarding control of the corporation" stated in the Business Report.

(2) Results of the Audit of the Non-Consolidated Financial Statements and the Supplementary Statements

We acknowledge that the methods and results of the audit performed by the Accounting Auditors, VERITAS & Co. and Deloitte Touche Tohmatsu LLC, are appropriate.

(3) Results of the Audit of the Consolidated Financial Statements

We acknowledge that the methods and results of the audit performed by the Accounting Auditors, VERITAS & Co. and Deloitte Touche Tohmatsu LLC, are appropriate.

3. Subsequent Events

(1) As stated in the notes to significant post-balance sheet events in the Notes to Consolidated Financial Statements and Non-Consolidated Financial Statements, the Company decided at the meeting of the Board of Directors held on May 10, 2018 that New Japan Radio Co., Ltd., the consolidated subsidiary, will become a wholly-owned subsidiary resulting from a share exchange and executed a share exchange agreement as of May 10, 2018.

May 25, 2018

The Audit & Supervisory Board of Nisshinbo Holdings Inc.

Standing Audit & Supervisory Board Member	Yoichi Fujiwara	[seal]
Standing Audit & Supervisory Board Member	Takumi Ohmoto	[seal]
Outside Audit & Supervisory Board Member	Yo Kawakami	[seal]
Outside Audit & Supervisory Board Member	Shiro Manabe	[seal]