

**The Nitto Denko Group aims to be a sustainable enterprise, taking into consideration a balance of “economic efficiency”, “environmental acceptability” and “social adequateness”.**



**Corporate Governance**

Aiming at sound and transparent management

**<Governance System>**

The Nitto Denko Group believes that to enhance corporate value it is important to implement long-lasting harmonious activities involving all stakeholders. The governance model we use to realize this is illustrated in the diagram below. We have nine directors and five corporate auditors, each committed to maintaining fairness and transparency in the work that they do. Two of the nine directors and three of the five corporate auditors have been appointed to objectively carry out the function of governance with their superior insight.

**<Basic Policy>**

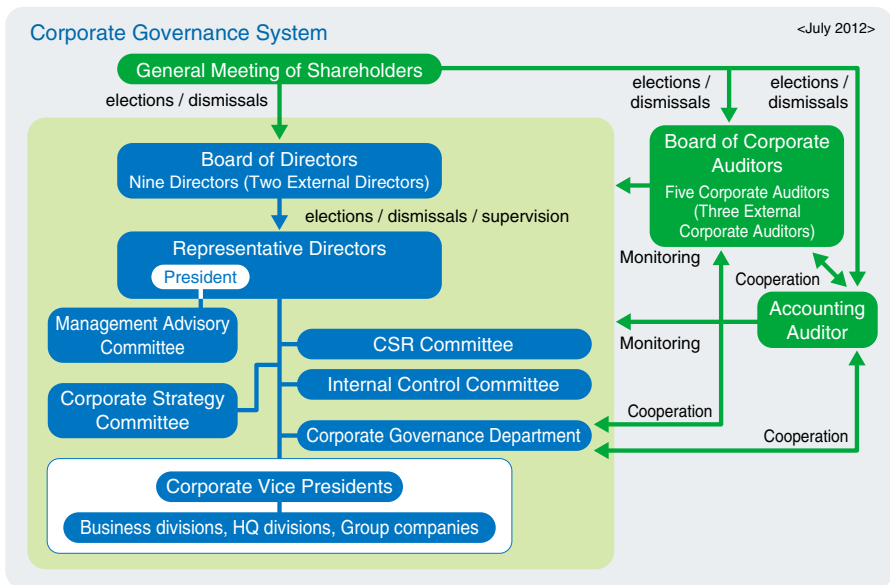
To ensure that the organizational system is proactive, the Nitto Denko Group has introduced policies based on action principles in each particular field of our business. Some of the areas addressed concern: “Basic Policy on Human Rights”; “basic policy of internal control under

corporate law”; “basic policy of internal control relating to financial reporting”; “Disclosure Policy”; “environmental policy”; “quality policy”; and “Basic Information Security Policy”. Not only have we devised these operational policies but we have developed our “Corporate Vision”, “Guiding Principles” and “Business Conduct Guidelines” as common guides for every employee to follow, not only as an employee of the Nitto Denko Group, but also as a member of society.

Through the integration of these common guides and the company’s governance system, governance becomes effective.

**<Education and Training>**

It is imperative that we continue to develop our human resources if the Nitto Denko Group is to continue to earn societal trust. For this reason, we embrace the ongoing training and professional development of all our employees. We conduct CSR training sessions for management-level employees and supervisors, as well as board members of the Group worldwide. Furthermore, we conduct training sessions on CSR and other relevant subject matter for every employee in the Group. We aim to develop and encourage our employees to gain confidence, a



great sense of professional ethics and a wealth of good sense.



Conducting CSR training sessions for management-level employees and supervisors overseas since fiscal 2011

### <Audits and Internal Control>

The Nitto Denko Group carries out many internal and other audits related to export control, unethical trading, the environment, safety and quality by specialty units. The results of these audits are reported to the department responsible and the relevant management teams. Any problems identified are considered and followed up with strategies initiated to rectify the situation as speedily as possible. We have also implemented the internal control evaluation measures which are outlined in the Financial Instruments and Exchange Act. These measures focus on six areas: “control environment”; “risk evaluation and response”; “control activities”; “information and transmission”; “monitoring”; and the “handling of IT”. We believe that in order to enhance future governance, it is necessary to successfully combine our internal audits with the internal control evaluation measures.

### <Risk Management>

In order to prevent misconduct, accidents and to keep our losses at a minimum, the Nitto Denko Group actively manages risk. We consider risk management to be an important component of good governance.

Risk management concerns all of our business activities, as well as any accidents and disasters that may occur globally. The CSR Committee investigates any risk areas that may present as serious concerns to management. Any potential risk areas are prioritized and the relevant departments are then engaged in a process focused on putting in place countermeasures aimed at prevention and transformation.

### <Helpline>

We have two problem-solving avenues available to employees, one of which is internal and the other being a helpline. Every employee is able to utilize

either avenue in situations where the issue concerned relates to the Group. When any violation of the law or corruption is uncovered, the first step undertaken is for the employee to inform and consult their manager. In cases where the situation is not resolvable within the organization, it is then likely for the employee to contact the helpline information desk.

In fiscal 2011, there were some employees who utilized the helpline. We settle issues while ensuring the protection of whistleblowers.

### <Establishment of Business Continuity Plan (Earthquake Edition)>

On the basis of the experience of the Great Hanshin Earthquake in 1995, a possible Tokai earthquake, the probability of an earthquake occurring somewhere else in Japan in the future, and the official announcement by the Cabinet Office of “Business Continuity Guidelines”, the Nitto Denko Group issued the first edition of a countermeasure manual for use in the event of an earthquake, in 2006. After making improvements to the manual following our experience of the Great East Japan Earthquake on March 11, 2011, we issued a revised edition: Business Continuity Manual (Earthquake Edition) in September of the same year.

Following are the four basic policies contained in the manual:

#### 1. Respect for human life

We will place maximum priority on ensuring the safety and relief of employees and their family members.

#### 2. Prevention of secondary disasters

We will work for the prevention of secondary disasters, such as fire or solvent spillage, striving to avoid disrupting the local community.

#### 3. Responsibility for supplying products

We will provide essential products and services for maintaining the normal functioning of society. We will strengthen supply chains to enable resumption in the manufacture of essential products.

#### 4. Supporting the local community

We will provide help to ensure the safety, relief and restoration of neighboring regions.

In the future, we will issue editions of the countermeasure manual for use in the event of a massive blackout, flood, or other contingency as needed.

## **Associated Business Risks Listed in the Financial Report as of March 2012**

Potential risks which may have an effect on our operational results, share price and financial standing are indicated below.

### **(1) Optoelectronics Business**

Materials produced by our optoelectronics business for LCD-related products constitute the core of the Group's sales. There are many companies participating in this market and competition continues to be stiff. Our relationships with panel manufacturers (our customers), an imbalance between supply and demand in the industry, declining prices, corporate reorganization and the switching of strategy among panel makers, technical innovation, intensified price competition due to new players entering the market, capacity limitations of material suppliers and sharp increases in material costs could all negatively affect the performance of the Group.

### **(2) Overseas Operations**

The Group conducts business in many countries, actively pursuing possible future global business opportunities. Depending on the country, there are inherent unavoidable risks that can occur. Such risks include: unanticipated changes to or discrepancy in the interpretation of laws and ordinances, taxes and regulations; deteriorating employment relationships; increasing labor costs; transportation delays; power outages; social disorder from political disturbances; and war and terrorism. If such events were to materialize, the performance of the Group could be adversely affected.

### **(3) Global Politics and Economic Currents**

The Group manufactures and markets its products throughout the world. Therefore, its business is affected by trends in global politics and economics, and financial system instability. Unexpected economic circumstances caused by drastic changes in global politics, fluctuations in exchange rates or a supply deficiency of raw materials such as petroleum oil or rare metals could have adverse effects on the performance of the Group.

### **(4) Mergers and Acquisitions**

It is indispensable for the Group to construct relationships with other companies with superior technology in diverse ways such as through

acquisitions and affiliations. If such an acquisition did not prove to be as profitable as expected, the performance of the Group could be adversely affected.

### **(5) Raw Material Vendors**

For some key raw materials, the Group depends on specific vendors. Although it does endeavor to find multiple raw material vendors so as to reduce the risk of being unable to procure key materials, for some raw materials we need to depend on specific vendors. Failure to obtain the necessary key raw materials due to a possible disaster, accident or bankruptcy of a vendor, an imbalance between supply and demand, or a cost increase could adversely affect the performance of the Group.

### **(6) Financial Standing of Our Customers**

The Group works with customers worldwide who meet its strict financial criteria. However, some customers are in rapidly changing business environments and serious financial problems could occur with such customers with whom the Group has accounts receivable. In particular, LCD-related products represent a significantly large source of revenue compared with other products of the Group. If a default were to occur, the amount involved would tend to be quite significant.

### **(7) New Product Development**

Aiming at meeting high market expectations, the Group strives toward technological innovation and competitive power of costing across all areas of its business. The Group continues to pursue the development of new technologies, products, goals and markets, with research and development investment necessary for production process innovation, as well as plant and equipment investment based on its "Area Niche Top" strategy, in which we supply products meeting specific needs in an area, in addition to its "Global Niche Top" strategy. However, it is not easy to accurately forecast changes in an industry in which market changes are so drastic. It is possible that another company could unexpectedly develop a new technology or product that renders a product of the Group obsolete. The occurrence of such an event beyond contingency expectations could affect the management of the company.

### **(8) Intellectual Property**

The Group owns, maintains and manages valuable intellectual property rights. However, there is a

possibility that a third party might claim these rights to be invalid and the Group might not enjoy complete protection. The Group's property may be imitated in some areas and may be involved in lawsuits. Intellectual property rights infringements could negatively affect the performance of the Group.

### **(9) Product Defects**

The Group manufactures products according to ISO 9000 quality standards and carries out quality assurance management which is trusted by its customers. The business activities of the Group mainly involve the selling of parts to companies engaged in the manufacturing industry. Although the possibility of the Group being forced to directly compensate end users for its products or to conduct a product recall are slim, the Group cannot completely eliminate the risk of liability associated with product defects. If compensation were to exceed the coverage of product liability insurance, this could negatively affect the performance of the Group.

### **(10) Environmental Issues**

The Group regards environmental preservation measures as one of its key business policies and acts from a position whereby it accepts social responsibility, focusing on reducing waste and preventing global warming and air pollution. The Group has not caused any serious environmental problems to date. To protect the global environment, the Group established a voluntary reduction plan, which it duly observes. However, there exists the possibility that unforeseen environmental pollution caused by an accident or natural disaster, or changes in future laws and regulations resulting in significant expenses due to environmental issues could have adverse effects on the performance of the Group.

### **(11) Compliance and Legal Regulations**

The Group carries out business not only in Japan, but also overseas. Products of the Group are unique and some of these are patented medicines. Such business is governed by the various laws and regulations of different countries and the Group must abide by them. If these laws and regulations are strengthened or changed significantly, a temporary deficiency in internal control of these issues may occur and the activities of the Group might be impaired, or the Group might incur additional costs which could adversely affect its performance.

### **(12) Lawsuits**

In the business activities of the Group, there exists the possibility that the Group might become embroiled in legal cases with customers or third parties. In addition, the Group conducts business in various countries and could go into unexpected litigation. The risk that the outcome of litigation does not properly reflect the opinion of the Group, and thus differs from the Group's forecasts, might be ineluctable and this could adversely affect its performance.

### **(13) Accidents and Disasters**

The Group carries out safety measures to protect itself from accidents and disasters by following a safety first policy. In particular, Japan has a high occurrence of earthquakes. If a large-scale earthquake were to occur in a particular area within Japan, direct damage could result or injury could occur within the production process due to fire or chemicals. The effects of an earthquake, tsunami or flood would not be limited to in-house, but would be wide-ranging, with damage to infrastructure such as electricity and gas supplies, damage to supply chains such as interruption to the procurement of raw materials and the distribution of products and losses or inconvenience to our customers, which could cause an interruption to business. Despite the existence of disaster insurance, coverage would be limited and costs incurred could affect the performance of the Group. Moreover, if there were to be a massive outbreak of new infections affecting human life, depending on the nature of the outbreak, it could not only impact on the global economy, but also the performance of the Group.

### **(14) Retirement Benefit Liability**

Employee accrued benefit costs and liabilities of the Group are calculated on the basis of assumptions made concerning such things as the discount rate and other actuarial calculations and expected returns of pension assets. When the actual results differ from the assumptions or when the assumptions are altered, effects will accumulate and be systematically recognized in the future. This may generally influence recognized costs and calculated liabilities in the future. If market interest rates decline or investment yields of pension assets deteriorate in the future, an increase in retirement benefit liability and a shortage of funds might occur and thus influence the business results of the Group.

## QES Audit

Quantitatively “displaying” quality, environment and safety degree of each company of the Group after audits

To meet the goal of “Bringing safety to employees, customers and society”, the QES Audit Department audits the activities of each base of the Group in three key areas: quality, the environment and safety. In fiscal 2011, we audited 23 bases and carried out follow-up audits on 13 bases.

The audited items varied widely and it was difficult for subject bases to understand the contents of them. Therefore, in fiscal 2011, we quantified the results of the audits, presenting them ‘visually’ in graph and chart form. This made problem issues and the size of risks clear, so that we could tackle them effectively. In addition, we were able to recognize the degree of improvement at a glance.

A corporation never improves simply by means of carrying out audits. We also offer suggestions for improvement and seek to create a corporation which ensures the safety of our employees, customers and society throughout the whole group.

## Product Risk Management

Aiming at providing safe and useful products to our customers

By means of setting up a “Product Risk Committee”, the Nitto Denko Group aims to clarify risks associated with its products and minimize the effects of such risks.

Section meetings were set up to address the risk

areas identified throughout fiscal 2011. We will continue to implement risk reduction measures throughout fiscal 2012.

### Product Risk Committee

Section Meeting of Risk	Actual Achievement of Fiscal 2011
Product Liability	<ul style="list-style-type: none"> <li>• Review of contracts with customers</li> <li>• Implementation of conclusion of quality assurance agreement</li> <li>• Prevention of recurrence of serious complaints arising from lack of information on the part of customers</li> </ul>
Chemical Products	<ul style="list-style-type: none"> <li>• Response to REACH (including CLP)</li> <li>• Response to the chemical substances control laws of each country</li> <li>• Response to MSDS in accordance with new JIS</li> <li>• Review of Nitto Denko Group Regulations on Voluntary Management of Chemicals</li> </ul>
Packaging and Product Description	<ul style="list-style-type: none"> <li>• Response to GHS product description (including GHS in China)</li> <li>• Response to physical distribution risks</li> <li>• Establishment of Product Lot Number Standardization Guidelines</li> <li>• Response to indication of source</li> <li>• Response to indication method established by export control order</li> </ul>

## Product Quality Management and Compliance with Environmental Laws and Safety Laws

### (1) Quality Management in Response to Customer Requests

The Nitto Denko Group mainly manufactures and supplies intermediate function materials. In order to gain customer satisfaction with final products using our products, we have improved rules and guidelines and implemented measures to prevent problems with flaws.

### (2) Management of Environmental Laws and Safety Laws Concerning Chemical Substances

We considered countermeasures to respect the chemical substances control laws of each country where we do business, as well as EU controls such as RoHS and REACH. Furthermore, we established and reviewed the Nitto Denko Group Regulations on Voluntary Management of Chemicals.

## Dealing with Radioactive Substances from Fukushima Daiichi Nuclear Power Plant Accident

The Nitto Denko Group has established guidelines for dealing with radioactive substances from the Fukushima Daiichi Nuclear Power Plant accident and gives extra consideration to the effects of the accident on our health and environment.

In the case that the amount of radioactive substances in raw materials is beyond the norm specified by the guidelines, we take necessary measures, such as interim storage, in order to prevent the outside dispersal of radiation.

In the case that our customers request data as to the radioactive substances in our products, we state in the guidelines that we should give proof of the absence of radioactively contaminated products or lodge measured data.



### (3) Compliance with Laws Concerning Packaging and Product Description

We observed laws and regulations covering both inner and external packaging and product marking in product delivery and reviewed and improved issues in transportation.

## Quality and Chemical Substance Management

Manufacturing safe and environmentally-conscious products by making improvements in response to customer feedback

### (1) Quality

The Nitto Denko Group introduced “Advanced Quality Management” in fiscal 2005 to ensure product quality to the satisfaction of our customers.

Furthermore, in recent years, in order to attune ourselves to globalization, we have adjusted to realize not the satisfaction of customers throughout the world from a Japanese point of view, but the satisfaction of customers in view of the diverse cultures and characteristics in each region of the world.

In the future, we will further develop activities which we have conducted thus far, such as GATE\*1, aimed at a healthy working environment worldwide, and “Customer Satisfaction Assessment”, by listening to the opinions of our customers. In addition, we will improve the satisfaction and safety of our customers with a focus on the unique characteristics of each region.

\*1: GATE is the abbreviated form of “Group Activity Toward Excellence”, which is a small group activity aimed at a healthy working environment and quality improvement in order to enhance customer satisfaction. This year GATE marks its 6th year and is developing activities on more than 600 themes to improve the working environment.



### (2) Chemical Substance Management

In line with the recent worldwide escalation in interest in environmental concerns, the number of customer inquiries about the safety of chemical substances has increased. Our green procurement movement, in which a unique strict standard was established, has been expanded. Aiming at meeting such customer needs, we have consolidated the system to provide information to customers accurately and promptly on chemical substances contained in our products.

On the other hand, the Corporate Chemical Substances Department has self-governing regulations regarding chemical substances. By setting the strict standard of not using chemical substances which are harmful to humans or the environment in not only our products but also raw materials used and materials synthesized in the Group, we administer the management of chemical substances.

In fiscal 2011, we conducted law-abiding activities globally in line with the revision of the “Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc.” in Japan, “Provisions on the Environmental Administration of New Chemical Substances” in China, and REACH\*2 and CLP\*3 in Europe. In particular, regarding REACH Substance of Very High Concern (SVHC\*4), whose lists are updated every six months, we investigate raw materials with our suppliers’ cooperation and provide up-to-date information to them.

By means of the “Nitto Denko Group Chemical Substances Management Database (NCM\*5)” which we implemented in December 2008, we have constructed a system in which we can promptly search for chemical substance information on products when needed. For example, if chemical substances are newly listed as items subject to regulation in a country, the database allows us not only to identify raw materials containing the said chemical substances and products using such raw materials rapidly, but also to disseminate such information.

\*2 REACH: Registration, Evaluation, Authorization and Restriction of Chemicals

\*3 CLP: Classification, Labeling and Packing of substances and mixtures

\*4 SVHC: Substance of Very High Concern

\*5 NCM: Nitto Denko Group Chemical Substances Management Database

## Procurement

Aiming toward fair and honest procurement with an “Open, Fair and Best” spirit

The Nitto Denko Group considers procurement should be done in accordance with “Nitto Denko Group Business Conduct Guidelines”, with our spirit of being “Open, Fair and Best”. We promote our procurement activities in which each employee should be undeviating from corporate ethics and societal norms and conduct fair and honest procurement.

Furthermore, in order to realize the minimization of environment load and manufacture environmentally-friendly products, we established “Nitto Denko Group Green Procurement Standards” that promote green procurement activities. In addition, we are implementing a fulfillment of CSR and response to environmental change. By use of Nitto Denko Group Chemical Information System (CHI), we conduct research timely and promptly on chemical substances contained in the raw materials which we buy.

Aiming at enriching our suppliers’ understanding of our green procurement and research on chemical substances, we held presentation meetings in Tokyo, Toyohashi and Osaka in March 2012, which were attended by 259 participants from 203 companies. We will conduct such activities again in the future to help our suppliers acquire a better understanding of our chemical substances policies and practices.

In fiscal 2012, we will periodically conduct necessary research on purchased raw materials for reasons such as to ascertain whether or not



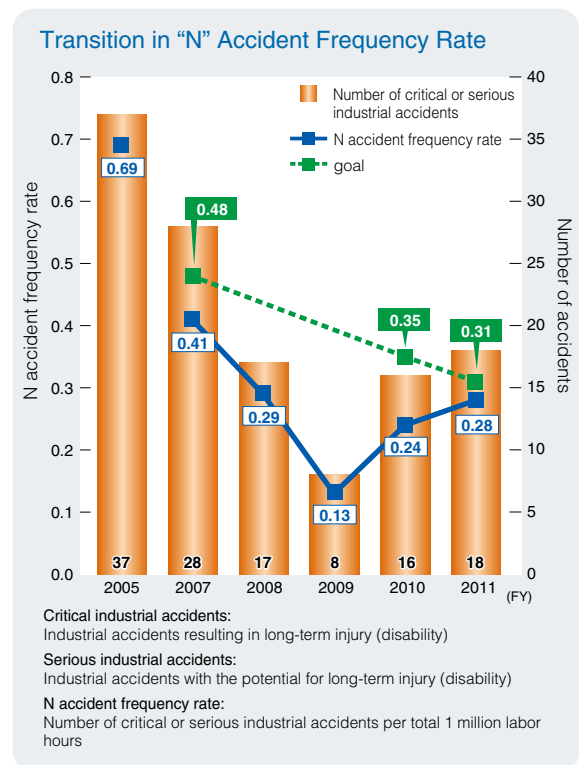
Presentation meeting

they contain substances on the candidate list of SVHC.

## Safety Measures for Employees

“Place safety before everything else”

With the Nitto Denko Group’s guiding principle of “Place safety before everything else” in mind, we have continued to take precautions against accidents, aiming to create and maintain a working environment in which every employee can work with peace of mind.



### (1) Occurrence of Accidents

The Nitto Denko Group has continued to implement safety activities in order to achieve our Group’s goal of “Zero Critical and Serious Accidents”. The occurrence of such accidents has been on a declining trend in the medium and long terms. However, over the past few years, the trend has reversed. Aiming at correcting this, we have conducted inherently safe design\* and proper chemical substances management thoroughly again.

We implement steadily varied risk reduction activities on occupational safety, occupational health, fire protection, disaster prevention and traffic safety, in order to prevent employees from getting injured or sick. In addition, we build workplaces where employees can work in safety.

\* Inherently safe design is a protective measure which either eliminates hazards or reduces the risks associated with hazards by changing the design or operating characteristics of a machine without the use of guards or protective devices.

## (2) Preventing Every Accident

For the purpose of increasing employees' safety awareness, we provide training using experience-based safety training apparatuses to experience danger virtually in the manufacturing process. However, in recent years, accidents such as falling while walking or tripping down stairs while not engaged in production activities have occurred with increasing frequency. Such seemingly minor accidents have the potential to cause a critical accident. Therefore, we are making efforts to further heighten employees' safety awareness by adding experience-based safety training apparatuses for such accidents and providing continuous experience-based safety training.



Training using experience-based safety training apparatuses

## Personnel Matters

Aiming at a personnel system which is appropriate to the next stage of globalization

### (1) Global Conference

In November 2011 and March 2012, Global Conferences were held under the CEO's initiative. The purpose of the conferences were to

communicate directly with leaders working in each country on our policies and vision and to have each of them play an active role as a "Nitto Person", possessing the corporate ethos of the Nitto Denko Group.

After counting off into groups, participants discussed new business ventures and M&A. It was most certainly a productive conference.



Global Conference held in March. Approximately 120 participants attended.

### (2) Construction of Global Personnel System

At present, personnel systems in each area are administrated separately by country and area. We are executing a plan to integrate the systems and such a new system is due to be partially operational in fiscal 2012.

### (3) Ranked 72nd on List of "Best Companies to Work for in Japan 2011"

On a questionnaire, "Best Companies to Work for in Japan 2011", by Nikkei Research, Inc. (a member of the Nihon Keizai Shimbun, Inc. Group), Nitto Denko was ranked 72nd (307th in 2010). The rankings are determined according to the results of a questionnaire on "recruitment and cultivation of human resources", "use of diverse human resources", "improvement of working environment" and "consideration of diverse ways of working". Nitto Denko Corporation received particularly high marks on its "use of diverse human resources".



## Cultivation of Human Resources

### Start-up of new training system for cultivation of “Nitto Person”

In preparation for the next stage of globalization, our training system has been drastically reviewed. In the van, the Global Business Academy (GBA), targeting mid-level managers, began in July 2011.

GBA is a training program aimed at the cultivation and intercommunion of next generation-leader candidates from each area throughout the world. In fiscal 2011, 17 participants (7 from Japan, 2 from Europe, 2 from the U.S., 2 from South Asia and 3 from East Asia), who are the first generation of trainees, that is, inaugural class members, participated in the training program for one week in



GBA Training scene

each of Japan and Singapore. The training was carried out entirely in English.

A new training system, including GBA targeting senior-level managers and others, will be established within fiscal 2012.

## New Employees Participate in Reconstruction Assistance Activities after Great East Japan Earthquake

As a part of new employee training in fiscal 2011, 42 new employees recruited by Nitto Denko participated in reconstruction assistance activities following the Great East Japan Earthquake.

Forty-two employees were placed into two groups. The first group went to Ishinomaki City in Miyagi Prefecture from November 7 to 10, and the second group from November 14 to 17. Both groups participated in the following activities:

- Scallop farming
- Sorting and cleansing of cans soiled by the tsunami
- Cleaning of an office of a damaged cannery
- Leveling of land by separating sludge and rubble from gardens of private residences

The two groups spent only a short period of time in Ishinomaki City, but some awakened to the importance of bonds (*kizuna*) while others were impressed by the positive attitude of disaster victims. They gained precious experiences.

It was the first time that a social action program was introduced to new employee training. As an approach in which new employees learn the meaning of working as members of society and fostering their consciousness as corporate citizens, such a program will be continued in the future.



Scallop farming



Leveling of land