

The Nitto Denko Group Is Working towards
Further Technological Innovation
and the Harmonization of
Our Society and the Environment

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Implementing Fundamental Changes to
Our Manufacturing Process

Last year due primarily to unexpected market changes the Nitto Denko Group experienced an increase in revenue alongside a fall in profits. 2006 saw an increase in demand for larger television screens, an increase in demand from customers for further quality improvements and greater than expected falls in unit prices for all LCD optical film related products. I must say in retrospect that we were neither well prepared for, nor tackled the unexpected changes in the market as well as we could have. This experience helped us to identify a weakness, this being our limited ability to date in predicting changes in market behavior and responding and planning for such drastic changes when they occur.

The Nitto Denko Group's core adhesive tape business, along with both our medical and membrane businesses have developed as expected. Our tape business has especially expanded in our East Asian operations.

Markets relating to optical film production for LCD's are expected to further grow. In order to successfully ride this wave of market expansion, it is necessary for the Nitto Denko Group to be able to reliably and rapidly supply high quality, technologically advanced and competitively priced products. The Nitto Denko Group aims to improve the supply of our products to all our global customers. In order to better achieve this we have been constructing post-process plants in both southern China and the Czech Republic in Europe. For this to happen it is essential that we all reexamine and continually look at ways that we can improve our manufacturing processes. It is with this in mind that we need to vigorously push ahead working under our slogan of "Breaking the n-Fold Barrier."

Aiming for a Niche Top
in the Optical Market

The Nitto Denko Group has managed to maintain the largest market share of the international optical business. Given that markets have become geared towards commoditization, it is necessary for the Nitto Denko Group to change its direction if we are to achieve and maintain a niche top in the optical market. More than ever the use of "differentiation technology" is absolutely essential if we are to achieve our goal. Our greatest concern is how we are going to reliably manufacture high quality products in a prompt and environmentally-friendly manner at a moderate price. We aim to simplify our inspection processes through maintaining high quality manufacturing processes and through investing in manufacturing related R&D activities.

Mid-Term Management Plan Aimed at Sticking to Quality

We have implemented our current Mid-Term Management Plan aimed at sticking to quality. Employees are likely to work with vigor and enthusiasm if working as part of a company that strives towards corporate excellence. I consider employees to be our primary stakeholders. My rationale for this is that employees when working with vigor and enthusiasm produce quality products that our customers are pleased with. Naturally it is when our customers are happy that profits are made which in turn are able to be shared with shareholders and local communities. It is with this in mind that I continue prioritizing my mission of ensuring that Nitto Denko Group employees work under ideal working conditions. It is my belief that the long term success of any business enterprise is dependent on its people and the extent that each of them is supported in both utilizing and maximizing his/her own individual abilities and potential. I believe we are a business enterprise made up of employees that demonstrate "Integrity, Excellence and Accountability."

Fiscal 2007 Has Been a Preparatory Year for Our Future Direction

Fiscal 2007 has served as a year that has enabled us to prepare for our future direction. During this year we have altered our management structure. We have introduced an Outside Director System. Historically the Nitto Denko Group has operated under an open management structure, but we have realized that in order for us to become more transparent in the eyes of

our stakeholders' we have needed to implement a new system. In addition, for the purpose of responding to a rapidly ever changing market, we have amalgamated our management and executive teams so as to enable faster and more responsive decision making and implementation of action plans.

Apart from the above, to ensure our future competitiveness in global markets, we aim to make continued improvements in the following three areas: "Enhance Global Marketing Strength," "Enhance Global Manufacturing Strength" and "Enhance Global Management Infrastructure." Enhancing our business in these three areas in fiscal 2007 will put the Nitto Denko Group in good stead to make further leaps post fiscal 2008.

The Nitto Denko Group has been reorganized to ensure that we are prepared and not left behind with the wave of globalization that is upon us. In fact overseas sales have increased and the number of foreign employees has risen, now exceeding the number of Japanese employees within the Group. Many parts of our operation have been moved to overseas sites. Previously decisions made had very much been based on a Japanese perspective and mode of strategic thinking. It is my hope for the future that as executives of a global enterprise we base decisions and strategic direction on global market trends and on how we are able to improve our infrastructure and manufacturing capacity where possible. Achieving this is dependent on our ability to operate as a Globally Excellent Company, striving towards overall improvements in quality and performance. I am committed to the process of making necessary and beneficial changes and improvements that will enable us to realize this vision. Our Mid-Term Management Plan for fiscal 2008 will reflect this commitment.

The Nitto Denko Group's Core Beliefs Remain the Same

Our standard of practice of being "Open, Fair and Best" has not changed. We aim to keep growing in a global market focusing on our Global Niche Top Strategy for the future.

As for CSR or environmental issues, I believe that it is my duty to play an active part in not only creating but supporting a corporate culture that encourages open and frank communication and the sharing of facts relating to such issues. I believe that it is from this point that solutions to problems or issues responsively come about. I believe business enterprises that do not prioritize working from this premise and that do not prioritize CSR activities, giving priority to compliance and improvements in the environment, safety, quality and social contribution, are destined to fail.

The Nitto Denko Group aspires to being a business enterprise that exists and operates in a global environment serving not only its stakeholders but local communities. Please join with me and share the Nitto Denko Group's vision for the future.

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