

Nitto Denko Corporation

CSR Report Office

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What the Nitto Denko Group Needs to Do to Become a Global Excellent Company

To become a global excellent company, a company needs to do more than just achieve excellent business results. It needs to be highly respected by its stakeholders. Moreover, it must be a company in which its employees can take pride. To attain its goal of becoming a global excellent company in fiscal 2007, the Nitto Denko Group will make concerted efforts to foster CSR activities and improve its corporate brand value.



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Editorial Policy

- This report is published to help all stakeholders of the Nitto Denko Group deepen their understanding of the Group's measures to fulfill its social responsibility.
- Based on our policy of open, fair, and best business practices, we are committed to keeping information transparent by disclosing it in this report.
- The Nitto Denko Group conducts business in the manufacturing industry and deals with chemical substances. In this capacity, we believe that carrying out environmental conservation activities as part of our business is one of our most important social responsibilities. Accordingly, our focus in this report is on our activities to reduce environmental impact caused by our business operations.
- In creating this report, we referred to the *2002 Sustainability Reporting Guidelines* published by the Global Reporting Initiative (GRI).

Please Visit Our Web Site for Details

Due to a lack of sufficient space, we were not able to include details of the environmental performance and social activities of domestic and overseas Nitto Denko Group companies in this report. However, as we did last year, we will make such information available on our Web site (scheduled to be posted in September 2006).

<http://www.nitto.com/>

Predictions, Forecasts, and Plans for the Future

In addition to the Nitto Denko Group's past and present achievements, this report includes predictions, forecasts, and plans for the future. These forward-looking statements are based on assumptions and judgments that were made according to information that was available at the time the report was prepared and, thus, contain uncertainties. Therefore, the predictions, forecasts, and plans described in this report may differ from the actual results of the Group's business activities and events in the future. Please note that the Nitto Denko Group shall not be liable for any damages arising from such discrepancies.

Scope of Reporting

We are still in the process of establishing our information gathering and tabulation system and were not able to report on all Nitto Denko Group companies for each data item. For example, our environmental performance data covers only the companies listed below. For other data items, we clearly show which companies are covered in relevant sections of the report.

Companies Covered in the Environmental Performance Data:

Nitto Denko Corporation (non-consolidated):
Six domestic manufacturing plants

Tohoku Plant, Kanto Plant, Toyohashi Plant, Kameyama Plant, Shiga Plant, and Onomichi Plant

Domestic Group companies:

Seven major domestic manufacturing companies

Nitto Shinko, Nitoms, Nitto Life-Tech, Aichi Nitto Denko, Nitto Electronics Kyusyu, Mie Nitto Denko, and Saitama Nitto Denko

Overseas Group companies:

Seven major overseas manufacturing companies

Permacel (in the United States), Hydranautics (in the United States), Nitto Europe (Belgium), Nitto Denko (Shanghai Song Jiang) (in China), Nitto Denko (Taiwan), Nitto Denko Electronics (Malaysia), and Nitto Denko Material (Thailand)

Target Period: Fiscal 2005 (from April 2005 to March 2006)

This report, however, will at times refer to activities conducted in a period other than fiscal 2005.

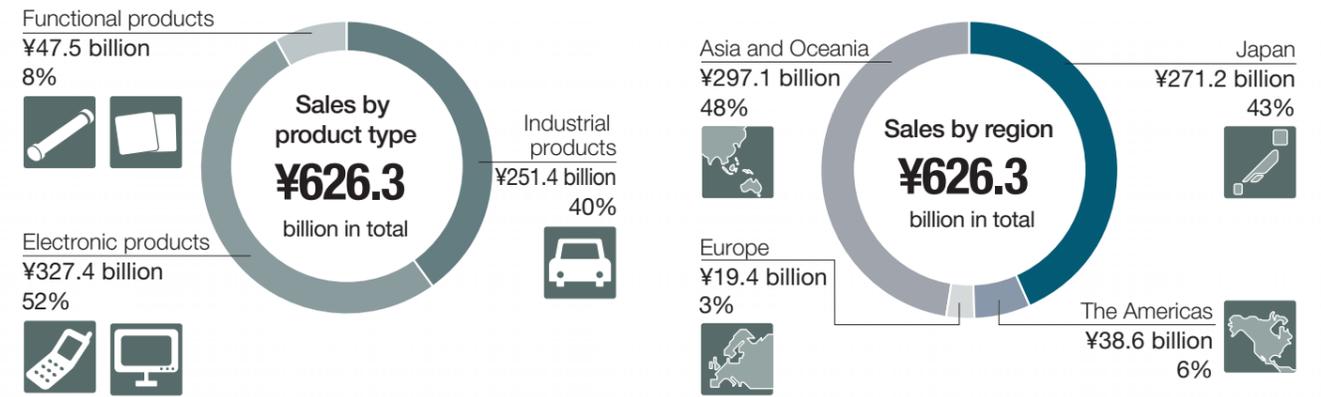
Next Publication: July 2007 (planned)

Nitto Denko Group Products Are Used in the Daily Lives of People throughout the World

The Nitto Denko Group utilizes its adhesive processing technology and polymer synthesis technology to provide a variety of products to households as well as the medical, housing, construction, electric and electronic, and automobile industries. To further expand our business, we believe it essential to develop new products. Using both our technologies and marketing skills, we anticipate customer needs and are the first to develop and offer new products that meet these needs.

Fiscal 2005 Sales by Segment

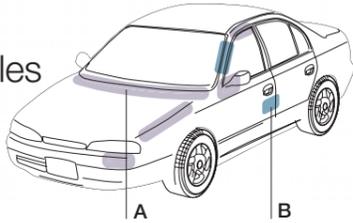
(on a consolidated basis as the Nitto Denko Group)



Industrial Products

For Automobiles

Through our products, we add comfort and safety to automobiles around the world.



A : Foam sealing material (EPT SEALER)

B : Highly functional vibration-damping material (LEGETOLEX)



Fills gaps to shut out heat, water, sound, and vibrations

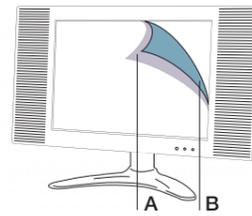


Contributes to noise prevention, vibration control, and weight reduction; changes the sound heard when the door of an automobile is closed to a dignified sound typically heard in luxury cars

Electronic Products

For LCD TVs

The Nitto Denko Group's optical film has become an integral part of LCD TVs throughout the world.



A : Polarizing film for LCDs

B : Retardation film for LCDs



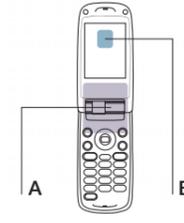
Indispensable film to make an image visible on an LCD



Controls light to ensure that bright, clear images can be seen from any direction

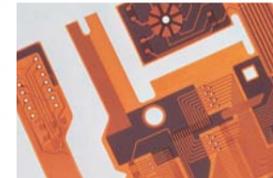
For Cell Phones

The Nitto Denko Group's products add greater functions to communications devices.



A : Flexible printed circuit

B : LED encapsulating transparent epoxy resins



Usable in folded parts and contributes to the downsizing of products



Protects LEDs used to backlight displays and buttons from heat, shock, and moisture

Functional Products

Medical Products

We contribute to the medical industry through our tape technology.

Transdermal therapeutic patch



Delivers drugs into the body through the skin, reducing the burden of the patient having to ingest the drugs

Membrane Products

We contribute to the creation of global water resources.

Reverse osmosis membrane modules for seawater desalination



Converts seawater to freshwater and used in areas suffering from water shortages

Pursuing "Global Niche Top" Strategy as the Best Form of Business

The Nitto Denko Group pursues its Global Niche Top strategy on a global scale, aiming to win top shares in changing and growing niche markets by utilizing its unique differentiating technologies to provide the most satisfaction to customers. At present, we have at least 20 Global Niche Top products, including polarizing films for LCD.

On its Japanese Web site, Nitto Denko Group products are introduced in an easy-to-understand manner by Nitto Denko's character, named NITTO-kun.



Nitto Denko's character, NITTO-kun

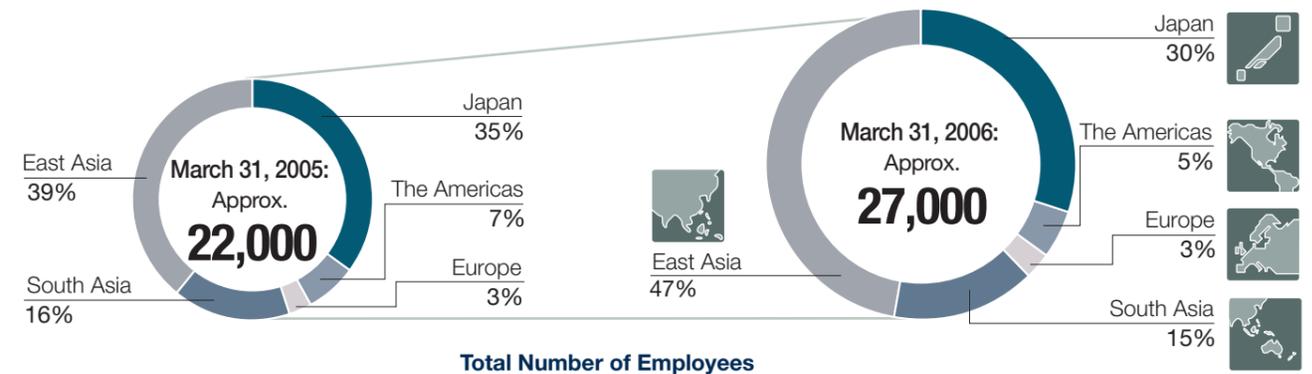
» <http://www.nitto.co.jp/>

A Total of Approximately 27,000 Employees from 114 Group Companies Worldwide Are Committed to CSR Activities as “One-NITTO”

Under the slogan One-NITTO, approximately 27,000 employees from 114 Group companies around the world are encouraged to pursue the same goal in a manner suitable for each company and country. It is not easy for such a great number of people to make a concerted effort towards the same goal, but we will do it to make the Nitto Denko Group a truly global name.

Nitto Denko Group Employees by Region

(including consolidated subsidiaries of Nitto Denko Corporation)



Corporate Profile

(as of March 31, 2006)

Company Name: Nitto Denko Corporation
Established: October 25, 1918
Head Office: 2-5-25, Umeda, Kita-ku, Osaka 530-0001, Japan
President: Masamichi Takemoto
Capital: ¥26,783 million
Number of Employees: 3,187 (non-consolidated), 21,527 (consolidated)

Nitto Denko Group Companies

(as of April 1, 2006)

Europe (12 companies)

Nitto Europe NV
 Nissho Hungary Precision KFT.
 Kyoshin Europe Ltd.
 Nitto Scandinavia Ab
 Nitto Deutschland GmbH
 Nitto France S.A.R.L.
 Nitto UK Ltd.
 Nitto Italia S.R.L.
 Nitto Polska Sp.zo.o.
 Hydranautics B.V.
 Hydranautics GmbH
 HY Membranes Iberica (SI)

South Asia (20 companies)

Nitto Denko (Singapore) Pte. Ltd.
 Nitto Denko Electronics (Malaysia) Sdn. Bhd.
 Nitto Denko Material (Thailand) Co., Ltd.
 Nitto Denko Materials Malaysia Sdn. Bhd.
 Nitto Denko (Philippines) Corporation
 Nissho Precision (Malaysia) Sdn. Bhd.
 Nissho (Singapore) Pte. Ltd.
 Nissho Precision (Thailand) Co., Ltd.
 Nissho (Thailand) Co., Ltd.
 Kyoshin Singapore Pte. Ltd.
 Kyoshin (Malaysia) Sdn. Bhd.
 Kyoshin Technology (Thailand) Co., Ltd.
 Philippine Advanced Processing Technology, Inc.
 Kyoshin (Philippines) Corp.
 Pt. Nitto Matex Indonesia
 Nitto Matex (Thailand) Co., Ltd.
 Pt. Nitto Materials Indonesia
 Nitto Denko (Australia) Pty. Ltd.
 Nitto Denko Vietnam Co., Ltd.
 Nitto Denko Tape Materials (Vietnam) Co., Ltd.

East Asia (37 companies)

Nitto Denko (China) Investment Co., Ltd.
 Nitto Denko (Suzhou) Co., Ltd.
 Nitto Denko (Shanghai Song Jiang) Co., Ltd.
 Nitto Denko (Shanghai Pu Dong New Area) Co., Ltd.
 Shanghai Nitto Optical Co., Ltd.
 Nitto Denko (HongKong) Co., Ltd.
 Nitto Denko Materials (Shenzhen) Co., Ltd.
 Nitto Denko (Tianjin) Co., Ltd.
 Nitto Denko Fine Circuit Technology (Shenzhen) Co., Ltd.
 Nitto Denko Xiamen Co., Ltd.
 Nissho (HongKong) Ltd.
 Nissho Sangyo (Shanghai) Co., Ltd.
 Nissho (Tianjin) Precision Co., Ltd.
 Nissho (Dalian Ftz) International Trading Co., Ltd.
 Nissho Precision (Suzhou) Co., Ltd.
 Nissho Precision (Wuxi) Co., Ltd.
 Nissho Precision (Dongguan) Co., Ltd.
 Kyoshin (Hong Kong) Co., Ltd.
 Kyoshin Electronics (Shanghai) Co., Ltd.
 Kyoshin Industry & Trade (Dalian F.T.Z.) Co., Ltd.

Japan (28 companies)

Kyoshin Electronics (Dongguan) Co., Ltd.
 Kyoshin Electronics (Tianjin) Co., Ltd.
 Nitto Matex (Hong Kong) Co., Ltd.
 Nitto Matex (Shanghai) International Trading Co., Ltd.
 Nitto Matex (Tianjin) Fabricating Co., Ltd.
 Nitto Matex (Shenzhen) Co., Ltd.
 Suzhou Nitto Matex Electronics Co., Ltd.
 Nitto Denko (Shanghai) Electro-Energy Co., Ltd.
 Nitto Denko (Taiwan) Corporation
 Taiwan Nitto Optical Co., Ltd.
 Nissho (Taiwan) Corporation
 Nissem Cosmo Technology Ltd.
 Nitto Matex (Taiwan) Co., Ltd.
 Korea Nitto Optical Co., Ltd.
 Nissem Korea Co., Ltd.
 Korea Optical High Tech Co., Ltd.
 Korea Nitto Denko Co., Ltd.

Japan (28 companies)

Nitto Denko Corporation
 Nitto Shinko Co., Ltd.
 Nitto Denko CS System Corporation
 Nitoms Inc.
 Nissho Corporation
 Kyoshin Co., Ltd.
 Nitto Denko Matex Corporation
 Nitto Life-Tech Co., Ltd.
 Aichi Nitto Denko Corporation
 Nitto Electronics Kyusyu Co., Ltd.
 Nitto Seiki Co., Ltd.
 Mie Nitto Denko Corporation
 Nitto Medical Co., Ltd.
 Sanshin Kako Corporation
 Saitama Nitto Denko Corporation
 Fukushima Nitto Shinko Co., Ltd.
 Nissho Sangyo Co., Ltd.
 L Nissho Corporation
 Kyoshin Chemical Industrial Co., Ltd.
 Kyoshin TM Co., Ltd.

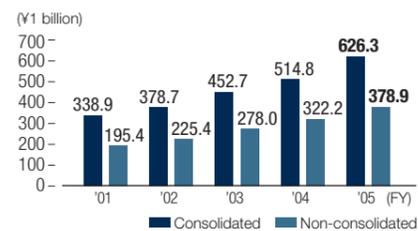
Japan (28 companies)

Matex Kako Corporation
 Nitto Analytical Techno-Center Co., Ltd.
 Optmate Corporation
 Nitto Business Support Corporation
 Nitto Denko Himawari Co., Ltd.
 Nitto Logi-Com Corporation
 Shinko Service Co., Ltd.
 Kyoshin Building Co., Ltd.

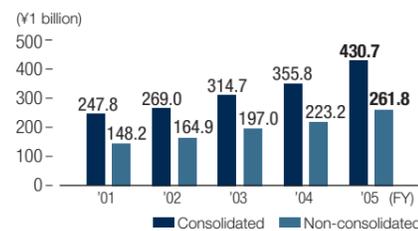
The Americas (17 companies)

Nitto Americas, Inc.
 Permaccel
 Hydranautics
 Permaccel Automotive, Inc.
 Aveva Drug Delivery Systems Inc.
 Permaccel St. Louis, Inc.
 Permaccel Kansas City, Inc.
 Nitto Denko America, Inc.
 Graphic Technology Inc.
 Nissem Corporation
 Piqua Technologies Inc.
 Piqua Technologies, LLC
 Toyo Lex Industry Corporation
 Nitto Denko Technical Corporation
 Kinovate Life Sciences Inc.
 Permaccel Of Mexico, S. De R. L. De C. V.
 Permaccel Of Latin America Ltda.

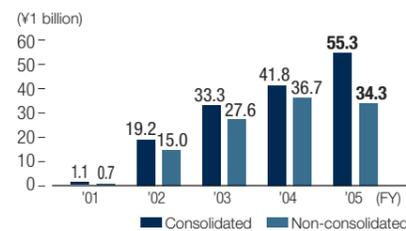
Net Sales



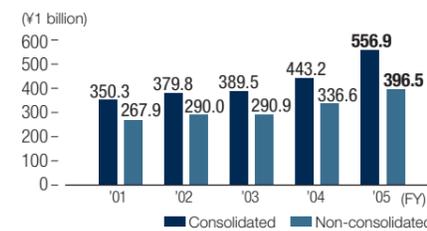
Cost of Sales



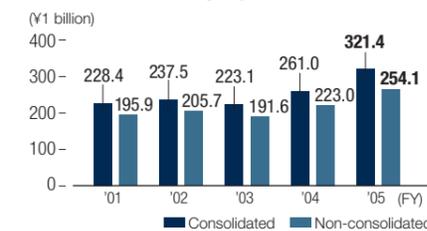
Net Income



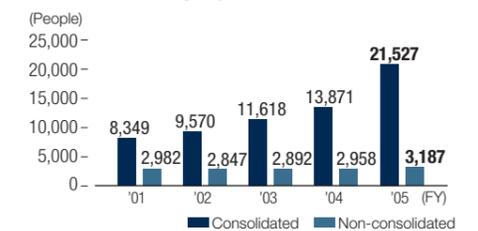
Total Assets



Shareholders' Equity



Number of Employees



To Fulfill Our CSR, We Will Achieve Our One-NITTO Goal and Improve Our Quality



value and conduct CSR activities, aiming to increase their intangible assets while bolstering and expanding their business in terms of quantity.

We will support all employees in their efforts to improve themselves to create an open corporate culture

As a premise for improving corporate quality, the first requirement is to raise the excellence of employees, who support the Nitto Denko Group. Highly competent *human assets*—who continuously pursue and expand their possibilities, are highly motivated, and have high moral standards—are the driving force behind a company’s attempt to further improve its quality.

Accordingly, we have established Nitto University and provide various educational training opportunities to employees in order to develop human assets. At the same time, we encourage employees to strive to become invaluable human assets by improving their quality on their own.

As president of Nitto Denko Corporation, I am responsible for developing human assets. Wishing to fulfill that responsibility by meeting and speaking directly to as many employees as possible, I set out to talk directly with approximately 400 employees around 30 years old in fiscal 2005. In talking with those employees, I conveyed my ideas as president and, in turn, listened to their ideas and comments about their daily work. I, myself, was able to learn a lot through those opportunities.

It takes time and effort to talk with employees

We will focus on improving corporate quality to become a global excellent company

The Nitto Denko Group started its mid-term management plan, named One-NITTO Dream Plan Step 2, in fiscal 2005 and implemented measures for the first year of the plan.

The mid-term plan, under which Group companies will need to improve their corporate quality in addition to achieving their financial targets, is designed to make the Nitto Denko Group a global excellent company by fiscal 2007. I believe it is necessary for all Group companies to take global measures to improve their corporate brand

Mid-Term Management Plan: One-Nitto Dream Plan Step2

To be a Global Excellent Company in fiscal 2007

“Quality-driven growth” above and beyond future-focused investments and social costs.



Enhance the One-NITTO Business and Management Infrastructure for Sustaining Growth

- Share information for consolidated management
- Develop and use human resources Group-wide
- Optimize organizational structure

At Moments of Change, with Brilliant Technology, and Flexible Attitude

“Moments of Change” are our Opportunities, the very time to initiate growth.
“Brilliant Technology” is our Confidence.
“Flexibility” is our Attitude.



We continue to advance globally in harmony with the society and the environment as we integrate each and everyone’s capabilities into a single powerful thrust.
We, Nitto Denko Group, are your “Flexible Technology Company.”

individually, but I believe it is very meaningful to talk with someone candidly in order to reach a mutual understanding.

It is my duty to create a corporate culture that allows management and employees to talk with one another openly, and I believe that it will strengthen the Nitto Denko Group to continue these direct talks with the employees.

The Nitto Denko Group will promote CSR activities in unison

In fiscal 2005, we conducted CSR activities, giving priority to compliance; improvements in the environment, safety, and quality; and social contribution.

As for compliance, we started formulating the Nitto Denko Group Business Conduct Guidelines, targeting all employees—approximately 27,000 people Groupwide. We plan to implement the guidelines in fiscal 2006.

Regarding improvements in the environment, safety, and quality, we set common indicators for the Group, and each Group company is endeavoring to achieve its predefined goals.

It is an essential condition for a manufacturer to establish a reliable quality assurance system, develop products that have low environmental impact, and build manufacturing processes that ensure environmental conservation and high-quality output, while continuing to provide employees with a safe workplace. To meet these requirements, all Group companies, including both direct and indirect departments, will strive to upgrade their daily operations, paying special attention to correcting their

weak points.

In fiscal 2006, we started working under a new slogan, “Break the n-fold barrier.” We tend to think that in order to double production, time or labor would also have to double, as would the amount of waste generated. Instead of thinking this way, we need to drastically reform our work quality and efficiency. We are determined to respond to any problem with the idea that nothing will be solved if we continue doing things the way we have always done them.

Corporate activities are supported by a wide spectrum of stakeholders, and a company cannot survive or achieve sustainable growth if it pursues profits only. I am convinced that the fundamental key to our business success is responding to stakeholders’ requests and opinions sincerely, with a spirit characterized by the *open* sharing of information, *fair* discussion, and *best* efforts toward attaining the predefined targets, thereby earnestly fulfilling our responsibility to the stakeholders.

It would be one of my greatest pleasures if this CSR report helps readers deepen their understanding about the ideas and activities of the Nitto Denko Group, and I solicit their frank opinions and comments.

July 2006

Masamichi Takemoto
CEO, Nitto Denko Group
President, Nitto Denko Corporation

Corporate Vision and Guiding Principles

Corporate Vision

“Creation of New Value”

Guided by “Open, Fair and Best” as the very foundation of corporate activities, Nitto Denko Group will contribute to human living and industry’s future with its power to generate innovative and unique ideas.

Nitto Denko Group will:

- Swiftly create products and services offering new functions that give satisfaction to customers
- Honor autonomy and originality to enhance the working environment with the total freedom for the employees to face their challenges
- Pursue sound business activities and continually earn shareholders’ trust through appropriate information disclosure and communications
- Always be mindful of corporate social responsibility including sustainability and community relations

Guiding Principles

Leveraging our pride and resolve as a Nitto Denko Group member, we will always act with integrity in accordance with “Open, Fair and Best.”

We will:

- Provide our customers with the highest-quality product and service
- Place safety before everything else
- Always act with a challenging spirit
- Conduct ourselves guided by laws and ethics
- Keep in mind to help protect the global environment and conserve resources

To Be the Kind of Company Customers Choose

We Will Fulfill Our Social Responsibility in All Our Activities, Keeping Our Promise

Tatsunosuke Fujiwara

Director – Board member
Nitto Denko Group CFO
CSR Committee Chairman



Tetsuo Horiuchi

Executive Corporate Vice President
Deputy General Manager of Corporate Technology Sector
General Manager of QES Management Center
CSR Committee member



Masakazu Ozawa

Corporate Vice President
Deputy General Manager of Corporate Sector
General Manager of Corporate Planning Dept. and Human Resources Management Dept.
CSR Committee member



Yoshimi Matsuhashi

Officer
General Manager of CSR Assurance Dept.
CSR Committee member



Yoshihiko Chikuma

Corporate Vice President
Nitto Denko (China) Investment President
East Asian Office Management



I will make all 27,000 employees aware of the importance of complying with laws, regulations, and ethical requirements

For a company to fulfill its social responsibility, it is necessary for its employees to be highly aware of the importance of complying with laws and regulations and having high ethical standards.

At present, there are approximately 27,000 people working for the Nitto Denko Group throughout the world, and this number is increasing year after year. It is not easy to have this many employees committed to complying with laws, regulations, and ethical requirements, but we will attempt to do so based on the Nitto Denko Group Business Conduct Guidelines, which we plan to implement worldwide in fiscal 2006. As for CSR promotion activities, we will disclose relevant information on a continuous basis in our CSR report so that we can help more stakeholders understand the CSR activities conducted by the Nitto Denko Group.

Companies must always keep their promise to fulfill their social responsibilities, and those that can do this will be chosen by the public. In this CSR report, the commitments of the Nitto Denko Group's CSR Committee members and those of the top executives in charge of the four regions are introduced, including my own commitment as described above. The Nitto Denko Group will conduct all activities in consideration of CSR.

I will implement measures that address environmental, safety, and quality issues with the prevention of errors in mind

It is essentially necessary for manufacturers to promote environmental management for the creation of a recycling-based sustainable society, while ensuring the safety of local communities and employees as well as maintaining quality to provide safe and reliable products. To this end, we avoid producing unnecessary losses by developing and manufacturing highly productive resource- and energy-saving products, providing a safe workplace for workers and creating high-quality products to be chosen by customers.

With the prevention of all avoidable errors in mind, we will work together toward environmental, safety, and quality issues.

I will provide employees with a working environment where they can fully display their abilities

People make the company. The Nitto Denko Group therefore has high regard for employees, believing that it can achieve sustainable growth by maximizing the ability of each employee.

To this end, it is necessary to provide a working environment where employees can fully display their abilities. We will take active measures against labor problems involving employees, including overwork, sexual harassment, and power abuse. Also, regarding forced labor and child labor, which are becoming a global concern, we will comply with local laws and regulations and respect human rights in every country where we conduct business.

I will familiarize all employees with the Nitto Denko Group Business Conduct Guidelines so that they can make appropriate decisions based on the guidelines

In the June 21, 2006, issue of *Newsweek* (Japanese edition), the Newsweek Global 500 companies were announced, and the Nitto Denko Group was ranked 96 among the selected 500 companies. *Newsweek* ranked companies in terms of financial and CSR indicators, which implies that companies are now being evaluated not only by their financial performance but also by their fulfillment of CSR. The Nitto Denko Group was chosen as one of the top 500 companies, but its specific ranking shows that there is still room for the Group to improve its CSR activities.

From now on, I will familiarize all employees of the Nitto Denko Group with the Nitto Denko Group Business Conduct Guidelines in order for them to be able to make proper decisions based on a common understanding among all employees.

I will commit myself to the development of local human assets and the creation of a corporate culture that truly takes root in local communities

I am in charge of East Asia, which is composed of countries with different laws, cultures, and customs. Taking this into consideration, I would like to combine the good points of corporate culture that the Nitto Denko Group has established in Japan and those of local cultures in order to create a corporate culture that firmly takes roots in the local communities.

To achieve this, we will need human assets. Accordingly, I will commit myself to developing local human assets, creating a new corporate culture, and making East Asia a region that can drive the Nitto Denko Group towards becoming a global excellent company.

Yoichiro Sakuma

Corporate Vice President
Nitto Americas President
American Office Management



Hideo Takasaki

Officer
Nitto Europe President
European Office Management



Masahiko Arimoto

Officer
Nitto Denko Material (Thailand) President
South Asian Office Management



I will be committed to the establishment of a sound financial structure and the fulfillment of CSR in the Americas

Nitto Americas supervises six companies that are engaged in different businesses (as of the time when this report was created). These companies provide important footholds for the Nitto Denko Group to develop businesses in each market sector in the Americas. At present, Nitto Americas is undergoing a dramatic transformation to improve its financial situation, aiming to become a strong, competitive, and financially healthy company. I believe that Nitto Americas should fulfill its CSR while promoting these financial reforms.

CSR cannot be simply a slogan or program! It must be our way of life—coming natural to us in our day-to-day dealings.

I will focus on establishing a flexible corporate structure and reforming employees' way of thinking

We are expanding our business in the European area to include Russia, Turkey, and South Africa in addition to the European Union. The area is made up of many countries with different languages and laws. We therefore need to understand the local laws and customs of a place before starting business there.

Our goal is to establish a corporate culture that ensures the manufacturing of safe, reliable products for customers in different European countries. In particular, we need to be able to flexibly respond to social changes, including changes in environmental regulations. With this in mind, I will focus on establishing a flexible corporate structure and reforming the way employees think.

I will promote the fulfillment of CSR through small-group activities based on compliance with laws and regulations

In the South Asian area, the Nitto Denko Group has local subsidiaries in ASEAN countries and Australia, and the total number of employees working for these subsidiaries amount to approximately 3,000.

The area is achieving rapid economic growth but has not yet established sufficient social infrastructures. As a result, labor issues (strikes, etc.) as well as issues concerning the environment and safety may become significant in the region. In consideration of these possibilities and based on compliance with local laws and regulations, I will promote social contributions by Nitto Denko Group companies in the region while focusing on educating employees on corporate brands and CSR through small-group activities conducted throughout the South Asian region. Also, we have a goal that all our sites, especially production sites, acquire ISO certification on environmental management, safety, and quality and we will achieve it in the immediate future.

To Win Stakeholders' Trust, We Will Promote Sound and Transparent Management

Corporate Governance

Setting out New Policies on Internal Controls to Comply with the Company Law Enforced in May 2006

The Nitto Denko Group has been traditionally committed to open, fair, and best business practices. Specifically, we are committed to openly sharing information, holding fair discussions, and putting forth our best efforts to achieve predefined goals, thereby pursuing sound and transparent management. To this end, three out of five auditors are chosen from outside.

In addition, we have established a management system that allows us to respond to changes in the business environment in a proper and prompt manner. Furthermore, to clarify the management responsibilities of directors, we decided, at the general meeting of shareholders held in fiscal 2004, to shorten their term of office from two years to one. In fiscal 2005, the number of directors was five.

The Company Law enforced in May 2006 requires large companies to set out basic policies on establishing internal control systems to ensure proper corporate operations, including compliance with laws and regulations by directors in performing their duties. To meet this requirement, the Nitto Denko Group decided to adopt basic policies on internal control at the board of directors meeting held in May 2006 and started implementing these policies.

Internal Audits (QES Audits)

Conducting Internal Audits on Quality, the Environment, and Safety to Manage Risks

To strengthen its internal control system, the Nitto Denko Group established the Quality Environmental Safety (QES) Audit Department in fiscal 2004. In addition to general business audits conducted by Corporate Auditors, this department simultaneously conducts technical audits on quality, the environment, and safety, which were conducted separately in the past. As a result, problems related to these issues are now pointed out from multilayered viewpoints. Through a QES audit, we determine if the quality, environmental, and safety systems are effective and identify any potential managerial risks associated with them to reduce such risks.

The department began QES audits in the latter half of fiscal 2004, targeting the Group's manufacturing and processing companies. The first round of audits was completed, and a second one was started at the end of fiscal 2005. An analysis of the results of the first round of audits revealed that many of the identified risks could have been detected by field managers in their daily operations, thus in fiscal 2006, we will encourage the supervisors in charge of managing our sites to go on daily patrols to detect such risks. We will continue these efforts and make the audits more effective by clarifying important audit points through prior investigations.

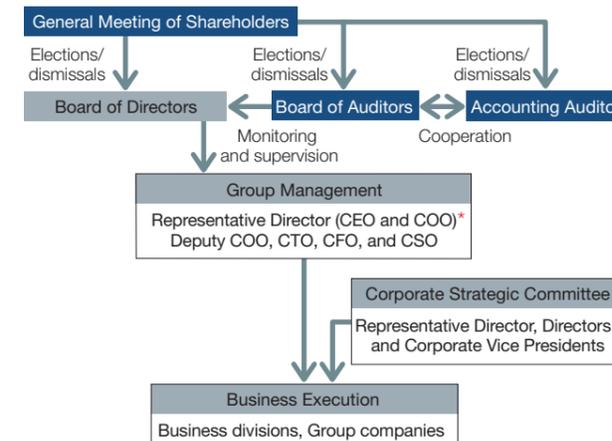
For the Group to maintain and improve quality, the environment, and safety, it needs to promote dialogue from a technical point of view and encourage employees to pay more attention to possible risks. Accordingly, we will improve our internal audit functions at all our sites and conduct internal audits to increase our self-correcting functions.



A QES audit

Corporate Governance System

The diagram below shows the Nitto Denko Group's system of monitoring management and carrying out business.



* CEO: Chief executive officer of the Group
COO: Chief operating officer of the Group
CTO: Chief technology officer of the Group
CFO: Chief financial officer of the Group
CSO: Chief strategy officer of the Group

Policy and Slogan of QES Audit for Fiscal 2006

Drive for CSR Progress Based on Welcomed Audit

1. Audit to find business management risk derived from QES based on manufacturing.
2. Audit with suitable condition and frequency to meet the present environments.
3. Audit to encourage the ability of self-auditing and self-controlling.

To Build Common Ethical Standards, We Established the Nitto Denko Group Business Conduct Guidelines

For all Nitto Denko Group employees around the world to share the Group's core values and to have common ethical standards, we newly established the Nitto Denko Group Business Conduct Guidelines. In the following pages, we introduce the background of the establishment of the guidelines and global compliance measures that we plan to implement in the future.



Against a Backdrop of Rapidly Globalizing Business Activities

The public is witnessing a series of corporate scandals that betray the trust of stakeholders, such as accounting fraud, the leaking of information, and the hiding of various other problems. A single scandal may mar all the past achievements and trust of a company, and the products and services of such a marred company will not survive the market competition.

The Nitto Denko Group believes these scandals were primarily caused by a lack of compliance awareness. Accordingly, in fiscal 2005, the Group started implementing measures that would have all Group employees be more aware of the importance of compliance as a top priority CSR item.

We formulated the Guidelines for Compliance with Legal and Ethical Rules in April 2003 and have since been distributing copies of the guidelines to the employees of domestic Group companies to raise their awareness of compliance. At present, however, the Nitto Denko Group conducts business in more than 20 countries throughout the world, and approximately 27,000 people are working for the Group. Different countries and regions naturally have different laws and customs, and it is not easy to assure all Group employees, both at home and abroad, have the same awareness of compliance. In view of the above, we thought it would be impossible to have all employees commonly aware of compliance by using guidelines written in Japanese. Therefore, we launched a project to create new guidelines that can be commonly used around the world.



Robin Andrew

From the Americas
(Nitto Denko America)

Having the opportunity to work with my global colleagues in creating the Nitto Denko Group Business Conduct Guidelines was a highly rewarding experience. I am now looking forward to working with my local colleagues to talk about the new guidelines and implement them for all our U.S.-based employees to follow. Abiding by these guidelines and committing ourselves to our Nitto core values will help assure that Nitto becomes a global excellent company.



Eric Pass

From the European area
(Nitto Europe)

Today's world has become more complex, volatile, and unpredictable. The wave of globalization is having a disruptive impact on traditional ways of thinking, ethical values, and individual behaviors. In this view, I was very glad to have been able to contribute to the creation of the Nitto Denko Group Business Conduct Guidelines. It is my hope that these guidelines will be used by all of my colleagues worldwide as a kind of "lighthouse" giving directions and advice on what is expected from all of us as employees of the Nitto Denko Group in order to become a global excellent company.



Andrew Chen

From the East Asian area
(Nitto Denko (Shanghai Song Jiang))

Now we are striving to become a global excellent company. This time employees from Japan and four other regions cooperated in formulating the guidelines on equal footing. I think this is a model of true globalization. I will continue to take pride in the Nitto Denko Group and share this pride with all Group members around the world.



Roslan Derun

From the South Asian area
(Nitto Denko Electronics (Malaysia))

Being selected as a member of the CSR team was a big surprise and a great honor. Representing the South Asian area, I truly felt the One Nitto atmosphere when members from the Americas, European, South Asian and East Asian areas, and Japan sat in one room for four consecutive days to develop Nitto Denko's first ever Business Conduct Guidelines. By the end of the day, there was feeling of great satisfaction and a sense of pride in being able to contribute towards our dream to be a global excellent company.

Our Core Values

(excerpted from the Nitto Denko Group Business Conduct Guidelines)

Integrity

We demand of ourselves and one another the highest standards of personal and corporate integrity.

We safeguard company assets.

We comply with all company policies and laws.

We conduct ourselves as responsible corporate citizens.

Excellence

We continually challenge ourselves to innovate our products, our processes, and ourselves.

We practice self-discipline in being open, being fair, and doing our best.

We strive to always understand our customers' businesses and help them achieve their goals.

We respect the individuality of our employees and enable them to achieve personal fulfillment through their work.

We are dedicated to ensuring diversity, fair treatment, mutual respect, and mutual trust.

Accountability

We stand behind the commitments we make and take personal responsibility for all our actions and the results arising from them.

We are committed to continuous innovation that is an integral part of our culture.

We respect the environment and strive to contribute to the local and global communities' well-being.

Forming a Multinational Project Team

For approximately half a year, starting in May 2005, the CSR Assurance Department conducted a survey and prepared for the formulation of guidelines that can be commonly used by all Group companies around the world. Subsequently, in December 2005, a project team to formulate the Nitto Denko Group Business Conduct Guidelines was formed under the CSR Committee. This multinational team comprised five members each from the United States, Europe (Belgium), East Asia (China), South Asia (Malaysia), and Japan, all of whom were well-versed in CSR and compliance.

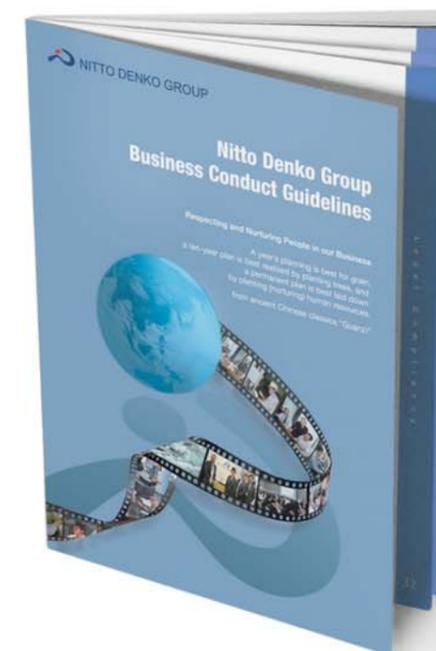
The project members first reviewed the Guidelines for Compliance with Legal and Ethical Rules. To formulate the Nitto Denko Group Business Conduct Guidelines so that it can be commonly used throughout the world, the members summarized the opinions of each area and discussed the items and details of the guidelines while giving consideration to the laws, regulations, and customs of each country and area. Finally, at the end of March 2006, the members decided on the final details of the Nitto Denko Group Business Conduct Guidelines.

The guidelines first list Integrity, Excellence, and Accountability as core values that employees should commit themselves to and follow. Employees, if unsure about the appropriateness or ethics of any activity, are requested to ask themselves these questions: "Is this action in line with Nitto Denko Group values of integrity, excellence, and accountability?" "Does my action comply with the guidelines, Nitto Denko Group's policies and procedures, and the law?" "How would our customers, stakeholders, the general public, or my family look upon it?" "Am I practicing the basic principle of conduct, being open, being fair, and doing my best?"

Planning to Hold Briefing and Training Sessions throughout the World

The guidelines comprise the following five items: Working Environment, Protecting Assets, Conducting Business, Legal Compliancy, and On Your Own Time. Also, the guidelines assume 34 specific business cases in which employees may find it difficult to make a decision and show values to be referred to as basic principles and other useful information for each of the cases. At the end of this booklet, a space where each employee should sign his/her name to acknowledge that he/she understands the details of the guidelines and what he/she should do to fulfill his/her responsibilities is provided.

In the first half of fiscal 2006, we will finish translating the guidelines into 12 languages. Then, we will vigorously hold briefing and training sessions on those translated guidelines for all Group employees in each area of the world. The Nitto Denko Group plans to make effective use of the guidelines as a common tool for Group employees to share its core values and as common standards with which employees will be able to comply with laws, regulations, and ethical standards in their business operations.



To Fulfill Corporate Social Responsibility

By Properly Recognizing Problems in Our Business Operations, We Will Conduct Ourselves in a Responsible Manner

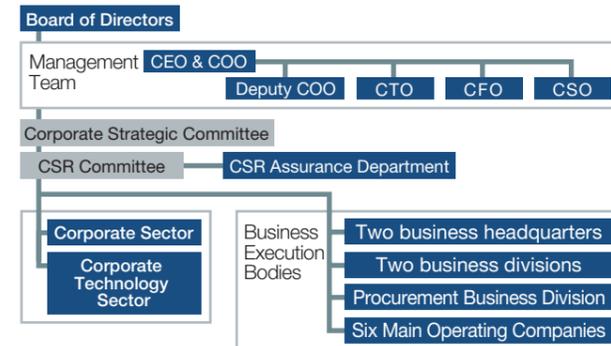
CSR Management

Continuing CSR Activities Based on Compliance and Information Disclosure

We defined fiscal 2005 as the first year of CSR Awareness Activities for the Nitto Denko Group and founded the CSR Committee and CSR Assurance Department, the former as an organization that manages CSR activities and the latter as a secretariat for promoting the activities.

Furthermore, we have set six priority CSR items (as described in the table below) and started conducting CSR activities that focus on these items. For compliance in particular, we provided training at our sites in Japan and promoted the formulation of the Nitto Denko Group Business Conduct Guidelines. We plan to implement the guidelines in fiscal 2006. (see pages 13 and 14 for details.)

CSR Assurance System (as of July 2006)



Business Execution Bodies

The Nitto Denko Group has the following business execution bodies: two business headquarters (Industrial Business Headquarters, including seven business divisions, and Optical Business Headquarters), two business divisions, the Procurement Business Division, and Six Main Operating Companies (Nitto Shinko, Nitto Denko CS System, Nitoms, Nissho, Kyoshin, and Nitto Denko Matex). The Group's overseas manufacturing companies belong to relevant business headquarters and divisions.

Priority CSR Activities Conducted and Planned

Item	Conducted in Fiscal 2005	Planned for Fiscal 2006
Risk Identification	<ul style="list-style-type: none"> Conducted joint firefighting training at the Onomichi Plant Identified labor-, tax-, and trade-related problems as global risks 	<ul style="list-style-type: none"> Strengthen business continuity management (BCM) for times of earthquakes
Creation of a Compliance-Based Culture	<ul style="list-style-type: none"> Provided domestic compliance training Formulated the Nitto Denko Group Business Conduct Guidelines 	<ul style="list-style-type: none"> Implement the Nitto Denko Group Business Conduct Guidelines
Information Disclosure	<ul style="list-style-type: none"> Published a CSR report, replacing the traditional environmental and social report 	<ul style="list-style-type: none"> Continue the fair disclosure of information
Higher Motivation of Employees	<ul style="list-style-type: none"> Supported the Osaka International Ladies Marathon (employees participated in the event as volunteers) Employees and their families participated in a half marathon 	<ul style="list-style-type: none"> Continue supporting the Osaka International Ladies Marathon
Environmental Measures against Global Warming	<ul style="list-style-type: none"> Achieved targets in the Voluntary Environmental Plan (for industrial waste, energy, and organic solvents) 	<ul style="list-style-type: none"> Renew targets and add a global warming indicator
Safe and Secure Workplace	<ul style="list-style-type: none"> Opened facilities where employees can learn about accident risks (Kameyama and Toyohashi Plants) 	<ul style="list-style-type: none"> Will expand facilities where employees can experience pseudo-accidents to learn the importance of establishing a "shut-off-culture" and promoting the introduction of "automatically-stoppable equipment."

CSR Education for Overseas Group Companies

Holding CSR Briefing Sessions in Four Overseas Regions

For the period from September 5 to October 28, 2005, the Nitto Denko Group held briefing sessions on CSR and its corporate brand (CB) at 16 of its sites in the following four regions: the Americas, Europe, South Asia, and East Asia. At the briefing sessions, the background and objectives of CSR activities were explained to make the target audience, approximately 300 managers in total, more aware of CSR. Participants shared in the idea that each employee is to conduct himself/herself with the importance of CSR in mind. According to the results of surveys conducted after the briefing sessions, approximately 75% of the participants had a clear understanding of CSR issues.

Based on the idea that a company can fulfill its CSR only when its employees support the company in the process, we will continue to educate employees on CSR in combination with various other educational training programs to make them more aware of the importance of CSR.



CSR briefing session

TOPICS

CB and CSR Issues Discussed in Global Conferences

Since fiscal 2004, the Nitto Denko Group has held global technology conferences (GTC) to promote global exchanges and share information among the four sectors (R&D, environment and safety, quality, and procurement).

At the GTC held in fiscal 2005, focusing on improving CB and promoting CSR, participants gave presentations on their activities and a poster session was held to make participants more aware of these two issues. Also, as the first trial, groups comprising members from different sectors discussed what was necessary to improve CB value and develop products in consideration of CSR. In addition, they searched for future tasks in consideration of customer satisfaction and discussed production processes suitable for environment-friendly, recycling-oriented designs. They identified current problems and confirmed measures for improvement that need to be implemented in the future.



Poster session held during the global conference



Discussion at the global conference



Global conference

Risk Management

Providing Practical Training on Procedures to Follow in the Event of a Fire

The Nitto Denko Group identifies eight risks that may hinder the Group from continuing its business operations. Among these risks, fires are particularly serious and may cause especially significant damage and loss; therefore, we conducted practical training on procedures to follow in the event of a fire at the Onomichi Plant in May 2005. Focusing on information gathering, communication, and reporting, participants in the training went through the flow of events from the outbreak of a fire to in-house communication and reporting to the outside. After the simulation, the actions taken by the participants were reviewed to find out what needs to be corrected and improved. As part of the simulation, an emergency headquarters was established and a press conference was held, in which we received instructions and comments from external experts.

In fiscal 2006, we will strengthen our business continuity management (BCM) in preparation of a possible earthquake.



Practical training at the Onomichi Plant

Eight Priority Risks

- | | |
|---|-------------------------------|
| 1. Product- and manufacturing-related risks | 5. Environment-related risks |
| 2. Compliance-related risks | 6. IT-related risks |
| 3. Labor-related risks | 7. Social crime-related risks |
| 4. Accident-related risks | 8. Other risks |

Compliance

Conducting Intensive Training for Managers in an Attempt to Make Them More Aware of Compliance

The Nitto Denko Group conducts CSR activities based on compliance with laws, regulations, and social ethics.

In fiscal 2004, we conducted our first compliance survey, targeting approximately 4,000 Japanese employees working at Group companies in Japan. Of those who responded, 74% were aware of the Nitto Denko Group's Guidelines for Compliance with Legal and Ethical Rules.

In fiscal 2005, we provided managers, who should lead activities to make their staff aware of compliance at their workplace, with intensive training in addition to traditional educational courses. We held this intensive training 46 times, in which a total of 971 managers participated.

In fiscal 2006, we will provide separate training sessions for managers and general employees using case studies so that they will be more aware of compliance and more sensitive to risks.

Business Ethics Help Line

Establishing In-House and External Help Lines for Reports of Noncompliance

The Nitto Denko Group established an in-house help line, named the Business Ethics Help Line, for domestic Group companies in fiscal 2003. Employees can call this help line for consultations on cases of noncompliance with the Group's corporate vision; guiding principles; open, fair, and best policies; laws, regulations, and ethical standards as well as anti-public interest behavior.

In addition, we started providing an external help line service to employees to ensure more transparency and anonymity in reporting noncompliance. We thus have both in-house and external help lines at present. In the Guidelines for Compliance with Legal and Ethical Rules, tips on using these help lines, including specific examples of cases as well as such help line management methods as how to ensure anonymity, are described so that employees can call the help lines without hesitation and as required.

Protection of Personal Information

Strictly Managing Personal Information

The Nitto Denko Group formulated the Nitto Denko Group Regulations on the Protection of Personal Information in December 2004 and encourages all Group companies to comply with these regulations. Furthermore, we have set Technical Guidelines for the Protection of Personal Information, which shows specific methods of managing personal information on PCs, and Guidelines on the Protection of Personal Information, which clearly states how to deal with and protect personal information. We will have all Group companies fully recognize these guidelines and manage personal information in a stricter manner. In fiscal 2005, we had no problems concerning the protection of personal information.

Nitto Denko's Privacy Policy

<http://www.nitto.com/privacy/index.html>

comment



Goro Ojima
Director,
Kyoshin Co., Ltd.

I will promote the fulfillment of CSR by focusing on human resources

As the director in charge of personnel and general affairs, I am responsible for fulfilling CSR at Kyoshin. For the Nitto Denko Group to become a truly global excellent company, I believe the fulfillment of its CSR to be indispensable. To this end, there are various tasks that need to be performed by the Group, and I will focus on human resources to support the Group in fulfilling its CSR. In other words, I will strive to create a compliance-based corporate culture under the slogan "As a central player, steadily do what can be done one step at a time."

Efforts for Environmental Conservation

The Nitto Denko Group is committed to environment-conscious manufacturing.

As part of its measures to achieve this, Nitto Denko Corporation's Onomichi Plant is using solar power and recycling wastewater to transform itself into the most advanced environment-friendly plant.

Highlights of Environmental Conservation Measures

Making the World's Largest Optical Film Plant More Environment-Friendly

Onomichi Plant's Challenge in Energy Saving and the Effective Use of Water Resources

Introducing a Regenerative Thermal Oxidizer and a Cogeneration System

The Onomichi Plant specializes in manufacturing polarizing film for LCD and is the world's largest plant of its kind. The construction of the plant was started in December 1994 in anticipation of a substantial increase in demand for LCD panels. The plant started operations in April 1996 as Nitto Denko Corporation's seventh domestic plant.

In fiscal 2003, the Onomichi Plant launched full-scale measures to become an environment-friendly plant. As its first step in drastically reducing its use of energy, the plant replaced its direct combustion oxidizer used in treating organic solvents with a regenerative thermal oxidizer. The former oxidizer consumed a large amount of supplementary fuel, but the latter has high heat exchange efficiency and consumes less fuel. As a result, the plant was able to reduce the amount of energy required to operate its oxidizer. This replacement, however, led to a different problem: an insufficient amount of energy to air-condition the clean room. Before the replacement, heat generated from the oxidizer was utilized as energy to air-condition the clean room. To deal with this problem, a highly efficient turbo freezer was introduced to the clean room, and precooling coils were added to the air-conditioner so that it could be operated, maintained, and managed using less energy. In addition, a cogeneration system was introduced, and energy demand and supply were both reduced to substantially improve the energy productivity of the plant.

Through these measures, the plant improved energy efficiency



Onomichi Plant



Solar power generation system

by approximately 25% in fiscal 2005 compared with the fiscal 2003 level. On an annual basis, this is equivalent to an 8,700 metric ton reduction in CO₂.

Also, following the introduction of the new equipment, the Onomichi Plant started replacing liquid petroleum gas (LPG), traditionally used as fuel, with liquid natural gas (LNG), which emits less CO₂ from combustion. The plant plans to complete the changeover by the end of fiscal 2010.

Introducing the Largest Solar Power Generation System in the Chugoku and Shikoku Regions and a Rainwater Recycling System

In fiscal 2005, the Onomichi Plant decided to introduce a large solar power generation system and a rainwater recycling system.

The solar power generation system will be the largest in operation in the Chugoku and Shikoku regions when it goes online in July 2006 under a joint research project with the New Energy and Industrial Technology Development Organization (NEDO). The roofs of the plant's soon-to-be-constructed development and distribution centers (3,200 square meters in total) will be covered with 1,860 solar panels. These solar panels will provide enough electricity to meet the lighting and



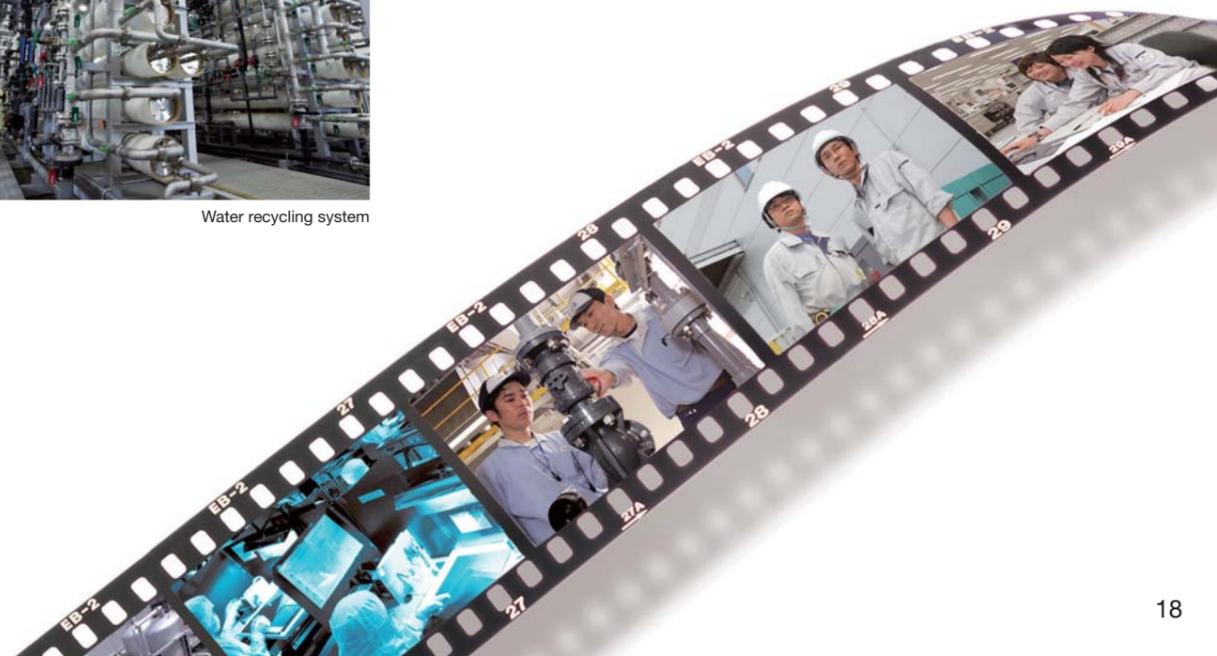
Water recycling system

air-conditioning requirements of the plant's indirect departments throughout the year.

Also, in 2006, the plant will install a reservoir with a holding capacity of 1,300 metric tons in the basement of its distribution center to effectively use rainwater. The plant treats wastewater from its production process by using reverse osmosis membranes developed by Nitto Denko Corporation and reuses the treated water for industrial purposes. With the installation of the reservoir, the plant will be able to effectively use rainwater and reduce its annual water consumption, which now stands at 650,000 metric tons, by 50,000 metric tons.

The LCD market is expected to further expand in the future, and accordingly, the Onomichi Plant will increase its optical film production. Under these circumstances, the plant will invest in not only environmental facilities but also production facilities while significantly revising its manufacturing conditions to improve its production efficiency. The plant intends to implement efficient and effective improvement measures to produce equal or more value, using smaller amounts of energy and resources than it did in the past.

By making the aforementioned investments, the Onomichi Plant started to transform itself into the most advanced environment-friendly plant. The plant will lead Group companies as a model for next-generation factories and accelerate measures to further reduce its environmental impact.



Efforts for Environmental Conservation

Environmental Impact Caused by Business Operations and Past Environmental Conservation Activities

The Nitto Denko Group mainly manufactures adhesive tapes and optical films; and in the manufacturing process, the impact the Group has on the global environment stems from its use of energy and organic solvents and its generation of industrial waste. Recognizing this fact, we have been vigorously conducting environmental conservation activities to minimize our environmental impact. These activities include energy saving activities, the promotion of a more efficient manufacturing process, and the treatment and recycling of substances of concern according to their individual nature.

1 Reducing Industrial Waste: Resource and Cost Saving

Waste generated in the manufacturing process includes waste from the tape cutting process, punching process, and defective products. We sort this waste into two categories: waste to be reused as materials (waste suitable for material recycling) and waste to be incinerated to generate usable heat (waste suitable for thermal recycling). In this way, we are able to make effective use of waste through recycling measures. Additionally, we promote the development of manufacturing methods that will not generate waste (waste control at the source) to achieve total low-cost manufacturing.

2 Reducing CO₂ Emissions: Energy Saving and the Recovery of Waste Heat

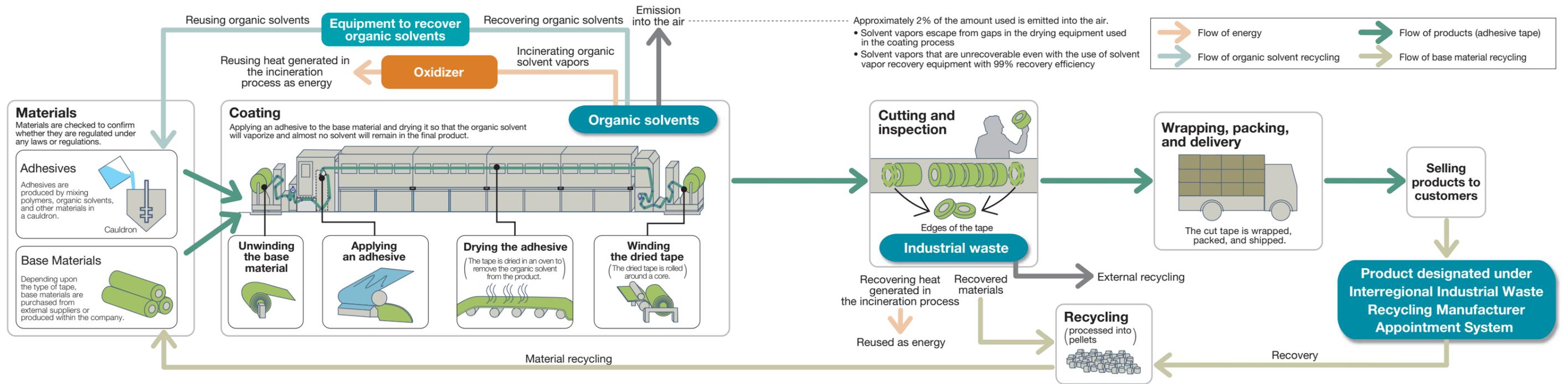
To reduce CO₂ emissions, we are positively introducing energy-saving equipment, cogeneration systems, and solar power generation systems while replacing fuels with ones that emit less CO₂. CO₂ is emitted when vapors from organic solvents used in manufacturing tapes are incinerated. In response, we have installed equipment that recovers heat generated in the incineration process in order to utilize the recovered heat energy to reduce fuel consumption.

3 Preventing Emissions of Organic Solvent Vapors into the Air: Controlling Emissions at the Source and Implementing Measures to Prevent Air Pollution

We use organic solvents as solvating media in manufacturing adhesives. These solvents, if vaporized and emitted into the air, will cause air pollution. To prevent organic solvent vapors from being emitted into the air, we use equipment to recover and reuse it as organic solvents. In addition, we incinerate the vapors using an oxidizer and use the heat generated in the incineration process as thermal energy. Also, to reduce the total use of organic solvents, we are revising our manufacturing process and developing products that can be manufactured without the use of organic solvents.

4 Properly Managing Chemical Substances: In Compliance with Worldwide Laws and Regulations

We have set up a chemical substance management database to properly manage chemical substances used as product materials as well as those used in some of our manufacturing processes, thereby preventing these substances from causing damage to human health, ecosystems, and the environment. In developing a new product, all related departments and sections work together to confirm that the product can be manufactured without the use of regulated substances, referring to relevant laws and regulations implemented around the world. Additionally, we change the materials used in existing products from time to time in response to revisions to related laws and regulations of each country. For substances that are not regulated under any laws or regulations but may adversely affect the environment or human health, we look into alternatives as much as possible.



History of the Nitto Denko Group's Environmental Conservation Activities

Nitto Denko Group's Activity	Environmental Legislation in Japan and Other Trends	Nitto Denko Group's Activity	Environmental Legislation in Japan and Other Trends	Nitto Denko Group's Activity	Environmental Legislation in Japan and Other Trends	Nitto Denko Group's Activity	Environmental Legislation in Japan and Other Trends	Nitto Denko Group's Activity	Environmental Legislation in Japan and Other Trends
1960s Installed solvent vapor recovery equipment ③ Began using low-sulfur heavy oil 1970s Started producing adhesive tapes without the use of solvents ③ 1980s Started the installation of a rectifier to reuse recovered solvent vapors ③ Installed an oxidizer to incinerate organic solvent vapors ③ Recycled industrial waste as fuel ① 1992 Established the Environment Committee Established Nitto U-tech (present Aichi Nitto Denko) to expand the recycling business ①	1967 The Basic Law for Environmental Pollution Control was enacted. 1968 The Air Pollution Control Law was enacted. 1970 The Water Pollution Control Law and other environmental laws were enacted. 1991 The Keidanren Global Environment Charter was established. The Law for the Promotion of Effective Utilization of Resources was enacted.	1993 Established a sector to manage environmental issues for the entire Group Formulated the Nitto Denko Environmental Conservation Activities Plan (Voluntary Environmental Plan) 1994 Discontinued the use of specified CFCs ④ 1995 Established the Regulations on the Management of Special Chemical Substances ④ Established the Regulations on the Preliminary Safety Assessment of Materials, Work in Process, and Products 1996 Established the Corporate Environmental Policy Built a database of materials regulated under laws and regulations ④ 1997 Nitto Denko Kyushu Plant (present Nitto Electronics Kyushu) became the first site to acquire ISO 14001 certification in the Nitto Denko Group.	1993 The Basic Environment Law was enacted. 1996 The Keidanren Appeal on Environment was announced. ISO 14001, an international standard on environmental management, was issued.	1998 Added "acquisition of ISO 14001 certification" and "giving environmental consideration when expanding business overseas" to targets in the Voluntary Environmental Plan to incorporate the ideas described in the Keidanren Appeal on Environment Discontinued the use of trichloroethylene ④ All Nitto Denko Corporation plants acquired ISO 14001 certification. 1999 Installed a cogeneration system (supplying both heat and electricity) ② Began relevant reporting under the Pollutant Release and Transfer Register (PRTR) system ④ Published its first environmental report Established the Regulations on the Management of Chemicals ④	1998 The Law concerning the Promotion of Measures to Cope with Global Warming was enacted. 1999 The Law concerning Reporting, etc. of Releases to the Environment of Specific Chemical Substances and Promoting Improvements in Their Management was enacted.	2000 Introduced environmental accounting to Nitto Denko Corporation on a non-consolidated basis All major domestic manufacturing companies of the Nitto Denko Group acquired ISO 14001 certification. 2001 Established the Guidelines for Green Procurement Five of the Nitto Denko Group's domestic companies introduced environmental accounting. Abolished the Regulations on the Management of Special Chemical Substances and established the Nitto Guidelines on the Voluntary Management of Chemical Substances ④ Introduced material flow cost accounting (MFCA) on an experimental basis 2002 Seven overseas Nitto Denko Group companies started environmental accounting. 2003 Nitto Denko Corporation achieved a 99% or more recycling rate. ① Held the 1st Environment and Safety Global Meeting	2000 The Fundamental Law for Establishing a Sound Material-Cycle Society was enacted. The Law for the Promotion of Effective Utilization of Resources was enacted. The Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities (Law on Promoting Green Purchasing) was enacted. 2001 The Law concerning Special Measures for Promotion of Proper Treatment of PCB Wastes (PCB Special Measures Law) was enacted. The Law concerning the Recovery and Destruction of Fluorocarbons (Fluorocarbons Recovery and Destruction Law) was enacted.	2004 Published an environmental and social report ② Discontinued the use of SF ₆ (a greenhouse gas) Established an environmental management indicator Made environmental investment in the Toyohashi Plant based on MFCA The Onomichi Plant concluded an agreement with ESCO (an energy service company) as a means to save energy. ② 2005 Published a CSR report Started the operation of a chemical substance management database for the entire Group ④ Started the full operation of a recycling center at the Toyohashi Plant ① Discontinued the use of all chlorine-based organic solvents as a result of the Toyohashi Plant discontinuing the use of dichloromethane	2002 The Soil Contamination Countermeasures Law was enacted. 2005 The Kyoto Protocol was enforced.

Environmental Management

In 1993, the Nitto Denko Group established a department to manage environmental issues for the entire Group and formulated the Nitto Denko Environmental Conservation Activities Plan (Voluntary Environmental Plan) to start environmental conservation activities on a full scale basis. Subsequently, in 1996, we established the Corporate Environmental Policy and announced it both internally and externally. We are making all Group companies aware of this policy.

Corporate Environmental Policy

Philosophy

At the Nitto Denko Group, we recognize that maintaining the health of the earth for coming generations requires that humanity seriously address the issue of global environmental conservation. Consequently, the Nitto Denko Group, through its adoptions of the corporate vision "Creation of New Value," is committed to respecting and acting in the best interests of the environment, both locally and globally, in all its operations.

Environmental Policies

1. We will develop an internal environmental management system that promotes effective environmental preservation.
2. With a proper understanding of the environmental impact of our operations, we will develop internal environmental objectives and targets as far as is technically and economically practicable; moreover, we will pursue these objectives and targets in an organized manner to ensure the continual improvement of our environmental preservation efforts.
3. Our technical and product development will focus on the reduction of environmental load.
4. We will continue our efforts to conserve resources and energy, reduce industrial waste, and promote recycling in all aspects of our operations.
5. As part of our dedication to reducing the load on the environment, we will develop alternative technologies intended to reduce consumption of the sources of environmental pollution as well as to control emissions of environmental pollutants to the greatest extent feasible.
6. We will comply fully with environmental laws, regulations and agreements, and will impose our own environmental criteria as required in the interests of environmental preservation.
7. We will make sure that our employees receive environmental training and information so that all understand the significance of our Corporate Environmental Policy, have increased awareness of the importance of environmental preservation, and act on our Corporate Environmental Policy.
8. We will conduct periodic environmental audits in order to monitor the effectiveness of our environmental management strategy and identify areas requiring improvement.
9. As part of our social contribution, we will publicize proprietary technologies and information that are likely to benefit the environment.

Environmental Management System

Acquiring ISO 14001 Certification at a Total of Nine Domestic and Overseas Sites

The Nitto Denko Group added "acquisition and maintenance of ISO 14001 certification for environmental protection" to the targets in its Voluntary Environmental Plan in order to conduct effective environmental conservation activities and has encouraged Group companies to acquire the certification.

As a result, one Group company in Japan, seven in East Asia, and one in South Asia acquired ISO 14001 certification in fiscal 2005. As of the end of fiscal 2005, 31 companies out of 70 manufacturing companies and 11 out of 44 nonmanufacturing companies in the Group are ISO 14001 certified (including those that are certified as a result of the Group companies to which they belong having acquired certification). We will make further efforts to increase the number of ISO 14001 certified Group companies.

Compliance with Environmental Laws and Regulations

Setting Voluntary Standards That Are Stricter Than Legal Standards

The Nitto Denko Group complies with all environmental laws, regulations, and agreements in its business operations. The sites of Nitto Denko Corporation and other Group companies have a list of requirements to be met in complying with laws, regulations, and agreements.

We manage our operating standards in line with the list and check our status of compliance through internal audits and other measures. Information on important laws and regulations to be newly applied are provided by the Environment and Safety Management Department, which manages environmental issues for the entire Group, to both domestic and overseas sites.

The Nitto Denko Group has set voluntary standards that are stricter than legal standards. In the event that it cannot meet these voluntary standards, the Group will promptly implement countermeasures and inform all Group sites of the fact for the purpose of preventing the recurrence of similar problems.

For all Nitto Denko Group products available in the United States, we provide a Proposition 65 warning. Proposition 65, the Safe Drinking Water and Toxic Enforcement Act of the state of California, provides for the warning and emissions of chemicals known to cause cancer, birth defects, or other reproductive harm. Of all our products sold in EU countries, we identified those that contain substances prohibited under the EU directive on the restriction of hazardous substances (RoHS) and replaced those substances with alternatives. For our products distributed in countries not in the European Union, we are replacing harmful substances with alternatives in an effort to comply with regulations on chemical substances implemented in each country of the world.

Environmental Management System (as of July 2006)



Environment and Safety Global Meeting (held once a year)
At the Environment and Safety Global Meeting, the Group's environment and safety plans for the next year are conveyed to the sites of Nitto Denko Corporation and other Group companies, which are asked to incorporate the plan into their own plans.

Group Environment and Safety Committee Meeting (held four times a year)
The members of this committee discuss medium-term and fiscal year plans for the environment and safety, express problems in implementing these plans, and exchange opinions about possible solutions. Important plans that require managerial decision are referred to the Corporate Strategic Committee and will be implemented if they are approved.

Environment and Safety Management Department
This department supervises the environment and safety departments and sections of Nitto Denko Group sites around the world. The Environment and Safety Management Department collects and provides environment- and safety-related information, formulates and manages the Group's environment and safety plans, and gives relevant technical support to Group sites. This department is under the direct supervision of the directors in charge of the environment and safety and, as such, can promptly incorporate management's opinions into its plans and act according to those plans.

Material Flow in Business Operations

The Nitto Denko Group promotes the material and thermal recycling of industrial waste. For example, organic solvent vapors are recycled using recovery equipment (material recycling) or the heat generated from incineration of organic solvent vapors in an oxidizer is reused (thermal recycling).

Material Flow in Fiscal 2005 (Nitto Denko Corporation on a Non-Consolidated Basis)

Increasing the Amount of Materials Recycled by Initiating the Full-Scale Operation of the Recycling Promotion Center

In fiscal 2005, the total weight of materials purchased (synthetic resin, paper, rubber, and others) added up to 202,720 metric tons, and the total amount of energy purchased came to 126,400 kiloliters (in crude oil equivalent).

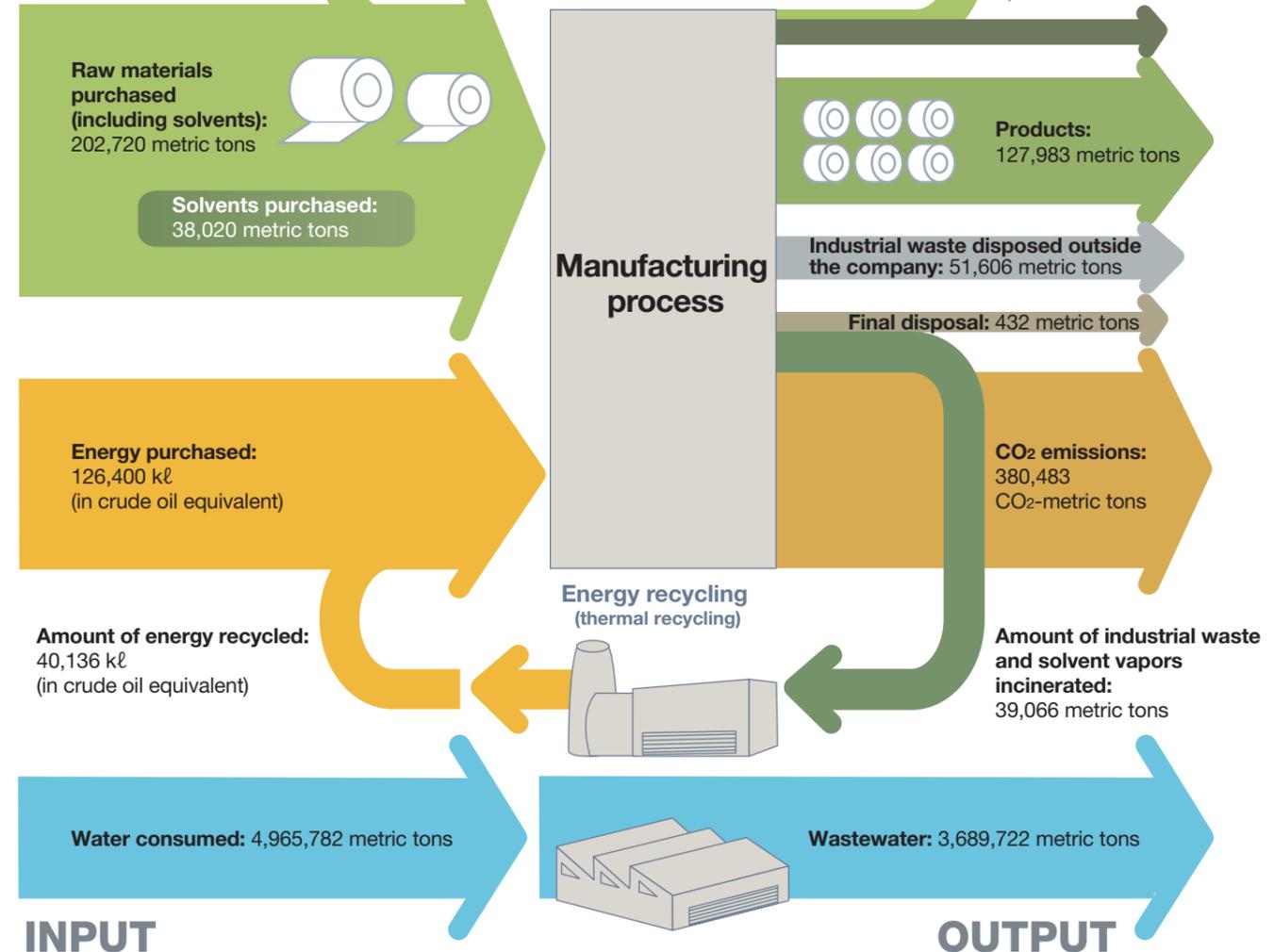
The amount of materials recycled in fiscal 2005 increased to 17,822 metric tons as a result of recycling organic solvents with the use of recovery equipment at the Toyohashi Plant and recycling waste plastic. The amount of plastic recycled increased

approximately 30% from the fiscal 2004 level due to the launch of the Recycling Promotion Center at the Toyohashi Plant.

As for thermal recycling, approximately 24% (40,136 kiloliters in crude oil equivalent) of the energy consumed by Nitto Denko Corporation was derived from heat generated from incinerating organic solvent vapors in an oxidizer as well as from incinerating waste.

Material Flow in Fiscal 2005

Amount of materials recycled:
17,822 metric tons



Achievement of Targets in the Voluntary Environmental Plan

The Nitto Denko Group formulated the Voluntary Environmental Plan in 1993 as specific guidelines on promoting environmental conservation activities. In fiscal 2006, we will continue our environmental activities to achieve the new targets set out based on the Group's common environmental management indicator.

Progress in the Achievement of Targets in the Voluntary Environmental Plan in Fiscal 2005

(Nitto Denko Corporation on a Non-Consolidated Basis)

Achieving All Medium-Term Targets and Working toward New Targets to Be Set Based on the Group's Common Environmental Management Indicator

Fiscal 2005 was the final year of the medium-term plan, and all the divisions and plants of Nitto Denko Corporation endeavored to achieve the medium-term targets listed in the plan. As a result, our recycling rate was 99%, a level that we have maintained since fiscal 2003. Unit energy consumption came to 368 liters per ¥1,000,000, achieving the target for 2010 earlier than planned. We were able to reach the fiscal 2005 targets of all items.

In fiscal 2006, we will set an environmental conduct indicator

and relevant targets based on the Group's common environmental management indicator, which was set in fiscal 2005, and to achieve these targets, we will promote our environmental activities. (see page 28.) Unit energy consumption and emissions of organic solvent vapors into the air, for which we have established targets for fiscal 2010, will be revised and made into new targets for the Nitto Denko Group.

Progress in the Achievement of Targets in the Voluntary Environmental Plan in Fiscal 2005

Item	Target	Results in Fiscal 2005	Reference Page
Reduction in industrial waste	Target for fiscal 2005 Maintain a 98% or more recycling rate for the period from fiscal 2003 to fiscal 2005	99.0%	P24
	Target for fiscal 2005 Reduce to 12% in fiscal 2005 (down 5% from the fiscal 2000 level)	11.5%	
Prevention of global warming	Target for fiscal 2005 Improve to 460 liters per ¥1 million by fiscal 2005 (improved 20% from the fiscal 1990 level)	368 liters per ¥1 million	P25
	Target for fiscal 2010 Improve to 430 liters per ¥1 million by fiscal 2010 (improved 25% from the fiscal 1990 level)		
Prevention of air pollution	Target for fiscal 2005 Reduce at least to 1,200 metric tons per year by fiscal 2005	1,131 metric tons per year	P25
	Target for fiscal 2010 Reduce at least to 960 metric tons per year by fiscal 2010		
Further acquisition of ISO 14001 certification	Domestic manufacturing sites: further improve their environmental management using ISO 14001 certified systems Overseas manufacturing sites: acquire and maintain ISO 14001 certification	ISO 14001 certified companies (including those that are certified as a result of the Group companies to which they belong having acquired certification) Manufacturing companies: 31 out of 70 companies Nonmanufacturing companies: 11 out of 44 companies Companies that acquired ISO 14001 certification in fiscal 2005 Nine companies acquired certification: Nitto Denko (Taiwan), Nitto Denko (Shanghai Song Jiang), Nitto Denko (Suzhou), and 6 other companies.	P21
Support of overseas business activities	Conduct environmental conservation activities that are on a par with those conducted in Japan based on the Ten-Point Environmental Guidelines for Japanese Enterprises Operating Abroad shown in the Keidanren Global Environment Charter	Held the third Environment and Safety Global Meeting in November 2005 Participation by domestic Group companies: 7 companies Participation by overseas Group companies: 11 companies	P15

Reduction in Industrial Waste

We have set a unique indicator termed the "industrial waste value ratio" (the percentage of output, in monetary terms, that covers material cost and processing cost of industrial waste). Managing this indicator, we implement measures that improve the yield and manufacturing process to reduce the amount of waste generated in the production process. Moreover, we are attempting to recycle industrial waste through material recycling and thermal recycling.

Waste Reduction (Nitto Denko Corporation on a Non-Consolidated Basis)

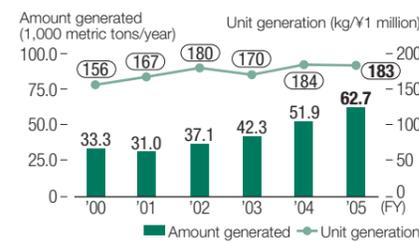
Achieving Medium-Term Targets for the Recycling Rate and Industrial Waste Value Ratio while Keeping Unit Waste Generation at the Same Level

We achieved the medium-term targets for the recycling rate and industrial waste value ratio, which were included in the Voluntary Environmental Plan as targets to be achieved by fiscal 2005.

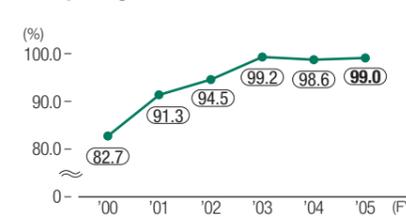
Also, by improving the yield and revising the production process, we were able to reduce unit plastic waste generation by

approximately 10%. Increased production of optical products, however, led to a rise in the amount of wastewater, and unit industrial waste generation remained at the same level as in the previous fiscal year. The Onomichi Plant is expanding its recycling equipment to recycle wastewater onsite.

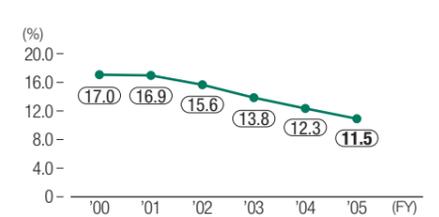
Industrial Waste Generated and Unit Industrial Waste Generation



Recycling Rate



Industrial Waste Value Ratio



TOPICS

Full Scale Operation of the Recycling Promotion Center for Waste Plastic

In November 2005, the Recycling Promotion Center started full operations at the Toyohashi Plant. This three-story, 2,059-square-meter recycling center processes approximately 13% (240 metric tons on a monthly basis) of industrial plastic waste generated by the Toyohashi Plant into pellets, which can be reused as materials (as of March 2006).

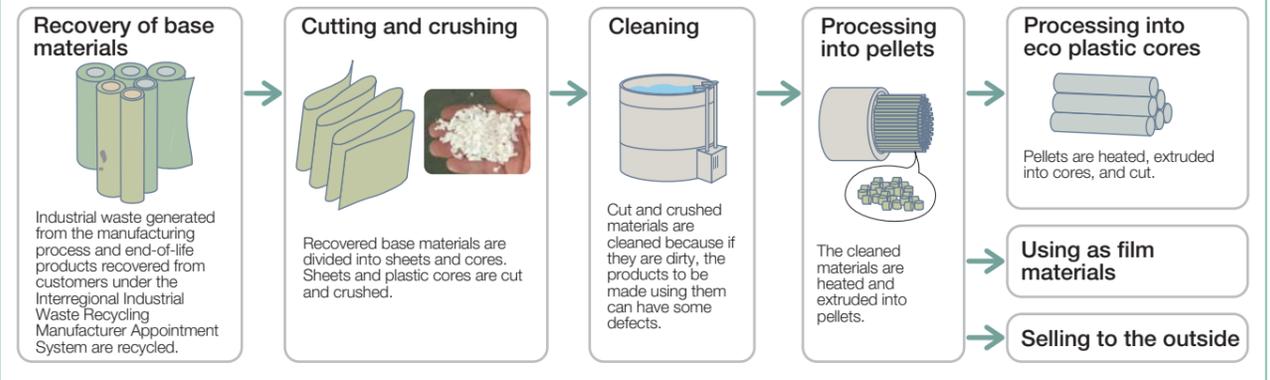
Nitto Denko Corporation began activities to reduce industrial waste in the 1980s. Subsequently, in 1992, Nitto U-tech (present Aichi Nitto Denko) started recycling plastics. Through these efforts and due to the zero waste campaign conducted at Nitto Denko Corporation's plants in 1999, the recycling rate was improved, from 48% in fiscal 1998 to 91.3% in fiscal 2001. In accordance with an increase in production, however, the generation of industrial waste also increased, emissions of CO₂ surged due to thermal recycling. In consideration of these effects on the environment, including resource depletion, we thought it urgent

and necessary to promote material recycling and reuse industrial waste as resources.

The Recycling Promotion Center at the Toyohashi Plant processes waste sheets and tapes, which used to be included in the target for thermal recycling, into materials. The center also recycles end-of-life products recovered from customers under the Interregional Industrial Waste Recycling Manufacturer Appointment System.¹

We will further develop recycling technologies and strengthen the industrial waste processing capability of the recycling center.

¹ The Interregional Industrial Waste Recycling Manufacturer Appointment System: Under this system, manufacturers are allowed to recover end-of-life products from customers in a wide area and recycle this industrial waste without obtaining a license for handling industrial waste.



Prevention of Global Warming and Air Pollution

Global warming is caused by multiple factors, including CO₂. At Nitto Denko Corporation, approximately 70% of its CO₂ emissions are from the use of energy and roughly 25% from the treatment of organic solvents. To reduce these CO₂ emissions, we are focusing on a more efficient use of energy, fuel conversion, and the development of products that can be manufactured without using organic solvents.

Reduction in CO₂ Emissions and Energy Saving

(Nitto Denko Corporation on a Non-Consolidated Basis)

Introducing an Energy Management System That Fosters Energy Saving Activities

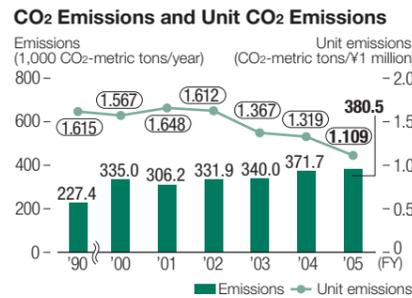
At Nitto Denko Corporation, approximately 70% of its CO₂ emissions are from the use of energy and roughly 25% from the incineration of organic solvent vapors. To reduce these emissions, we are introducing energy-saving equipment, replacing fuels with those that emit less CO₂, and changing the organic solvent treatment method. In fiscal 2005, unit CO₂ emissions decreased 16% from the fiscal 2004 level, to 1,109 CO₂-metric tons per 1 million yen. Total emissions, however, show an upwards trend due to the expansion of business. We must urgently implement measures that counteract this trend.

In fiscal 2005, unit energy consumption came to 368 liters per 1 million yen, and we were able to achieve the target for fiscal 2010 earlier than planned. The replacement of an oxidizer with a regenerative one, recycling of residues from the rectifying process, and revision of the energy balance at the Toyohashi Plant greatly contributed to the improvement in unit energy consumption.

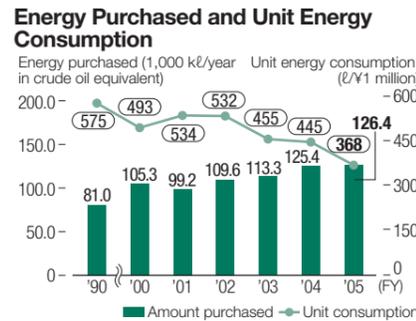
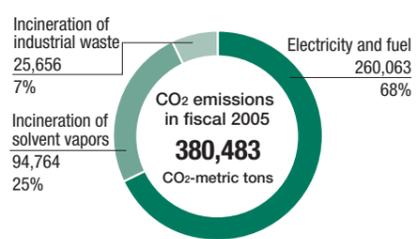
In response to the increase in energy consumption following the business expansion, we introduced an energy management system in January 2006 to each of the Tohoku, Kanto, Kameyama, and Shiga Plants, which made it easier to understand and analyze energy use at those plants. In the future, we will use the data obtained through the system to conduct more effective energy saving activities. Furthermore, in July 2006, a solar power generation system will be completed and launched at the Onomichi Plant. (see pages 17 and 18.)

Incinerating organic solvent vapors generated in the manufacturing process with the use of emission vapor treatment equipment emits CO₂. Such emissions are now excluded from the target of international reporting requirements on CO₂. The Nitto Denko Group, however, considers these emissions as one of the factors that increase CO₂ content in the air and manages them as CO₂ emissions from its business operations.

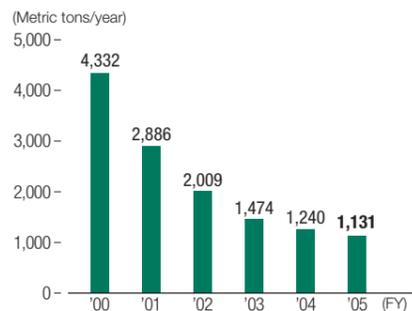
Nitto Denko Corporation (on a non-consolidated basis)



CO₂ Emissions by Source



Emissions of Organic Solvent Vapors into the Air



Emissions of Major PRTR Substances into the Air

Chemical Substance	2000	2001	2002	2003	2004	2005
Toluene	3,236	2,067	1,379	678	610	653
Dichloromethane	178	72	72	83	89	6
Xylene	27	26	16	20	16	11
Di-n-butyl phthalate	3	2	0	0	0	0
Ethylene glycol monomethyl ether	2	0	2	2	2	0
Ethylene glycol	0	0	0	1	1	0
Dichloropentafluoropropane	19	14	7	3	2	1
Bis (2-ethylhexyl) phthalate	5	4	4	0	0	0
Poly (oxyethylene) nonylphenyl ether	3	9	3	1	0	0
Acrylic acid	1	1	1	0	0	0
Ethylbenzene	0	0	8	8	9	4
N, N-dimethylformamide	0	0	0	0	28	2

Emissions of Organic Solvent Vapors into the Air

(Nitto Denko Corporation on a Non-Consolidated Basis)

Reducing Emissions 73% from the Fiscal 2000 Level and Achieving the Target for Fiscal 2005

In fiscal 2005, Nitto Denko Corporation emitted 1,131 metric tons of organic solvent vapors into the air, down 73% from the fiscal 2000 level.

The use of organic solvents, however, came to 49,746 metric tons in fiscal 2005, increasing year on year in accordance with increased production. To reduce the use of organic solvents, we will endeavor to develop products that can be manufactured without the use of these solvents and implement measures to recover organic solvent vapors that escape from gaps in solvent drying equipment.

Promoting Solvent-Free Manufacturing

Developing Products That Can Be Manufactured without the Use of Organic Solvents through Various Alternative Methods

To reduce the use of organic solvents, we are developing solvent-free manufacturing methods. These methods include the emulsion method using water, hot-melt method using heat, and UV-cured method using light shined on materials.

Examples of products manufactured without the use of solvents

SPV-M Series, A Series, part of the C Series (surface protection material), paper masking tape, etc.

Environmental Conservation Activities by Nitto Denko Group Companies (other than Nitto Denko Corporation)

The Nitto Denko Group implements environmental management as a unified group under its One-Nitto concept. Through the sharing of daily information, Nitto Denko Corporation and other Group companies, both domestic and overseas, implement coordinated environmental conservation measures.

Environmental Measures Implemented by Nitto Denko Group Companies

Both Domestic and Overseas Group Companies Conduct Activities According to Their Situation through the Active Sharing of Information

Like Nitto Denko Corporation, other domestic and overseas Group companies conduct environmental conservation activities in compliance with the Corporate Environmental Policy. The companies confirm the entire Group's targets and progress in achieving these targets and share information at Group Environment and Safety Committee meetings as well as the Environment and Safety Global Meeting.

Domestic Group companies have opportunities to exchange information and contact each other outside the Group Environment and Safety Committee meetings held four times a year. Overseas Group companies, on the other hand, are visited by the Group's staff in charge of the environment and carry out exchanges at the Environment and Safety Global Meeting held once a year.

Overseas Group companies are trying to achieve their targets by using different methods in countries that have different laws and situations. However, they are endeavoring to carry out the same tasks and achieve the same targets based on the concept of One-NITTO by using optimal methods in consideration of local laws, situations, and business operations.

Reduction in industrial waste

Nitto Denko Group companies are actively implementing recycling measures.

In Japan, Mie Nitto Denko achieved a 100% recycling rate, and Nitto Shinko, Nitoms, and Nitto Life-Tech achieved a 90% or more recycling rate. Thus, domestic Group companies are making improvements in their recycling rates.

Overseas Group companies are making improvements in their recycling rates as well. For example, Nitto Denko (Shanghai Song Jiang) achieved an 89.9% recycling rate, and Nitto Europe 92.4%. Overseas Group companies, however, generally generate more waste than domestic Group companies do.

Reduction in CO₂ emissions and energy saving

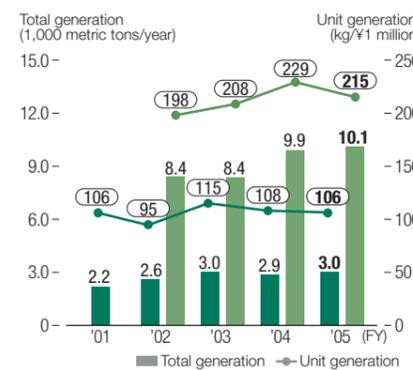
To reduce its CO₂ emissions, Mie Nitto Denko plans to replace heavy oil used as fuel with utility gas in the latter half of fiscal 2006.

Prevention of emission of organic solvent vapors into the air

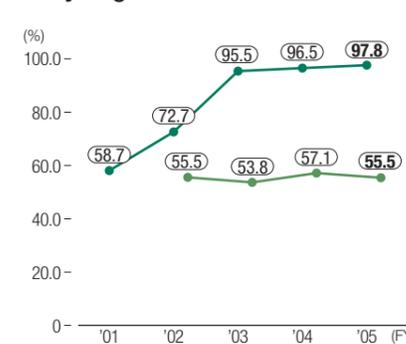
Following Nitto Denko Corporation, other Group companies have installed a variety of solvent treatment equipment and are implementing measures to prevent the emission of organic solvent vapors into the air. They treat organic solvent vapors with the use of highly reliable equipment or other extremely effective means.

Regarding overseas Group companies, Nitto Denko (Taiwan) installed an oxidizer in March 2003, and the total emissions of organic solvent vapors into the air from overseas Group companies have been decreasing since fiscal 2003.

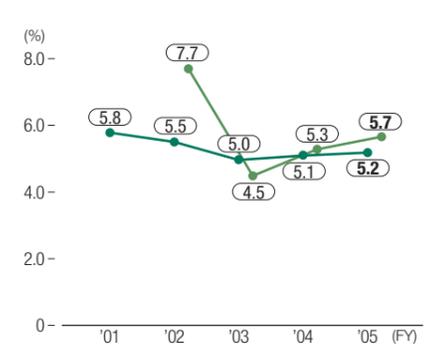
Total and Unit Generation of Industrial Waste



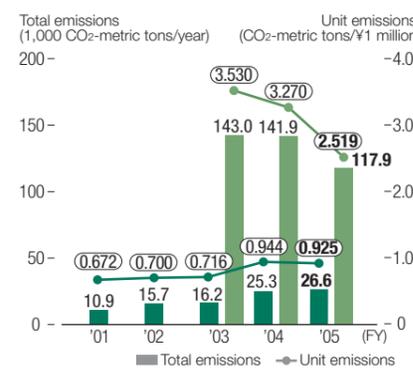
Recycling Rate



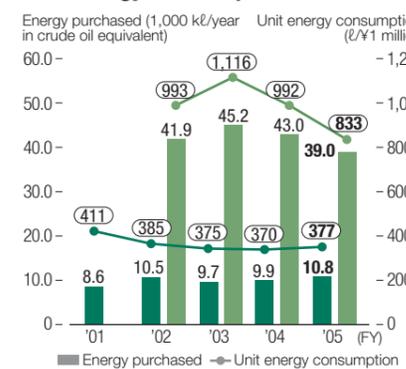
Industrial Waste Value Ratio



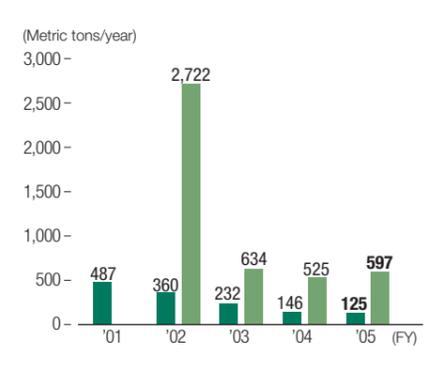
Total and Unit CO₂ Emissions



Energy Purchased and Unit Energy Consumption



Emission of Organic Solvent Vapors into the Air



Domestic Group companies (other than Nitto Denko Corporation) Overseas Group companies

Other Environmental Conservation Activities

In addition to its efforts to achieve the targets defined in the Environmental Voluntary Plan, the Nitto Denko Group is committed to the management of harmful chemical substances, green logistics, and green procurement to reduce the environmental impact of its business operations.

Management of Chemical Substances

Sharing Information on Chemical Substances and Relevant Legal Regulations through the Use of a Trilingual Database of Chemical Substances

Due to the globalization of its business, the Nitto Denko Group's need to take measures to comply with different legal regulations on chemical substances in different countries is becoming indispensable. Accordingly, in April 1996, we built a database of legal regulations on materials, which allows employees to search for information on legal regulations concerning materials to be purchased by the Group. In fiscal 2005, an updated version of the database was established to be used in managing chemical substances. The new database includes data on both domestic and overseas legal regulations on chemical substances, material safety data sheets (MSDS) submitted by materials suppliers, a table of materials that are regulated and those that are not regulated under laws, a table listing materials that contain specified chemical substances, internal materials data, and a list of chemical substances under the Nitto Denko Group's voluntary management.

In April 2005, we made it possible for all Group company engineers engaged in manufacturing, development, environment and safety, quality, and procurement to utilize information about legal regulations on chemical substances to be treated as required. The engineers can also easily search for the appropriate manual on handling chemical substances so that they can treat these substances safely. In addition, these engineers can easily access data tabulated on the use of materials and emissions.

Information on legal regulations included in this chemical substance database is available in three languages so that employees of overseas Group companies can utilize it. Also, other information will be translated into multiple languages.

Management of Polychlorinated Biphenyl (PCB) Waste

Disposing of All PCB Waste at the Toyohashi Plant in Fiscal 2006

The Nitto Denko Group properly stores PCB waste (a harmful substance) in compliance with the Law concerning Special Measures for the Promotion of the Proper Treatment of PCB Waste (PCB Special Measures Law).

Nitto Denko Corporation's domestic sites and other domestic Group companies have applied for the disposal of PCB waste under the PCB disposal reservation system.

In fiscal 2005, the Toyohashi Plant was not able to dispose of PCB waste as planned due to the unavailability of proper disposal facilities.

Prevention of Soil and Groundwater Pollution

Completely Discontinuing the Use of Chlorinated Organic Solvents

We have been implementing measures to discontinue the use of chlorinated organic solvents since the first half of the 1990s, when its harmful effect was found. Specifically, we discontinued the use of trichloroethylene and 1.1.1.- trichloroethane in 1998. Subsequently, in 2005, we discontinued the use of dichloromethane. As a result, the Nitto Denko Group completely discontinued the use of all chlorinated organic solvents.

In fiscal 2005, as in fiscal 2004, we had no problems concerning soil and groundwater pollution.

Green Logistics

Enhancing the Logistics Data Management System to Comply with the Revised Law concerning the Rational Use of Energy

To improve efficiency in logistics, the Nitto Denko Group is improving load efficiency and implementing a modal shift led by Nitto Logi-com, which is in charge of transporting Nitto Denko Group products both within Japan and overseas.

Due to the Revised Law concerning the Rational Use of Energy, enforced in April 2006, the Nitto Denko Group is now obliged to take energy-saving measures as a cargo owner. Accordingly, the Sales Management Department and Nitto Logi-com will lead the Group in improving logistics efficiency to reduce emissions of greenhouse gases. In fiscal 2006, we will strengthen our logistics data management system to analyze the current situation and make plans for improvement.

Green Procurement

Formulating the Nitto Denko Group Green Procurement Standards to Ensure Compliance with the ELV and RoHS Directives

The Nitto Denko Group promotes the green procurement of raw materials and production equipment that have less environmental impact at the proper cost, thereby reducing environmental impact caused by its operations and providing environment-friendly products.

In June 2006, we formulated the Nitto Denko Group Green Procurement Standards based on the Green Procurement Guidelines established in 2001. This is to ensure compliance with new legal regulations, such as the ELV and RoHS directives implemented in the European Union, and clearly demonstrate to the public that the Nitto Denko Group will discontinue the use of harmful substances in its products and not just the use of these substances in automobiles and electric and electronic devices. The Green Procurement Standards are available on our Web site.

Future Environmental Conservation Activities

The Nitto Denko Group has set an environmental management indicator and environmental conduct indicator with which it will collect and manage environmental impact data of all Group companies to promote the entire Group's environmental conservation activities. In fiscal 2006, we will launch an environmental database that will be available to all Group companies in the world to realize full-scale environmental management by the Group.

Environmental Management Indicator and Environmental Conduct Indicator

Preventing Global Warming and Effectively Using Limited Resources through Concerted Efforts by Group Companies in Fiscal 2006 and Onwards

The Kyoto Protocol came into effect on February 16, 2005, and the public is paying even more attention to measures that prevent global warming. Some argue that oil resources will be depleted in 40 years, and the effective use of limited resources and creation of a recycling-based society are becoming increasingly more important. Under these circumstances, companies are now required to recognize global warming and the depletion of resources as two management risks. To continue its business activities for further growth under these situations, the Nitto Denko Group needs to specifically show its approach to and activities in global environmental conservation.

Accordingly, we have set an environmental management indicator to comprehensively evaluate our environmental efficiency (comparing the value created with the environmental impact caused) and defined a medium- and long-term target based on the indicator.

It is, however, difficult to show our specific approach to preventing global warming and resource productivity, the two great concerns of society, by using only the environmental

management indicator. We therefore set an additional indicator—the environmental conduct indicator—to evaluate our environmental activities. This indicator is to replace the Voluntary Environmental Plan. Starting in fiscal 2006, the Nitto Denko Group will make concerted efforts towards the prevention of global warming and improvements in resource productivity (effective use of limited resources) as a whole.

Environmental Conduct Indicator

This indicator is composed of seven items (targets) under three themes.

Effective use of energy	Reduction in industrial waste	Management of chemical substances
<ul style="list-style-type: none"> Unit energy consumption 	<ul style="list-style-type: none"> Unit industrial waste generation Amount incinerated and sent to landfills Recycling rate Industrial waste value ratio 	<ul style="list-style-type: none"> Unit amount of organic solvents purchased Emissions of organic solvent vapors into the air

What is an environmental management indicator?

Concept

- To reduce all environmental impact caused by business operations
- To identify the quantity of environmental impact in CO₂ equivalent to implement global warming countermeasures

(Identify the quantity of all environmental impact in CO₂ equivalent by calculating all harmful emissions as deemed CO₂ emissions and not be limited to greenhouse gases defined in the Kyoto Protocol.)

- To compare the amount of environmental impact caused and the value created and try to produce more value

Target

- To double environmental efficiency (environmental management indicator value) in fiscal 2015 as compared to the fiscal 2005 level

Environmental management indicator

Used to compare value added and environmental impact caused by business operations

$$\text{Environmental management indicator} = \frac{\text{Valued added}}{\text{Environmental impact (in CO}_2\text{ equivalent)}}$$

Value added means value created by corporate activities, such as operating profit, sales administrative expenses, and manufacturing expenses.

Environmental Impact Caused by Business Operations

Factors Causing Environmental Impact		Environmental Impact Calculated to Set the Environmental Management Indicator (in CO ₂ equivalent)		
		Direct emission (targeted by the Kyoto Protocol)	Indirect emission (voluntarily calculated)	Deemed emission (voluntarily calculated)
Energy	Used as energy in the production process	Greenhouse gases		
	Internal processing	Incineration Recovery	Greenhouse gases	
Organic solvent	External processing	Material recycling Thermal recycling		Deemed emission
		Emission into the air	Greenhouse gases	Deemed emission
	Internal processing	Material recycling Thermal recycling	Greenhouse gases	
Industrial waste	External processing	Material recycling Thermal recycling		Deemed emission
		Incineration/final disposal	Greenhouse gases	Deemed emission
	Other	Other greenhouse gases	Greenhouse gases	
	Use of forklifts and company vehicles	Greenhouse gases		
	Transportation of products		Greenhouse gases	

Environmental Accounting

The Nitto Denko Group has introduced environmental accounting as a tool to reduce its environmental impact and cost and conducts such accounting in a unique manner. By effectively controlling environmental conservation cost and reducing environmental impact cost, we are trying to improve our resource productivity and achieve a low overall cost.

Environmental Accounting

Reducing Environmental Impact and Relevant Cost through Unique Environmental Accounting

In the Nitto Denko Group, Nitto Denko Corporation introduced environmental accounting in fiscal 2000, followed by other major domestic manufacturing companies in fiscal 2001 and overseas major manufacturing companies in fiscal 2002. These companies conduct environmental accounting in a unique way as a tool to reduce their environmental impact and the relevant cost in reference to the guidelines announced by the Ministry of the Environment and the Ministry of Economy, Trade and Industry of Japan.

The Group's environmental accounting is characterized by the following two points. The first is that each business division and Group company sets an environmental budget and clarifies its environmental tasks and responsibilities. The second is that in addition to the environmental conservation cost listed in the Ministry of the Environment's guidelines, the Nitto Denko Group shows its environmental impact cost (the cost of materials that have an environmental impact). Environmental impact cost includes industrial waste value (the material cost and processing cost of industrial waste—more specifically, the purchasing and processing cost of materials not used in products and that have become industrial waste) and the cost of energy used in the manufacturing process, solvents purchased, and water used.

At present, we are not fully utilizing environmental accounting in our business management but will continue to study and develop it into one that is truly useful for our business.

Achievements in Environmental Accounting in Fiscal 2005

Achieving More-than-Expected Results as a Unified Group

In fiscal 2005, the percentage of the Group's environmental impact cost that is directly related to sales came to 12.2%, which is below the budgeted percentage of 13.5%. Specifically, Nitto Denko Corporation's percentage was 13.7% against the budgeted percentage of 15.3%. Thus, the Company achieved the budgeted percentage.

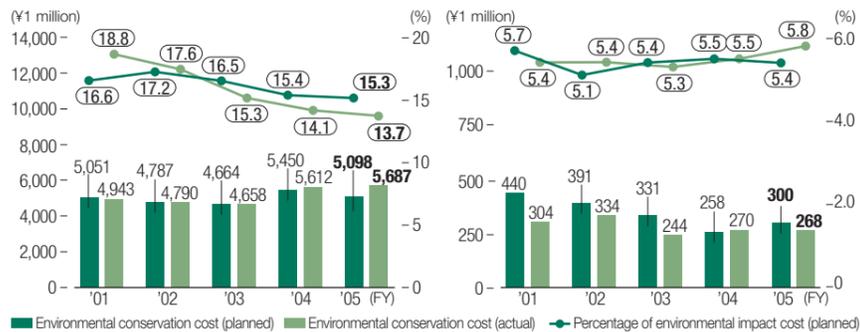
As for domestic Group companies, their percentage was 5.8% as compared to the budgeted percentage of 5.4%. Therefore, the budgeted percentage was not achieved.

As for overseas Group companies, their percentage was 7.6% against the budgeted percentage of 7.2%; thus, the budgeted percentage for overseas Group companies was not reached either.

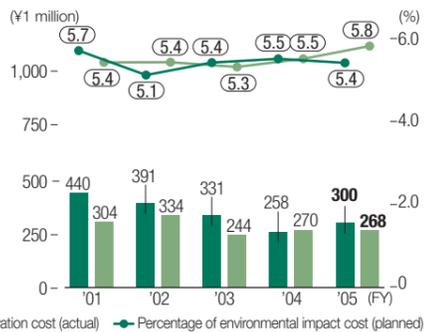
Companies covered by environmental accounting:

- Non-consolidated: Nitto Denko Corporation (including Aichi Nitto Denko and Saitama Nitto Denko)
- Consolidated domestic Group companies (four): Nitto Shinko, Nitoms, Mie Nitto Denko, and Nitto Life-Tech
- Consolidated overseas Group companies (seven): Permacel (United States), Hydranautics (United States), Nitto Europe, Nitto Denko (Shanghai Song Jiang), Nitto Denko (Taiwan), Nitto Denko Electronics (Malaysia), and Nitto Denko Material (Thailand)

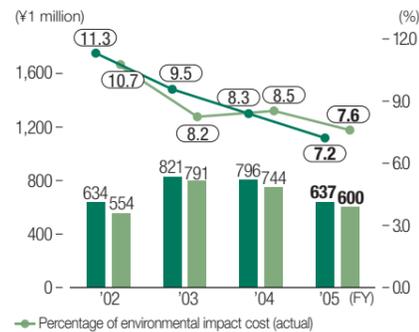
Percentage of Environmental Conservation Cost and Percentage of Environmental Impact Cost Nitto Denko Corporation on a non-consolidated basis



Consolidated Domestic Group Companies



Consolidated Overseas Group Companies



Environmental Accounting

- Target period:** Fiscal year of the Nitto Denko Group (from April 1 to March 31)
- Definition:**
- Evaluate environmental activities and environmental impact in terms of monetary value (accounting information) or quantity (quantity information).
 - Environmental cost comprises environmental conservation cost and environmental impact cost.

Cost of Environmental Conservation	
General expenses	Costs of maintenance and repair for exhaust gas/wastewater treatment equipment; acquiring ISO 14001 certification; reducing industrial waste and saving energy; environmental information disclosure and advertisement; and donations, excluding costs of industrial waste treatment, outsourcing, personnel, capital investment (depreciation), and R&D
Industrial waste treatment cost	Cost of externally treating and recycling industrial waste
Outsourcing cost	Outsourcing cost of environmental conservation activities to be conducted by Group or external companies
Personnel cost	Expenses for personnel engaged in environmental conservation
Depreciation cost	Total depreciation cost of environmental conservation equipment during the target period (FY)
R&D&E cost	General expenses and costs of industrial waste treatment, outsourcing, personnel, and capital investment (depreciation) for the development of environmental technologies

- Percentage of environmental impact cost (%) = Environmental impact cost/sales × 100
- Percentage of industrial waste value (%) = Industrial waste value/sales value of own products × 100

Environmental Impact Cost	
Industrial waste value	Material cost and processing cost of industrial waste
Energy cost	Total cost of electricity, fuel, heavy oil, LPG, natural gas, etc., purchased by manufacturing plants from outside
Cost of purchasing solvents	Total amount of solvents purchased from outside
Water charges	Total charges of water, including industrial water and drinking water

Environment-Conscious Products

The Nitto Denko Group develops environment-conscious products for customers. We conduct environmental impact assessments on both new and existing products to ensure their environmental friendliness and safety in addition to their easy and convenient use. As part of this process, we participate in research in EEBE¹ and examine the standardization of this evaluation method.

Polarization Conversion Films (PCF) for LCDs

By attaching PCFs to LCD TVs, PCs, cellular phones, and car navigation systems, the brightness of the screen is improved 50–60%, which leads to a reduced consumption of electricity.



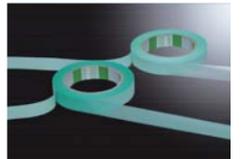
Double-Coated Adhesive Tapes

These double-coated tapes are used as construction materials. Because they are used mainly indoors, they do not contain volatile organic compounds (VOC), which cause sick building syndrome. Also, because measures against static electricity were successfully implemented, they can be used for many purposes.



Water-Soluble Adhesive Tape

This tape is used for auto-splicing in the paper manufacturing and printing processes. Sheets spliced together using this tape can be recycled as pulp material without removing the spliced parts because the tape is water-soluble.



Reverse Osmosis Membranes Modules for Seawater Desalination

These polymer membranes convert seawater to freshwater and contribute to solving water shortage issues around the world. The membranes are used in various regions in the world, including the United Arab Emirates (Fujairah) and Spain (Carboneras), where water shortage has become a social problem.



Non-Halogen, Solvent-Free Wire Harness Tape

This non-halogen, solvent-free adhesive tape contains no harmful substances. It is designed to bind wires used in automobiles together and meet the environmental needs of automotive industry all around the world.



Insect Removal System

This system uses the sex pheromone and behavioral patterns of insects to repel harmful pests. The system does not use insecticides and is effective in ridding specific insects. This environment-friendly system is used on farms and trees that line streets in urban areas.



Environmental Impact Assessment of Products

Plans to Formulate Guidelines on Product Development Based on Life Cycle Assessments

The Nitto Denko Group conducts environmental impact assessments on new and existing products based on its environmental management system.

Environmental impact assessments on existing products are conducted once a year by the department in charge of development. Under this assessment system, we focus on improving products that were assessed as having a large environmental impact as an annual objective. For new products, we determine whether they meet predefined quality requirements and conduct environmental impact assessments as part of their design review. Products that are assessed as having a larger environment impact than previous models are not allowed to be manufactured.

In fiscal 2006, we plan to formulate guidelines on environment-conscious products based on the life cycle assessment (LCA), which is used in analyzing and assessing the environmental impact of a product throughout its life cycle, from resource exploitation to disposal as waste. In forming the guidelines, the Environmental Technology Department will take the initiative in conducting relevant research and surveys.

comment



Dr. Bart Forier
Manager, R&D Dept. Nitto Europe
Clear Focus on Environmental Regulations

I am the development manager of SBU tape at Nitto Europe. Currently, we are working on different projects where we have a clear focus on environmental regulations because, especially here in Europe, regulations are very severe. We acknowledge the need for tackling recycling issues in the automotive and electrical & electronic industries. We want to show our customers, through new product developments, the initiative that Nitto Denko has taken to contribute to making the world a better place to live. By doing this, we aim for our customers' commitment to Nitto Denko.



Dr. Walter Eevers
General Manager, New Business Group/R&D Nitto Europe
Contributing to Society through the Development of New Products That Have Less Environmental Impact

In my responsibility for the R&D activities of Nitto Denko in Europe, I am dedicated to investigating how Nitto Denko can contribute to a cleaner and healthier society by developing new products and processes that fit this principle of sustainable development. Developing materials that lead to the easy recycling of components, developing processes that consume less energy, etc., fit perfectly in this principle and are a perfect match between European Research's emphasis and Nitto Denko's global technology focus. This technology focus is our contribution toward making Nitto Denko grow into a global excellent company.

1. EEBE stands for external economic benefit evaluation, which is used in evaluating the environmental contributions that a manufacturer has made to society by supplying to the market with a product that was developed using new technology.

Social Activities

Employees and companies of the Nitto Denko Group engage in social activities; employees who take action with a spirit of challenge, pride, and a strong will and companies that constantly support individuals who make such efforts. Both are done to gain recognition by the public.

Highlights of Social Activities

Support Those Who Take on Challenges

Employees Taking Initiative in Volunteer and Social Contribution Activities

Employees Participate in the Osaka International Ladies Marathon as Volunteers

As in the previous year, the Nitto Denko Group supported the organization of the Osaka International Ladies Marathon held in January 2006. The Group supports this marathon primarily aiming to raise employees' pride about being members of the Group by participating in the event as well as people's awareness of the Nitto Denko Group.

Members from many Group companies formed a project team to generate interest in the event. The members proposed various ideas to support the organization of the marathon, promote exchanges between Group employees and local inhabitants, and provide employees with the opportunity to cooperate toward the same goal. Based on these ideas, a large number of Group employees volunteered for various activities in the event. These activities included providing a sports taping service using Nitto Denko Group products, giving drinks to participants of a half marathon that was held concurrently with the Osaka International Ladies Marathon, organizing multiple events for children, and cleaning the site. Also, we conducted a charity fundraising activity during the event and donated the money that was raised (¥689,931) to the Japan Sports Association for the Disabled (JSDA).

In the half marathon, a total of 67 Group employees and their families, including eight employees from Group companies in China, participated as runners. Participants from Group companies in China said, "I would like to put in more effort for the Nitto Denko Group," and "I want to participate in the marathon again if I have the chance."



A total of 400 Group employees volunteered in the Osaka International Ladies Marathon



The Osaka International Ladies Marathon

Nitto Denko Himawari Supports the Disabled through Sports

Nitto Denko Himawari was established within the Toyohashi Plant of Nitto Denko Corporation to promote the employment of the disabled in 2000. *Himawari* is the Japanese word for 'sunflower,' and the company was named Nitto Denko Himawari in hopes that it would develop toward the future like a sunflower growing tall and strong toward the sun. The company is committed to providing the disabled with a working environment where they can work vigorously and independently.

Nitto Denko Himawari supports the disabled by enthusiastically encouraging them to participate in sports activities. In November 2005, 15 employees of the company participated in the third flying disk contest for the disabled held in Aichi, and nine of them won prizes. Because flying disk is a sport that anyone can enjoy, all employees of Himawari exercise by taking part in the activity during lunchtime. In the Osaka International Ladies Marathon held in January 2006, 25 employees of Himawari participated as volunteers and interacted with the spectators by sharing the fun of flying disks.

Some employees of Himawari play basketball as members of the Aichi Prefecture's wheelchair basketball team. The company supports these players, and other employees attend the games to cheer on the players, who practice a lot to improve their skills. In the wheelchair basketball championship at the annual national games for the physically handicapped, Aichi Prefecture came in first in 2004 and third in 2005.

Promoting Traffic Safety in China

Nitto Denko (Shanghai Song Jiang) endeavors to improve the occupational health and safety of employees. Because transportation conditions in China leave much to be desired, the company requires employees who commute to work by motorcycle to wear a helmet even though they are not obliged to do so by law. When employees arrive at the company in the morning, they are checked to see if they are wearing a helmet and that their motorcycle is free from defects. Also, the company has created a poster to promote the prevention of traffic accidents. It thus tries to ensure traffic safety for employees. In addition, the company leads other companies in cooperating in activities that promote local traffic safety and prevent accidents.

In fiscal 2005, the company increased the space of its canteen and improved it to make its atmosphere brighter.

Nitto Europe Supports Solar Car Race in Australia

In September 2005, Nitto Europe (in Belgium) supported the organization of the World Solar Challenge (WSC), a solar-powered car race held in Australia, as a sponsor of the Belgian team participating in the race. In the race, participating teams drove over 3,000 km across Australia in solar-powered cars they had made themselves. Nitto Europe made a donation of money and products with which to make a solar-powered car to the Belgian team. The Belgians did well, finishing in 11th place and winning the Hans Tholstrup Adventure Award from WSC observers. Nitto Europe is also a sponsor of a local professional soccer team named KRC Genk.



Relationship with Shareholders (Nitto Denko Corporation on a Non-Consolidated Basis)

Nitto Denko Corporation is committed to the stable distribution of profits to shareholders. The Company made special efforts to promote communication with shareholders and was commended by the Tokyo Stock Exchange (TSE) for its achievements in information disclosure in fiscal 2005. We will endeavor to further promote such disclosure.

Dividend Payout Policy

Stably Distributing Profits to Shareholders while Actively Investing for the Future

Nitto Denko Corporation's basic dividend payout policy is to distribute profits to shareholders in a consistent manner. The Company, however, thinks it necessary to aggressively invest in research, development, and production facilities to meet the future needs of customers by achieving rapid technological innovations. We pay dividends to shareholders in consideration of our financial situation, profitability, and payout ratio in a comprehensive manner.

In the fiscal year ended March 2006, we paid an annual dividend per share of ¥60, exceeding the amount we had initially planned to pay (¥50) while continuing to make large capital investments in growth fields. For annual dividends to be paid to shareholders for the year ending March 2007, we plan to pay ¥70 per share. We will maintain a good balance between the payment of dividends to shareholders and investments made in sustainable business growth in the future while efficiently managing shareholders' equity.

Inclusion in the SRI Funds

Being Included in the New SRI Funds in Fiscal 2005

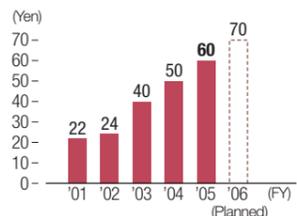
People are paying more attention to socially responsible investment (SRI), which takes into account environmental conservation and compliance in addition to financial situation and the growth possibility of the investee.

According to management reports on leading ECO funds and SRI funds in the Japanese market, shares of Nitto Denko Corporation were newly included in the investment target of large SRI funds, such as the DC Daiwa SRI Mother Fund and Sumishin SRI Mother Fund in fiscal 2005. As a result, as of the end of fiscal 2005, Nitto Denko Corporation's shares included in these funds are almost doubled in terms of monetary value compared with their value in the previous fiscal year (based on the results of an internal survey).

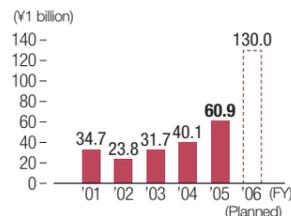
Inclusion of Nitto Denko's Shares in the Investment Target of SRI Funds

- Nikko Eco Fund
- Asahi Life SRI Social Contribution Fund (Asu-no-Hane)
- Sampo Japan Green Open (Buna-no-Mori)
- UBS Japan Eco Fund (Dr. Eco)
- Eco Partners (Midori-no-Tsubasa)
- DC Daiwa SRI Mother Fund
- Sumishin SRI Mother Fund

Dividend per Share



Capital Investment



General Meeting of Shareholders

Incorporating the Opinions and Proposals of More Shareholders into Future Corporate Activities

Nitto Denko held its 141st Ordinary General Meeting of Shareholders on June 23, 2006. Of the 15,740 shareholders that have voting rights, 216 attended the meeting, up slightly from the number of participants in last year's meeting (205 people). For shareholders who are not able to attend a general meeting, we introduced a method with which they can exercise their voting rights over the Internet, starting with the 138th Ordinary General Meeting of Shareholders. Also, from the 141st meeting, we made it possible for institutional investors to electronically exercise their voting rights. As a result, a total of 321 voting rights were electronically exercised via the Internet.

A roundtable meeting was held after the general meeting of shareholders to promote exchanges between shareholders and the management of the Company. The directors and corporate vice presidents talked with shareholders informally at tables. We will incorporate the opinions and proposals received from shareholders into our future business activities.

Communicating with Shareholders and Investors

Promoting Prompt Web-Based Information Disclosure to Individual Shareholders

Nitto Denko Corporation is committed to communicating with shareholders, investors, and analysts and utilizes what it has gained through such communication in the management of the Nitto Denko Group.

As of the end of March 2006, 55.9% of Nitto Denko Corporation's shares are held by foreigners; the top managers of the Company went overseas, especially to North America and Europe, to explain the Company's business situation to the local shareholders in the area. Also, the number of individual shareholders accounts for 93.7% of all Nitto Denko Corporation shareholders, although the percentage of shares held by these private shareholders is relatively low. We are therefore trying to provide more substantial information to them on our Web site and through other media.

TOPICS

Commended by the TSE for Achievements in Information Disclosure

In fiscal 2005, Nitto Denko Corporation was commended by the Tokyo Stock Exchange (TSE) for its achievements in information disclosure. The TSE started this annual commendation, which was in its 11th year in fiscal 2005, to encourage listed companies to enhance their information disclosure. The TSE gives commendations to companies that are committed to proper, proactive information disclosure.

Nitto Denko Corporation was given a commendation in recognition of the brief, clear information disclosure provided in its financial summaries as well as for its enhanced IR activities on its Web site. We will further promote our IR activities in the future.



TSE commendation ceremony

Relationship with Suppliers (Partners)

The Nitto Denko Group regards suppliers as partners with which to achieve further growth. In fiscal 2005, the Group established its CSR-Based Procurement Policy and Action Guideline for Persons Engaged in Procurement Activities to ensure that the rights of suppliers are respected and that trade with them is fair and transparent.

Guidelines for Fair Trade

Establishing Procurement Guidelines for both Domestic and Overseas Group Companies

In fiscal 2005, the Nitto Denko Group established its CSR-Based Procurement Policy and Action Guideline for Persons Engaged in Procurement Activities based on its *open, fair, and best* principle as well as the principle of partnerships.

The Group's procurement policy is both internally and externally announced as being a common policy of all Nitto Denko Group companies in the world. We have notified the representatives and procurement managers of 12 overseas Group manufacturing companies¹ that procure materials from suppliers of this policy. In addition, we are raising the awareness of Group companies about this policy through the Group and Global Meeting. In fiscal 2006, we will review the procurement criteria based on the procurement policy and subsequently conduct relevant audits.

In the first half of fiscal 2006, we will establish a procurement hot line through which suppliers will be able to report cases of noncompliance with the procurement policy and/or action guideline if they encounter such cases in their dealings with the Nitto Denko Group.

1. Nitto Denko Group's 12 overseas manufacturing companies: Nitto Europe, Permacel, Permacel Automotive, Hydranautics, Nitto Denko (Shanghai Song Jiang), Nitto Denko (Shanghai Pu Dong New Area), Nitto Denko (Suzhou), Nitto Denko (Taiwan), Taiwan Nitto Optical, Korea Nitto Optical, Nitto Denko Electronics (Malaysia), and Nitto Denko Material (Thailand)

CSR-Based Procurement Policy

The Procurement Business Sector sets up OPEN, FAIR, BEST & Partnership as the guiding concept.

- OPEN**
The Nitto Denko Group opens the door to suppliers at home and abroad and creates an environment that promotes unrestrained proposals.
- FAIR**
The Nitto Denko Group deals with its suppliers on an equal and fair basis in its procurement activities.
- BEST**
The Nitto Denko Group will do its best to realize its procurement activities based on care for the natural environment as well as laws and ethics, to create new value.
- Partnership**
The Nitto Denko Group aims to be the choice not only of its customers but also of its suppliers. The Nitto Denko Group seeks to establish true partnerships for coexistence and co-prosperity based on trust and cooperation.

Action Guideline for Persons Engaged in Procurement Activities:

- Every member engaged in procurement activities for the Nitto Denko Group must be committed to behaving with respect for corporate ethics and social common sense, and must observe the following action guideline to promote procurement activities that are fair and free of corruption.
- A person who is engaged in procurement activities shall follow any and all laws and regulations related to procurement processes. If any person finds out any fact indicating noncompliance with the law, the person aware of the noncompliance must immediately report it to his/her supervisor for appropriate actions.
 - A person who is engaged in procurement activities shall not accept any kind of gifts from partners, including summer and year-end gifts and presents from visitors. Similarly, he/she shall refuse any offerings of a complimentary nature, including offerings for celebration/condolence or other courtesy calls.
 - A person who is engaged in procurement activities shall not acquire unlisted shares of partners or acquire shares based on insider information.
 - A person who is engaged in procurement activities shall not purchase products offered by partners at a special discount, for his/her private use.
 - A person who is engaged in procurement activities shall not have any partners pay for his/her transportation/hotel/meals on his/her visit to meet with those partners.
 - A person who is engaged in procurement activities shall not have any interest in partners, including privately demanding payoffs from them.

Communication with Suppliers

(Nitto Denko Group on a Non-Consolidated Basis)

Exchanging Opinions with Suppliers at Partners' Meetings

Based on the idea that suppliers are partners, we changed the name of our annual meeting with suppliers from Suppliers' Meeting to Partners' Meeting.

This meeting is held annually at the Kameyama and Toyohashi Plants, which deal with a large number of suppliers. At this meeting, we explain our activities, procurement policy, requirements for the quality of materials, and quality assurance system to suppliers and exchange opinions with them to deepen mutual relations.



Partners' Meeting

Engaging in an exchange at the poster session

Compliance with the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors

Improving the Order-Placing Process by Introducing Web-EDI

In fiscal 2005, Nitto Denko Corporation launched measures that ensure compliance with the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors concerning orders placed by its indirect departments. In addition to holding a meeting to study the act, the Company introduced Web-EDI² to improve its order-placing process so that it fully complies with the act. Meetings to study the act are held at other Group companies as well.

2. Web-EDI is a Web-based system of electronically placing and receiving orders

comment



Kazutaka Maeda
General Manager, Logistics Department, Manufacturing Section, Nitto Shinko Co., Ltd.
We maintain open and fair relationships with suppliers based on mutual trust

Nitto Shinko mainly manufactures isolating materials, and I am in charge of procuring raw materials for the Company. Taking a global view of things, we choose reliable and environment-friendly materials in our procurement work and focus on always providing products at a reasonable price. Moreover, we attach importance to our relationship with suppliers and maintain open and fair relations with them based on mutual trust as well as on compliance with laws and regulations.

We will continue to choose high-quality materials that are environment-friendly and effective in reducing industrial waste. Using these materials, we will manufacture environment-conscious products, thereby pleasing customers, local residents, suppliers, and employees and contribute to society at large.

Relationship with Customers

The Nitto Denko Group is committed to providing customers with satisfactory products. Based on the concept of advanced quality management, we train employees to maintain quality and improve and expand our information system and other infrastructure to increase customer satisfaction.

Annual Quality Policy

Promoting Advanced Quality Management

In the Nitto Denko Group's annual quality policy formulated in fiscal 2004, the Group sets priority measures and targets based on the following two indicators: customer satisfaction and percentage of customer returns and compensation.

In fiscal 2005, under the slogan "Developing human assets and achieving advanced quality management," we implemented measures intended to raise customer satisfaction, to ensure consistent quality, and to improve the infrastructure. At the end of fiscal 2005, departments in charge of quality and other related departments cooperated together to formulate a specific action plan to achieve advanced quality management.

Fiscal 2006 will be the year we further enhance cooperation between these departments to implement advanced quality management on a full scale.

Advanced quality management

Advanced quality management means to design and develop products that focus on quality assurance to prevent the generation of defective products.

Quality Management System

Acquiring ISO/TS 16949 at the Toyohashi Plant

The Nitto Denko Group has acquired ISO 9001 and other quality-related certifications at its approximately 80 manufacturing and processing sites. The Medical Related Products Division, which manufactures transdermal drug delivery patches and other medical products, has built a quality management system based on the Good Manufacturing Practice (GMP) requirements as well as on ISO 13485, which is an international standard for the quality management of medical devices.

In January 2006, the Toyohashi Plant of Nitto Denko Corporation acquired ISO/TS 16949 certification, which is said to be the strictest standard for quality management in the world. As a result, a total of 13 Nitto Denko Group sites are ISO/TS 16949 certified as of July 2006. These sites give great satisfaction to the Nitto Denko Group's customers in the automobile, semiconductor, and electric and electronic industries, who want their suppliers to be ISO/TS 16949 certified.

In internal audits of quality, the environment, and safety (QES audits), which have been conducted since fiscal 2004, situations concerning the introduction and promotion of advanced quality assurance are intensively audited, and specific advice and examples of how to improve are provided to relevant departments so that they can achieve better results in the future.

Education on Quality

Providing Education on Quality at Home and Abroad

The Nitto Denko Group provides employees in charge of quality, product development, and manufacturing with education on quality so that the Group can constantly deliver high-quality products to customers. We have various levels of seminars on quality for employees, including new comers and those versed in quality, and hold the appropriate seminar according to the expertise of the participants and the departments to which they belong.

Instead of implementing measures to deal with defective products that have already been manufactured—for which it is essential to have developers who have expertise on quality issues—we are committed to product design that will not produce defective products in the first place. We therefore focus on training those engaged in product development on quality.

In fiscal 2005, we completely revised our seminar texts and prepared both Japanese and English versions to provide education on quality at Nitto Denko Group companies throughout the world. In fiscal 2006, we will provide the appropriate level of education based on the level of knowledge (of quality) identified at each Group site to eventually improve the quality level of the entire Group.



Seminar on quality

comment



Chakapan Lohavisavapanich
 Manager, Quality Assurance Department,
 Nitto Denko Material (Thailand) Co., Ltd.
**Aiming to provide products of
 the highest quality in the world**

In the Quality Assurance Department, to which I belong, I promote activities that prevent defective products from being delivered to customers through data analysis and quality management. Through these measures, we try to always provide customers with satisfactory products. What is important in our job is detecting the risk of delivering low-quality products, implementing countermeasures promptly within the company, and continuously providing all employees with education to raise their awareness of quality.

Our goal is to make our company an even more reliable manufacturer, one that provides products of the highest quality in the world and will never receive any complaints on product quality from customers.

Product Safety

Providing Consumers with Safe Products

The Nitto Denko Group has focused on product safety for consumers since before the enforcement of the Product Liability Act of Japan. We pay special attention to the safety of medical products used directly by general consumers, such as surgical tapes and cultured panax ginseng products provided by Nitto Medical as well as tapes and various household goods for consumers provided by Nitoms.



Medical products

Customer Center (Nitto Denko on a Non-Consolidated Basis)

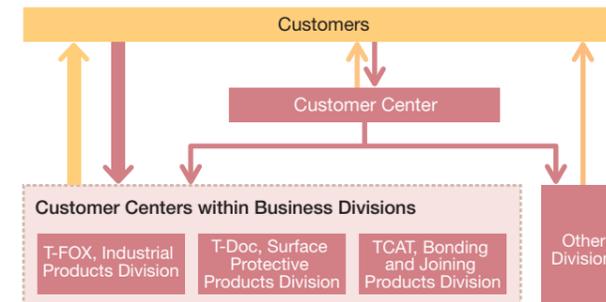
Establishing T-FOX as a Customer Center for the Industrial Products Division

Nitto Denko Corporation's customer center accepts orders and inquiries from customers by phone and through its Web site based on the principle of responding promptly to customers.

Business divisions that receive a large number of inquiries from customers have their own customer center, and staff members of these centers respond promptly to people's inquiries. In addition to TCAT, a customer center in the Bonding and Joining Products Division that deals in double-coated adhesive tapes, and T-Doc, a customer center in the Surface Protective Products Division that handles surface protective materials, the Company established T-FOX, a customer center in the Industrial Products Division that deals in foam sealing materials.

We will continue to respond to inquiries from customers promptly and appropriately and analyze these inquiries so that they may be reflected in the formulation of our business strategies.

Customer Center



Contacts

TCAT, Bonding and Joining Products Division	T-Doc, Surface Protective Products Division	T-FOX, Industrial Products Division
TEL.: +81-532-41-8400, +81-532-41-8267	TEL.: +81-532-41-7223 FAX: +81-532-41-7259	TEL.: +81-532-41-7838 FAX: +81-532-41-8446
FAX: +81-532-41-8473 E-mail: tcat@nitto.co.jp	E-mail: tdoc@nitto.co.jp	E-mail: tfox@nitto.co.jp

Quality-Related Information System

Sharing Quality-Related Information within the Group While Giving Due Consideration to Security

The Nitto Denko Group built a system to share customers' quality-related information on its intranet and utilizes it across the Group while giving due consideration to the security of the system. Information stored in the system is protected by login IDs and passwords, which authorized employees are allowed to use at any time to access information required to provide the proper response to customers.

In fiscal 2005, we improved the system by making it possible to promptly display major analysis items in a graph.

Responsibility for the Stable Supply of Products

Procuring Raw Materials in a Stable Manner under a Changing Market Environment

Due to hikes in oil prices that have been occurring since fiscal 2003 as a result of the emergence of BRICs¹, other geopolitical factors, and speculative investments made by oil money, it is becoming increasingly difficult to procure petrochemical products. Under this severe procurement condition, Nitto Denko Corporation is strengthening its relationship with suppliers to stabilize the procurement of raw materials.

In July 2005, the Company dispatched two employees from the Procurement Department to Shanghai to ensure stable procurement and carry out countermeasures against steep rises in the unit price of materials. They survey and visit a wide range of material manufacturers in China. Through these measures, Nitto Denko Corporation supports its domestic sites, local subsidiaries in China, and other Group companies in procurement activities. In fiscal 2005, the Company started conducting a survey on manufacturers in India.

1. BRICs stands for Brazil, Russia, India, and China—four major emerging markets.

comment



Shuyin Teo
 Senior Researcher, Research & Development Division,
 Nitto Denko Electronics (Malaysia) Sdn. Bhd.
**In our division, CSR means
 complying with laws and regulations
 and responding to customer needs**

I am a research and development (R&D) engineer for epoxy molding compound, which is used for encapsulation of semiconductor devices. Corporate social responsibility related to R&D is met by satisfying customers' needs and complying with environmental regulations. Recently, in line with the European Union's Waste Electrical and Electronic Equipment (WEEE) Directive, we have developed environment-friendly or "green" series of epoxy molding compound and successfully launched them into the market. Response from our customers has been tremendous.

We will continue to delight our customers with our products by developing those that will meet the requirements of future laws and regulations as well as customers' needs.

Relationship with Employees

The Nitto Denko Group believes that employees, or human assets, are the most important for any company. Accordingly, the Group respects each of its employees as individuals and presses forward with measures to build an open and fair corporate climate so that employees can be highly motivated in their work. Also, the Group gives first priority to safety and implements measures that provide employees with a safe workplace.

Employment Policy

Employing Those Who Take on Challenges to Attain Their Goals

As a premise for the Nitto Denko Group to sustain its growth, it is necessary for each of its employees to believe in their own abilities and to take on challenges with curiosity about changes to attain higher levels in their work. It is ideal for employees, or human assets, to work hard together to achieve their goals with an open attitude at their workplace. The Nitto Denko Group employs those who are always in pursuit of their own possibilities.

Educational System

Starting a Short-Term Transfer System for Employees of Overseas Group Companies

The Nitto Denko Group's educational system has two mainstays: the development of employees' abilities based on their voluntary efforts and the training of those who will be core human assets for the Group's global business in the future. In January 2004, we launched an educational program named Nitto University to strategically find and develop human assets. At the end of 2005, the total number of Group employees who participated in the program reached 140. In addition, in fiscal 2004 we introduced a system in which employees are dispatched overseas as trainees and, in fiscal 2005, a short-term transfer system in which overseas Group employees are accepted as trainees in Japan.

In fiscal 2005, a total of 2,300 employees participated in 37 educational courses. After the course was over, each participant was given a task to achieve in his/her workplace using the skills learned in the course. When his/her boss approved of the task he/she had achieved, the person was deemed to have completed the course.



Presentation by employees transferred to Japan on a short-term basis

Employment in Fiscal 2005

(Nitto Denko Corporation on a Non-Consolidated Basis)

Number of male employees:	2,896
Number of female employees:	291
Total number of employees:	3,187
Average years of service:	15.3 years
Number of those newly employed:	197

Education Provided in FY 2005 to Develop Global Human Assets

Type of Education	Target	Period	Details	Participants in FY 2005	Participants in FY 2006 (Planned)
Dispatching trainees overseas	Young employees aged around 30	From Sep. to Aug.	Dispatched to overseas Group companies and local language schools for improving communication ability and international business sense	14	10
Short-term transfer	Sales staff of overseas Group companies	From May to March	Take part in actual operations at Nitto Denko's Sales Department to become managers in the future	6	8
	R&D staff of overseas Group companies	From Nov. to March	Take part in actual operations at Nitto Denko's technological departments to play important roles in global R&D	1	Not decided
Global Management School	Leaders working in Asia	July	Educated on the NITTO Way to become aware of their roles as members of the Group	43	Not decided
	Managers working anywhere in the world	October	Educated on the concept of One-NITTO and encouraged to share intangible assets and strengthen mutual relations as members of the Group.		

Personnel System

(Nitto Denko Corporation on a Non-Consolidated Basis)

Introducing a Performance-Based Personnel System, Which Differs from a System Based on Inherent Abilities or Simple Outcomes

Nitto Denko Corporation aims to provide employees with an exciting workplace by introducing a performance-based personnel system in which each employee is treated according to the degree of their contribution to the Company. Instead of treating all employees equally, the Company evaluates individual employees based on their performance and rewards them according to evaluation results, thereby motivating individual employees.

Under the performance-based system, employees are interviewed by their managers at each juncture in the evaluation flow, including an interview to set targets and an interview to be informed of his/her evaluation results. These interviews are held to promote close communication between the employees and their managers as well as to help the employees understand how and why they received a particular evaluation. In addition, the Company conducts an employee survey on the evaluation flow to ensure that the employees are properly interviewed as a form of communication with their managers and are told about the evaluation results.

Dialogue between Labor and Management

(Nitto Denko Group in Japan)

Holding the 500th Monthly Labor-Management Consultative Meeting in July 2006

The Nitto Denko Group promotes communication with employees based on mutual trust, partnership, and prosperous coexistence. In Japan, employees of Nitto Denko Corporation and some consolidated Group companies, such as Nitto Shinko, have labor unions. At other Group companies as well, management and employees are trying to build cooperative relations with a spirit of prosperous coexistence.

A monthly consultative meeting is held between management and the members of the central labor union and its branches. In addition, a monthly labor-management roundtable meeting is held at each workplace. At consultative meetings, directors and employees solve various problems together, and the one held in July 2006 was the 500th since these meetings were initiated more than 40 years ago.

Welfare of Employees (Nitto Denko Group in Japan)

Formulating a Plan to Support Employees in Balancing Their Work and Private Lives

The Nitto Denko Group's employee welfare system is based on the following three concepts: mutual assistance in preparing for contingencies, support to employees in leading stable lives, and welfare programs necessary to ensure sound business operations.

In fiscal 2005, in compliance with the Law for Measures to Support the Development of the Next Generation enforced on April 1, 2005, the Group formulated a two-year action plan. In fiscal 2006, labor and management will conduct an interim evaluation of achievements made in fiscal 2005 under the action plan and implement measures for the remaining year based on the evaluation results.

Employment after Retirement (Nitto Denko Group in Japan)

Matching the Right Person to the Right Place by Opening a "Human Asset Bank" for the Group

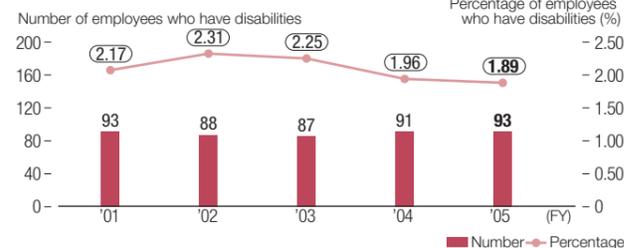
Japanese companies will soon face a serious problem as a result of baby boomers retiring in and after fiscal 2007. With the retirement of these employees, companies will lose their skills as well. Under these circumstances, the revised Law Concerning Stabilization of Employment of Older Persons was enforced on April 1, 2006, which demands that companies implement certain measures for the reemployment of retirees.

Since 1994, the Nitto Denko Group's 28 domestic companies have been sequentially establishing and managing a system that allows those who retired at the age of 60 to continue working at their companies. Under this system, a total of 65 retirees are reemployed as of the end of fiscal 2005. Furthermore, in April 2006, certain criteria for the reemployment of retirees were set in a labor-management agreement, and all those who meet the criteria and wish to work at Group companies are reemployed in principle.

In October 2005, we opened a "human asset bank of the Nitto Denko Group," which is a database of skills held by employees who wish to work at the Group after they retire as well as job offers from various departments of the Group. This database is intended to be used to match the right person to the right place within the Group, going beyond the barriers of companies and departments.

Employment of the Disabled

(Nitto Denko Corporation on a Non-Consolidated Basis¹⁾)



1. Includes a special subsidiary and a few others
 In and before fiscal 2003: Nitto Denko Corporation and Nitto Denko Himawari
 In and after fiscal 2004: Nitto Denko Corporation, Nitto Denko Himawari, Nitto Business Support, and Nitoms
 Note: The figures shown above differ from those announced in Nitto Denko Group CSR Report 2005 because we have standardized the calculation method.

Employment of the Disabled (Nitto Denko Group in Japan)

Actively Employing Disabled People and Improving Their Working Environment

The Nitto Denko Group established a special subsidiary named Nitto Denko Himawari in May 2000 and has been vigorously promoting the employment of disabled people through this subsidiary. In fiscal 2005, due to a substantial increase in the number of employees following an expansion in business, the percentage of Group employees who have disabilities came to 1.89%, down from that in fiscal 2004.

Nitto Denko Himawari employs the disabled and accepts students from local schools for the deaf and other disabled children as trainees. The Nitto Denko Group will aggressively employ a greater number of disabled people and improve its working environment so that they can display their abilities in a greater number of jobs.

Employee Education on Human Rights

(Nitto Denko Group in Japan)

Aiming to Create a Corporate Culture and Climate that Respect Human Rights

The Nitto Denko Group conducts activities to educate employees on human rights to create a corporate culture and climate that respect such rights. In fiscal 2005, we provided training to all managers and leaders of the Group and distributed a copy of a brochure on human rights to each employee to make them more aware of human right issues.

In fiscal 2005, the Group asked employees to come up with a slogan on human rights for human rights week, and 1,418 slogans were submitted. Of those submitted, one was selected and commended for its excellence in a slogan contest for human rights held by the Industrial Federation for Dowa and Human Rights Issues (Osaka). In fiscal 2006, we will provide employees with opportunities to learn about human rights at their workplace, thereby fostering the establishment and expansion of a corporate culture that respects human rights across all Group companies.

comment



Yoshihisa Mori
 General Director, Nitto Denko Vietnam Co., Ltd.
I would like to make our company a place where employees can work with pride

Nitto Denko Vietnam is located in an industrial park in the suburbs of Ho Chi Minh and manufactures flexible printed circuits (FPC). After the end of the Vietnam War in 1975, Vietnam was at war with Cambodia and China until 1991. Since then, the country has grown rapidly thanks to the support of investments from overseas. I would like to make Nitto Denko Vietnam a place where employees can work with pride and make it the company of choice among customers. To this end, it is essential to embrace the concept of CSR. First of all, I will make employees understand the importance of fulfilling our social responsibility to promote CSR activities within the company.

Relationship with Employees

Industrial Safety and Hygiene

Establishing "Shut-off-Culture" and Promoting the Introduction of Automatically-Stoppable Equipment

To reduce the number of serious industrial accidents¹ to zero, the Nitto Denko Group has set a fiscal 2007 medium-term safety target of decreasing the frequency rate of serious industrial accidents by 30% from the fiscal 2005 rate.

The following types of accidents account for two-thirds of the industrial accidents that occurred: hands or legs of workers get caught in manufacturing equipment while in operation and are cut or hurt by tools used in cutting tapes and films. In order to prevent these accidents, we began implementing safety measures concerning equipment, teaching employees about industrial safety, and sharing industrial safety-related information Groupwide.

In fiscal 2005, the Group as a whole had 37 serious industrial accidents. Unfortunately, this number is greater than that in fiscal 2004. Of the 37 accidents, 19 were caused by workers touching machines while in operation. This shows that employees are not sufficiently aware of the importance of suspending the operation of machines when the machines are not running properly. We make it a rule to identify the cause of every accident that took place, regardless of its seriousness, thereby preventing the occurrence of similar accidents.

In fiscal 2006, we will further educate employees on the importance of suspending the operation of a machine if it is not running properly before touching the machine to deal with the problem ("shut-off-culture") and introduce more machines that stop automatically if there is the risk of someone getting injured and will not restart unless the safety is confirmed ("automatically-stoppable equipment"). To this end, we will revise our safety education system and add seminars on the environment, safety, and quality to the Nitto University program. (See page 37.) As for equipment, we will form a technical safety assurance team to promote a shift from machines that detect risks to those that stop automatically to ensure safety and establish safety standards for such equipment.

1. Serious industrial accidents: Accidents that have a possibility to leave a disability



Safety operation guidelines translated into English and Chinese

Targets for and Results of Industrial Safety Activities

Major Targets for FY 2005		Results	Targets for FY 2006 (Planned)	
Raise awareness of safety	Introduction of facilities for experiencing pseudo-accidents	○	Introduce automatically-stoppable equipment	Maintenance of the safety features of existing equipment
	Educational activities to raise employees' safety awareness	×		Establishment of safety standards based on a safety confirmation system
Equalize safety level	Support to Group companies	○	Establish "shut-off-culture"	Risk assessments and preliminary examinations of equipment safety
Synchronize safety activities	More information sharing on industrial accidents	○		Acquisition of OHSAS certification (continued)
	Establishment of a system for small-group activities	△	Introduction of facilities for experiencing pseudo-accidents (continued)	
Support and verify site measures	Group activities for higher safety and verification of the measures implemented by sites	○	Equalize safety level	Use and prompt dispatch of safety information (continued)
	Revision of corporate guidelines on the creation of a comfortable workplace	△		Routine safety and compliance activities by Group companies (continued)
				Comprehensive education on quality, the environment, and safety

Information Sharing across the Group

Promoting the Sharing of Information on Industrial Accidents to Prevent the Occurrence of Similar Accidents as a Group

The Nitto Denko Group believes it important for both domestic and overseas Group companies to share information on industrial accidents to prevent the occurrence of similar accidents. Accordingly, to provide opportunities to share such information, we hold an Environment and Safety Sector Global Meeting for all Group companies every year and Group Environment and Safety Committee meetings four times a year for domestic Group companies. In fiscal 2005, we started holding safety promotion meetings for the top managers of Group companies because these managers need to be fully aware of the importance of safety as a premise to promoting safety-related activities throughout the Group. We held this meeting only once in fiscal 2005 but plan to hold it twice a year in and after fiscal 2006. For the sharing of information on a daily basis, we utilize the environment and safety Web page (in both Japanese and English) on our intranet, which was established in fiscal 2003, to share information on labor, fire accidents and so on.

In fiscal 2006, we will launch a new Web-based database to facilitate the prompt sharing of information on industrial accidents, implement more substantial and careful measures that prevent such accidents and the reoccurrence of similar accidents.

Fire Prevention

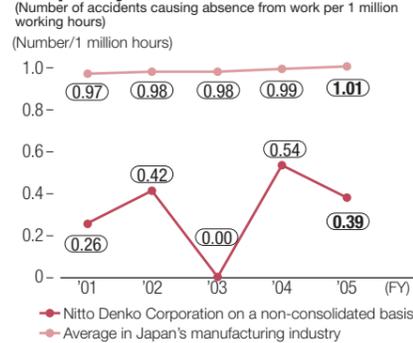
Implementing Fire-Prevention Diagnosis and Study Seminars at Nitto Denko Group in Japan

The Nitto Denko Group uses organic solvents to manufacture adhesives, and because organic solvent vapors can be ignited by electrostatic discharge, the Group takes strict fire prevention measures. In fiscal 2005, the Static Electricity Fire Prevention Team was renamed the Fire Prevention Team to expand its fire prevention target. We made a "fire prevention diagnosis" at four sites and proposed appropriate fire prevention measures. Furthermore, we held three seminars to study cases of



The Fire Prevention Team on patrol

Frequency of Industrial Accidents



fires as well as the ignition mechanism. Also in fiscal 2006, we will continue to educate employees on fire prevention so that they will be more knowledgeable about the subject and possess the skills to put that knowledge to practical use. In fiscal 2005, as in fiscal 2004, we had no serious fire accidents.

Employee Healthcare (Nitto Denko Group in Japan)

Managing the Health of Employees through General and Special Health Checkups

The Nitto Denko Group uses such chemical substances as organic solvents in its manufacturing process, and to ensure the health of employees, particularly those who work in the manufacturing process, the Group created the Rule for Prevention against Health Disorder based on the Group Fundamental Health and Safety Rule and on appropriate laws and regulations. Under these rules, the Group is to implement health and safety measures that are appropriate for the working environment as required.

As for employee healthcare, the Group implements such measures as helping employees improve their lifestyles. Employees aged 40 or older take health checkups every three years, which contributes to the management of their physical health. Nitto Denko Corporation regularly invites doctors and nutritionists to its sites to give lectures on eating habits and lifestyles. In fiscal 2005, the Company held lectures on lifestyle-related diseases and breaking the smoking habit as well as seminars, including a seminar on dumbbell exercises.

Countermeasures against Damage Caused by Asbestos

(Nitto Denko Group in Japan)

Implementing Health Checkups Targeting Employees Engaged in the Manufacture of Products Using Asbestos

The Nitto Denko Group (in Japan) manufactured some products using asbestos in and before 1995. We therefore conducted a survey on those engaged directly or indirectly in the manufacture of these products, including those who had already retired, and asked them to take a health checkup during the period from December 2005 to January 2006. As a result, 125 people went through a medical checkup, and three retirees were diagnosed with a possibility of an asbestos-related disease.

At present, the three retirees have not developed asbestosis, lung cancer, or mesotheliomas, but we will continue to ask them and others who were diagnosed as being healthy in the last medical checkup to keep going for a physical checkup. Moreover, we will conduct a follow-up survey on their health in cooperation with the administration (relevant labor bureaus, labor standards inspection offices, and health centers).

TOPICS

Opening Facilities Where Employees Can Experience Pseudo-Accidents at the Kameyama and Toyohashi Plants

To eliminate industrial accidents, we opened facilities at the Kameyama Plant in April 2005 and Toyohashi Plant in November 2005 where employees can learn about accident risks by experiencing pseudo-accidents.

In recent years, the number of industrial accidents involving employees who have fewer years of service has been on the rise. This is because these employees are inexperienced and lack the ability to predict risks. Additionally, they have fewer opportunities to learn safety skills from experienced employees as a result of the retirement of baby boomers. To train these inexperienced employees so that they may eventually acquire the ability to predict risks and to eliminate industrial accidents, we determined that it was necessary to provide them with the opportunity to virtually experience risks associated with the use of equipment in addition to classroom training.

As part of their educational curriculum, mid-career workers at the Toyohashi Plant take part in virtually experiencing risks at the facilities. In fiscal 2006, other plants will also implement a system in which all employees, both new and experienced, can receive an education on safety. In addition to its own employees, the Toyohashi plant accepts employees from other plants of Nitto Denko Corporation and other Group companies so that they, too, can experience pseudo-accidents. This is one example of the safety promotion measures that the Nitto Denko Group is implementing to prevent industrial accidents.

In fiscal 2006, other plants of Nitto Denko Corporation, including the

Tohoku and Onomichi Plants, will introduce similar facilities where employees will have the chance to virtually experience risks. We are examining the possibility of using a "virtual risk experience wagon" that would visit plants where it would be difficult to establish one of these facilities.

Virtual Experience at the Toyohashi Plant Facilities

Caught in or between objects (involving a V-belt, sheet-like component, and roller of a machine; a pressing machine; a chucking machine and drilling machine); cuts (by a round blade), explosions (caused by solvents and particulates); and experiencing the use of a flame arrester; safety door, Van de Graaff electrostatic generator, and a device that checks antistatic shoes



Virtual experience at the Toyohashi Plant facilities

Relationship with Local Communities

The Nitto Denko Group endeavors to form better relations with local inhabitants through such means as voluntarily participating in local activities, including cleanup activities. We also conduct social support activities, such as donating to disaster victims and providing educational support to students.

Visit by Participants of the 2005 Children's Summit for the Environment

Toyohashi Plant

In July 2005, the 2005 Children's Summit for the Environment was held, mainly at venues at the World Exposition, Aichi, Japan. The summit was organized by the United Nations Environment Programme (UNEP) and attended by children, aged 10 to 14, from 55 countries around the world. In addition to the discussions on the overall theme of "Towards a Sustainable Society," the children visited places blessed with nature as well as environment-conscious factories. Nitto Denko Corporation's Toyohashi Plant was chosen as one of the places they were to visit, and 31 children who participated in the summit visited the plant.



Participants of the 2005 Children's Summit visiting the Toyohashi Plant

Giving Support to the Nursing Care of Children Suffering Cardiac Illness

Nitto Denko Eastern Europe Representative Office (in Slovakia)

Under a tax-related law in Slovakia, companies are required to donate money equivalent to 2% of their tax expense to a specific organization. Nitto Denko Eastern Europe Representative Office (in Slovakia) specified the Foundation of the Children's Cardio Center¹ as the organization to which it would donate money. The office donated 18,623 Slovakian koruny (approximately ¥70,000), or 2% of their tax expense, to the center to help with the care of the children there.

1. Foundation of the Children's Cardio Center: This foundation was established in Slovakia on June 29, 1993, to improve the nursing care of children suffering from cardiac illness.

Cleaning up the Surrounding Areas

Multiple Sites of the Nitto Denko Group

Employees of the Nitto Denko Group regularly clean the roads surrounding their sites.

Additionally, they voluntarily participate in cleanup activities conducted by local communities as members of those communities.



Cleanup activity

Donating Money to Victims of Hurricane Katrina

Americas

Hurricane Katrina struck the southeastern part of the United States in August 2005. Nitto Denko Group companies in the U.S. volunteered to raise money, and they and their employees donated a total of \$33,667 dollars (approximately ¥3.91 million) to the victims of the large hurricane. Also, to help solve the water shortage problems faced by areas devastated by the hurricane, California-based Hydranautics, which manufactures polymer membranes used in filtering water, etc., donated \$20,000 worth (approximately ¥2.32 million) of filtering membranes to be used in water purification facilities.

Other Group companies located outside the region also raised and donated money for the victims.

Accepting Students at Plants

Plants of Nitto Denko Corporation

Each plant of Nitto Denko Corporation accepts students who wish to visit the plant or who wish to gain work experience there. The latter students are asked to wear a plant uniform and actually work alongside employees for a day or several days under the instructions of the plant staff in charge. We hope that their experience at the plant will be useful in their future.



Junior high school students visiting the plant

Donating Savings from Sending Electronic Christmas Cards

Nitto Europe

In Europe, where different languages are spoken, we attribute more importance to communication with stakeholders than in other regions. Nitto Europe used to send traditional paper Christmas cards to its customers and suppliers, but in 2005, it switched to electronic Christmas cards. As a result, the company could save some money, and donated a total of €10,000 (approximately ¥1.46 million) to the Red Cross.



Donation to the Red Cross

GRI Content Index

The Nitto Denko Group is committed to disclosing information on its activities for a sustainable society based on the indicators contained in the *GRI Sustainability Reporting Guidelines*. Although we have not yet obtained sufficient information for all indicators, we will continue our best efforts to collect and disclose all relevant information.

Table Identifying the Location of Each Element in the *GRI Sustainability Reporting Guidelines 2002*

Content		Page
1. Vision and Strategy		P7-11
2. Profile		
Organisational Profile		P3-6
Report Scope		P2, Back cover
Report Profile		P2
3. Governance Structure and Management Systems		
Structure and Governance		P12, P13-14, P15-16
Stakeholder Engagement		P33, P34, P36, P37
Overarching Policies and Management Systems		P12, P15-16, P21, P30, P35, P39
4. GRI Content Index		P42
5. Performance Indicators		
Economic Performance Indicators		
Customers	Core	EC1. Net sales P5-6 EC2. Geographic breakdown of markets P3-4 EC3. Cost of all goods, materials, and services purchased P5-6
Suppliers	Core	EC4. Percentage of contracts that were paid in accordance with agreed terms, excluding agreed penalty arrangements —
Employees	Core	EC5. Total payroll and benefits (including wages, pension, other benefits, and redundancy payments) broken down by country or region —
Providers of Capital	Core	EC6. Distributions to providers of capital broken down by interest on debt and borrowings, and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed P33 EC7. Increase/decrease in retained earnings at end of period — EC8. Total sum of taxes of all types paid broken down by country —
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Biodiversity	Core	EN7. Description of the major impacts on biodiversity associated with activities and/or products and services in terrestrial, fresh-water, and marine environments —
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Compliance	Core	EN16. Incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties, and national, sub-national, regional, and local regulations associated with environmental issues Not applicable
Transport	Additional	EN34. Significant environmental impacts of transportation used for logistical purposes P27
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	Additional	LA14. Evidence of substantial compliance with the ILO Guidelines for Occupational Health Management Systems P39-40 LA15. Description of formal agreements with trade unions or other bona fide employee representatives covering health and safety at work and proportion of the workforce covered by any such agreements P37
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Child Labour	Core	HR6. Description of policy excluding child labour as defined by the ILO Convention 138 and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring G
Forced and Compulsory Labour	Core	HR7. Description of policy to prevent forced and compulsory labour and extent to which this policy is visibly stated and applied as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring G
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Product Responsibility		
Customer Health and Safety	Core	PR1. Description of policy for preserving customer health and safety during use of products and services, and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring P36
	Additional	PR4. Number and type of instances of non-compliance with regulations concerning customer health and safety, including the penalties and fines assessed for these breaches Not applicable PR5. Number of complaints upheld by regulatory or similar official bodies to oversee or regulate the health and safety of products and services Not applicable
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	Additional	PR7. Number and type of instances of non-compliance with regulations concerning product information and labelling, including any penalties or fines assessed for these breaches Not applicable PR8. Description of policy, procedures/management systems, and compliance mechanisms related to customer satisfaction, including results of surveys measuring customer satisfaction P35-36
Advertising	Additional	PR10. Number and types of breaches of advertising and marketing regulations Not applicable
Respect for Privacy	Core	PR3. Description of policy, procedures/management systems, and compliance mechanisms for consumer privacy P16
	Additional	PR11. Number of substantiated complaints regarding breaches of consumer privacy Not applicable

W: Included in the CSR report posted on the Web

G: Included in the Nitto Denko Group Business Conduct Guidelines (announced on its Web site)