

# NITTO DENKO GROUP CSR & Annual Report 2011



# Introduction

The Nitto Denko Group has chosen to amalgamate both our Annual and CSR reports in order to demonstrate our purpose, the contributions that we have made to society and our 2010 business performance.

In a hope to reduce the size of our annual report, we have streamlined its contents. If additional information is required, please refer to our website.

The Nitto Denko Group looks forward to your continued patronage and understanding.

This report relates to the business activities of the 108 companies of the Nitto Denko Group as of 31 March 2011, of which 100 are consolidated subsidiaries and the remaining 7 consist of non-consolidated subsidiaries (accounted for using the equity method) and affiliated companies.

In writing this report, we consulted the Sustainability Reporting Guidelines 2006 issued by the Global Reporting Initiative and used them as a guide for the disclosure of non-financial related information.



## Corporate Vision

### “Creation of New Value”

Guided by “Open, Fair and Best” as the very basis of our actions, Nitto Denko Group will contribute to people’s daily life 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 take on challenges
- Pursue sound business activities and continually earn shareholders trust through appropriate information disclosures and communications
- Always be mindful of corporate social responsibility including sustainability and community relations

## Guiding Principles

**With the pride and resolve of a Nitto Denko Group employee, we will always act with integrity in accordance with “Open, Fair and Best”.**

We will:

1. Provide our customers with the highest quality in products and services
2. Place safety before everything else
3. Always act with a challenging spirit
4. Conduct ourselves with good sense, guided by laws and ethics
5. Keep in mind to help protect the global environment and conserve resources

**Disclaimer** This report contains future projections as well as past and present facts related to Nitto Denko Corporation (non-consolidated) and the Nitto Denko Group (consolidated). These statements are based on information at the time of creation and may not be completely accurate at the time of reading. Please be advised that actual business activity results may differ materially from those described in the projections.

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For further details on matters related to this CSR Report, please refer to Nitto Denko’s website: <http://www.nitto.com/>

Page	Contents	Nitto Denko Website URL
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14	Acquisition of Quality Standard Certification	<a href="http://www.nitto.com/company/environment/env_0202.html">http://www.nitto.com/company/environment/env_0202.html</a>
16	Procurement (Including Policy)	<a href="http://www.nitto.com/company/materials/index.html">http://www.nitto.com/company/materials/index.html</a>
17	Acquisition of Occupational Safety and Health Certification	<a href="http://www.nitto.com/company/environment/env_0203.html">http://www.nitto.com/company/environment/env_0203.html</a>
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26 – 30	Environmental Data	<a href="http://www.nitto.com/company/environment/pdf/env_data_2005-2009.pdf">http://www.nitto.com/company/environment/pdf/env_data_2005-2009.pdf</a>
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Web	GRI Content Index	<a href="http://www.nitto.com/company/environment/2011/gri.html">http://www.nitto.com/company/environment/2011/gri.html</a>



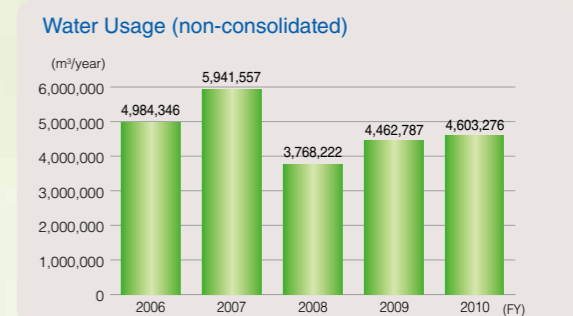
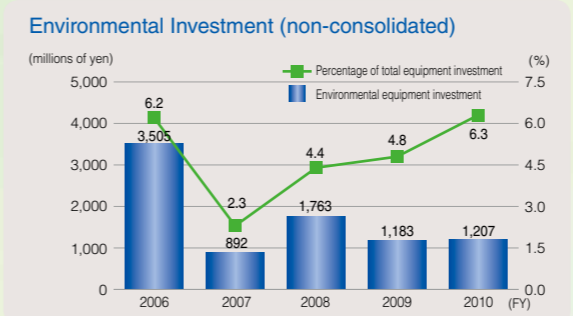
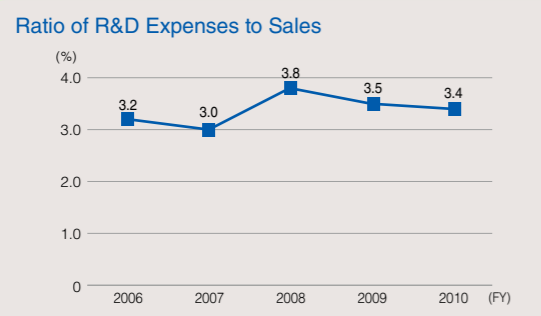
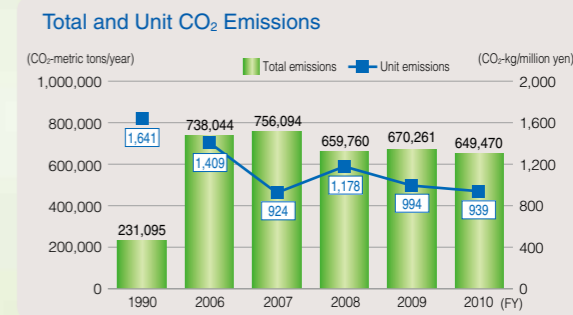
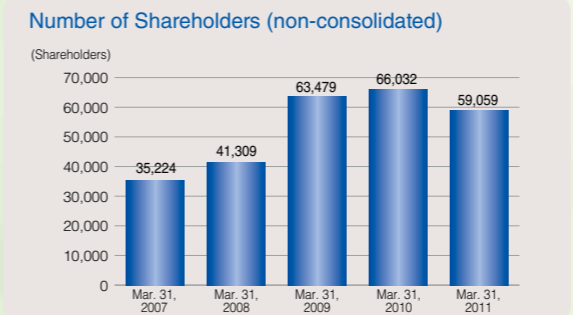
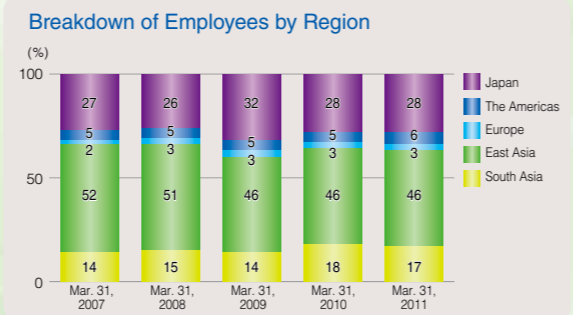
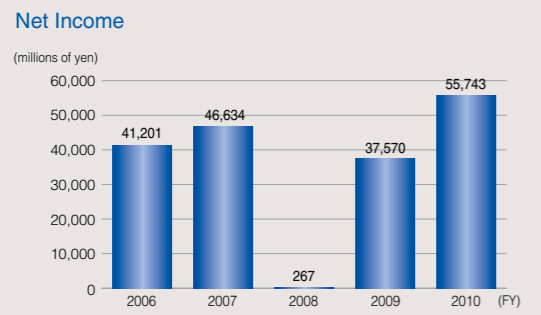
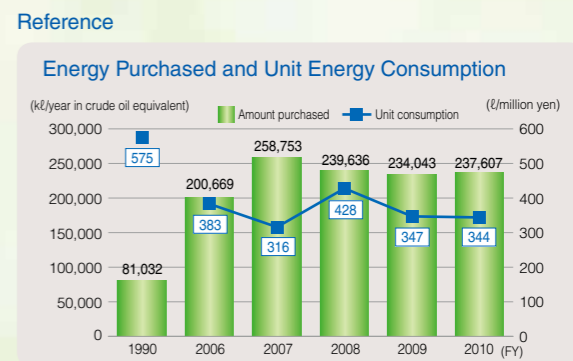
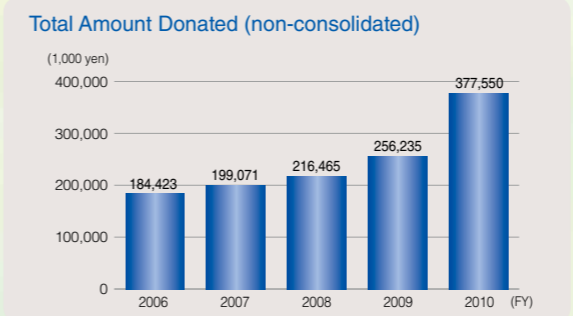
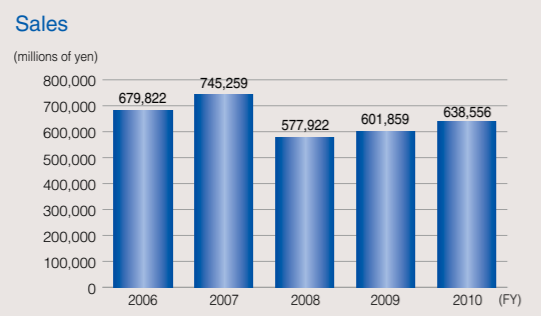
# Highlights

Sales	638,556 million yen
Operating Income	85,245 million yen
Income before Income Taxes	82,950 million yen
Net Income	55,743 million yen
R&D Expenses	21,949 million yen
Capital Investment	26,882 million yen
Depreciation Cost	39,940 million yen

Total Assets	653,961 million yen
Equity	417,606 million yen
ROE	13.9%

Amount per Share	
Net Income per Share	337.36 yen
Dividends per Share	90 yen

Regional Breakdown of Sales	
Japan	218,528 million yen
The Americas	36,116 million yen
Europe	23,245 million yen
Asia & Oceania	360,665 million yen





To Our Stakeholders

### Fiscal 2011 – A “Year to Take on Challenges” – towards New Growth

**In line with foreseeable changes, the Nitto Denko Group will endeavour to build the foundations of an enterprise maintaining sustainable growth by relentlessly pursuing new opportunities.**

Yukio Nagira  
Board Member and President, Nitto Denko Corporation

I would like to express my appreciation for the understanding and patronage that the Nitto Denko Group continues to receive from our shareholders, investors, customers, business partners and local communities. On behalf of the Nitto Denko Group, this report will outline our fiscal 2010 activities and present our key fiscal policies for 2011.

#### A Word on the Great East Japan Earthquake

On behalf of the Nitto Denko Group, I wish to offer heartfelt condolences to those who lost their lives in the Great East Japan Earthquake and express our sincerest sympathy to all sufferers. Some of the Group’s manufacturing, processing and sales bases in the Tohoku district were also affected. Fortunately, we escaped without the loss of life and the direct effects on our performance in fiscal 2010 were minor. Every damaged base was restored and returned to operation in April. In the future, we wish to contribute not only a short-term response to reconstruction demand but also to mid- and long-term recovery and the creation of new industries with our technological capability and creative ability.

#### Business Summary for Fiscal 2010

The business environment throughout fiscal 2010

was on a track to recovery in the first half of the fiscal year through high rates of economic growth in developing countries such as China. However, the rate of recovery slowed from midway through the fiscal year, as economic-stimulus measures in advanced countries were withdrawn and anxiety over political instability in the Middle East increased. Japan’s economy was on the way to recovery in the first half of the fiscal year, whilst it was affected by the appreciation of the yen and the ending of stimulatory economic policies in the second half of the fiscal year. Furthermore, because of the Great East Japan Earthquake, economic prospects became increasingly uncertain.

Given the economic circumstances, the Nitto Denko Group made the transition from the “Year to Endure” in fiscal 2009 to the “Year of Our Offensive”. By means of efficiently supplying materials for products in fields with brisk demand such as flat-screen televisions, smartphones and tablet PCs, we boosted our sales figures. Furthermore, we continued to promote a fundamental reform of cost calculation, composed of three criteria: “Removing (Mu)”; “Reducing (Gen)”; and “Replacing (Dai)”, making efforts to promote improvements in quality and productivity and to realize cost reductions. Overall, sales increased 6.1% to 638.5 billion yen and our operating income rose 52.0% to 85.2 billion yen when compared to the same period in fiscal 2009.

#### Approaches for Fiscal 2011

In fiscal 2011, it is expected that demand in developing countries such as China will continue to improve. However, the outlook for the Japanese economy is increasingly uncertain due to the damage from the earthquake and possible power shortages from the stopping of electric power generation as a result of the Fukushima Shock.

Given such circumstances, we will expand our sales of materials for liquid crystal displays and industrial tapes into business fields in growing markets such as those for LCD televisions, smartphones and tablet PCs. As to our industrial tape business, we will expand our presence around the world more strongly than ever and promote our “Area Niche Top” strategy in order to respond to demand in developing countries such as China and India. Our medical business will venture into the development of business related to nucleic acid medicine with our newly acquired Avecia Biotechnology, Inc. in the US. Our membrane business will start full-scale manufacturing of a new model of seawater desalination membrane for which we accepted an order in fiscal 2010.

Domestic and international social and economic circumstances have been unstable of late and the pace of change in the world has been accelerating. In order to achieve quality global growth, we consider it will become important to spare no effort in preparing for every risk and to identify instantaneously changes in customer needs and markets. With this awareness, we have started a new 2-year medium-term management plan, “Team-NITTO ‘Creation 2012’”, this fiscal year (2011). By means of focusing on the three measures, “business growth”, “quality improvement” and “cultivation of human resources”, we aim to achieve 750 billion yen in sales and 100 billion yen in operating income.

In order to build the foundations of a robust enterprise maintaining sustainable growth into the future, we will relentlessly pursue new opportunities and accelerate the expansion of businesses showing promise of future growth.

#### Profit Allotment Policy

The Nitto Denko Group management considers the return of profits to our stakeholders to be of high-priority. As a manufacturer, in order to keep pace with rapid technological innovation and our need to serve our customers in a timely fashion, it is imperative that we make positive prior investments in research, development and production fields. When determining cash allotments, we comprehensively assess the financial standing of our accounts, profit levels and dividend payout.

The year-end dividend for fiscal 2010 was 50 yen per share, an increase of 10 yen from the interim dividend, whilst the annual dividend amount per share was 90 yen. Forthcoming annual dividends are projected to be 100 yen, an increase of 10 yen, in line with comprehensive calculations regarding future profits and business investment.

#### Corporate Social Responsibility

The corporate vision of the Nitto Denko Group is “Creation of New Value” and we consider this to be our purpose. The guiding principles which we embrace that will assist us actualize our corporate vision are “Open, Fair and Best”.

At a time when we are experiencing a big turning point as a result of the Great East Japan Earthquake, corporate strength, social responsibility and true value are being put to the test. In order to overcome difficulties, corporations are expected not only to contribute to society through their business activities but also to execute their social responsibilities to stakeholders of the Group such as their shareholders, investors, customers, business partners, local communities, employees and their families. In order to execute our social responsibilities, we will sincerely commit to “quality”, “safety”, “challenge”, “compliance” and the “environment”, as reflected by our guiding principles.

The Nitto Denko Group looks forward to your ever-loyal patronage and further guidance.

## Feature: The Great East Japan Earthquake and its Effects on the Nitto Denko Group

On March 11, 2011, a massive magnitude 9.0 earthquake centered on Sanrikuoki occurred. We express our wholehearted sympathy to its victims.

The Nitto Denko Group also suffered damage from the earthquake. Here we report on the damage and our response to it (as of May 17, 2011)

### Damage to and Response of the Nitto Denko Group

#### (1) Establishment of an Integrated Task Force

The Nitto Denko Group established a group-wide integrated task force headed by the CEO, as soon as the earthquake occurred.

Until late April, we kept in touch daily with local task forces of the affected bases. In cooperation with each department, we confirmed the safety of our employees and supported the devastated areas, the daily lives of those living in such areas, and the resumption of production.

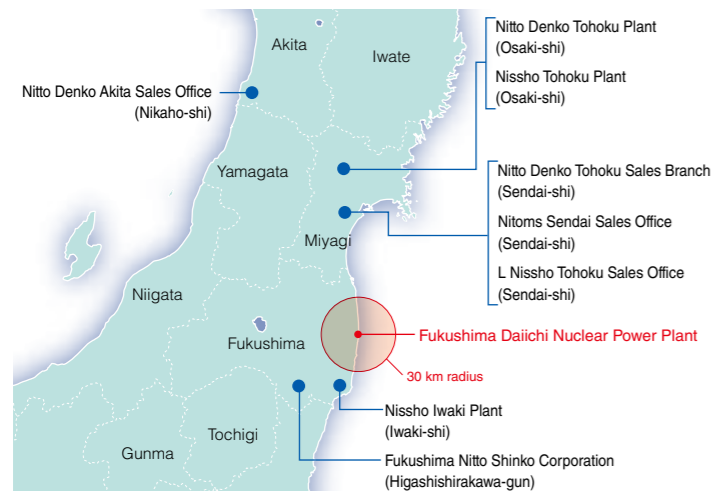
#### (2) Human Impact

By means of a safety confirmation system, we confirmed the safety of employees working and on the road in the Tohoku and Kanto districts where seismic activity was destructive.

#### (3) Extent of Damage to Buildings and Other Facilities

##### ●Tohoku District

In the Tohoku district, there are 8 bases of the Nitto Denko Group. (Refer to map)



The most damaged of these was the Nitto Denko Tohoku Plant located in Osaki-shi, 40 km north of Sendai-shi. Part of the buildings was damaged, but other facilities in the plant were barely affected. However, because of the disruption to essential utilities and subsequent examination of our facilities, we had to stop production for two weeks. On March 24 when utilities were restored, production partially resumed. By mid-April, production had almost recovered to the pre-quake level.

At the Nissho Iwaki Plant, there was no major damage to buildings or other facilities. However, because of the disruption to utilities and the Fukushima crisis\*, production was partially interrupted. On March 22, it was restored.



Damage to the Nitto Denko Tohoku Plant  
Part of the ceiling above the stairs in the building collapsed.



Office of Nitto Denko Tohoku Sales Branch in Sendai-shi  
The cabinet was fixed to the wall but fell because of the violent shaking of the earthquake.



Nissho Iwaki Plant  
The glass in the entrance was broken. (Part covered with film)

\* The Nissho Iwaki Plant and Fukushima Nitto Shinko Corporation are more than 30 km from the Fukushima Daiichi Nuclear Power Plant and in a safe area. That notwithstanding, we took precautions such as limiting employees' coming into the office in order to give the highest priority to their safety.

In other plants, branches and sales offices, there was some damage, such as instances of falling cabinets and TV sets. However, the damage was not so serious and the facilities returned to normal operation as soon as the utilities were restored.

In addition, there was no damage from tsunami.

##### ●Kanto District

In the Kanto district, there was strong shaking, however, we suffered little damage within the Nitto Denko Group.

In the Tokyo area, as public transportation stopped, many employees were not able to return home. In the Nitto Denko Tokyo Sales Branch, approximately 80 employees were forced to stay in the office.

Following that, we were affected by the severing of power lines and planned power outages, but were back to a normal state in April.

#### (4) Effect on the Procurement of Materials

In addition to the disruption to distribution, damage to suppliers was not insignificant. Therefore, there were some materials that became unobtainable. But due to alternative supplies, little inconvenience occurred.

#### (5) Effect of the Fukushima Crisis

Every base of the Nitto Denko Group is located at a distance of more than 30 km from the Fukushima Daiichi Nuclear Power Plant and was not directly affected by the Fukushima crisis. Materials purchased from inside the 80 km exclusion zone are used only after checking for radioactive contamination.

Furthermore, in order to ensure the safety of our customers and employees, we measure radiation levels on a voluntary basis as needed.

### Supportive Activities for Devastated Areas

#### (1) Monetary Donation from the Nitto Denko Group

We donated 100,000,000 yen through the Japanese Red Cross Society for use in relief and reconstruction efforts.

#### (2) Fund-raising by Employees

Employees of the Nitto Denko Group throughout the world made monetary donations. The proceeds from their fund-raising and each matching company donation were donated to the Red Cross Society in each country. The total monetary donation from the whole Group was 63,000,000 yen, half of which was from employees.



Fund-raising activity in Nitto Denko Material (Thailand) Co., Ltd.

Bake sale as one of the fund-raising activities in Hydranautics, U.S.

#### (3) Donation of Goods

We offered the following to devastated areas with the help of public offices and support organizations:

##### ●Disposable body warmers

12,000 disposable body warmers made of our porous film

##### ●Medical tape

2,605 rolls of surgical tape, 912 adhesive bandages and 81 cases of medical dressings (all our products)



Disposable body warmers sent to devastated areas

##### ●Masks and rubbing alcohol

200,000 masks and 150 bottles of rubbing alcohol which had been reserved for an influenza pandemic in Nitto Denko Corporation

##### ●COLOCOLO® (adhesive tape cleaner)

300 COLOCOLO® and 217 packs of spare tape manufactured by Nitoms for cleaning up shelters in response to requests from Watari-cho, Miyagi Prefecture

We are genuine in our desire for the reconstruction of devastated areas as soon as possible and will continue to offer assistance to such areas.

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

**Corporate Governance**

Aiming at sound and transparent management

**<Governance System>**

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

**<Basic Policy>**

To ensure that the organizational system is pro-

active, the Nitto Denko Group has introduced policies based on action principles in each particular field of our business. Some of the areas addressed concern: “basic policy of internal control under corporate law”, “basic policy of internal control relating to financial reporting”, “disclosure policy”, “environmental policy”, “quality policy”, and “basic information security policy”. Not only have we devised these operational policies but we have developed our “Corporate Vision”, “Guiding Principles” and “Business Conduct Guidelines” as common guides for every employee to follow, not only as an employee of the Nitto Denko Group, but also as a member of society.

Through the integration of these common guides and the governance system below, governance becomes effective.

**<Education and Training>**

It is integral that we continue to develop our human

resources if the Nitto Denko Group is to continue to earn societal trust. For this reason, we embrace the ongoing training and professional development of all our employees. We conduct compliance training sessions for core management-level employees and supervisors, as well as board members, every year. Furthermore, we conduct training sessions on CSR and other relevant subject matters for everyone in the Group. We aim to develop and encourage our employees to gain confidence, strong professional ethics and a wealth of good sense.

**<Audits and Internal Control>**

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

**<Risk Management>**

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

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

**<Helpline>**

We have two problem-solving avenues available to employees, one of which is internal and the other being a helpline. Every employee is able to utilize either avenue in situations where the issue concerned relates to the Group. When any violation of the law or corruption is uncovered, the first step undertaken is for the employee to inform and consult their manager. In cases where the situation is not resolvable within the organization, it is then likely to be reported to the helpline information desk.

In fiscal 2010, there were some employees who utilized the helpline. We settle issues while ensuring the protection of informers.

**<Revision of “Business Conduct Guidelines”>**

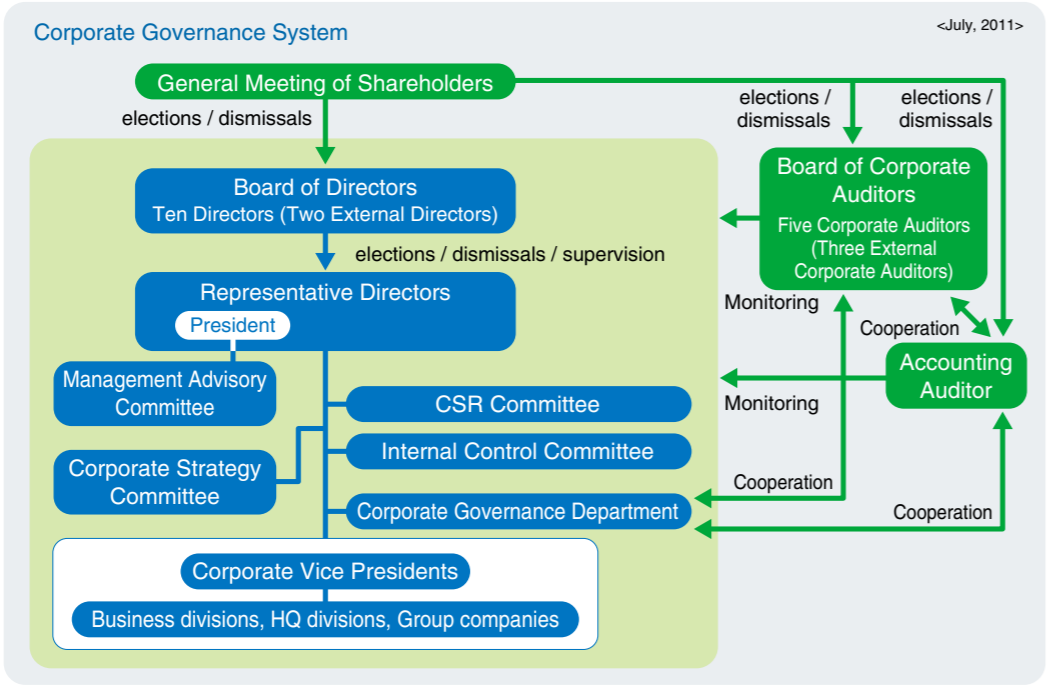
Aiming at an improvement in compliance, the Nitto Denko Group has distributed *the Nitto Denko Group Business Conduct Guidelines* to employees of the Group worldwide.

It has been four years since the first edition was published and our circumstances have changed considerably, so we published a revised edition with added and revised contents which we distributed in March 2011. It has been translated into 14 different languages, including a new Malay version. We refer to it to make sound decisions in the course of our business activities.



**TOPICS**

In January 2011, Nitto Denko Corporation was ranked 14th out of a “Global 100” of the 100 Most Sustainable Corporations in the World because of an appreciation for our approaches to the environment, society and governance.



### **Associated Business Risks Listed in the Financial Report as of March 2011**

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

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

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

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

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

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

The Group manufactures and markets its products throughout the world. Therefore, its business is affected by trends in global politics and economics. Unexpected economic circumstances caused by drastic changes in global politics and fluctuations in exchange rates could have adverse effects on the performance of the Group.

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

It is indispensable for the Group to construct relationships with other companies of superior technology in diverse ways such as through acquisitions and affiliations. If such an acquisition

did not prove to be as profitable as expected, the performance of the Group could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group carries out business not only in Japan, but also overseas. Products of the Group are unique and some of these are patented medicines. Such business is governed by the various laws and regulations of different countries and the Group must abide by them. If these laws and regulations are strengthened or changed significantly, or patents held by the Group revoked, or more seriously, if project approval is revoked due to a perceived temporary deficiency in internal control, the activities of the Group may be impaired, or the Group may incur additional costs which could adversely affect

the performance of the Group.

#### **(12) Lawsuits**

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

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

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

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

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

**QES Audit**

Realizing the construction of a better system through internal evaluation as regards to quality, the environment and safety and subsequent proposals for improvement

In order to ensure that the Nitto Denko Group is audited from the perspective of its stakeholders, the QES Audit Department was created. To meet the goal of "Bringing safety to employees, customers and society", the department audits activities in each base of the Group relating to three key areas: quality, the environment and safety. If any risks (issues that need to be improved) are found, we make improvements together with persons in charge of the sites.

The targets of the audits include the 70 Nitto Denko Group bases concerned with manufacturing and design across Japan, Asia, Oceania, the Americas and Europe. In fiscal 2010 we audited 49 bases. In addition, we carried out follow-up audits to audits done in the previous year on some of the 49 bases. In fiscal 2011 we will visit 54 bases and conduct audits and make subsequent proposals for improvement focusing on quality, the environment and safety.

Any reported risks which are identified along with any suggested countermeasures are passed on to Nitto Denko's directors, corporate auditors and those in charge of each group company.

**Product Risk Management**

Aiming at providing safe and useful products to our customers

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

Section meetings have been set up as described in the chart to the right to address the risk areas identified throughout fiscal 2010. We will continue to implement risk reduction measures throughout fiscal 2011.

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

**(1) Quality Management According to Customer Requests**

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

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

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

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

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

**Product Risk Committee**

Section Meeting of Risk	Actual Achievement of Fiscal 2010
Product Liability	<ul style="list-style-type: none"> <li>Review of contracts with customers</li> <li>Implementation of conclusion of quality assurance agreement</li> </ul>
Chemical Products	<ul style="list-style-type: none"> <li>Response to REACH (including CLP)</li> <li>Response to the chemical substances control laws of each country</li> <li>Preparation of MSDS in accordance with new JIS</li> <li>Review of Nitto Denko Group Green Procurement Standards</li> <li>Review of Nitto Denko Group Regulations on Voluntary Management of Chemicals</li> </ul>
Packaging and Product Description	<ul style="list-style-type: none"> <li>Response to GHS Product Description</li> <li>Response to physical distribution risks</li> </ul>

**Quality and Chemical Substance Management**

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

The Nitto Denko Group's Central Quality Management Department introduced "Advanced Quality Management" in fiscal 2005 to ensure quality to the satisfaction of our customers.

As part of such activities, we have developed a small group activity, "GATE" (Group Activity Toward Excellence) across the whole Nitto Denko Group, both domestically and abroad, aimed at a healthy working environment and quality improvement. By fiscal 2010, it had grown to become a large group activity in which 400 teams from 46 bases participate. The GATE Global Presentation in which selected representative teams from around the world



GATE Global Presentation

present their activities every year was held with much fanfare in fiscal 2010 to mark its 5th anniversary.

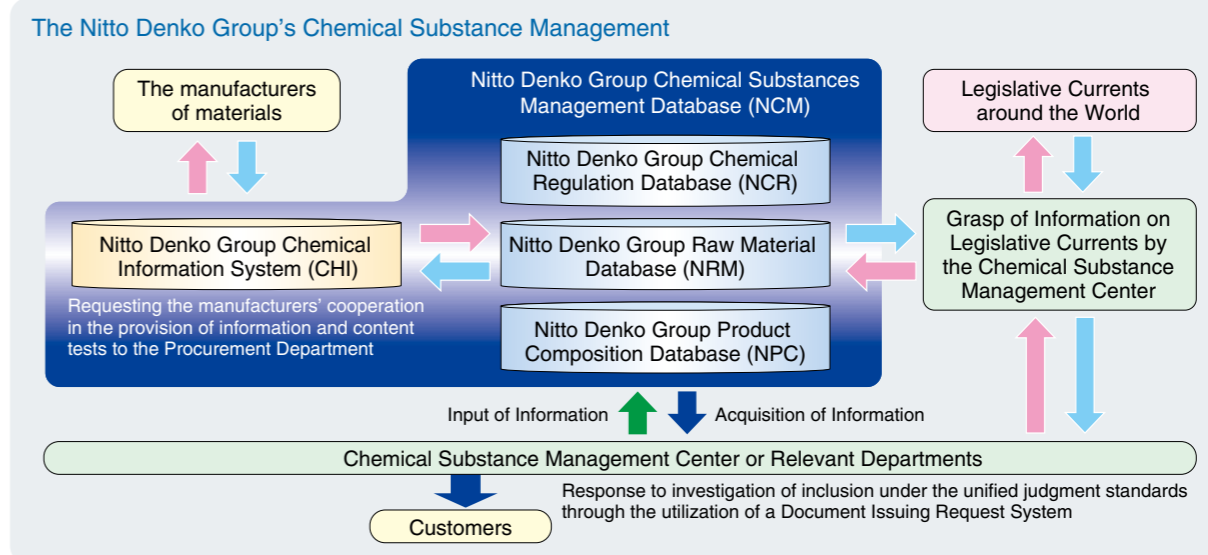
Furthermore, every year since 2005, we have conducted a survey of customers in the form of a questionnaire, or "Customer Satisfaction Assessment". Aiming to enhance customer satisfaction, we continuously improve in line with the findings.

To prevent the use of chemical substances which are harmful to humans and the environment, the Corporate Chemical Substances Department established self-governing regulations regarding the management of chemical substances used. The department continues to control raw materials procurement within the group.

In fiscal 2010, we built a global law-abiding system in line with the revision of the "Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc." in Japan, "Provisions on the Environmental Administration of New Chemical Substances" in China, "Labor Safety and Health Law" in Taiwan, and REACH and CLP in Europe.

Furthermore, in line with a rapid increase in customer inquiries about chemical substances used in our products, we continue to consolidate the systems to allow prompt responses to such inquiries.

We administer chemical substances management within the Nitto Denko Group according to the "Nitto Denko Group Chemical Substances Management Database (NCM)", which we implemented in December 2008.





**Procurement**

**Aiming towards global "Open, Fair and Best" procurement**

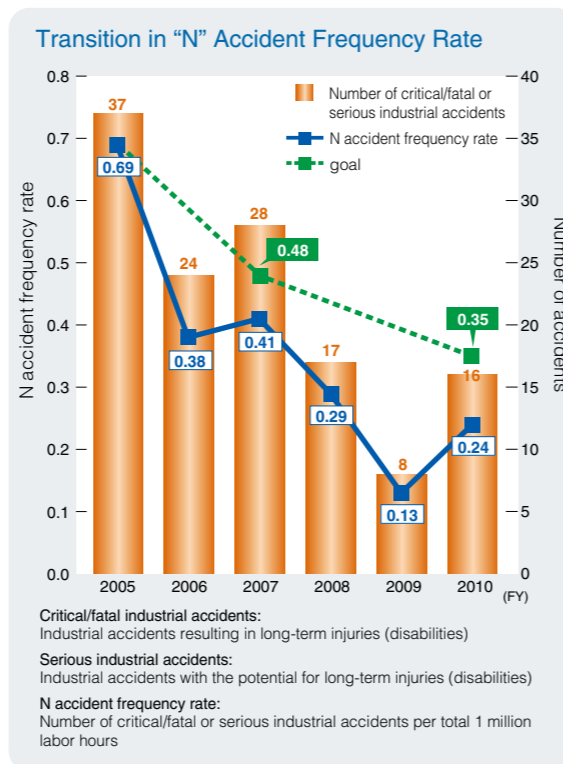
The Nitto Denko Group considers procurement should be done globally in accordance with our spirit of being "Open, Fair and Best". In particular, using CHI (Chemical Information System), which we manage through the Corporate Chemical Substances Department, environmentally-conscious and safe procurement is conducted in a timely manner.

In fiscal 2010, the US government added "Conflict Minerals Regulation" in connection with the conflict in the Republic of Congo and stipulated that every manufacturer should be subject to US regulation and report on the source of specific metals used in electronic items. We are implementing a response to this directive.

**Safety Measures for Employees**

**Making Safety a Primary Concern**

With the Nitto Denko Group's guiding principle of "Place safety before everything else" in mind, we have continued to take precautions to prevent accidents, aiming to create and maintain a working environment in which every employee can work in safety free from undue worry.



**(1) Occurrence of Accidents**

The Nitto Denko Group has continued to implement safety activities in order to achieve our Group's goal of "Zero Critical/Fatal or Serious Industrial Accidents". For a long period of time the occurrence of such accidents declined. However, in fiscal 2010 the number of critical/fatal and serious accidents increased on the previous year. There were certain deficiencies in the safety procedures at some bases, especially in their preventive measures. In order to solve these problems, we are building workplaces in a unified manner across the whole Group, where employees can work in safety in line with constantly developing preventive measures and safety education.

**(2) Preventing Accidents Involving Chemical Substances**

In fiscal 2009, an accident occurred at one of our group companies in China and an employee died after inhaling a chemical substance. To prevent such an accident from occurring again, we have established a method of "Chemical Risk Assessment" in which we assess the hazardous nature of chemical substances. In the future, we will introduce this method to every workplace of the Nitto Denko Group to further enhance safety.

**■ Certification**

In May, 2010, Shanghai Nitto Optical Co., Ltd. obtained OHSAS18001:2007.

**Personnel Matters and the Cultivation of Human Resources**

**The cultivation of employees playing globally-active roles**

It is human resources that drive business growth and quality improvement. The Nitto Denko Group aims not only to encourage its human resources throughout the world, regardless of their nationality, culture and language, to spare no effort in striving without fear of change, but to give them full play. To that end, we continuously provide suitable education.

**(1) Nitto University**

Nitto University opened in 2000 and is an educational program (including its predecessor, Innovation School) which seeks to cultivate managerial leaders. Approximately 600 employees have graduated in the past decade and 9 graduates have sat on the board or been vice president (as of July, 2011).

In the past, some participants were from abroad, but the program was convened only in Japan and lectures were given only in Japanese. From fiscal 2011 the program will be held globally; it will be held overseas and in English. The new program was drawn up in fiscal 2010.

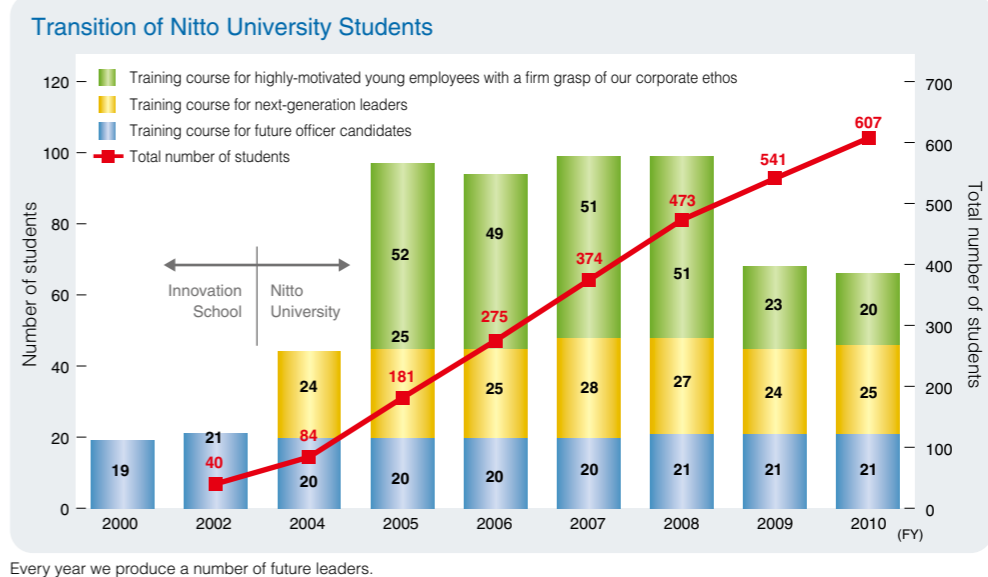
**TOPICS Outside Honor**

**Nitto Denko Shiga Plant Receives Award from Ministry of Health, Labor and Welfare**

The Shiga Plant recognizes the importance of industrial health and safety and has implemented management of health and safety in a planned and consistent way. Consequently, it has witnessed no accidents since March 1986. Underscoring the significance of this achievement, the plant received an Award from Ministry of Health, Labor and Welfare for an excellent healthy and safe workplace on July 1, 2010.

**Nitto Denko Toyohashi Plant Receives Award from Labor Standards Bureau**

The Toyohashi Plant recognizes the importance of total safety and has made a united effort to strive to improve total safety. On September 16, 2010, the plant exceeded 8,100,000 man-hours of operation with no accidents.



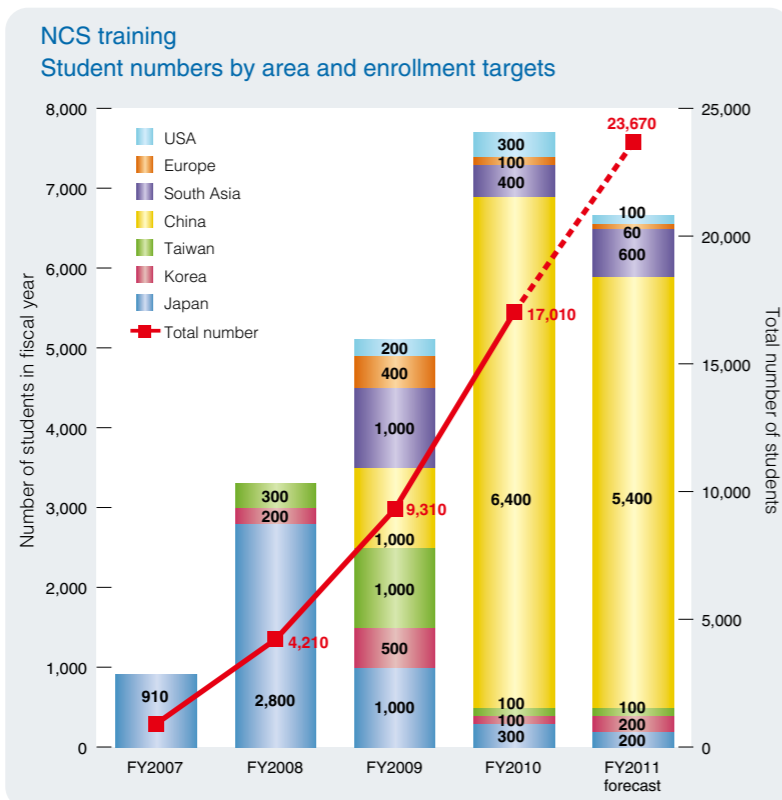
## (2) General Training (NCS\*) \*Nitto Denko Group Cultivation System

We give training in subjects necessary for all employees of the Nitto Denko Group, using common textbooks translated into several languages. Instructors are employees of each group company.

NCS training began in Japan in fiscal 2007 and was developed for each country in fiscal 2010. We will continue this activity and aim for improvement in the quality of our business through the cultivation of our human resources in fiscal 2011.



Training at Nissho Hungary Precision KFT.



We are expanding rapidly overseas.

## (3) Dispatching Trainees Overseas

Dispatching Trainees Overseas is a training system for young employees who will actively work globally from a medium- and long-term standpoint in the future.

Dispatching Trainees Overseas began in fiscal 2004 and a total of 48 employees have been sent to overseas affiliated companies to date. Since fiscal 2010, in order to achieve further results, we have

enhanced language education. We aim at improving our employees' communication ability and at adjusting them to different cultures by having them experience homestays in English-speaking countries and developing countries. We implement the cultivation of human resources to develop employees who are able to work well by adjusting themselves to global business developments. At present 14 employees are on such a program learning at overseas group companies.

## Performance of Fiscal 2010 and Future Prospects

Electronic Products Are Strong, While Tape Business Drives Globalization.

### Optical Business

Throughout fiscal 2010 our optical business ran smoothly as demand for LCD televisions remained strong due to the eco point system in Japan and the economic stimulus measures initiated by many countries. In addition to the popularization of LCD televisions, which use LED-backlighting (LED: semiconductors called light-emitting diodes), sales of innovative 3-dimensional LCD televisions began. Our optical films are utilized in both products and we continue to contribute to the evolution of LCD televisions.

The market for mobile devices such as multifunctional smartphones expanded. In line with the growing size of smartphone screens compared to those of traditional mobile phones, high-definition liquid crystal panels became more commonly installed. Our optical film technology, cultivated in LCD televisions, was utilized in this field and we were able to contribute to demand for smartphones.



Transparent conductive film ELECRYSTA™

As touch panels are installed on many smartphones, the demand for our ELECRYSTA™ transparent conductive film increased greatly. In the future, it is expected that our ELECRYSTA™ will be installed on many other mobile devices such as tablet PCs, too. The market for touch panels, which are the interface through which information is entered, is expected to grow progressively larger. We will make ELECRYSTA™ an indispensable material in such fields.

If the LCD market reaches its maturity in the not-so-distant future, we will pour our energy into further improvements and innovative product development, aiming to be a business which continuously produces stable and enduring profits.

### Electronics Business

Our printed circuit materials, "NITOFLEX®", a flexible printed circuit board and "CISFLEX®", a thin-film metal base board with high resolution circuit, performed well. Both of these products are installed on hard disc drives (HDDs) used in personal computers. In the future, hard disc drives are expected to have increasingly high-capacity as memory devices used for storing graphics and audio data. Our super-fine wiring technology will contribute to such evolution.

In regards to semiconductor encapsulating materials, the markets for products such as environment-responsive resin saw a mild recovery.

In electronic processing materials, sales of tape applicators remained strong because of a recovery in capital investment in semiconductors. Along with recovery in the semiconductor market, demand for tapes used in semiconductor production was strong. Production in the semiconductor industry is expected to expand in Asian countries. We will pour our efforts into the further streamlining of existing products and the development of new products in growing fields in response to our customers' needs.



"CISFLEX®", our thin-film metal base board with high resolution circuit

## Medical Business

A base producing transdermal drug delivery patches in Osaki-shi, Miyagi Prefecture was affected by the Great East Japan Earthquake and was forced to shut down operations. However, it has already been restored and restarted operations. The interruption to production was not significant. On the other hand, one of the Group companies in the US shut down production voluntarily, partly aiming at concentrating on activities to improve quality control. As a result, sales were somewhat weak.

However, our medical business is closely linked to "Fine" (life science) which is one of our three key values: "Green, Clean and Fine". In order to achieve further growth in the future, we are actively

developing this area of our business.

Domestically, in April 2010, we signed an agreement with Kowa Company, Ltd. for the joint development of transdermal drug delivery patches based on the medicinal compound donepezil hydrochloride. By utilizing our drug delivery patch technology, we will co-develop an inhibitor of the symptoms of Alzheimer's disease.

Overseas, through Nitto Americas, Inc., our headquarters in the US, we acquired Avecia Biotechnology, Inc. of Massachusetts in February 2011. Avecia Biotechnology, Inc. is a leader in the manufacture of nucleic acid medicine on consignment. Synergy effects from the acquisition are anticipated.

### Avecia Biotechnology, Inc. Joins Nitto Denko Group — Strengthens Nucleic Acid Drug Manufacturing Capabilities —

On February 2, 2011, Nitto Denko acquired the US company Avecia Biotechnology, Inc. (ABI). The company will act as the Medical Division's primary facility in the manufacture of oligonucleotide drugs.

Founded in Milford, Massachusetts in 1999, ABI accounts for more than 50% of the global contract manufacturing of oligonucleotide drugs and has extensive experience in analysis and quality control in this field.

The Nitto Denko Group has been active in oligonucleotide drug-related R&D for some years and produces a solid polymer support (NittoPhase®HL) for the synthesis of oligonucleotide drugs at its Tohoku Plant in Miyagi Prefecture, which is then marketed throughout the world.



ABI products



ABI Headquarters

Acquisition of ABI will enable us to expand our business in the emerging oligonucleotide drug market, and it is our hope that we will be able to bring to market oligonucleotide drugs that will benefit many people throughout the world.

#### <General Overview of ABI>

- Company Name: Avecia Biotechnology, Inc.
- Description of Business: Manufacture of oligonucleotide drugs
- Location: Milford, Massachusetts, USA

## Industrial Tape Business

Due to the increase in demand for flat panel displays and mobile devices such as smartphones, sales of surface protective products for optical elements and sealing materials were strong. As production volume increased on the back of an increase in demand for these mobile devices, sales of adhesive tapes for electronic components remained strong. Sales of devices with touch panels increased and as a result,

transparent double-coated adhesive tapes were also strong.

With regards to materials produced for the automobile industry, in spite of the impact from the Great East Japan Earthquake at the end of the fiscal year, we were able to respond to an increase in production overseas. A demand for materials utilized in noise reduction and energy conservation as well as electrical insulating materials for electric vehicles with the potential for growth has emerged and we look forward to the new opportunities that presents.

### Area Niche Top Strategy

The Nitto Denko Group has been developing since the late 1960's, expanding its business overseas, and driving globalization. In the future, developing countries such as China and India as well as advanced countries such as Europe and the US will very likely be central to economic growth. In order to respond to such a situation, we will pour our efforts into creating not only Global Niche Top products for globally integrated markets but also Area Niche Top products by grasping the needs of each area in developing countries.

With Niche Top strategies including both Global Niche and Area Niche, we will develop the second stage of globalization. It is important for us to differentiate ourselves from other companies when we create Niche Top products. We will conduct differentiation from other companies from the perspective of supply-chain management in aspects such as product function, value of supply, intellectual property, standardization and method of supply.

### Establishment of Our First Overseas Affiliated Company in Turkey

In Turkey high economic growth centering around automobile, home electrical appliance and metallic plate industries shows promise. The amount of foreign investment in Turkey is increasing yearly. Aiming at pushing ahead with further expansion of our business in developing countries with market potential, we established an overseas subsidiary in Turkey for the first time in fiscal 2010.



#### <Overview of the Company>

- Company Name: Nitto Denko Turkey Tape Materials Industry and Trade, Limited
- Description of Business: Finish processing and sales of tape related products and automotive parts
- Established: April, 2010
- Location: Tuzla (east of Istanbul)
- Capital: 120,000,000 yen
- Number of Employees: 9 (Start-up)

### Nitto Denko's Adhesive Tape Contributes to Success of Hayabusa Asteroid Probe

The Hayabusa Asteroid Probe launched from Japan on May 9, 2003 returned safely to Earth on June 13, 2010 after a seven-year space journey.

EM Series film capacitors produced by Nichikon Corporation were used on the Hayabusa. Such capacitors, which contributed to the landing on the Itokawa asteroid, required greater reliability and lighter weight than conventional products. Highly rated for its heat resistance and high insulation properties, Nitto Denko's polyester adhesive tape No.3161-F (now No.3161FR2) was adopted as a material for use on the Hayabusa.

In the future, we will continue to develop high-integrity products that contribute to space-related business.



Polyester adhesive tape No.3161FR2

Turning to architectural materials, infrastructure and equipment investment, in line with a recovery in domestic demand, overseas demand took an upturn. As a result, sales of protection materials for construction materials, waterproof tape and curing tape for architectural materials, general-purpose double-faced tape for industrial use and products for fluorine resin were strong.

Our tape business has been growing globally by expanding into developing countries where high growth is expected. Since fiscal 2005, we have established thirteen companies in developing countries, including one in India in fiscal 2009, and another in Turkey in fiscal 2010. One of our growth strategies in developing countries is "Area Niche Top". We will expand our business by rapidly introducing products of the appropriate quality and price required to the local markets we enter.

## Membrane Business

In fiscal 2010, sales to China and North America of reverse osmosis membranes for general industry were strong and production recovered due to orders for seawater desalination plants. One such order was for our latest model reverse osmosis membrane for a large-sized desalination plant which is now being constructed in the state of Victoria, Australia and will supply 440,000 metric tons of water a day.

The shortage of water in the world is becoming a serious problem and with it the water treatment market is expanding greatly.

In the future, we will improve our pre-treatment technology in microfiltration membranes, ultrafiltration membranes and membrane bioreactor (MBR) processes, as well as in reverse osmosis membranes for use in growing fields such as the desalination of seawater and the recycling of wastewater. In addition, by means of developing our maintenance and repair service business, we will focus on offering total solutions to our customers in water treatment.

### Presentation of Our Water Filtration Demonstration Equipment at Expo 2010 Shanghai

At the Expo 2010 Shanghai China (May to October, 2010), there was an "Urban Best Practice Area" where representative cities from around the world presented themselves as "cities". From Japan, the Osaka Pavilion participated. The basic theme of the Osaka Pavilion presentation was an "Advanced Environment City – The Challenge of a Water Metropolis, Osaka". In China, the shortage of water that is accompanying the increase in population and the expansion of the economy is becoming a serious problem. Therefore, we presented our hands-on water filtration demonstration equipment using our reverse osmosis membranes.

Our water filtration demonstration equipment, which showed how seawater or wastewater is converted to drinking water using filtration membranes, was warmly appreciated, attracting great interest. The Osaka Pavilion received a favorable reception, welcoming more than 1,700,000 visitors.



## Nitto Denko Group: focusing on "Green, Clean and Fine" to research and develop products that are friendly to the global environment and contribute to human health and amenity

### Development of Gecko Tape Using Carbon Nanotubes

Creating a new adhesive technology based on biomimicry research

In the last few years, attention has focused on biomimicry technology, which applies technologies inspired by the natural world. The gecko tape which Nitto Denko has developed jointly with Professor Yoshikazu Nakayama of Osaka University is one example.

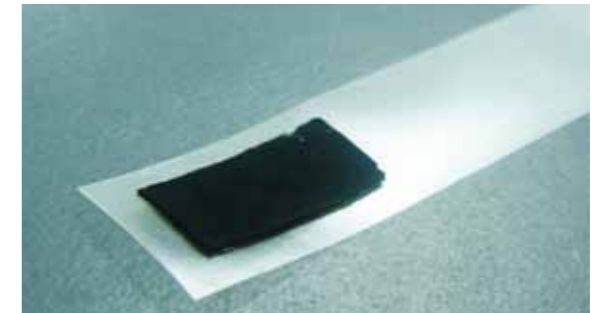
The gecko is a reptile able to crawl without difficulty even up and down window panes of completely smooth glass despite having no suction cups or sticky substance on



Gecko

its feet. Its secret lies in the fine hairs which grow abundantly on its toepads. Each of these hairs establishes close contact with the surface of the wall or ceiling, even where it is uneven. By thus eliminating the intervening space, the hairs produce a high adhesive strength based on intermolecular force, which can be easily broken by altering the angle between the hair and the wall surface, allowing the gecko to walk across the wall.

Nitto Denko has reproduced this gecko hair artificially using carbon nanotubes to create a tape which uses a mechanism quite different to that of conventional adhesives to provide strong adhesion



Gecko tape; black area is 'hair' made of carbon nanotubes.

and easy de-adhesion. The aim is commercialization of an adhesive product which avoids soiling the adherend and provides high adhesive strength and resistance to high temperatures.

## TOPICS

### Gecko tape featured in 'Smart-Eco' exhibition on natural technologies and sustainable lifestyles

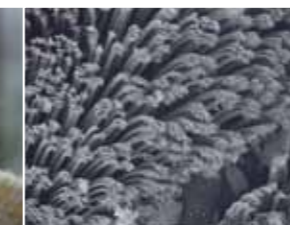
Nitto Denko also participated in an exhibition held at the National Museum of Nature and Science at Ueno in Tokyo from October 26, 2010, to February 6, 2011, exploring natural technologies, which imitate nature, and human lifestyles.

The exhibition focused on natural technologies, which are inspired by various insights from the world of nature and living creatures, and sustainable lifestyles, which reduce the burden on the environment.

The gecko tape outlined above was included in the exhibition and attracted fascinated attention from many visitors, especially elementary school children.



Toepads of a gecko



Magnification of toepads shows an abundant growth of fine hairs

## Further Improvement of New Organic Polymer-type Hologram Display and Renewed Publication in *Nature*

Using our novel organic photorefractive material, which has the world's highest level of diffraction efficiency and a high writing speed, US-based Nitto Denko Technical Corporation (NDT) has succeeded in developing an improved rewritable hologram display with outstanding image persistency. The project was carried out in collaboration with a research group led by Professor Nasser Peyghambarian of the University of Arizona.

In February 2008, detailed presentations of the related system, methods, and other aspects were published in several scientific journals including *Nature* – one of the world's leading scientific journals – along with various news media including CNN. Following further progress and improvements, another paper was published in the November 2010 issue of *Nature*, attracting further interest.

### 1. Features of the Technology

#### (1) Refreshable three-dimensional moving images through improved rewritability

The new type of hologram is a three-dimensional image recorded on a film or other medium in three-dimensional form. Holograms are already in use on credit cards, bank notes, etc. to prevent counterfeiting. When viewed from different angles, the image pattern undergoes subtle changes enabling the human eye to perceive it as a three-dimensional image (Figure 1).

Compared to other three-dimensional image display methods, the hologram gives a more natural effect and is less fatiguing on the human eye.

However, conventional hologram recording materials were not rewritable and were therefore unable to reproduce continuous moving images. NDT therefore worked on the development of an organic polymer

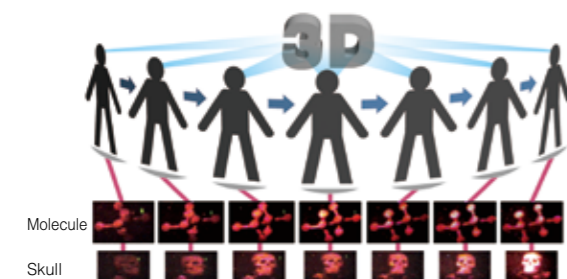


Figure 1: Rewritable hologram image created using the newly developed system. By combining images viewed from different angles, the image is made to appear as 3D.

system which could be manufactured at low cost and coated easily onto a glass plate or plastic substrate. Then, in collaboration with the University of Arizona, NDT focused on the photorefractive method and succeeded in making the image refreshable by enhancing the material and optimizing fabrication.

Since 2008, the refreshing speed in particular has been drastically increased; for instance, what used to take three minutes on a 6-inch by 6-inch display can now be rewritten in a matter of seconds. Further studies are now in progress aiming to improve speed by more than a factor of ten to match the video rate.

#### (2) Enabling color holograms

The previous photorefractive method showed red images only. However, the present project succeeded in realizing full color by developing new material chemical components and introducing special device structures.

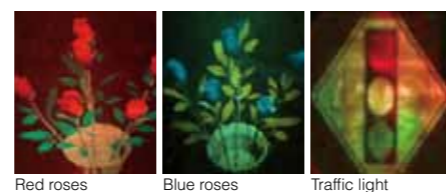


Figure 2: Color images. Various colors can now be displayed.

#### (3) The world's largest display size

The display size as of 2008 was limited to 6" x 4". By utilizing our technological strength and polymer processing technology know-how, the Nitto Denko Group has successfully developed a flawless, large-sized three-dimensional holographic display with good uniformity. The display size of 12" x 12" (Figure 3), an enlargement of nearly ten times, is the world's biggest rewritable 3D photopolymer material-based sample to date. The Nitto Denko Group is pursuing R&D efforts to achieve a further tenfold increase in speed with the aim of equaling video refreshing speed.



Figure 3: Size of newly developed display medium (yellow section)

#### (4) Enables three-dimensional images not only in the horizontal but also the vertical plane

Almost all existing three-dimensional display devices, such as three-dimensional televisions, employ a display method wherein two slightly different versions of an image are separately projected in a stripe pattern for the left and right human eyes. Human eyes

can recognize the "makebelieve" three-dimensional display only when the projected image is viewed horizontally. When the human head moves vertically, the projection cannot be perceived as three-dimensional. With the newly developed display method, the output can be viewed from both horizontal and vertical angles, which gives a more natural image perception. Unlike other conventional methods, the new method projects an image that human eyes can perceive as three-dimensional even when they are looking up from a lying position. The novel display technology, which is known as a full parallax, may lead to the realization of a further enhanced state of three-dimensional imaging in the future.

### 2. Future Prospects for Development

The newly developed photorefractive three-dimensional image method can be applied in areas including image recognition, medical imaging, and optical communication materials. For instance it can be applied to creating three-dimensional maps, three-dimensional rendering of the surgical site during operations, and three-dimensional modeling for mock-up designs for vehicles and machines.

The ultimate goal is a three-dimensional television able to project a three-dimensional image that makes it look as if the object itself is protruding from the screen in front of our eyes. The article in the recent issue of *Nature* also reports the possibility of remote three-dimensional videoconferencing (3D tele-presence). Going forward, efforts will be intensively directed toward development of a range of devices.

## Nitto Denko to Develop siRNA Drugs with US Company Quark Pharmaceuticals, Inc.

### Aiming for the swift commercialization of drugs for fibrotic diseases

On July 4, 2010, Nitto Denko concluded a contract with US pharmaceutical company Quark Pharmaceuticals, Inc. (Quark) for the development of therapeutic drugs for treating fibrotic diseases such as cirrhosis of the liver.

### 1. Fusion of Global Technologies to Realize New Therapeutic Drugs

siRNA (small interfering RNA) is known to

control the expression of target genes using ribonucleic acid (RNA) with specific sequences. When this siRNA is delivered to certain cells, it inhibits the production of molecules that cause disease. As such it is receiving much attention as a revolutionary new way of potentially treating diseases that up until now have been said to be incurable.

Since 2008, Nitto Denko has been working with Professor Yoshiro Niitsu of Sapporo Medical University, who developed technology for treating fibrotic diseases such as liver cirrhosis, to design drugs, verify therapeutic efficacy and clarify the therapeutic mechanism.

The company entered into the agreement with Quark, which has a proven track record in siRNA drug development, in order to push ahead with the development of therapeutic drugs for treating fibrotic diseases such as liver cirrhosis.

By combining our proprietary drug delivery technology and fibrotic disease treatment concept with Quark's hands-on know-how, Nitto Denko Group hopes to file an Investigational New Drug (IND) application with the US Food and Drug Administration (FDA) by 2012 and to eventually develop treatments to help the many people throughout the world who suffer from these conditions.

### 2. About Quark Pharmaceuticals, Inc.

Established in 1993 and with its headquarters in Fremont, California, Quark has a research and development facility in Israel and a staff of approximately 100.

During its early years it accumulated an extensive range of genetic information concerning a wide range of conditions and during the 2000s commenced drug discovery activities. The company currently has five clinical trials in the pipeline for conditions such as age-related macular degeneration, diabetic macular edema and acute renal failure, and is one of the world's leading companies in the field of siRNA drug development.



The project team consisting of Prof. Niitsu and staff from Nitto Denko Group and Quark Pharmaceuticals, Inc.

## Passing the Beautiful Earth and Local Environment onto the Next Generation

In conformity with our corporate vision, our voluntary environmental action plans and regulations, the Nitto Denko Group implements environmental management to protect the local and global environment through two approaches:

A “reduction of environmental load associated with our business activities” and the “development of business conducive to environmental conservation.”

### Concept of Environmental Management

We believe that we have a responsibility to minimize the environmental load resulting from our business activities. Therefore, by means of assessing the relationship between the added value created from corporate activities and environmental load, we implement measures such as a reduction in energy used in production and industrial waste, aiming to reduce environmental load.

We promote the development of environmentally-conscious products in order for our products and services to realize an overall reduction in the environmental load of our customers' production processes.

### Environmental Management Index

The Nitto Denko Group is implementing environmental load reduction activities aimed primarily at the prevention of global warming. An example of this is the establishment of a unique environmental efficiency index and its target values.

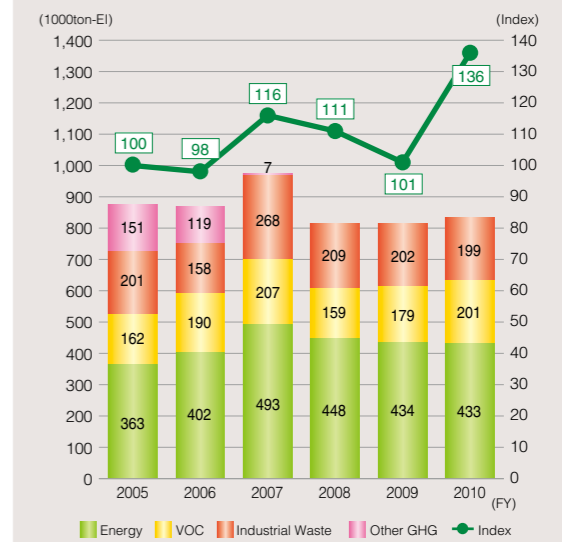
The “Environmental Management Index” (environmental load value-added productivity) set by the Nitto Denko Group is an index which indicates the environmental load from corporate activities vis-à-vis the added value created from corporate activities. It is obtained by dividing the added value\*1 created from corporate activities by environmental load\*2 entailed in the creation of the added value. By using the fiscal 2005 environmental

load level as a benchmark, we aim to double our environmental efficiency by fiscal 2015.

As fiscal 2010 was the halfway point to fiscal 2015, we put special effort into reducing the environmental load by means of setting an aggressive goal. Although the amount of environmental load remained at the same level as that of fiscal 2009, the added value created improved and the relative index was 136 as a result. In order to realize the target value for fiscal 2015, we will improve development of more energy-efficient products and processes as well as products manufactured without using organic solvents, in line with continuing existing activities.

In addition, we will increase our efforts to create high value-added products.

Environmental Load and Environmental Management Index (consolidated)



Environmental Management Index\* (consolidated)

FY	2005	2006	2007	2008	2009	2010
Added Value (million yen)	318,098	310,714	410,835	328,264	298,890	409,971
Environmental Load (ton-EI)	876,846	869,820	975,421	815,973	814,210	832,488
Index	0.363	0.357	0.421	0.402	0.367	0.492
Relative Index	100	98	116	111	101	136

\*Added Value / Environmental load

\*1: Value calculated by subtracting cost of materials, outside order expenses and energy costs from sales  
 \*2: A unique unit utilized by the Nitto Denko Group, indicating environmental load, into which we convert energy purchased, industrial waste generated, VOC purchased and the like through the use of a coefficient. (unit:ton-EI)

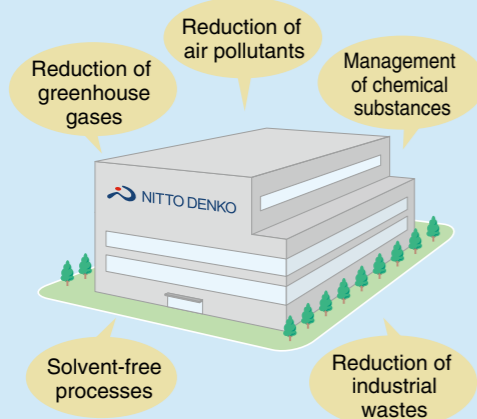
### Certification

In fiscal 2010, the following group companies obtained ISO 14001:2004.

April 2010	Nissho Precision (Malaysia) Sdn. Bhd. Penang Factory
June 2010	Shanghai Nitto Optical Co., Ltd.
February 2011	Nitto Denko Automotive, Virginia, Inc.

### Reduction of Global Environmental Load Associated with Business Activities

Minimizing global environmental load generated from our business activities is our responsibility



### Development of Businesses Contributing to the Global Environment

Reduction of global environmental load through our customers' using Nitto Denko Group products

<Illustrations>

Contributions towards Energy Savings over Existing Methods and Products



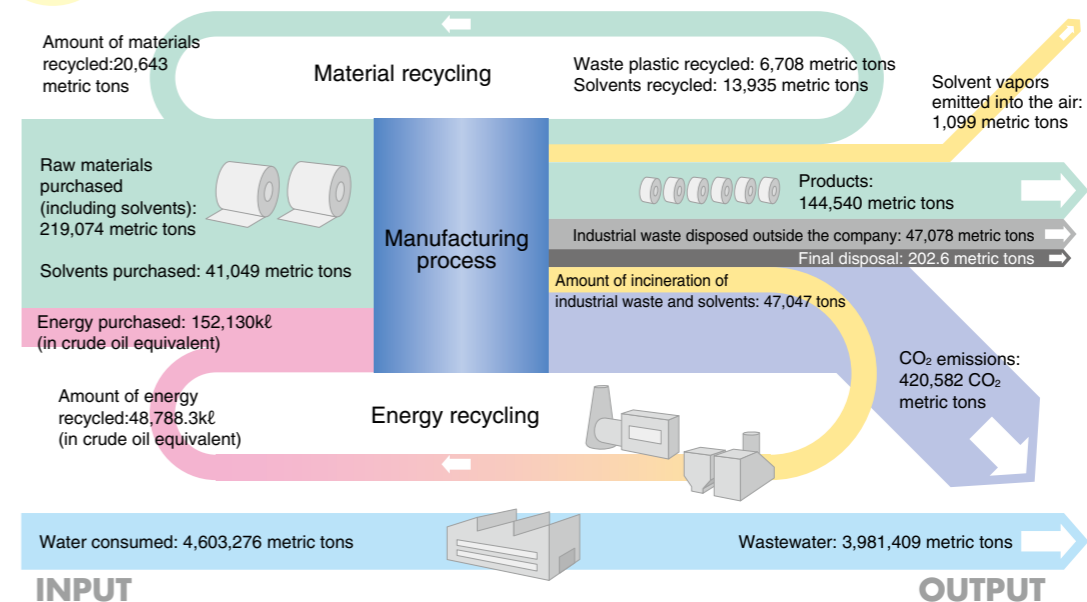
Reverse Osmosis Membrane Module

Contributing to Weight Reduction of Automobiles through Damping and Reinforcement



Damping Materials  
Steel Plate Reinforcing Materials

### Material Flows in Business Activities (non-consolidated)

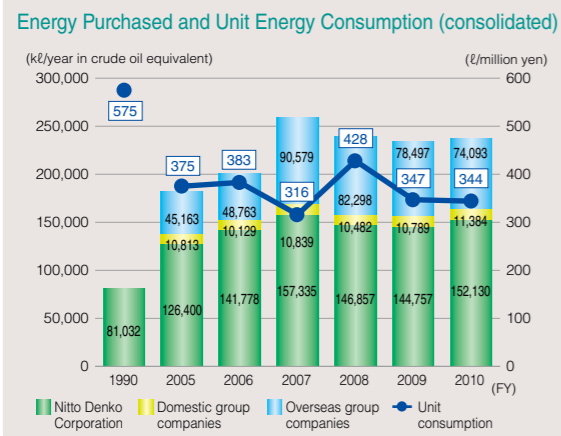
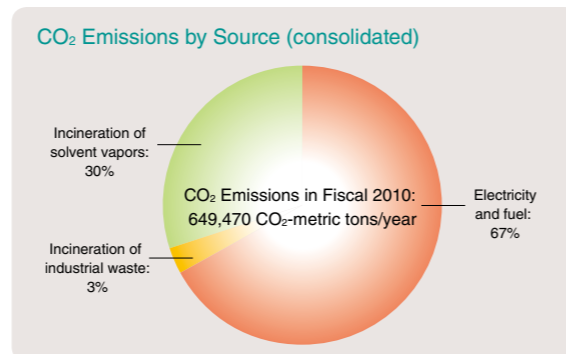
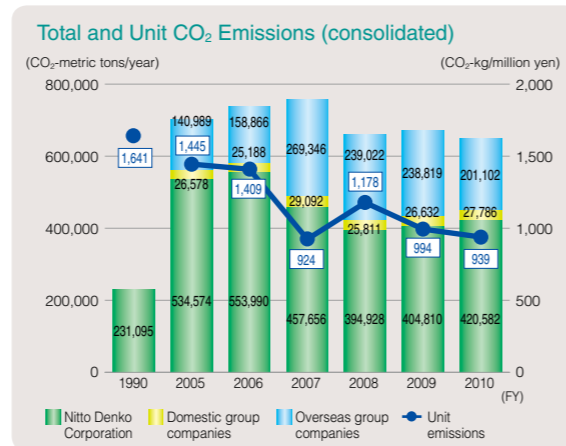


## Environmental Performance Data – Working to prevent global warming –

The Nitto Denko Group is taking steps to reduce CO<sub>2</sub> emissions associated with our business activities in order to prevent global warming. As energy use is almost invariably accompanied by the generation of CO<sub>2</sub>, we actively strive to improve our energy efficiency and implement energy-saving activities.

Our unit CO<sub>2</sub> emissions (CO<sub>2</sub> emissions per 1 million yen of production output) throughout fiscal 2010 decreased by approximately 6% over the previous fiscal year. Compared to fiscal 2005, total CO<sub>2</sub> emissions declined by 7.5% (approximately 50,000 metric tons), but we will have to implement new activities for further reductions. Thus far, we have mainly taken steps to introduce environmentally-conscious energies by switching to fuels which

produce fewer CO<sub>2</sub> emissions. As next steps, we are tackling the development of environmentally-conscious products and processes at the time of manufacturing. For example, we are focusing on a further reduction of CO<sub>2</sub> by means of introducing environmentally-conscious technologies such as UV polymerization produced efficiently with less energy using ultraviolet light and emulsion polymerization manufactured without the use of organic solvents.



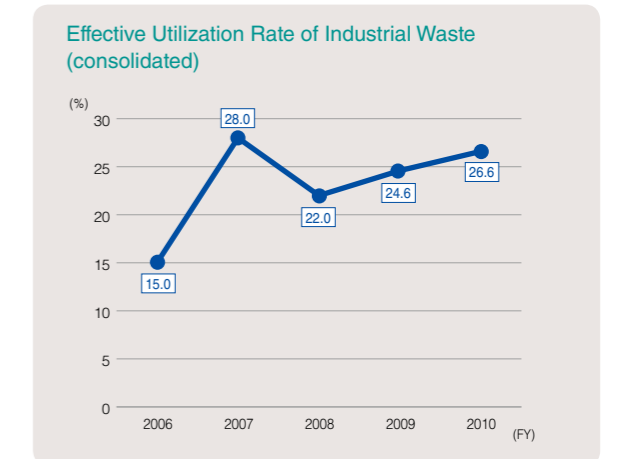
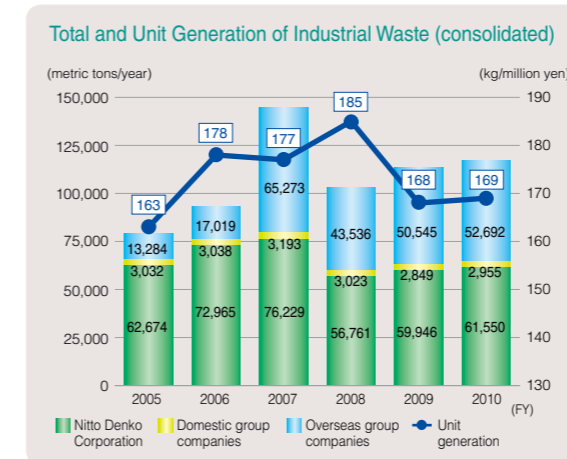
## Environmental Performance Data – Effective utilization of resources –

Most of the industrial waste generated from production activity within the Nitto Denko Group consists of solid material and liquid waste. The solid waste mainly consists of log roll edges and off cuts from the production process whilst the liquid waste is comprised of etching and iodine waste and the like from the manufacture of electronics-related products. The solid waste is created in making adhesive tapes and optical products. Liquid waste is generated from the production of circuit boards and the like.

As to the amount of industrial waste in 2010, the growth rate was almost the same as the increase in turnover on the previous year. In consequence of our

implementing the effective utilization of industrial waste, mainly in domestic bases, the amount of marketable resources recovered from industrial waste increased over the previous year. Marketable resources are recyclable as fuels or materials and marketable. The effective utilization rate (the ratio of the amount of marketable resources to the total amount of industrial waste) of industrial waste increased by 2%.

Adopting and implementing approaches that result in reusable waste is very important, but the Nitto Denko Group focuses on reducing the amount of industrial waste created. The generation of industrial waste stems from the inefficient use of resources. We will continue to focus on the development of production processes in which no industrial waste is created.



## Participating in Nippon Keidanren's Commitment to a Low Carbon Society

In December 2009, aiming to reduce greenhouse gas emissions by half, Nippon Keidanren (Japan Economic Federation) made an announcement of basic policies, "Nippon Keidanren's Commitment to a Low Carbon Society". Assenting to its intent and purpose, the Nitto Denko Group committed our participation by way of the Japan Chemical Industry Association, to which we belong. To help accomplish the Federation's goal, we are making efforts to reduce CO<sub>2</sub> emissions.

## Environmental Performance Data – Reduction of organic solvents –

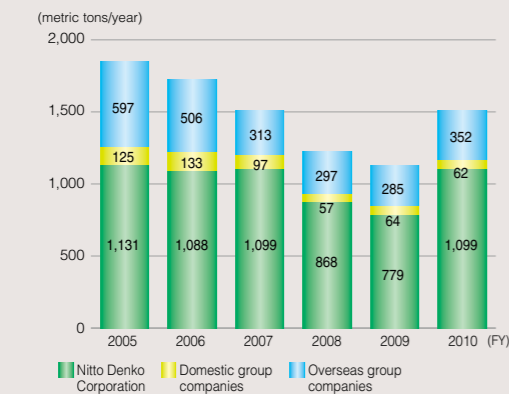
The Nitto Denko Group is implementing measures to reduce the quantity of organic solvents used in manufacturing our products. A reduction in the amount of organic solvents used helps to avoid the possibility of hazardous explosions and damage to human health, as well as to reduce environmental load.

The Nitto Denko Group installed oxidizing equipment (incinerating equipment used for solvent gases) or solvent recovery units in every production line aimed at preventing air pollution generated from organic solvents. However, it was difficult to capture the emissions perfectly, and in fiscal 2010, the amount

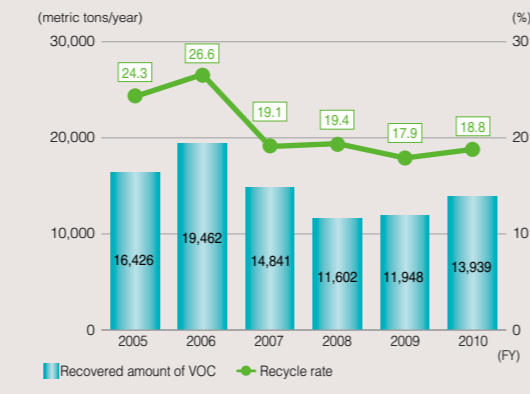
of organic solvents discharged into the air increased in line with the increase in the amount of organic solvents used over the previous year.

In order to reduce the amount of organic solvents used, we are actively tackling the development of products manufactured without the use of organic solvents. Recently, from the standpoint of global environmental protection, emulsion polymerization and UV polymerization manufactured without using organic solvents have attracted attention. Each technology has its own merits. We will realize the development of products with superior characteristics, making use of these technologies, our essential technologies and experience and disseminate our technical know-how throughout the entire Group.

Amount of VOC Emissions (consolidated)



Amount of VOC Recycling (consolidated)



### Low-VOC Re-peelable Double-coated Tape (No.5000E)

The number of environmentally-conscious products which the Nitto Denko Group manufactures continues to increase year by year. Low-VOC re-peelable double-coated tape (No.5000E) is one of the products which we create without the use of organic solvents. In addition, it has other merits that include its high adhesiveness which is required for double-coated tape and its ability to be easily detached when needed. In the future, as with this double-coated tape, we will continuously undertake the development of products of superior performance with our environmentally-conscious technology.



## Contributing to the Environment

### Activities Geared Toward the International Standardization of Material Flow Cost Accounting

Material Flow Cost Accounting (MFCA) is a measure of cost accounting and analysis, in which we define material costs, process costs and depreciation costs invested to the loss of resources and energy throughout the production process as "negative product", thus providing a total cost evaluation. In 2000 the Nitto Denko Toyohashi Plant introduced MFCA for the first time on a trial basis.

Following that, under the initiative of the Japanese government, MFCA is in the process of being established as an international standard and will be put into effect (ISO 14051) by ISO in 2011. Aiming at introducing the manufacturing of environmentally-conscious products throughout the world, the Nitto Denko Group is cooperating in the promotion of international standardization and diffusion of MFCA.



Inspectors from Malaysian enterprises visit the Toyohashi Plant

### Driving Partner of "Declaration of Biodiversity by Nippon Keidanren"

In order to promote activities giving further protection to biodiversity, Nippon Keidanren (Japan Economic Federation) issued "Declaration of Biodiversity by Nippon Keidanren" as a basic policy

in its approaches to such activities. As biodiversity is a significant base for a sustainable society, Nitto Denko has been a driving partner of Keidanren and has supported its activities since 1997.

### Environment Photo Campaign 2010

In fiscal 2009, the Nitto Denko Group launched "Green Design Action" with the aim of improving employees' environmental awareness. As a campaign following "UNEP (United Nations Environmental Programme) World Environment Photographic Exhibition: Focus on Your World" of the previous year, we held a contest of environment-themed photos, "Environment Photo Campaign 2010" by employees of the Nitto Denko Group. A number of photos were entered in the contest from home and abroad; photos of beautiful natural environments and photos stimulating thought about nature and environmental issues. In order to further boost employees' awareness of environmental problems, we will continue to promote such activities in the future.



Courtship dance of the Japanese red-crowned crane



"Who make flood"



**We continue to work towards a better society by participating in a variety of honest and ethical activities in various countries around the world.**

**Contributing to Local Communities**

**Proceeds from Bazaar Donated to Supporting Organization for the Disabled**

On 24 January 2011, Nitto Denko (Taiwan) Corporation held a bazaar, collecting used home electrical appliances, books, toys and clothes in their cafeteria under the CSR Propulsion Team's initiative. Proceeds of TWD 15,800 (approximately 45,000 yen), along with leftover items were donated to a supporting organization for the disabled, The Eden Social Welfare Foundation.



Items offered by employees for the bazaar

**Kameyama Plant Participates in Child Sponsorship**

The Kameyama Plant decided to participate in the activities of an international NGO, World Vision, and started "Child Sponsorship" on 1 September 2010. This means that the Kameyama Plant sponsors a child in a poor region and is able to follow his or her

growth through exchanging letters.

At the Kameyama Plant, a portion of the price of beverages sold from vending machines and a store on the premises was collected, and the money raised was used to support a boy in the Republic of Uganda. In March 2011, notebooks and a card with messages from our employees were sent to him for his sixth birthday.

**Fund-raising for Digging Wells**

Through "Fund-raising for Digging Wells", we support the freeing of children from the harsh and laborious task of drawing water from wells. Such children have to often travel dozens of kilometers every day and do not have enough time to attend school. In total, 800,000 yen, more than last year, was raised this year by group companies in Japan between December 2010 and January 2011. All donations were given to the Japan Asian Association and Asian Friendship Society, which will contribute to the digging of three wells in India, Laos and Bangladesh.



A completed well in Nepal

**Promoting Education and International Interaction**

**Employees Become Lecturers of "Special Summer Class" Hosted by Development Center for Children's Futures**

The Toyohashi Plant has been sponsoring Toyohashi-shi Boys & Girls Invention Club, which was established for the development of human resources, since 2007.

On 28 August 2010, employees from the Toyohashi and Onomichi Plants became lecturers of a special summer class held at the Development Center for Children's Futures, the theme of which was "various uses of tape and film". In the class, experiments using our polarizing film were conducted and pieces of stained glass were made. Twenty-eight elementary school pupils who participated in the class were surprised and glad to know that they could not see colored images without polarizing and retardation films.



**Local School Children's Day**

On 21 August, the Welfare Committee of Nitto Matex Thailand visited Ban Ta-Kham Tuang Tong Jit 109 School, a government school in Chachoengaso, a

province adjacent to Chonburi, where the company is located. A total of some 40 employees and the President were welcomed by a large number of pupils in grades from kindergarten through elementary school. The Company made donations for the construction of a playground and the purchase of sports equipment and stationery, as well as a separate donation of THB 50,000 (USD 1,600) in the form of a scholarship, which the President himself handed over to the children's representative on the day of the event. Company employees organized games and gave out snacks and drinks to all.



**Donations on Children's Day**

Nitto Denko Materials (Thailand) made donations to schools in the Ayutthaya area, where their factory is located, on January 8. Taking advantage of the occasion of Children's Day, which is celebrated by the local community and U-Thai Police Station on the second Saturday of January, the company donated stationery, sports equipment, dolls and other presents to children of Wat Ban Heep School, Wat Rajbamphen School, and Wat Mapprajan School.



**Supporting Sports**

**The 30th Osaka International Ladies Marathon**

In line with the theme of “We Support the Challengers with Shared Enthusiasm!”, we co-sponsored both the Osaka International Ladies Marathon and the Osaka Half Marathon this year for the seventh time. It was the 30th time the event was held and “Challenge! Chibikko Marathon” (“Marathon Challenge for Young Children”) was also held, in which 500 pairs of parents and their primary school children enjoyed running with a special guest, Q-chan (Naoko Takahashi) in Nagai Stadium.

Despite being a cold and very windy day, approximately 390,000 spectators, more than the previous year, cheered for runners both in Nagai Stadium and along the course. Approximately 1,700 employees of the Nitto Denko Group from around the country visited the stadium and about 460 of them participated in the event as volunteers. Some helped with the organizing of the event whilst others helped clean the site.



The start (Photo credit – Sankei Shimbun)



Volunteers handing out towels at the finish line of the Osaka Half Marathon



Challenge! Chibikko Marathon

**Consolidated Financial Statements  
Consolidated Balance Sheet**

(Yen in Millions)

Assets	Amount	
	As of March 31, 2011	As of March 31, 2010 (Reference)
<b>Current assets:</b>	<b>423,340</b>	<b>381,554</b>
Cash and deposits	211,044	171,921
Notes and accounts receivable-trade	132,725	135,727
Merchandise and finished goods	20,795	19,776
Work in process	28,911	27,031
Raw materials and supplies	12,693	11,120
Deferred tax assets	9,128	8,444
Other	8,750	8,364
Allowance for doubtful accounts	-708	-831
<b>Noncurrent assets:</b>	<b>230,620</b>	<b>243,438</b>
<b>Property, plant and equipment</b>	<b>195,152</b>	<b>208,405</b>
Buildings and structures	91,597	99,069
Machinery, equipment and vehicles	65,382	73,921
Tools, furniture and fixtures	6,707	7,972
Land	19,077	19,119
Construction in progress	12,388	8,323
<b>Intangible assets:</b>	<b>8,100</b>	<b>7,273</b>
Goodwill	1,610	56
Software	4,195	4,030
Other	2,293	3,186
<b>Investments and other assets:</b>	<b>27,367</b>	<b>27,758</b>
Investment securities	8,583	8,890
Deferred tax assets	9,546	9,703
Prepaid pension cost	6,286	5,642
Other	3,197	3,771
Allowance for doubtful accounts	-245	-248
<b>Total assets</b>	<b>653,961</b>	<b>624,992</b>

(Yen in Millions)

Liabilities	Amount	
	As of March 31, 2011	As of March 31, 2010 (Reference)
<b>Current liabilities:</b>	<b>157,046</b>	<b>149,688</b>
Notes and accounts payable-trade	80,876	79,531
Short-term loans payable	10,654	10,667
Accrued expenses	19,107	18,590
Income taxes payable	18,709	15,746
Other	27,699	25,153
<b>Noncurrent liabilities:</b>	<b>77,242</b>	<b>86,579</b>
Bonds payable	50,000	50,000
Long-term loans payable	6,000	14,316
Provision for retirement benefits	18,688	19,219
Provision for directors' retirement benefits	393	514
Deferred tax liabilities	365	181
Negative goodwill	—	0
Other	1,795	2,347
<b>Total liabilities</b>	<b>234,288</b>	<b>236,268</b>
(Net assets)		
<b>Shareholders' equity</b>	<b>447,163</b>	<b>406,969</b>
Capital stock	26,783	26,783
Capital surplus	56,171	56,153
Retained earnings	398,161	352,316
Treasury stock	-33,953	-28,284
<b>Accumulated other comprehensive income</b>	<b>-29,557</b>	<b>-20,304</b>
Valuation difference on available-for-sale securities	1,250	1,755
Deferred gains or losses on hedges	123	-284
Foreign currency translation adjustment	-30,931	-21,775
<b>Subscription rights to shares</b>	<b>847</b>	<b>1,067</b>
<b>Minority interests</b>	<b>1,219</b>	<b>992</b>
<b>Total net assets</b>	<b>419,673</b>	<b>388,724</b>
<b>Total liabilities and net assets</b>	<b>653,961</b>	<b>624,992</b>

## Consolidated Financial Statements Consolidated Statement of Income

(Yen in Millions)

	April 1, 2010 - March 31, 2011	April 1, 2009 - March 31, 2010 (Reference)
<b>Net sales</b>	<b>638,556</b>	<b>601,859</b>
Cost of sales	444,037	440,714
<b>Gross profit</b>	<b>194,518</b>	<b>161,144</b>
Selling, general and administrative expenses	109,273	105,058
<b>Operating income</b>	<b>85,245</b>	<b>56,086</b>
<b>Non-operating income:</b>	<b>3,727</b>	<b>6,297</b>
Interest and dividends income	458	394
Foreign exchange gains	—	304
Miscellaneous income	3,269	5,597
<b>Non-operating expenses:</b>	<b>3,828</b>	<b>3,550</b>
Interest expenses	1,031	1,348
Equity in losses of affiliates	18	84
Foreign exchange loss	1,281	—
Miscellaneous loss	1,497	2,116
<b>Ordinary income</b>	<b>85,143</b>	<b>58,833</b>
<b>Extraordinary income:</b>	<b>574</b>	<b>967</b>
Gain on sales of noncurrent assets	219	227
Other	355	739
<b>Extraordinary loss:</b>	<b>2,768</b>	<b>6,103</b>
Loss on sales and retirement of noncurrent assets	1,587	3,299
Impairment loss	172	256
Special retirement expenses	66	226
Loss on disaster	654	—
Other	288	2,320
<b>Income before income taxes</b>	<b>82,950</b>	<b>53,698</b>
Income taxes-current	27,478	18,669
Income taxes-deferred	-585	-2,695
<b>Income before minority interests</b>	<b>56,056</b>	<b>37,723</b>
Minority interests in income	313	153
<b>Net income</b>	<b>55,743</b>	<b>37,570</b>

## Consolidated Financial Statements Consolidated Statement of Cash Flows (for reference)

(Yen in Millions)

	April 1, 2010 - March 31, 2011	April 1, 2009 - March 31, 2010
<b>I. Net cash provided by (used in) operating activities</b>		
Income before income taxes	82,950	53,698
Depreciation and amortization	39,940	44,810
Decrease (increase) in notes and accounts receivable- trade	-1,629	-41,992
Decrease (increase) in inventories	-6,273	2,892
Increase (decrease) in notes and accounts payable-trade	6,189	26,358
Interest expenses paid	-1,073	-1,520
Income taxes (paid) refund	-24,392	1,418
Other, net	1,349	16,832
<b>Net cash provided by (used in) operating activities</b>	<b>97,060</b>	<b>102,498</b>
<b>II. Net cash provided by (used in) investing activities</b>		
Decrease (increase) in time deposits	-1,486	-61,013
Purchase of noncurrent assets	-28,033	-33,955
Proceeds from sales of noncurrent assets	984	729
Other, net	-3,506	-2,348
<b>Net cash provided by (used in) investing activities</b>	<b>-32,041</b>	<b>-96,588</b>
<b>III. Net cash provided by (used in) financing activities</b>		
Increase (decrease) in short-term loans payable	-1,096	-23,838
Proceeds from issuance of bonds	—	50,000
Increase (decrease) in commercial papers	—	-25,000
Repayment of long-term loans payable	-6,358	-420
Decrease (increase) in treasury stock	-5,982	20
Cash dividends paid	-9,898	-9,995
Other, net	-23	103
<b>Net cash provided by (used in) financing activities</b>	<b>-23,359</b>	<b>-9,129</b>
<b>IV. Effect of exchange rate change on cash and cash equivalents</b>	<b>-3,998</b>	<b>124</b>
<b>V. Net increase (decrease) in cash and cash equivalents</b>	<b>37,661</b>	<b>-3,095</b>
<b>VI. Cash and cash equivalents at the beginning of period</b>	<b>110,627</b>	<b>113,722</b>
<b>VII. Cash and cash equivalent at the end of period</b>	<b>148,289</b>	<b>110,627</b>

## Consolidated Financial Statements Consolidated Statement of Changes in Net Assets

April 1, 2010 through March 31, 2011

(Yen in Millions)

	Shareholders' equity				
	Paid-in capital	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
<b>Balance as of March 31, 2010</b>	26,783	56,153	352,316	-28,284	406,969
<b>Changes of items during the period</b>					
Dividends from surplus			-9,898		-9,898
Net income			55,743		55,743
Purchase of treasury stock				-6,741	-6,741
Disposal of treasury stock		18		1,071	1,090
Net changes of items other than shareholders' equity					
<b>Total changes of items during the period</b>	—	18	45,844	-5,669	40,194
<b>Balance as of March 31, 2011</b>	26,783	56,171	398,161	-33,953	447,163

(Yen in Millions)

	Valuation and translation adjustments				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available- for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments			
<b>Balance as of March 31, 2010</b>	1,755	-284	-21,775	-20,304	1,067	992	388,724
<b>Changes of items during the period</b>							
Dividends from surplus							-9,898
Net income							55,743
Purchase of treasury stock							-6,741
Disposal of treasury stock							1,090
Net changes of items other than shareholders' equity	-504	408	-9,156	-9,252	-219	226	-9,245
<b>Total changes of items during the period</b>	-504	408	-9,156	-9,252	-219	226	30,949
<b>Balance as of March 31, 2011</b>	1,250	123	-30,931	-29,557	847	1,219	419,673

## Business Results 10-Year Summary (consolidated)

April 1 - March 31	Yen in Millions (Note 3)										U.S. dollars in Thousands
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010
<b>Statement of income</b>											
Sales	338,930	378,705	452,726	514,867	626,316	679,822	745,259	577,922	601,859	638,556	7,679,567
Operating income	19,314	33,901	55,912	70,018	89,224	69,037	77,954	13,838	56,086	85,245	1,025,195
ratio to sales	5.7%	9.0%	12.4%	13.6%	14.2%	10.2%	10.5%	2.4%	9.3%	13.3%	13.3%
Ordinary income	19,748	35,832	58,045	71,828	90,196	67,319	74,468	14,807	58,833	85,143	1,023,969
ratio to sales	5.8%	9.5%	12.8%	14.0%	14.4%	9.9%	10.0%	2.6%	9.8%	13.3%	13.3%
Net income	1,115	19,237	33,386	41,842	55,306	41,201	46,634	267	37,570	55,743	670,391
ratio to sales	0.3%	5.1%	7.4%	8.1%	8.8%	6.1%	6.3%	0.0%	6.2%	8.7%	8.7%
<b>Segment information</b>											
<b>Operating segment information</b>											
Industrial Tape (Note 1)..... Sales	183,699	192,179	191,682	207,366	251,384	268,888	256,910	209,491	222,486	238,290	2,865,785
Operating income	4,640	11,502	13,437	16,539	22,938	28,019	27,921	8,300	17,515	26,420	317,739
Optronics (Note 1)..... Sales	119,626	146,780	219,709	261,541	327,398	356,941	432,332	314,315	342,282	365,779	4,399,026
Operating income	10,633	16,848	38,881	47,152	58,713	31,449	40,852	-933	36,078	60,415	726,578
Medical & Membrane (Note 1)..... Sales	35,604	39,745	41,333	45,959	47,533	53,991	56,016	54,114	37,090	34,486	414,744
Operating income	4,039	5,550	3,592	6,326	7,573	9,568	9,180	6,470	2,492	-1,590	-19,122
<b>Segment information by geographic area</b>											
Japan..... Sales	237,459	252,881	286,322	295,115	271,186	268,364	256,288	207,263	203,982	218,528	2,628,118
Operating income	16,727	29,803	51,158	65,918	76,888	52,535	44,969	3,305	34,897	64,376	774,215
North America..... Sales	31,337	33,386	37,216	35,836	38,580	42,349	45,054	39,002	37,766	36,116	434,348
Operating income	172	1,027	-2,399	-2,479	-1,078	-663	338	-1,298	2,012	-289	-3,476
Europe..... Sales	13,287	14,496	16,422	17,392	19,395	23,787	29,172	25,519	26,933	23,245	279,555
Operating income	248	447	509	246	693	1,587	2,178	-20	1,147	1,471	17,691
Asia & Oceania..... Sales	56,845	77,940	112,764	166,522	297,153	345,321	414,743	306,136	333,177	360,665	4,337,523
Operating income	1,340	2,396	6,547	5,936	12,575	12,382	27,614	8,368	17,952	19,032	228,888
<b>Per share information</b>											
Net assets per share	1,314.5	1,367.4	1,360.7	1,583.8	1,943.7	2,192.3	2,297.1	2,148.2	2,320.9	2,540.3	30.55
Net income per share	6.4	108.5	198.0	252.7	332.3	248.3	280.1	1.6	225.5	337.4	4.06
Dividends per share	22.0	24.0	40.0	50.0	60.0	70.0	80.0	80.0	40.0	90.0	1.08
Shares outstanding (thousands)	173,758	173,758	173,758	173,758	173,758	173,758	173,758	173,758	173,758	173,758	—
Shareholders	15,556	17,144	20,999	16,725	16,057	35,224	41,309	63,479	66,032	59,059	—
<b>Balance sheet</b>											
Total assets	350,340	379,811	389,525	443,264	556,934	604,208	595,972	558,258	624,992	653,961	7,864,835
Equity	228,409	237,560	223,114	261,090	321,464	364,942	382,627	357,839	386,664	417,606	5,022,321
ROA	0.3%	5.3%	8.7%	10.0%	11.1%	7.1%	7.8%	0.0%	6.4%	8.7%	—
ROE	0.5%	8.3%	14.5%	17.3%	19.0%	12.0%	12.5%	0.1%	10.1%	13.9%	—
Equity to total assets	65.2%	62.5%	57.3%	58.9%	57.7%	60.4%	64.2%	64.1%	61.9%	63.9%	—
Capital investment	34,684	28,306	31,731	40,101	60,889	75,324	59,406	55,926	37,147	26,882	323,295
Depreciation cost	20,442	21,143	21,386	24,681	31,470	40,169	49,617	50,556	44,810	39,940	480,337
R&D expenses	13,053	13,851	15,822	16,739	20,489	21,733	22,096	21,716	20,876	21,949	263,969
Number of employees (Note 2)	13,685	15,389	18,926	22,454	27,865	32,101	33,663	28,640	31,288	33,192	—

Note 1-1 These comply with "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17 issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20 issued on March 21, 2008). Before FY2008, in compliance with previous accounting rules, "Industrial Tape" shows "Industrial products" in previous financial summary, "Optronics" shows "Electronics products", "Medical & Membrane" shows "Functional products", respectively.

<New segments>

Industrial Tape : Bonding and joining products, surface protection products, sealing products, packaging products and equipment, engineering plastics  
Optronics : LCD related materials, semiconductor related materials, flexible printed circuits, processing materials  
Medical & Membrane : Medical products, membrane products

<Former segments>

Industrial products : Bonding and joining products, surface protection products, sealing products, packaging products and equipment  
Electronic products : LCD related products, printed circuits, electronic processing materials, semiconductor related products  
Functional products : Medical related products, membrane products, engineering plastics

1-2 In FY2001 and 2002, electronic processing materials are categorized in "Industrial products".

2. Part-time employees are included.

3. The Japanese yen-US dollar exchange rate is, JPY83.15 to USD1.00, which was the rate on March 31, 2011

### About the Front Cover

This year's front cover, which expresses the themes of "Green, Clean and Fine" and "a strategy of relentlessly pursuing new opportunities," features an illustration in which various flowers and leaves are seen overflowing from the hands of a happy-looking person, drifting towards the Earth.

In this illustration, not only the importance of keeping the beauty of nature close to one's heart is expressed but also the importance of manufacturing products appreciated by a great many people.

Illustrator Tetsuro Okabe



### Nitto Denko Group CSR & Annual Report 2011

Date of Issue	25 July 2011
Publishing Office	Nitto Denko Corporation CSR Assurance Department Herbis Osaka, 2-5-25 Umeda, Kita-ku, Osaka 530-0001, Japan Tel: +81-6-6452-7102 Fax: +81-6-6452-3305
Person in Charge of Issue	Kaoru Aizawa Board Member and Senior Executive Vice President Nitto Denko Corporation
Design	Admiration Center, Inc.
Printing	Nitto Denko Himawari Co., Ltd.



NITTO DENKO CORPORATION <http://www.nittodenko.com/>

Herbis Osaka, 2-5-25 Umeda, Kita-ku, Osaka 530-0001, Japan

Tel: +81-6-6452-7102 Fax: +81-6-6452-3305

CATALOG CODE: 01500