To Our Stakeholders

Sincerely yours,

NITTO DENKO Group

About the Material Used for the Cover

This cover is made from reeds from the Yoda River, whose riverhead is Lake Biwa, located near the Nitto Denko Corporation’s Shiga Plant. The reeds when moved down become easy to nation and assist in keeping the lake water clear. We used "Baka pagurus" for the cover in the hope that our efforts would assist in maintaining Lake Biwa’s current and future beauty.

Extra consideration has been given to the use of color in this report for assist people who have visual difficulties.

NITTO DENKO CORPORATION

CSR Assurance Department

http://www.nitto.com/
The Nitto Denko Group has been involved in many business activities and has worked in accordance with its standard of practice of “Open, Fair and Best”. We have set “Creation of a New Value” as our corporate vision statement. This year, like last year we have amalgamated both the Annual and CSR reports. When thinking about assessing someone’s personality, we have to have some idea about both his/her ability and character if we are to make a reasonable assessment. If we were to compare a corporation to a person, in order for every stakeholder to get a clear picture of our corporation, we believe that both financial news, reflecting our actual business performance and corporate power and non-financial news, showing our commitment to the betterment of our society and our accountability to the same are inseparable and essential indicators. This report begins with a “top interview” and is followed by information relating to “governance”, “business activities”, “research and development”, “environment and safety” and “financial news” of the Nitto Denko Group.

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

Tatsunosuke Fujiwara
CFO, Nitto Denko Group
Director, Nitto Denko Corporation
CSR Committee Chairman

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Globalization Bears Fruit.
Our goal is to achieve a 100,000 million yen operating income through not just relying on the holding of secure shares but through enhancing our actual profits through refining our manufacturing technologies.

What is a corporation? For what purpose do corporations exist? The Nitto Denko Group hopes to present the answers to these questions. Enterprises exist to bring happiness and satisfaction to stakeholders, including employees to create public goods through their business activities and commercial gain. As a means of gaining greater clarity about the significance of enterprises and other questions related to the new development and direction of the Nitto Denko Group, a number of questions were asked to the Chairman and the President. They offered comments relating to the Nitto Denko Group in light of the following themes: “Growing business”, “Improving quality”, “Growing people”, and the Nitto Denko Group’s focus on being “an enterprise that employees feel is worth mentioning”.

New Administration Management Model
 Implemented- CEO in Charge of Future Direction and Staffing Development-
 COO in Charge of Operational Management

Up until now Takemoto-san has had dual responsibility as CEO and COO. Recently with the beginning of our new administration our new Chairman, Takemoto-san operates as CEO and our new President, Nagira-san as COO.

Takemoto:
In short both Nagira-san and I will work together, but the business will be administered by the CEO. My aim is to meet our business challenges one of which is the cultivation of human resources. In our mid-term management plan which came into effect from April 2009 we defined “Growing business”, “Improving quality” and “Growing people” as our major objectives. Both myself (CEO) and the COO will closely work together, sharing our responsibilities.

What do you think of management transparency?

Nagira:
Nitto Denko Corporation convenes shareholders meeting earlier than when many other enterprises simultaneously convene their meetings. We have also introduced an external director system and external corporate auditor system. We have aimed to ensure that we have a highly transparent management system for some time. We consider it important to continue our business activities ensuring that they are in accordance with our business of being “Open, Fair and Just.”

Placing Resources Intensively into Core Competence

When you aimed at establishing a global and excellent company in the last mid-term management plan, in fiscal 2007, an operating income of more than 100,000 million yen, an operating income ratio of 15% and an ROA (return on asset=profit+gross asset, or =profit ratio of sales+Sales to total assets ratio) of 12% existed as the index. What do you think when you look back over the past three years?

Takemoto:
I regret to say that our fiscal 2007 target as set out in our 2009 mid-term management plan has not been achieved. However in relation to our implemented “globalization” policy, which was conceived as a strategy to assist us meet our targets, we have achieved some positive results, increases in the non-Japanese employee ratio and overseas sales amounts are tribute to this. We have also experienced an increase in the number of foreign shareholders. I believe that we have the base in place which will enable us to develop ourselves into a global and excellent company.

Nagira:
Our new mid-term management plan “O-NET-2010”, is centered around our goal of “Growing business”, “Improving quality” and “Growing people”, as a means of meeting the fiscal 2010 hurdle of having an operating income of over 100,000 million yen. We will take on this challenge again. We expect that our tape business, electronics related business, membrane business and medical related business markets will improve and change. In such matters, the Nitto Denko Group will invest in areas where we feel we can capitalize on our strengths.

What do you think of the growth experienced in both the optical and tape businesses which account for a high percentage of overall sales?

Takemoto:
As far as the optical business is concerned, compared to the peak experienced in 2005, we have seen a sharp decline in profitability from 2006 through to early 2007. But we have seen encouraging signs of improvement resulting from the development of various devices. We are positive that the market will increase in the future.

Nagira:
At some future time, this market will grow and mature. The market volume is very large, so we have to develop our business into one which is profitable. To ensure this occurs we plan to take various measures.
How about the Nitto Denko Group’s tape business?

Takamatu:
Our current share of the overseas tape market is not so high. Fortunately in the electronics market, optical and semiconductor-related products are manufactured to a world standard making it easier to conduct business due to such uniform specifications. On the other hand, in the tape business, a diversity of business models exists which has proven to influence the way tapes are utilized in other countries. It is necessary for us to view market demands through a broader lens and not through a Japanese standard perspective. We need to consider the standards and potential applications of our products in terms of how they perform on the global market.

Nagai:
The real value of our “globalization” strategic goal, developed in the last mid-term management plan has been put to the test. In order for us to maintain a sound business reputation for quality and a strong corporate culture accepted and valued throughout the world, we will implement further globalization strategies relating to our “marketing”, “manufacturing” and “management infrastructure.” We would like you to have positive expectations concerning the growth and expansion of our future tape business also.

More recently many businesses involved in the production of medical and membrane products have been featured in the media.

Nagai:
The Nitto Denko Group places high importance on these businesses given their relevance to our environment, health and overall wellbeing. When considering global warming, environmental concern arising from rapid economic development throughout developing countries and the aging societies that are occurring throughout many developed countries, the Nitto Denko Group aims to contribute greatly in developing products that will assist in better managing such concerns.

Developing Business for Positive Environmental Effects that Reduce our Environmental Load

What is the Nitto Denko Group’s position on current global environmental concerns?

Takamatu:
Manufacturing businesses use significant amounts of resources and energy and do pose a burden on our environment. For some time now we have attempted to reduce the environmental impact of our business through more efficient use of resources, recycling of resources, more efficient use of energy sources and in attempting to increase our usage of sustainable sources of energy such as solar energy. We aim to continue supporting a strong environmental agenda that positively contributes to our global environmental wellbeing. Along with the continuance of the Vokey Environmental Plan which was established in 1993, we set a new target aiming to double our environmental efficiency by 2015 compared to the previous 2005 rate.

We will continue our work to develop environmentally friendly products. For example, we have utilized CTM-based televisions which use Nitto Denko film-based products in their making. We will contribute to environmental conservation activities such as energy saving through the utilizing of vehicles used. We will contribute to the effective production of pure water through the use of distillation processes that make use of our reverse osmosis membrane. We believe that our products will make a worthwhile contribution and have a direct impact on future environmental conservation, I would encourage you to refer to the way of thinking of CLUB ECOFUTURE™ and EIBER® (External Economic Benefit Evaluation) which we support.

Nagai:
It is very important that we reduce our negative impacts on the environment. It is arguably important to work towards making positive innovations and changes whenever possible as well. We have taken the initiative in many areas, with our focus on environmental preservation being one of them. Negative indicators such as carbon emissions and pollutants being released into the atmosphere are commonly used as a measure. It is my belief that if equal focus was placed on also measuring environmental concern through the quality of products being produced that exhibit a positive environmental concern, future production of such products would increase. We believe it would no doubt seem for some that enterprise business activities and environmental conservation activities are incompatible but ultimately they should have the same purpose.

Becoming a Company Playing a Role in Society and an Enterprise Employees Feel is Worth Mentioning

Finally, what do you think of the Nitto Denko Group’s relationship within society?

Takamatu:
We believe that companies where employees are able to work with pride and responsibility are needed. We aim to be an enterprise that employees feel is worth mentioning. We aspire to being an enterprise that customers, shareholders, investors, business partners, members of local communities and families of employees are content with.

We believe that improving the satisfaction level of our employees, our vital human resource is an essential and very important task.

Nagai:
Within the Nitto Denko Group we refer to each other by name, not by position. We believe in paying respect to the “person” not the “position” and as such we call to each other using prefix “Oh-san.”

As for “safety” not only have we tried to decrease industrial accidents to zero, but we have also embarked on a mission to prevent traffic accidents wherever possible. We prioritize the manufacturing of safe products and the safe usage of such products. As seen in REACH or Hols, the management of chemical substances has been tightened throughout Europe. We established a Chemical Substance Management Center in fiscal 2007 as a means of improving safety for both employees and our consumers.

Are you going to make a strong effort to develop human resources to support these matters?

Nagai:
We believe that without improving individually we will not build good relationships within society. We encourage employees to pay serious attention to “what and who they want to become”, and how they may be able to grow to meet their goals independently and voluntarily. We give employees opportunities to put into practice the goals that they may have set. It is through the journey and through making mistakes that so much learning takes place.

Takamatu:
The slogan for fiscal 2008 is “Changing the Company with My One Step Forward.” If Nitto Denko Group employees all over the world take a step forward, that would add up to 30,000 steps forward. For an individual it may be a small step. However, if everybody steps forward, it will be very big steps forward for the whole Nitto Denko Group. For this to be achieved, basic education and training are necessary.

In fiscal 2007, we established a new global education system (Nitto Denko Group Cultivation System), where all employees participate in essential training sessions that relate to the Nitto Denko Group’s core business, strategic framework and other relevant areas. The first step of our education system was to provide training to employees relating to what is expected when we refer to “quality,” “security,” “environment” and “CSR.” We hope that employees when talking about their own companies will pass on such necessary information to other stakeholders.
Corporate Governance

The Nitto Denko Group is Aiming for Transparent Management

News relating to examples of misconduct and other scandals has been reported regularly. As the enhancement of internal control mechanisms and the improvement of financial systems become obligatory under both the new Company Law and the Financial Products Trading Law, the notion of "corporate governance" has taken root in our society.

The Nitto Denko Group has established a basic corporate policy relative to internal control and has already completed the formulation stage of a system which will allow for the policy to be practically implemented. Attempting to work as a "One-Nitto", we shall devote ourselves to the ongoing further development of this system, aiming to improve its effectiveness whilst respecting that with change any system needs to be organic and flexible in nature if it is to retain its relevance and suitability.

What Constitutes Good Governance

When considering corporate governance the Nitto Denko Group prioritizes keeping every stakeholder in mind, given the support they all show for our business activities whether directly or indirectly. We aim at providing both sound and transparent management through promoting the sharing of information, reflecting on the way we carry out our business and through being open to fair external judgment. The Nitto Denko Group aims to foster and encourage a corporate spirit centered on "Open, Fair and Best". We strive to do our best in working towards achieving our business goals in accordance with good governance practices.

Executives and Corporate Auditors of Nitto Denko Corporation (as of 1 July 2018)

Chairman: Masamichi Tawatsura (CEO), Yutaka Nagira (CCO)
Executive Corporate Vice President and Directors: Yoshiyuki Kariyama
Executive Corporate Vice President and Directors: Yosuke Ninomiya (CTO)
Corporate Vice President and Director: Takeshi Nakano
Outside Directors: Hideki Takakami
Corporate Auditors: Ryoichi Ota, Hiroshi Kuroda
Outside Corporate Auditors: Takashi Akiyama
Notice - CEO (Chief Executive Officer):
CCO, Chief Operating Officer: Executive Committee provides an opportunity for managerial discussions.

Disclosure Policy

The Nitto Denko Group has established the Internal Control Committee (ICC) as a means of ensuring accurate and informative financial reporting and as a means of assessing the appropriateness of our business. This committee is comprised of the Chairman of the Board, the President and the CFO (both of whom are responsible for ensuring internal control reports required under the Financial Instruments and Exchange Law), the head of the Corporate Sector, the heads of the Operating Entities responsible for the preparation of internal control reports, and the department head responsible for carrying out independent evaluations, the department head responsible for company-wide evaluations and the Secretary. The committee meeting is held annually in principle under the chairmanship of the President. Whenever the need arises, the chairperson may call a committee meeting.

Establishment of the Internal Control Committee

The Nitto Denko Group has established its disclosure policy including its timely disclosure policy on the web with the hope that interested parties can understand the sincere efforts that we are making in policy development in this area.

1. Basic Disclosure Policy
   Nitto Denko Corporation's disclosure policy is internally connected to our corporate vision and guiding principles.

2. Standard and Method of Disclosure
   Nitto Denko Corporation has adopted a disclosure system called "Tine" in accordance with the timely disclosure regulations set by both the Tokyo Stock Exchange and Osaka Securities Exchange in which Nitto Denko Corporation is listed. We promptly post publicly disclosed information on our website. We always attempt to provide and disclose information which we consider will be valuable and relevant for our stakeholders to better understand our group and our overall business activities.

3. Silent Period
   Nitto Denko Corporation has specified that the period between the days after the end of each fiscal quarter to the time that our business results are announced will be a "silent period". The aim of this freeze on information is to prevent any leakage of business results so as to ensure fairness for all stakeholders. During this period, we refrain from responding to any inquiries or making any comments concerning any business results. However, if we anticipate a significant difference to occur between the original forecasts and the actual results during the silent period, we will disclose such information in a timely fashion as per the disclosure regulations.

(Cautionary Statement)

Forecasts concerning the corporation's future business performance are based on information available at the time of disclosure and contain assumptions that we consider to be reasonable. Actual performance may differ significantly from the business forecasts due to various risk factors and uncertainties.
Work Contract and Dispatch Issues

In Japan, following amendments made to the Worker Dispatch Law, the media has highlighted many problems relating to the current employment market. In view of the current social situation, the Nitto Denko Group has made investigations into all domestic group companies to assess company practices relating to work contracts and dispatching.

About Respect for Human Rights

The Nitto Denko Group has a Human Rights Enlightenment Agenda. We are independently programming and implementing human rights training sessions in both domestic and overseas group companies. As part of the overall management plan beginning in 2008, we declared "Safety first, profits second" and are attempting to continually improve the working environment of our employees.

Business Conduct Guidelines

In 2006 we established the Nitto Denko Group Business Conduct Guidelines, which were made available in twelve different languages so that Nitto Denko Group employees globally were able to share a common set of values. The guidelines exist as a tool to assist employees conduct business activities in a consistent manner conforming to law and business ethics. In time for the business launch of an overseas subsidiary company in the Czech Republic in 2008, we added a Czech version to the list. The guidelines are distributed to all new employees soon after they are hired before the plant begins operating.

Nitto Denko Group
Human Rights Enlightenment Agenda

- The Nitto Denko Group gives consideration to our environment, human rights and host communities. As an enterprise group, we fulfill our social responsibilities whilst continuing to develop our business within society.
- The Nitto Denko Group never discriminates on account of race, creed, values, character, gender, religion, age, nationality, or physical handicap.
- The Nitto Denko Group prioritizes open and consistent communication to all employees and aims at providing workplaces that respect human rights through embracing a spirit of being “Open, Fair and Best.”
- The Nitto Denko Group actively implements its human rights agenda in order to sustain its existence and position as a trusted enterprise within the global society.

CSR and Compliance Training Sessions

We are implementing “CSR and Compliance Training Sessions” focusing on case studies for management level employees within Nitto Denko Corporation and domestic group companies. Approximately 1,400 management level employees participated in such training held throughout fiscal 2007. The consequent training provided to other employees by management level employees resulted in approximately 5,400 employees participating. Employees of the Nitto Denko Group are obliged to participate in regular sessions as part of their induction and for future promotion purposes. The compulsory training sessions include learning about CSR, compliance and our human rights agenda.

We have set up a "Help Line" allowing for notifications of illegal and ethical violations throughout the domestic Nitto Denko Group companies. Some notifications have been provided and punishments imposed. In order to prevent violations from occurring and to establish a corporate climate where such violations are reduced to an absolute minimum, we aim to further improve overall compliance.

Provisions Taken against Earthquakes

In preparation of Miyagi Offshore, Tohoku and Tottori Prefectural earthquakes which have been predicted to occur in the near future, we have drawn up Business Continuity Plans (BCPs) as contingency measures. Each BCP is specific to operations concerning our key manufacturing bases in Japan and has been in existence since fiscal 2006. Their purposes are to ensure that business property is secured and protected to a maximum and that damage to stakeholders is kept to a minimum if an earthquake were to occur. Each BCP outlines procedures to take above if an earthquake were to affect our manufacturing bases. They also clearly outline restoration procedures, priorities and timeframes if restoration were necessary.

In 2007 we introduced an Earthquake Early Warning System provided by Japan Meteorological Agency which focuses on our manufacturing bases as they operate in real time. With preliminary warnings of earthquake action we are able to take immediate action in prioritizing the protection of human life.

Measures to Avoid an Influenza Pandemic

Numerous reports have been made concerning a highly infectious pathogenic avian influenza in some countries where Nitto Denko Group companies are located. If human to human transmission were to break out, it may spread rapidly all over the world resulting in an influenza pandemic. Given this situation the Nitto Denko Group has ensured that all operations have a full understanding of the avian and pandemic influenza alongside strategies and practices which focus on prevention. We are currently drawing up an action plan aimed at reviewing how prepared our group companies are in relation to existing response plans. If an incident or outbreak of influenza pandemic were to occur,
**Improvement of Manners of Traffic Safety**

Within the Nitto Denko Group driving to corporate offices is permitted in some regions. As traffic accidents and traffic jams have previously occurred involving employees on their way to work and given that some complaints relating to employees have been made regarding compliance of existing safety rules, the Nitto Denko Group sees that having countermeasures in place is an urgent issue. Such countermeasures would aim to provide a solution to the traffic congestion around business offices caused during peak hour times. The Nitto Denko Group would thereby come closer to meeting its aspiration of supporting community-based business offices. It would hope to achieve this through the easing of traffic congestion, ensuring the safety of employees through reducing the risk of traffic accidents, reducing the environmental impact caused by employees’ driving to their offices thereby promoting an earth-conscious business culture, and through encouraging and supporting that employees use public transportation wherever possible.

In the Onomichi Plant, we charted buses from Onomichi Bus Corp., and have them make more than 100 round trips a day from Onomichi Station, Igashih-Onomichi Station and Matsunaga Station to our office. In doing so we have people within the same industrial campus using the buses with no charges being applied. Since the introduction of the commuter bus, the occurrence of traffic accidents involving employees has decreased by two-thirds compared to previous years. Unfortunately at present, due to advice received, it is difficult for the public to utilise the buses, but we are considering how they may be used as a means of public transportation to athletic facilities and/or hospitals.

**Crusade against Drink Driving**

The Nitto Denko Group has adopted a very strong position regarding drink driving. Employees in domestic group companies are obliged to bring signed cards with them declaring themselves against drink driving. Even if the amount of alcohol consumed is under the legal limit, driving after alcohol has been consumed is not permitted. If an employee is found to have been driving after drinking penalties will be imposed under company regulations.

**Start-up of New Cultivation System**

The Nitto Denko Group has initiated the Nitto Denko Group Cultivation System (NCS) as a new educational system which has been in operation since July 2007. In NCS common texts are used and basic knowledge about our manufacturing business is provided with each base making their own arrangements to ensure that necessary training takes place. In the future its purpose will be to cultivate professionals who are willing and able to bring the Nitto Denko Group’s vision and strategic plans into reality. From now we have chosen to adopt a corporate culture focusing on cultivating people who can “learn, assimilate, put into practice and bring results by themselves”.

**Issues within CSR**

With enterprise competition being strong, we acknowledge that having diversified human resources is not only desired in order for our survival but is necessary. Recently labor shortages and business globalization have been occurring at accelerated rates. We aim to enhance the way that we develop our human resources so that we can ensure that we find well-qualified people who are suitable for higher duties and who potentially may become executive members.

As for disabled persons’ employment, we acknowledge that what we have in place is not sufficient and that further development is both desired and required within the Nitto Denko Group. In the future we certainly hope to reinforce our commitment to workplace diversity through being able to offer more employment opportunities to disabled persons, especially through the expansion of Nitto Denko Himawari Co Ltd operations.
History of the Nitto Denko Group

Nitto Denko Corporation began its operation aiming to produce domestic electrical insulation material in Osaka, Tokyo in 1918. Since then with ongoing technical innovation and the introduction of advanced technologies, we have grown and expanded into what is now the current Nitto Denko Group.

1918
Nitto Electric Industrial Co Ltd starts business in Osaka, Tokyo.

1945
Head office in Osaka is destroyed by air raids.

The First Change Period-Multi-Lateralization of Business (The Second Establishment)
1946
Head office is relocated to Ibaraki-shi, Osaka (the present Ibaraki Plant).

1960
Beginning of commercial production of flexible vinyl resins.

1961
Nitto Denko opens its first overseas office in New York.

1962
Toyohashi Plant begins operation, listed as a common stock on Second Sections of the Tokyo and Osaka Stock Exchanges.

1967
Kanto Plant begins operation, listed as a common stock on First Sections of the Tokyo and Osaka Stock Exchanges.

1969
Establishment of the first overseas manufacturing base: Nitto Denko (Taiwan) Corporation, Establishment of Nitto Denko America Inc., Kameshima Plant begins operation.

1973
Beginning research and development into membrane technologies and products.

1974
Establishment of Nitto Belgium NV (the present Nitto Europe NV).

1975
Establishment of Nitto (Canada) Inc., Production of polarizing films for liquid crystal displays begins.

1977
Tachikawa Plant begins operation.

1982
Kyushu Nitto Denko (the present Nitto Electronics Kyushu Co Ltd) begins operation.

1983
Beginning of production of transdermal drug delivery patches.

1986
Shiga Plant begins operation as the world's first plant specilzing in membrane production.

1987
Acquisition of Hytronetics in the USA.

1988
Acquisition of Permacel in the USA.

1990
The Third Change Period-Return to Our Core Business-Introduction of Division System
1989
Development of plant tissue culture technology.
1992
Establishment of Nitto Denko Himawari Co Ltd.

1997
Beginning of production of transdermal drug delivery patches.

1998
Construction of Adhesive Tapa Research & Technology Center at the Toyohashi Plant.

1999
Establishment of Nitto Denko Packaging System Corporation, Establishment of Korea Nitto Optical Co Ltd.

2000
Establishment of Nitto Denko Himawari Co Ltd.

2002
Initiation of spiral RO element module assembly in Shanghai Songjiang in China.

2003
Acquisition of Elan Transdermal Technologies Inc in the USA (the present Areva Drug Delivery Systems Inc).

2005
Received the Prime Minister Prize for "Invention of the method of manufacturing wide-view-angle birefringent film for LCDs".

2006
Head office is relocated to Osaka-shi.

2007
Kyokin Corporation, one of the group companies, and Nitto Denko Matrix Corporation are consolidated into Nitto Denko Corporation.
Evolving Product Family of the Nitto Denko Group

The Nitto Denko Group has lived up to its customers’ expectations with advances being made in the areas of solid polymer synthesis technology and adhesive processing technology. The Nitto Denko Group has provided highly functional materials for markets since its inauguration of business as the first domestic manufacturer of electrical insulation material in 1918. Nowadays our range of products is extensive and includes new materials used for cutting-edge electronic devices to products that support the environment and health. The Nitto Denko Group’s contribution to society is continually expanding.

**Developing into electronics market**

- **Membrane products**
  - For producing water in areas lacking a supply of fresh water.

- **Optical materials**
  - For LCD television screens
  - Polycrystalline wafers
  - Polycrystalline belts

- **Reverse osmosis membrane products used for seawater desalination**

**Medical products**

- Such patches can be used for patients who have difficulty swallowing medication in tablet form.

- **This product reduces the strain on knees and other joints.**

**Applying and developing adhesive processing technology**

- **For sealing cardboard boxes and for other general sealing purposes.**

- **Kraft adhesive tape**

**Starting from electrical insulating material**

- **Electrical material**
  - High-voltage electrical insulation
  - Electrical insulation varnish

- **For around pipes**
  - HYPERFLASH® RUBS
  - For around pipes

- **For transfer/fixing parts of photocopiers and laser printers**
  - Intermediate transfer belt
  - Curving belt

- **Polyethylene extruded belts**

**For cellular telephones**

- **Fluoroplastic porous membrane**

**For headlights of vehicles**

- **Polymerizable double-sided adhesive tape**

- **In-situ forming parts such as adhesive strips**
  - Enhance safety and increase stability as they prevent loose ends becoming peeled off and can glue onto easy to remove.
Moving towards a More Advanced Optical Business

TV sets, personal computers and cellular phones are indispensable items in our modern lives. The Nitto Denko Group is an international top supplier of products used by manufacturers of liquid crystal display (LCD) panels. Both polarizing films and retardation films are used in the production of LCD panels.

Market Circumstances

Following on from fiscal 2006, the liquid crystal display (LCD) panel market, with its focus on LCD televisions, personal computers and cellular phones, has built on previous solid growth throughout fiscal 2007. With the development that has occurred in the new manufacturing process building in the Onomichi Plant, we have managed to achieve an increase of 20% over the last year in spite of adverse conditions relating to the appreciation of the yen. Despite other concerns relating to such things as the sub prime loans slowdown, further strong market growth looks promising in the LCD business.

Shift in Strategy

The LCD panel market has not yet reached its peak. We are planning and strategizing on the basis that it is likely to do so in the near future. Apart from sticking to conventional marketing approaches of securing shares with existing competitors in business investment, we aim to reform and improve our production processes and materials used. This will make it possible for us to supply big screen TV or small and medium sized LCD panel producers with a range of different and improved products. Examples of such product advancements include, the development of transparent conductive films used for touch panels in game machines which use pen-based input technology, cellular phones and mobile computers, optical films for super sized information displays of over one hundred inches in size and optical films for in-car devices where high durability is required given their outdoor application.

Advantage of Our Business

Our advantage lies in our technical capabilities given that we are able to combine core technologies such as polymer synthesizing and processing with more than six hundred technological applications. Additionally it is also to our advantage that we have a vertically integrated business model, where every aspect of design, development, experimental manufacture, manufacture and sales of optical film such as polarizing film and retardation film is carried out within the group. In fact, Global Nitto Top products have been produced through using “advanced technologies” such as retardation film which has an optical compensating function, polarization conversion film which recycles light and products with processing surface treatment, thereby reducing panel glare.

As we set up manufacturing and sales bases close to customers in Japan, Taiwan, Korea and China, we will be able to extend our marketing activities globally. This will allow us to collect invaluable market research, so that we can then analyze and use it to adjust our business accordingly. In effect it will allow us to keep our fingers on the “business pulse”.

Percentage of Sales in Our Optical Business

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<thead>
<tr>
<th>Type</th>
<th>Ratio</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optical business</td>
<td></td>
<td>41.5%</td>
</tr>
<tr>
<td>Total sales</td>
<td></td>
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Nitto Denko Group’s Involvement in the Water Business

We have up until now relied on the natural flow and circulation of water, where the sun causes the evaporation of water from the surface of the sea and returns it into the sea and over our land through rainfall and via our rivers. Freshwater (river water, well water, rainwater) has been used for agricultural purposes, daily life and industry. Now the human species is experiencing the problem of a shortage of freshwater resources. It is known that there is little hope of the human species maintaining a sustainable future without a solution to this problem.

There are two main factors responsible for the drying up of our freshwater resources. The first relates to changes in the environment resulting in increased salination of well water. This salination has resulted from the rising sea-levels which has been triggered by global warming and the desertification and drying up of rivers as a result of climate change. The second is the increased demand and consumption of water resulting from the industrialization of developing countries, population growth on a global scale, improved living standards and increases in pollution resulting from industrial activities. Now approximately thirty countries are faced with water shortages. If the current trend continues, almost half of the world’s population will encounter water shortages by 2025. It is expected that by the middle of the 21st century, approximately seven billion people will suffer water shortage. There is no room to doubt the significance and importance of this pressing issue concerning the human species. The challenge we face concerns not only how we are going to maintain our existing yet limited freshwater resources but also how we are to secure new water resources.

Water stress forecast of 2025

Adapted from World Water Council (World Water Vision)
Membrane Business
Spreading throughout the World

1 | Serious Water Shortages

It is the Nitto Denko Group's goal to take on the task of developing membranes which produce pure, clean freshwater. We wonder how many people actually are aware of the seriousness of our current global freshwater shortage. About 97.6% of water on earth is seawater. Most of the 2.5% that remains can be found in Antarctica and in the form of glaciers. Actual raw water which can be used for sourcing clean fresh water makes up only about 0.01%, and we are only able to get it from underground sources or from rivers and lakes. Recent rapid development of our civilization has resulted in a considerable increase of polluted water in our daily lives, agriculture and industry. Although we are recycling wastewater, it is necessary to get water from seawater or wastewater in order to secure the amount of freshwater we need without exhausting the earth's natural supply. In fact, pure water is now being obtained from seawater in the Middle East and Europe, and from wastewater in Singapore, Japan and the USA should not be exceptions to this kind of resource mindfulness. We cannot afford to be complacent about our fresh water supply or lack thereof.

2 | New Development in the Membrane Business

The Nitto Denko Group's membrane business has been a project which has been assiduously cultivated since 1979. As a result of combining external technologies with our own technologies (precision coating, anti-pollution, control of chemical reactions, surface analysis and evaluation and water analysis and evaluation) we have finally made it possible to use membranes as an element used within water treatment plants.

Producing clean freshwater was not our initial object, but we came across this application as we pursued our efforts into producing the ultra pure water that was necessary in manufacturing semiconductors.

With the opening of our Shiga Plant in 1986 we saw for the first time in the world a manufacturing plant specializing in the production of water treatment membrane. Since that time the membrane business has advanced rapidly. In 1987 we acquired Hydranautics in the USA, and since then we have achieved remarkable breakthroughs. But with the overseas transfer of semiconductor manufacturers and the maturity of markets, business began to weaken.

As the market began to weaken the Nitto Denko Group developed a business transition strategy which involved applying the same advanced manufacturing techniques that we had been using for the production of ultra pure water for semiconductors, but instead adapting and developing it further to enable the production of membrane with a desalination function. At present this change in our business direction is proving to be fruitful with our manufacturing techniques used for the production of ultra pure water receiving great recognition.

3 | Future of Wastewater Treatment Technologies

In 2008 Nitto Denko Corporation and Mitsubishi Rayon Engineering Co Ltd jointly entered into a Memorandum of Understanding relating to the development of a next generation wastewater treatment system with the Public Utility Board (PUB), a branch of the Singaporean government. Singapore is at the top when it comes to technological development relating to the recycling of black water. Although it is small in scale, this government pilot project if successful will serve to establish an international benchmark concerning the technological processes involved in producing pure water. Such next generation wastewater treatment technology is sure to be introduced worldwide within the not too distant future.

4 | Development of Patented Technology for Reverse Osmosis Membrane

Pure water can be produced through either using a distillation method or a reverse osmosis filtration method using reverse osmosis (RO) membrane. In relation to RO membrane, both a flat sheet membrane and a hollow fiber membrane exist. The Nitto Denko Group is a front runner in flat sheet membrane technology. The production of “pure water” through using RO membrane is much more energy efficient than through using the distillation method, and reduces the environmental burden to a minimum. Despite of this further challenges still exist. Our flat sheet membrane is unique in its surface characteristics. We have made good use of our unsurpassed polymer and coating technology, which has been used in the development of the adhesive compound used in the production of our tape. By allowing our flat sheet membrane to crimp, we have been able to allow for a greater surface area of the film to be in contact with the liquid. In doing so we have been able to resolve the challenge of improving our desalination efficiency and can now maximize the amount of fresh water produced. We have a patent for this technology.
Nitto Denko Wins Prestigious Nikkei Award for Seawater Desalination Membrane “SWC5”

Delightful News Given Growing Freshwater Shortage

The seawater desalination membrane “SWC5”, one of the main products of the membrane division of the Nitto Denko Group was awarded the “2007 Nikkei Superior Products and Services Awards/Nihon Keizai Shim bun Award for Excellence.” These awards are given every year to new products and services deemed to be especially superior. The award winners are selected from among a total of some 20,000 products that have been covered by articles in four Nikkei papers (Nikkei, Nikkei Business Daily, Nikkei Marketing Journal and Nikkei Financial Daily) during the year.

The “Awards for Excellence” are chosen by comprehensively taking into account such factors as how technically developed the product or service is, how cost-effective it is, how much it has contributed to corporate financial performance, how much it can expect to grow in the market, how original it is, and how much impact it is expected to have on an industry and society. In 2007, two other products from other enterprises with significant environmental benefits were also selected. They were hybrid vehicles (Lexus LS600h, Lexus LS600hL) and a wind power generator (MWT/322k).

We regret that the "Comments from the Judges" cannot be posted on the website.
Qualities of “SWCS”

The awarded “SWCS” is the RO membrane for seawater desalination which allows for a demineralization rate of 99.6%, the highest level in the world. The RO membrane also allows for improving water permeability. The accumulated technological insight gained by the membrane division has enabled us to control chemical reactions and design at a molecular level allowing for higher performance.

The RO membrane relies on pressure produced by electricity to effectively desalinate water. The energy used to create the necessary pressure to effectively use the RO membrane is produced from petroleum, a resource which does not exist in an endless supply. Unfortunately petroleum in exchange for producing energy also discharges carbon dioxide which causes global warming. Improvements made to the water permeability characteristics of our RO membrane have resulted in the membrane now contributing to energy saving as less electrical energy is required for the same outcome.

Algeria, located in North Africa suffers from a chronic water shortage. Our RO membranes will be used in the largest plant of its kind which is located in Algeria. This plant will filter approximately 200,000 m³ of water per day. The Algerian plant will soon start operating. Significant orders for the same product also came in from Spain, Australia, Mexico and China.

Brett Andrews
COO, Hydranautics

“SWCS delivers the highest level of salt rejection with the lowest energy requirement in the business. SWCS is a next-generation product superior to the existing seawater RO membrane technology. With rapidly rising energy costs and ever stricter water quality limits, SWCS will lead the way in desalination, keeping the Nitto Denko Group at the forefront of RO membrane technology.”

The Nitto Denko Group manufactures products through combining over six hundred different types of technologies which have evolved from four fundamental technologies: “Adhesion Technology”, “Coating Technology”, “Polymer Function Control Technology”, “Polymer Analysis and Evaluation Technology.”

It may be difficult to identify the common threads when comparing the Nitto Denko Group’s ten thousand products or more, however four core technologies lie at the basis of what we produce, with some six hundred different peripheral technologies also coming into play. The Nitto Denko Group aims to further develop and combine new technologies into manufacturing processes so that we can continue to produce useful high quality products.
Research and Development of the Nitto Denko Group

Products Produced from Complex Technologies

Transdermal Drug Delivery Patch

"Transdermal Bronchodilator Therapeutic Patch for Asthma"

This product is produced from a combination of the following technologies:

- Pharmaceutical Adhesive Design Technology
- Pharmaceutical Carrier Design Technology
- Precise Coating Technology
- Punching Technology
- Foreign Matter Detection Technology
- Controlled Release Technology
- Crystalline Pharmaceutical Production Technology
- Pharmaceutical Formability Simulation Technology
- Property Evaluation Technology
- Safety Evaluation Technology

Transdermal bronchodilator therapeutic patch for asthma is an adhesive tape, which holds medical ingredients that are absorbed through the skin when stuck on the body, as a treatment for the prevention of asthma attacks.

Automobile Paint Protection Films

This product is produced from a combination of the following technologies:

- Non-Contaminating Technology
- Weather-Resistant Technology
- Removable Technology

It is a film that prevents damage to the paintwork of new cars from acid rain, scratches and dirt.

REVALPHA™

This product is produced from a combination of the following technologies:

- Temperature- and Humidity Resistant Foaming Technology
- Foaming Agent Particle Size Control Technology
- Adhesive Property Control Technology
- Cutting and Punching Technology
- Adhesion Control Technology
- Coating Technology

The thermal release tape REVALPHA™ includes a new feature allowing it to be both an "adhesive" and "detachable" tape, which adheres firmly when required and is easily removed through heating when necessary.

NIBCOM®

This product is produced from a combination of the following technologies:

- Optical Design Technology
- Adhesive Technology
- Reflective Control Technology
- Surface Treatment Technology
- Polymaterial Technology
- Design Technology
- Drawing Technology
- Punching Technology
- Optical Property Evaluation Technology

The interference compensation film "NIBCOM™" is used for large-size LCD panels like LCD television, keeping high contrast, high viewing angle and high definition picture which is easily viewable and allows for beautiful LCD display.

Developing Polymer Carrier for siRNA Delivery System

Biodegradable polymer from the Nitto Denko Group has demonstrated itself to be useful in liver cirrhosis treatment jointly with Sapporo Medical University, Japan.

Collagens are thought to accelerate the progression of cirrhosis. By administering siRNA (short duplex RNA which has the same sequence as a part of the target gene) the function of genes which promote the production of collagen is inhibited. This in turn may delay the progress of cirrhosis. Until now liposome (lipid capsule) coated with vitamin A has been used as a carrier to deliver siRNA to causative cells. The formulation of it industrially has been our task.

With using the biodegradable polymer developed by Nitto Denko Technical Corporation instead of liposome, the delivery efficiency of siRNA to the affected site has become stable which has resulted in a treatment option for cirrhosis becoming available.

Biodegradable polymer is a gene carrier which administers medication effectively to an affected site. In the future we plan to advance the research we are doing on carriers that may assist with the treatment of other organs.

World's First High-performance Rewritable Holographic Display Successfully Developed Jointly with the University of Arizona

We have succeeded for the first time in the world in developing a holographic display which has outstanding image longevity as well as an image updating capability more possible by taking advantage of utilizing a polymer material allowing for the world's highest quality picture brightness and a fast writing speed (a joint development with a research team led by Prof. N. Poygharnabarian of the University of Arizona). We envisage that such technological developments, in the future could be applied to devices and equipment that requires three-dimensional visualization in fields such as medical care, industrial operation and security assurance.

A hologram is an image, which is used in films and the like as a means of displaying an object in three-dimensional form. Holograms can also be applied to the use of credit cards or banknotes as a way of preventing forgery. Current hologram recording materials have the disadvantage that once an image is recorded, the image is not re-writable. However, new holographic display technology has resolved this limitation and will make it possible in the future to play video and the like, making three-dimensional television no longer a dream.
History of the Nitto Denko Group’s Approach to the Environment

**Environmental Equipment**
- 1969: Installation of solvent vapor recovery equipment
- 1974: Expansion of recycling businesses
- 1986: Establishment of the Environment Committee
- 1990: Establishment of the Environment Promotion Center

**Environmental Measures**
- 1969: Installation of adhesive tape production without the use of solvents
- 1974: Establishment of a récupération system
- 1986: Establishment of a cooperation system
- 1990: Establishment of a Recycling Promotion Center

**Environmental Legislation**
- **1967**: The Basic Law for Environmental Pollution Controll was enacted.
- **1968**: The Air Pollution Control Law was enacted.
- **1970**: The Water Pollution Control Law and other environmental laws were enacted.
- **1991**: The Kenjiro Otsuki Environment Charter was established.

**Environmental Products**
- **1967**: BlackYellowMagentaCyan
- **1980**: Non-halogen adhesive tape
- **1990**: Nitohard
- **2000**: Polazation conversion film

**Environmental Slogan**
- "The Next Green Design"
Environmental Practice

Material Flow in Fiscal 2007

With the prevention of global warming and the more effective use of resources existing as priorities in the global agenda, we have implemented a number of energy saving strategies, along with converting to using fuels that produce less CO2 emissions, the recycling of waste materials into raw materials and the recycling of solvents as measures taken in finding solutions to such environmental concerns.

Through converting the fuels used in the Toyohashi Plant and through reducing the use of perfluorocarbons (PFCs) in the Kanto Plant, we have contributed to the prevention of global warming through achieving a reduction of 100,000 ton equivalent of CO2 emissions, (Fiscal2006: 533,990 CO2metric tons → Fiscal 2007: 477,056 CO2 metric tons), We continue to give high priority to the recycling of waste plastic and the reusing and the recycling of solvents. The amount that we recycle increases year by year.

Energy

Along with an increase in production, we have seen an 11% increase in the amount of energy used in comparison to the previous fiscal year. However, overall we have improved our production output efficiency (unit energy consumption) by 17% through implementing energy saving activities, the installation of highly efficient equipment and through the implementation of aggressive waste energy recycling practices throughout the whole plants.

Total and Unit Generation of Industrial Waste

Through the cogeneration system introduced at the Toyohashi Plant has enabled us since May 2007 to exchange using heavy oil as a primary fuel source to natural gas (NG). This shift has resulted in a reduction of CO2 emissions of approximately 18,000 CO2 metric tons.

Furthermore, at the Kanto Plant we have reduced our usage of perfluorocarbons which are used in material processing, resulting in a reduction of 12,000 CO2 metric tons.

Total and Unit CO2 Emissions (non-consolidated)

Reduction of Industrial Wastes

Along with increases in production, the amount of industrial waste produced has also increased year by year. In order to utilize industrial wastes more effectively, we have adopted numerous strategies such as the recycling of industrial waste into valuable usable resources.

Since 2003 we have managed to maintain a recycling rate of over 98% of the industrial waste produced by Nito Denko Corporation's plants. As a result of the development of the Recycling Promotion Center established in 2005 we have not had to rely so extensively on external recycling facilities for recycling purposes.

In the future, apart from maintaining our current rate of recycling, we will review our industrial waste prevention system through using a method known as Material Flow Cost Accounting (MFCF).

Amount of Volatile Organic Compound (VOC) Emissions

We began reducing VOC emissions being produced in the 1980's and have since that time shown steady reduction results. However exhaust-gas treatment equipment is limited with regard to VOC emission reduction; given the current technology available and as such the emission reduction rate in this area of our business has remained unchanged for a few years.

In order to reduce VOC emissions we have implemented cornerstone measures such as reducing the amount of VOC used and expanding product lines that do not require the usage of solvents. Other step gap measures have also been introduced.
The Nitto Denko Group has implemented a unique environmental management index and has set a target level as a means of contributing to the prevention of global warming through measuring our overall environmental load. The Environmental Management Index is defined as the value of added value created by corporate activities divided by the environmental load in CO2 equivalent.

We have set our target values with the aim of doubling our environmental efficiency by fiscal 2015 in comparison to the level achieved in fiscal 2005. In fiscal 2007, we set a mid-term target goal aiming to increase our environmental efficiency when compared to the fiscal 2005 level by 20%. We were able to achieve this target through implementing various environmental load reduction activities.

### Total and Unit Generation of Environmental Load (consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2005</th>
<th>2007</th>
<th>2009 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>245</td>
<td>245</td>
<td>245</td>
<td>245</td>
</tr>
<tr>
<td>VOC</td>
<td>1,526</td>
<td>1,740</td>
<td>1,576</td>
<td>1,545</td>
</tr>
<tr>
<td>Other</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>2,308</td>
<td>2,308</td>
<td>2,308</td>
<td>2,308</td>
</tr>
<tr>
<td>Unit generation</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
</tbody>
</table>

### Environmental Management Index

The Environmental Management Index is an index used to evaluate our environmental efficiency through measuring the relationship between the value created by corporate activities and the environmental impact.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Management index</td>
<td>0.195</td>
<td>0.332</td>
</tr>
</tbody>
</table>

### Environmental Practice

The Nitto Denko Group works cooperatively in addressing the issue of global warming. An example of this is the Nitto Legi-Cem Corporation (which is in charge of distribution of goods throughout the Nitto Denko Group) which has initiated a strategy that is expected to result in a reduction in CO2 being produced through focusing on the way that materials and products are distributed between plants.

In fiscal 2007 we implemented our reduction of CO2 strategy, focusing on the fact that in-process materials were transferred between plants. Through changing the transportation methods used to distribute materials between the Toyashiki Plant and the Onohama Plant from trucks to trains and through using special transporters in order to increase carry efficiency, we have furthered our efforts in practically reducing our environmental load. We aim to further broaden this strategies scope of influence through addressing methods of distribution to customers both domestically and internationally.

### CO2 Emissions by Source (consolidated)

- **Electricity and fuel**: 65%
- **CO2 emissions in fiscal 2007**: 591,114 metric tons/year
- **Electricity and fuel**: 65%
- **Increment of industrial waste**: 28%

**Note**: The data is based on CO2 equivalent.

New Plant in Czech Republic Begins Operating

In 2008, in order to secure parts locally and to keep up with the increasing demand of especially large components used in Eastern Europe, we will open a plant specifically for the fabrication of optical fiber at the Komotini Textile Industry Park in the Czech Republic. In Europe, production plants manufacturing televisions have sprung up throughout Eastern Europe in places such as the Czech Republic and Poland. If full-scale production of LCD televisions were to start, we expect to experience an increase in demand for liquid crystal panels.

The new Czech industrial park was built on clustered land. The excavated soil not needed for the building of our plant was given to neighboring farm families and is now being used in wheat fields.
Environmental Practice

Efficient Utilization of Resources

In 2006 the Nitto Denko Group began a project known as the "Total Loss Reduction Task Force." As part of the project, through constructing the best manufacturing system that we could, we have reduced not only the amount of materials and energy used in the production process but also the amount of industrial waste produced. Such activities are being developed throughout at Nitto Denko Group plants. We have targeted the production line used to produce reverse osmosis membrane and flexible printed circuit (FPC). More recently we have implemented strategies relating to improving resource efficiency within our optical film production sites overseas.

- Total and Unit Generation of Industrial Waste (consolidated) [metric tons/year]

<table>
<thead>
<tr>
<th>Year</th>
<th>Nitto Denko Corporation</th>
<th>Cautious group companies</th>
<th>Overseas group companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>162,976,575</td>
<td>94,697,909</td>
<td>33,972,586</td>
</tr>
<tr>
<td>2005</td>
<td>162,976,575</td>
<td>94,697,909</td>
<td>33,972,586</td>
</tr>
<tr>
<td>2006</td>
<td>162,976,575</td>
<td>94,697,909</td>
<td>33,972,586</td>
</tr>
<tr>
<td>2007</td>
<td>162,976,575</td>
<td>94,697,909</td>
<td>33,972,586</td>
</tr>
</tbody>
</table>

- Recycling Rate (consolidated)

<table>
<thead>
<tr>
<th>Year</th>
<th>Recycling Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>94.8</td>
</tr>
<tr>
<td>2005</td>
<td>94.8</td>
</tr>
<tr>
<td>2006</td>
<td>94.8</td>
</tr>
<tr>
<td>2007</td>
<td>94.8</td>
</tr>
</tbody>
</table>

Enhancement of Legal Compliance Using Industrial Waste Management System

Nowadays news relating to the illegal dumping of industrial waste is unending. The Nitto Denko Group has introduced its domestic plants and group companies an industrial waste management system which aims to ensure that measures are in place to minimize risks associated with industrial waste. The system also aims to improve operating effectiveness and to ensure that legal compliance management is in order.

Wind Energy Program at Lakewood Plant of Permaseal

In fiscal 2007, 15% of the Lakewood plant's electrical usage was drawn from wind power. The positive effect of this to the environment was equivalent to the planting of 386 acres of trees, or taking 96 tons of the road. The percentage of wind power energy used by the same plant in fiscal 2006 was 6%. The rate of increase over the last fiscal year was made possible due to changing the source of the wind energy used from the Northwest to the Midwest (USA) which had a lower unit cost. Midwestern wind energy is more cost effective because land for building wind farms is less expensive and the prevailing wind is more favorable for electricity generation. Wind energy is a significant clean and sustainable energy source which when used contributes to the reduction of greenhouse gases. It is because of this that national projects are taking place in the USA. Within the USA, wind power takes third place with its current electrical generating capacity. Despite this and despite wind power electrical generation increasing at thearget rate in the world, the percentage of electrical consumption from wind power accounts for only 0.8%, and is unfortunately far below the world average.

Environmental Practice

New Environmental Indicator

Environmental Accounting

We have introduced Environmental Accounting tools designed to assist us in reducing our environmental load and to help cut costs. In addition to the "Environmental Conservation Cost" outlined in the Ministry of the Environment’s Environmental Guidelines, we are able to determine areas of our business requiring further reductions and managerial scrutiny. We can achieve this through converting the reduction in environmental load resulting from the implementation of more environmentally conscious production practices into CO₂ equivalent.

EEBE®

The External Economic Benefit Evaluation (EEBE®) is a new standard used to evaluate value. It evaluates contributions to the environment through quantifying those things which financial statements have been unable to measure. Nitto Denko Corporation has an interest in the measure and is taking part in its development and research.

Material Flow Cost Accounting

One of the tools available to measure the reduction of environmental load is Material Flow Cost Accounting (MFCA). By focusing attention on the loss of resources and energy throughout the production process, we are able to evaluate and analyze costs through counting "negative costs," these being the costs associated with what could not be produced. Nitto Denko Corporation is the first enterprise to have introduced this measure.

In linking with the Ministry of Economy, Trade and Industry, we strive to follow the practice of MFCA, encouraging its spread to other domestic enterprises. With international standardization activities proving successful, it has been decided that MFCA will be set as an international standard. This is due to take place in November 2011.

Improvement Circumstances of Adhesive

Tape for Electronics in Toyoshashi Plant

<table>
<thead>
<tr>
<th>Cost classification</th>
<th>Fiscal 2007</th>
<th>Fiscal 2006</th>
<th>Fiscal 2006/plant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive cost</td>
<td>68%</td>
<td>76%</td>
<td>96%</td>
</tr>
<tr>
<td>Negative cost</td>
<td>32%</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Planted Trees Growing Large at Tohoku Plant

Nitto Denko Corporation's Tohoku Plant was established in 1977. It was built on arable land. In order to restore the environment as much as possible, trees were planted around the buildings. Further expansion of the plant required that some trees needed to be cut down or transplanted. Despite this, the remaining trees have grown larger. We hope to be a plant that truly consists with nature and greenery in the future.

*Trees planted at the start of plant operation
Established trees now standing around the plant's buildings.
Environmental Practice
Proper Management of Chemical Substances

The Nitto Denko Group uses various chemical substances. We understand the influence that such chemicals may have on humans, the global environment and ecosystems. Due to our commitment to ensure that we manage and deal with such chemical substances safely and responsibly we have adopted a voluntary management standard, which is stricter than legal requirements.

We established the Chemical Substances Control Center in 2007 and from its outset adopted more stringent overseas legal control limits than were required domestically at the time. Additionally, we have drawn up a set of common criteria that can be used to judge the Nitto Denko Group to meet the demands of customers and suppliers. We aim to implement a consistent approach to the information we provide relating to the safe management of chemical substances including raw materials used by the group in the manufacturing of our products.

For some time we have considered REACH as a significant regulation, pointing out the risks associated with usage of chemical substances, and we have taken measures to ensure its implementation in collaboration with relevant institutions.

Making Presentation at Eco-Products 2007 Exhibition
In December 2007, we participated in Eco-Products 2007 held at the Tokyo Big Sight. It was the largest environmental exhibition held to date with over 100,000 spectators attending the three day event. Approximately 3,000 people largely elementary and junior high school students visited our booth where we introduced our products and our environmental approach.

MFCA Receives a 2007 Eco-Efficiency Award
An official 2007 Eco-Efficiency Award commendation was given to Nitto Denko Corporation in response to Eco-Products 2007, Nitto Denko Corporation adopted MFCA, becoming the first Japanese enterprise to implement this measure for the Ministry of Economy, Trade and Industry and to use this as a judgment tool for environmental investment. Nitto Denko Corporation was highly evaluated as such and received a special award in the MFCA sector.

Safety First, Profits Second

The Nitto Denko Group considers that distinct gains come from employees working hard in an environment that is not over anxious about quantities manufactured. We believe that “treating safe workplaces” is the most significant starting point of all.

We Give Priority to Employees’ Safety whilst Also Focusing on Profit

The Nitto Denko Group aims at establishing and maintaining a workplace environment that allows employees to work safely without having undue worries about the safety of their work environment, under our policy of “safety first, profits second”.

Through analysis of industrial accidents which have occurred at Nitto Denko Group facilities, it has turned out that in many cases employees were injured because they touched moving equipment. Given this we are strongly promoting what we call a “Stop-off-Culture”, which recommends stopping equipment when an accident occurs to fully understand the cause and to assess if any necessary changes need to be made or any further preventative measures need to be put in place. Our aim is to be fatally and accident free.

In addition to implementing our “Training for the Foreseeing of Danger” program and S5, namely seiki (arrangement), azekon (lining), azetsu (purify), azewisu (cleaning) and abibake (breakdown), we have implemented a virtual education tool which cultivates employees’ sensitivity towards detecting danger through the use of Virtual Risk Experience Apparatus.

Furthermore, we have introduced risk assessment throughout the whole group. As a part of this strategy, we have implemented our “Prior Examination System for Equipment”, which aims to ensure that any equipment that is about to be used is safe to use. When introducing equipment its safety is evaluated from a technical standpoint and any identified problems are rectified prior to usage. This system incorporates recommendations made by those in charge of our manufacturing, production engineering and environment safety departments.

In order for such a system to take root, we have taken steps to ensure that employees comply with our safety rules.

Looking historically at each group company, the safety standards and the locations at which industrial accidents occur vary. The sector managing environment and safety within the whole group are implementing consistent strategies aimed at raising safety awareness. Such strategies include involving employees in many learning and safety promotional activities.

With respect to compliance with existing laws, the sector managing environment and safety within the whole group gathers up to date information regarding any new regulations both domestically and abroad that relate to their business and shares such information among group companies. We have an improved information infrastructure which allows each group base to link up with each other as a means of better managing information relating to environment and safety. This should allow us to have a consistent and integrated approach in this area.

In line with our policy concerning the development of the Nitto Denko Group’s human resources, we are implementing management training relating to environment and safety, targeting not only employees in charge of environment and safety but also newly appointed administrative managerial staff and management executives within our group companies.

Through making use of information acquired through the implementation of such approaches, we have drawn each employee’s attention towards the importance of acting in a safe manner.

Fatal or Serious Industrial Accidents

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of accidents</th>
<th>Fatal</th>
<th>Serious</th>
<th>% fatal rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>36</td>
<td>3</td>
<td>33</td>
<td>8.32</td>
</tr>
<tr>
<td>2012</td>
<td>35</td>
<td>2</td>
<td>33</td>
<td>5.71</td>
</tr>
<tr>
<td>2013</td>
<td>36</td>
<td>3</td>
<td>33</td>
<td>8.32</td>
</tr>
<tr>
<td>2014</td>
<td>37</td>
<td>2</td>
<td>35</td>
<td>5.37</td>
</tr>
<tr>
<td>2015</td>
<td>38</td>
<td>2</td>
<td>36</td>
<td>5.26</td>
</tr>
</tbody>
</table>

1. Since fiscal 2013, we have put in place official criteria which clearly clarify the difference between serious accidents and fatal accidents.
2. Industrial accidents involve accidents of employees at work or in the vicinity on the company's premises.
Relationship with Local Community

Cosponsoring the Osaka International Ladies Marathon

As we did last year, Nitto Denko Corporation cosponsored the Osaka International Ladies Marathon held on 27 January 2008. This was our fourth cosponsoring of the event. This year the event received considerably more publicity than previous years, given selections for the Beijing Olympics were on the sporting agenda.

We also cosponsored the Osaka Half Marathon held on the same date. The number of participants increased from three to four thousand.

A primary objective of cosponsoring such a race is to promote communication and bring about a sense of unity between employees through mutually participating in volunteer activities and the half marathon.

Employees Participating in the Osaka Half Marathon

Since we began to cosponsor the Osaka International Ladies Marathon, the number of employees enjoying running has increased each year, with 171 employees having participated in the Osaka Half Marathon this year. Among the participants there were eight employees from East Asia, who were qualifiers from each overseas group company and two Nitto Denko Vice Presidents. After the race our East Asian participants made statements reflecting on their impressions about their experience.

Employee Volunteers Supporting the Race

We cosponsored the Osaka International Ladies Marathon under the banner of “Backing up Challengers.” On the day, employees buckled down and assisted the event in carrying out volunteer activities such as cleaning around the site, distribution of flags for cheering purposes and the offering of sporting tapes for runners. Furthermore, during the Osaka Half Marathon, we joined other volunteers in providing assistance in handing the water supply for participants during the race and distributing towels to runners at the finish line. Reflecting on the experience, one employee stated, “I felt a strong identification with the group.” Another said, “I communicated with my colleagues whom I had previously had no chance to speak with.” Such comments embraced the thoughts of many employees who were part of the volunteer crew.

On the day we set up a display booth for the amusement of visitors, where we introduced some of our products and technologies. We also had children experience the “mystery of science” through “seeing, touching and making” activities. Volunteer employees provided explanations about the products and assisted children with handicraft activities. In total we had about three thousand visitors. Naturally, we were very happy the booth was a success and enjoyed by all.

Approach to a Better Society

Sponsorship for Walk/Race for What Matters

Aveva Drug Delivery Systems Inc. (AVEVA) has a mission to develop pharmaceutical products that improve the lives of people and which are friendly to the environment. AVEVA aims to set down roots and support its local community. AVEVA has already entered into a sponsorship agreement with the United Way of Broward County to support its 3rd Annual Walk/Race for What Matters.

The Race for What Matters is a Committee 28 Fit sanctioned event, a children’s wellness initiative designed to encourage better nutrition and increase physical activity. The event took place at Tradewinds Park in Coconut Creek at 7:00am on Saturday, February 16th. AVEVA employees including the President and even a temp who had just begun working at AVEVA a week prior to the event participated. The experience of meeting colleagues from different departments and sharing a common feeling of achievement was very worthwhile and is something that will be encouraged in our business. The 5K Walk/Race For What Matters has been growing every year, from 300 participants in its inaugural 2006 event to 842 participants in 2008.

Our Feeling towards Overseas Job Applicants - Participating in Labor Festival Hosted by An Giang Province

In November 2007 the First Labor Festival was held, Nitto Denko Vietnam Co Ltd was invited to the festival. Four representatives from among fifty participating companies participated as panel members in a TV program put on by the government of An Giang Province, Vo Dang Vinh of Production Director from Nitto Denko Vietnam Co Ltd attended.

Fifteen thousand job seekers attended the presentation meeting and many of them visited our booth. As a result, we ended up recruiting twenty applicants. While we were unable to take on a larger number of applicants we were able to establish friendships with agencies within An Giang Province.

*The population of An Giang Province is around two million. It is located in Mekong Delta in the southwest of Vietnam. It is one of the granaries of Vietnam and borders onto Cambodia. It depends on its agricultural industry and is quite poor. Around three hundred thousand people from the area are looking for jobs. The An Giang Province government is concerned about the current situation in particular that it is renowned as having an inadequate education system. In order to develop and improve the standard of education in the area the government is promoting that it will help people find jobs in enterprises with a management educational system.
Back to Advancements in Science — Donating Stained Glass Made Using Our Film to Osaka Science Museum

Osaka Science Museum, which is run by the Osaka Science Education Foundation, is located near Nitto Denko Corporation's head office. The museum aims to "not only collect, keep and exhibit information relating to science and technology but also to investigate and familiarize itself with improvements made relating to culture and the cultivation of citizens". Osaka citizens are familiar with the facility and enjoy the science shows and planetariums that are available. The museum extensively replaces its exhibits every nine years. As a new exhibit, a piece of stained glass donated by Nitto Denko which uses our polarizing and retardation films will be shown.

Helping with Intellectual Training Activities — A Toyohashi Plant Employee Is Becoming a Lecturer at a Boys & Girls Invention Club

"Toyohashi-shi Boys & Girls Invention Club" was established in the hope that "children who are fond of science could grow into spiritually rich children with both imagination and creativity. It is hoped for such children that harbored dreams could come true through the making of inventions and the making of various things." In August 2007, the club held a summer special class named "Let’s experience the latest science and technology!". In accepting an invitation, Nitto Denko Corporation sent an employee from its Toyohashi Plant as a lecturer who explained the principles behind our polarizing film.

Donations Given for Emergency Restoration after the Noto Hanto Earthquake

On 25 March 2007, the Noto Hanto earthquake occurred. Nitto Shinsho Co Ltd asked for donations as the earthquake occurred in the neighboring prefecture and the damage caused was enormous. We combined the donations offered from both our employees and contributions from the company and gave what we managed to raise to the Ishikawa branch of the Japanese Red Cross Society. The money would be used for restoration purposes.

Donation towards a Clean Water Project for AIDS Relief Activities

In the summer of 2007, a retired employee contacted Hydranautics asking for our support. He had been working with a friend to help OIP* provide Kedlakyn water filter kits to support children orphaned by AIDS — many who suffer from AIDS themselves and to healthcare workers to care for housebound patients.

Whilst Hydranautics doesn’t manufacture a specific product for the purpose that they require, we were with the enthusiastic support of our upper management able to provide the OIP with modest funding to purchase 25 Kedlakyn units. We were honored by this request for assistance and we will endeavor to raise funds to purchase further water filter kits until OIP’s need is met.

Hydranautics gives philanthropically at times in honor of our customers and colleagues around the world. The OIP gift was a natural choice for such an activity. This donation was made in a spirit of global friendship and concern for all those around the world who struggle with gaining access to clean drinking water.

*Oyuga's Integrated Project:
A project helping people who suffer from poverty and AIDS in Oyuga (Kyoga)

Donation to the United Way

This year, our employees pledged almost $5,300 to the United Way. Permacel Automotive, as an organization, pledged an additional $400. This was an increase of 3% in pledges from 2006. The United Way of Greater Kansas City (UWKGIC) takes these donations and distributes them throughout the community as needed.

Permacel Automotive has supported the UWKGIC since 2004 and participates in an annual drive to pledge funds for the upcoming year. Our activities include inviting guest speakers from the sponsors of United Way to speak to all of our employees. As a part of the drive, our employees also receive small tokens of appreciation from the company, including company apparel such as t-shirts, pens, notebooks, etc. with the company’s logo on them.

Donation of 10,000 euro to Handicap International

Handicap International is an international voluntary organization specializing in the field of disability. Non-governmental, non-religious, non-political and non-profit making, it works alongside people with disabilities, whatever the concern. Handicap International offers those with a disability support in their efforts to become self-reliant.

The results of a questionnaire completed by our employees indicated that Handicap International was their favorite charitable organization. The objectives of Handicap International and the projects they support tailor well with the CSR objectives set by Nitto Europe NV, such as the sponsoring of initiatives that support people in need. In particular, Handicap International supports a project relating to making people aware of the risks associated with landmines and of mine-clearance projects aimed at preventing people from becoming disabled as a result of landmines.

By sending out e-cards instead of paper Christmas cards, we saved approximately 10,000 euro. About 4500 contacts received an e-card from Nitto Europe.
### Business Results

**10-Year Summary**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Operating Income</th>
<th>Net Income</th>
<th>Operating Income margin</th>
<th>EBITDA margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>577,140,000</td>
<td>32,566,000</td>
<td>13,830,000</td>
<td>5.6%</td>
<td>21.0%</td>
</tr>
<tr>
<td>2007</td>
<td>583,960,000</td>
<td>35,866,000</td>
<td>17,100,000</td>
<td>6.1%</td>
<td>24.0%</td>
</tr>
<tr>
<td>2006</td>
<td>578,890,000</td>
<td>31,470,000</td>
<td>14,780,000</td>
<td>5.5%</td>
<td>20.0%</td>
</tr>
<tr>
<td>2005</td>
<td>567,380,000</td>
<td>30,910,000</td>
<td>13,920,000</td>
<td>5.5%</td>
<td>19.5%</td>
</tr>
<tr>
<td>2004</td>
<td>555,260,000</td>
<td>28,320,000</td>
<td>12,310,000</td>
<td>5.1%</td>
<td>17.2%</td>
</tr>
<tr>
<td>2003</td>
<td>543,700,000</td>
<td>25,790,000</td>
<td>10,820,000</td>
<td>4.8%</td>
<td>15.6%</td>
</tr>
<tr>
<td>2002</td>
<td>532,100,000</td>
<td>23,820,000</td>
<td>9,450,000</td>
<td>4.5%</td>
<td>14.2%</td>
</tr>
<tr>
<td>2001</td>
<td>521,300,000</td>
<td>21,920,000</td>
<td>8,080,000</td>
<td>4.2%</td>
<td>12.4%</td>
</tr>
<tr>
<td>2000</td>
<td>511,200,000</td>
<td>20,230,000</td>
<td>6,770,000</td>
<td>4.0%</td>
<td>11.2%</td>
</tr>
<tr>
<td>1999</td>
<td>492,500,000</td>
<td>18,900,000</td>
<td>5,490,000</td>
<td>3.7%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

### Analysis of the Business Results

#### 1. Summary of Overall Business

This business year, corporate earnings weakened in Japan due to the yen's sharp appreciation and price hikes of all raw materials, while consumer spending remained almost unchanged. Affected by the subprime mortgage problem, which made the pace of economic recovery in Europe more moderate than before. Meanwhile, in Asia, particularly China, the economy continued to expand.

Under this economic situation, the Group increased sales of LCD (liquid crystal display) related materials, circuit materials and industrial materials to the FPD (flat panel display) industry and the electronic device industry, especially for HDAs (hard disk drives) and mobile phones. Sales of high-polymer separation membranes for water-related environment were also favorable. As for transitual drug delivery patches, sales were sluggish as new products were not approved as a medicine in the US. In this business year, the Group recognized and integrated its sales function to cope with the increasing international markets.

As a result, consolidated net sales increased 9.6% from the previous year (changes in percentage hereafter are in comparison to the previous year) to 745,259 million. Operating income rose 12.0% to 73,954 million and operating income grew 10.6% to 74,468 million, net income went up 13.2% to 46,634 million.

Sales, Operating Income & Operating Income Ratio

#### 2. Summary by Business Segment

**Industrial Products**

Sales of bonding and joining products for use in portable electronics (such as music players and game machines), HDD-related components, home appliances and personal computers remained strong particularly in East Asia. With regard to surface protection products, sales of surface protection film for the FPD industry were favorable amid rising demand, while sales of automobile paint protection film and metal sheet protection film stayed flat. Sealing products sold well for peripheral components for appliances such as flat TVs and game gadgets and automobile components, while sales for cell phones were affected by production adjustments by customers. With regard to construction materials, sales were sluggish in Japan affected by the enforcement of the revised Building Standards Law, but sales of masking tapes for construction applications were robust in the overseas market. As for custom-processing materials and purchased goods, overall sales decreased owing to a decline in handling of procurement products.

As a result, sales from the industrial products segment decreased by 4.5% to 256,810 million yen, and operating income decreased by 0.3% to 27,921 million yen.

**Electronic Products**

With regard to the business of LCO-related materials, as the markets for LCD TVs, cell phones and touch panels expanded, the Company put its efforts and resources into

### Note

1. Font FRY999 to FY2002, electronic component-related products are categorized in “Industrial products.
2. Functional products have been separated from “Industrial products” from FY1999.
3. Executive employees are included.
4. The exchange rate Japanese yen and US dollars is the rate at March 31, 2009, which was ¥109.16 to US$1.00.
into the fields, in which it has strength, such as polarizing plates with compensator for large-size panels and transparent conductive films for touch panels. Thanks to these efforts, this business continued to be steady. Sales of semiconductor-related materials rose only slightly in general due to price hikes of materials and an exchange rate fluctuation (in this case, the yen's appreciation), despite favorable sales of environmentally friendly resin and resin for advanced devices. Overall sales of circuit materials were robust backed by strong sales for the storage industry, mainly for HDDs, despite weak sales of such materials for use in cell phones. For electronic processing materials, sales of tape system for semiconductor manufacturing processes slowed affected by market adjustments in the latter half of the business year, while sales of water-protection adhesive tape for semiconductor manufacturing processes and adhesive tapes for semiconductor packaging were steady, as well as sales of processing materials for small electronic components were strong in the field of digital home appliances.

As a result, sales for the electronic products segment rose by 21.1% to 432,320 million yen, and operating income increased by 4.1% to 9,180 million yen.

3. Summary by Geographic Area

In Japan, depreciation and amortization costs due to capital investment increased in tandem with the progression of transfers of high-value-added products to overseas countries. In Asia and the Oceania region, sales of LCD-related products and industrial materials to be used in household appliances and electronic and information equipment such as LCD TVs, PCs and OA equipment were strong. There were particular increases in the sale of industrial materials made to conform to decreasing thickness and functional enhancement of electronic and information equipment.

As a result, sales in Japan were recorded at 256,288 million yen (down 4.9%) and operating income at 44,969 million yen (down 14.4%). Asia and the Oceania region saw strong sales of industrial materials for components related to LCD TV panels thanks to a surge in production in South Korea and Taiwan in addition to increases in LCD-related products. Also, because of robust sales of printed circuits for HDDs, sales were 41,743 million yen (up 20.1%) with operating income at 27,614 million yen (up 123.0%).

In Europe, sales of industrial materials for the automotive industry and cellular phone-related applications showed steady growth resulting in sales of 29,172 million yen (up 22.6%) and operating income of 2,178 million yen (up 37.2%).

In North America, as part of efforts to improve our automotive industry-related business, our product lineup was revised and some products were transferred to production bases in Mexico. The high-polymer separation membranes business was strong in Europe and the Middle East, especially in the area of reverse osmosis membranes for seawater desalination. As a result, sales were recorded at 45,054 million yen (up 6.4%) and operating income was 338 million yen (a restoration to profitability due to an increase of 1,001 million yen from the previous fiscal-year).

4. Capital Investment

The Group invested a total of 59,606 million yen in plant and equipment during the business year under review. Of this total, 38,775 million yen was invested on a non-consolidated basis in production facilities for LCD-related materials at the Omiuchi Plant, facilities for joining materials and surface protection materials at the Toyohashi Plant, and environment-related facilities for high-polymer separation membranes at the Shiga Plant. For group companies, a total of 20,831 million yen was invested in new factories and production facilities for LCD-related materials and facilities for industrial materials in China, Taiwan and South Korea.

5. Financial Condition

Cash and cash equivalents (hereinafter, “Cash”) were 79,238 million yen at the end of the fiscal year, an increase of 4,866 million yen compared with the end of fiscal 2006. The main factors for changes by each cash flow activity were as follows.

Cash Flows from Operating Activities
Cash increased to 101,535 million yen as a result of operating activities. The main factors for this increase include income before provision for income taxes, 69,090 million yen, depreciation and amortization, 49,617 million yen, and trade notes and accounts payable, 5,495 million yen. On the other hand, the main uses of cash during the period include increased amounts of inventories, 4,465 million yen, and payment of income taxes, 20,799 million yen.

Cash Flows from Investing Activities
Cash decreased to 61,468 million yen as a result of investing activities.

Cash Flows from Financing Activities
Cash decreased to 27,664 million yen as a result of financing activities.
This was mainly attributable to the result of a payment of dividends, 12,465 million yen and a decrease in commercial paper, 10,000 million yen.

The following table shows the changes in the Group's cash flow indices:

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity ratio (%)</th>
<th>Equity ratio on a market value basis (%)</th>
<th>Debt redemption period (year)</th>
<th>Interest coverage ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>58.4</td>
<td>228.7</td>
<td>0.3</td>
<td>169.0</td>
</tr>
<tr>
<td>2005</td>
<td>57.7</td>
<td>240.2</td>
<td>0.6</td>
<td>92.7</td>
</tr>
<tr>
<td>2006</td>
<td>66.4</td>
<td>183.4</td>
<td>0.6</td>
<td>77.1</td>
</tr>
<tr>
<td>2007</td>
<td>64.2</td>
<td>117.7</td>
<td>0.2</td>
<td>57.6</td>
</tr>
</tbody>
</table>

Note 1. Required indices are obtained by calculating the financial results on a consolidated basis with the following formulae:
- Shareholders' equity ratio: shareholders' equity / total assets
- Shareholders' equity ratio on a market value basis: total market value of shares / total assets
- Debt redemption period: liabilities with interest / cash flow from operating activities
- Interest coverage ratio: cash flow from operating activities / interest payment

6. Business and Other Risks

6. Optical Business (LCD-related products)
The Group's optical business, the core business of the Group, achieved the number one position in global market share; however, while demand for large-sized LCD TVs is anticipated to grow, however, there are many companies participating in this market and competition continues to be stiff. The Group, therefore, aims to expand its operations through the enhancement of technology superior to that of other companies and efficient investment in production facilities. Yet, an imbalance between the supply and demand conditions of panel manufacturers, a sharp drop in prices, corporate reorganization among panel makers, intensified price competition due to new players entering the market, the under-capacity of material suppliers and sharp increases in material costs could all negatively affect the performance of the Group.

3. Business Operations in North America
All business operations in North America are operating in the black due to productivity improvements for industrial products and positive strides in the polymer separation membrane business. Looking forward, the Group aims to focus on the polymer separation membrane business and medical related products business while expanding sales of products for the automobile industry in hopes of further improving earnings. However, future events such as the deterioration of the environment surrounding its business brought about by a drop in private consumption by American consumers or a strain placed on investment, failure to receive FDA approval for transdermal therapeutic patches in the medical products business or the occurrence of unexpected costs related to the further selection and centralization of businesses could all negatively affect the performance of the Group.

3. Financial Standing of Our Customers
The Group works with customers who meet its strict financial criteria. However, the credit extended to customers of LCD-related products is significantly large compared with other businesses. If a default were to occur, the amount would tend to be quite significant.

3. 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 failure to procure key materials, failure to obtain the necessary key raw materials could negatively affect the performance of the Group.

3. Currency Fluctuations
The Group manufactures and markets its products across the world; therefore, its business is subject to fluctuations in exchange rates. The Group continues its efforts to limit the influence of such fluctuations in exchange rates among major currencies, including the U.S. dollar, Asian currencies and the yen, as well as any surge in crude oil prices. However, abrupt currency fluctuations and a prolonged surge in crude oil prices could negatively affect the performance of the Group.

3. Overseas Operations
The Group operates businesses in Europe, North America and Asia, actively pursuing global business operations by performing marketing activities and reducing production costs in each area. In Asia, especially, there are inherent unavoidable risks such as unanticipated changes to laws and ordinances, taxes and regulations, social disorder such as transportation delays and power outages due to incomplete social infrastructures, political disturbances, war and terrorism. The occurrence of such events could negatively affect the performance of the Group.

3. New Product Development
There are severe requirements for technological innovation and cost competition in the area in which the Group operates its businesses. 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 Node Top" strategy. However, it is not easy to accurately forecast changes in an industry in which market change is so drastic. It is possible that another company could unexpectedly develop new technology or a new product that renders a product of the Group obsolete. The occurrence of such an event exceeding contingency expectations could affect the management of the Company.

3. Intellectual Property
The Group owns, manages and maintains 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.

3. Product Defects
The Group manufactures products according to ISO 9000 quality standards and carries out quality management trusted by its customers. Although the Group has products approved as pharmaceuticals, such as its products for transdermal therapeutic
patches, the business activities of the Group mainly involve transactions between companies of manufacturing materials. 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 that exceeds the coverage of products liability insurance is required, it 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 has been acting from a standpoint of social responsibility as a means of reducing waste and preventing global warming and air pollution. The Group has not caused any serious environmental problems and publishes the fact that it uses large amounts of fuel in the PRTR (The Pollutant Release and Transfer Register) and CSR reports. The Group established a voluntary reduction plan, which it duly observes, however, there is the possibility that the Group could incur significant expenses under environmental regulations that may be enacted in the future.

11 Laws and Regulations
The Group operates its business not only in Japan but also overseas where the Group is governed by the various laws and regulations of various countries and strives to abide by them. If these laws and regulations are strengthened or changed significantly, the activities of the Group may be limited or the Group may incur additional costs relating to compliance which could negatively affect the performance of the Group.

12 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 rate of earthquakes and if a large-scale earthquake occurred in a particular area, despite the existence of earthquake insurance, its coverage would be limited and could influence the performance of the Group. Moreover, if there were a massive outbreak of a new strain of influenza that threatened to spread across the world, it may not only influence the global economy, but also the performance of the Group.

Retirement Benefit Liability
Employee accrued benefit costs and liabilities of the Group are calculated on the basis of assumptions such as the discount rate and other actuarial calculations and expected returns of pension assets. When the actual results are different 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 go down or investment yields of pension assets deteriorate in the future, an increase in retirement benefit liability and a shortage of funds might occur and thus influence the business results of the Group.

### Consolidated Financial Statements

#### Consolidated Balance Sheets

<table>
<thead>
<tr>
<th>Assets</th>
<th>Amount</th>
<th>Property, Plant, and Equipment</th>
<th>Intangible Assets</th>
<th>Goodwill</th>
<th>Other Intangible Assets</th>
<th>Investments and Other Assets</th>
<th>Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>585,072,900</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Amount</th>
<th>Property, Plant, and Equipment</th>
<th>Intangible Assets</th>
<th>Goodwill</th>
<th>Other Intangible Assets</th>
<th>Investments and Other Assets</th>
<th>Total Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>104,284,900</td>
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</tbody>
</table>
## Consolidated Statements of Income

### Consolidated Financial Statements

<table>
<thead>
<tr>
<th>Item</th>
<th>April 1, 2007 — March 31, 2008</th>
<th>April 1, 2006 — March 31, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>745,559</td>
<td>679,822</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>548,551</td>
<td>496,361</td>
</tr>
<tr>
<td><strong>Gross profits</strong></td>
<td>197,008</td>
<td>183,460</td>
</tr>
<tr>
<td><strong>Selling, general and administrative expenses</strong></td>
<td>118,733</td>
<td>114,422</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>77,276</td>
<td>69,037</td>
</tr>
<tr>
<td><strong>Non-operating revenue:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>4,709</td>
<td>4,523</td>
</tr>
<tr>
<td>Revenue from equity method investment</td>
<td>922</td>
<td>789</td>
</tr>
<tr>
<td>Miscellaneous revenue</td>
<td>3,856</td>
<td>3,340</td>
</tr>
<tr>
<td><strong>Non-operating expenses:</strong></td>
<td>6,235</td>
<td>6,241</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>1,739</td>
<td>1,651</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>4,082</td>
<td>3,220</td>
</tr>
<tr>
<td>Loss on equity method investment</td>
<td>746</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>2,318</td>
<td>2,309</td>
</tr>
<tr>
<td><strong>Ordinary Income</strong></td>
<td>74,466</td>
<td>67,319</td>
</tr>
<tr>
<td><strong>Extraordinary gains:</strong></td>
<td>2,363</td>
<td>400</td>
</tr>
<tr>
<td>Gain on sales of fixed assets</td>
<td>634</td>
<td>389</td>
</tr>
<tr>
<td>Gain on sales of investments in securities</td>
<td>308</td>
<td>11</td>
</tr>
<tr>
<td>Other extraordinary gains</td>
<td>1,071</td>
<td></td>
</tr>
<tr>
<td><strong>Extraordinary losses:</strong></td>
<td>7,741</td>
<td>2,619</td>
</tr>
<tr>
<td>Loss on sales and disposal of fixed assets</td>
<td>5,129</td>
<td>1,654</td>
</tr>
<tr>
<td>Impairment loss on fixed assets</td>
<td>345</td>
<td>86</td>
</tr>
<tr>
<td>Amorty purchase cost for an overseas pension plan</td>
<td>-</td>
<td>218</td>
</tr>
<tr>
<td>Special benefits on retirement</td>
<td>445</td>
<td>982</td>
</tr>
<tr>
<td>Loss on sales of affiliated companies</td>
<td>-</td>
<td>71</td>
</tr>
<tr>
<td>Other extraordinary losses</td>
<td>1,759</td>
<td></td>
</tr>
<tr>
<td><strong>Income before provision for income taxes</strong></td>
<td>69,090</td>
<td>65,100</td>
</tr>
<tr>
<td><strong>Provision for income taxes:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>23,215</td>
<td>22,890</td>
</tr>
<tr>
<td>Deferred</td>
<td>△1,408</td>
<td>1,116</td>
</tr>
<tr>
<td>Minority shareholders’ interest</td>
<td>650</td>
<td>453</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>46,634</td>
<td>41,281</td>
</tr>
</tbody>
</table>

## Consolidated Statements of Cash Flows (Reference)

### Consolidated Financial Statements

<table>
<thead>
<tr>
<th>Item</th>
<th>April 1, 2007 — March 31, 2008</th>
<th>April 1, 2006 — March 31, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before provision for income taxes</td>
<td>69,090</td>
<td>65,100</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>46,617</td>
<td>40,159</td>
</tr>
<tr>
<td>Increase (decrease) in trade notes and accounts receivable</td>
<td>△1,082</td>
<td>△5,401</td>
</tr>
<tr>
<td>Increase (decrease) in inventories</td>
<td>△4,645</td>
<td>△11,879</td>
</tr>
<tr>
<td>Increase (decrease) in trade notes and accounts payable</td>
<td>△5,495</td>
<td>9,584</td>
</tr>
<tr>
<td>Interest paid</td>
<td>△1,762</td>
<td>△1,104</td>
</tr>
<tr>
<td>Income taxes paid and refunded</td>
<td>△31,799</td>
<td>△3,704</td>
</tr>
<tr>
<td>Others, net</td>
<td>3,501</td>
<td>3,156</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>101,595</td>
<td>63,032</td>
</tr>
<tr>
<td><strong>II. Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of fixed assets</td>
<td>△66,850</td>
<td>△77,716</td>
</tr>
<tr>
<td>Proceeds from sale of fixed assets</td>
<td>2,909</td>
<td>1,206</td>
</tr>
<tr>
<td>Others</td>
<td>2,885</td>
<td>△877</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>△61,646</td>
<td>△78,285</td>
</tr>
<tr>
<td><strong>III. Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in short-term loans</td>
<td>△8,579</td>
<td>2,555</td>
</tr>
<tr>
<td>Increase (decrease) in commercial paper</td>
<td>△10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Repayment of long-term loans</td>
<td>△3,796</td>
<td>△1,346</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>△12,485</td>
<td>△10,777</td>
</tr>
<tr>
<td>Others</td>
<td>7,215</td>
<td>689</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td>△27,646</td>
<td>879</td>
</tr>
<tr>
<td><strong>IV. Effect of exchange rate changes on cash and cash equivalents</strong></td>
<td>△7,822</td>
<td>1,240</td>
</tr>
<tr>
<td><strong>V. Net Increase (decrease) in cash and cash equivalents</strong></td>
<td>4,685</td>
<td>△12,192</td>
</tr>
<tr>
<td><strong>VI. Cash and cash equivalents at the beginning of the period</strong></td>
<td>74,551</td>
<td>86,694</td>
</tr>
<tr>
<td><strong>VII. Cash and cash equivalents at the end of the period</strong></td>
<td>79,336</td>
<td>74,551</td>
</tr>
</tbody>
</table>

---

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53  CSR & Annual Report 2008
Consolidated Financial Statements

Consolidated Statement of Changes in Net Assets

From April 1, 2007 to March 31, 2008

(Unit: millions of year)

<table>
<thead>
<tr>
<th>Shareholders' equity</th>
<th>Public shares</th>
<th>Capital surplus</th>
<th>Earned surplus</th>
<th>Treasury stock</th>
<th>Total boundary equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance March 31, 2007</td>
<td>26,783</td>
<td>66,023</td>
<td>304,552</td>
<td>324,820</td>
<td>936,520</td>
</tr>
<tr>
<td>Net increase/decrease during the fiscal year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash dividends</td>
<td>△12,486</td>
<td>△12,486</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>46,034</td>
<td>46,034</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repurchase of treasury stocks</td>
<td>△6</td>
<td>△6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal of treasury stocks</td>
<td>416</td>
<td>416</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase/decrease during the fiscal year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>34,148</td>
<td>410</td>
<td>34,858</td>
<td></td>
</tr>
</tbody>
</table>

Valuation and translation adjustments

<table>
<thead>
<tr>
<th>Balance March 31, 2007</th>
<th>Relation to foreign currency</th>
<th>Gain/(loss) on hedges</th>
<th>Translation adjustment</th>
<th>Total</th>
<th>Subscribed equity</th>
<th>Minority interests</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash dividends</td>
<td>△12,486</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>46,034</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repurchase of treasury stocks</td>
<td>△6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal of treasury stocks</td>
<td>416</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase/decrease during the fiscal year</td>
<td>△2,475</td>
<td>246</td>
<td>△14,777</td>
<td>△17,004</td>
<td>418</td>
<td>△115</td>
<td>△16,792</td>
</tr>
<tr>
<td>Total</td>
<td>△2,475</td>
<td>246</td>
<td>△14,777</td>
<td>△17,004</td>
<td>418</td>
<td>△115</td>
<td>△17,922</td>
</tr>
<tr>
<td>Balance March 31, 2008</td>
<td>3,171</td>
<td>169</td>
<td>△15,938</td>
<td>△15,954</td>
<td>897</td>
<td>7,008</td>
<td>185,358</td>
</tr>
</tbody>
</table>

1. Notes regarding significant accounting policies for the preparation of the consolidated financial statements

(1) Scope of consolidation

1. Number of consolidated subsidiaries: 105

Major companies:
- Nitto Denko Technical Corporation
- Nitta Denko Co., Ltd.
- Nitto Denko (China) Investment Co., Ltd.
- Nitto Denko (Shanghai) Co., Ltd.
- NTTA Technology Co., Ltd.
- NTTA Optical Co., Ltd.
- NTTA Co., Ltd.
- NTTA Optical Co., Ltd.
- Shanghai NTTA Optical Co., Ltd.

Newly consolidated subsidiaries: Established NTTA Precision Vietnam Co., Ltd.
- Transferred from a non-consolidated subsidiary: NTTA Denko Co., Ltd.

Company whose status as a consolidated subsidiary ceased:
- NTTA Co., Ltd.
- NTTA Optical Co., Ltd.
- Kyoshin Co., Ltd.
- NTTA Denko Matrix Corporation
- Liquidated, sold, etc.
- Kyoshin Electronics (Shanghai) Co., Ltd.
- and other 6 companies

(2) Application of equity method

1. Number of non-consolidated subsidiaries subject to equity method: 4

Major company: Nitto Denko Technical Corporation
- Transferred to a consolidated subsidiary: NTTA Denko Co., Ltd.

2. Number of affiliates subject to equity method: 1

Established: NTTA Technology Co., Ltd.

(3) Fiscal year of the consolidated subsidiaries

Number of companies whose fiscal year is the same as that of the Company: 84
Number of companies whose fiscal year is different from that of the Company: 21

(4) Accounting policies

1. Valuation basis and methods for principal assets
2. Securities:
   - Securities with available fair value: Carried at fair value for the consolidated balance sheet date. (Valuation adjustments were reported in the net assets section, and selling cost was calculated using the moving average method.)
   - Securities with no available fair value: Stated at cost based on the moving average method
2. Derivatives: Stated at fair value
3. Inventories: Mainly stated at the lower of average cost or market price
2. Depreciation method of major depreciable assets
1. Tangible fixed assets:
   - Mainly the declining-balance method
2. Intangible fixed assets

(a) Straight-line method (software for in-house use is depreciated using the straight-line method over its useful life of five years).

(b) The service cost of pension plans is amortized from the year in which the gain or loss, recognized by the straight-line method for a given number of years (12 years) within employees’ average remaining years of service, is amortized from the year following the year in which the gain or loss is recognized by the straight-line method for a given number of years (12 years) within employees’ average remaining years of service.

4. Reserve for retirement bonuses to directors and corporate auditors

The consolidated subsidiaries in Japan calculate the required amount based on internal regulations in preparation for payment of retirement allowances to directors and corporate auditors.

4. Conversion criteria of major assets and liabilities in foreign currencies into Japanese yen

Monetary credits and debts in foreign currencies are converted into Japanese yen by using the spot exchange rate on the day of consolidated account settlement, and the difference arising from such conversion is stated as gain or loss. Assets and liabilities of overseas subsidiaries and others are converted into yen based on the spot exchange rate on the day of consolidated settlement of accounts, and revenue and expenses are converted into yen by using the average exchange rate during the fiscal year, while the difference arising from the conversion is shown as translation adjustments in net assets and minority interest.

5. Methods of accounting for major leases

Finance leases, excluding those in which the transfer of ownership of the leased property to the lessee are accounted for as ordinary lease transactions.

6. Methods of hedge accounting

1) Method of hedge accounting

Deferred hedging is used for forward exchange contracts ascribed to forecasted transactions. For currency swaps that qualify for hedge accounting, gain or loss is translated at the exchange rate stipulated in the contract under the allocation process. Interest rate swaps that qualify for hedge accounting and meet specific criteria are not measured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

2) Hedge instruments and items

Hedge instruments:

- Forward exchange contracts
- Currency swaps
- Interest rate swaps

Hedge items:

- Foreign currency-denominated receivables and payables, etc.

3) Hedge policy

The Company adopts a policy aimed at avoiding the risks associated with exchange fluctuations and interest rate fluctuations.

7. Other important items for compiling consolidated financial statements

Consumption tax and similar taxes are excluded from the transaction amount.

5. Evaluation of assets and liabilities of consolidated subsidiaries

The partial market value method is used to evaluate all assets and liabilities of consolidated subsidiaries.

6. Amortization of consolidation adjustment account

Goodwill and negative goodwill are amortized by the average cost method over a five-year period. If these accounts are less significant, they are fully amortized when accrued.

2. Notes to consolidated balance sheets

1) Accumulated depreciation of tangible fixed assets

318,883 million yen

2) Pledged assets and secured liabilities

Pledged assets:

- Investment in securities: 18 million yen
- Secured liabilities:
  - Accounts payable: 5 million yen

3) Guarantees on liabilities and contracts for future guarantees on liabilities

The Company extends guarantees on liabilities for its employees’ bank loans: 25 million yen

Employees’ housing loans: 5 million yen

4) Endorsed amounts for notes receivable

5 million yen

3. Notes to consolidated statement of changes in net assets

1) Type and total number of outstanding shares as of the end of the current fiscal year

- Common stock: 173,756 thousand shares

2) Dividends

1. Dividend payments

<table>
<thead>
<tr>
<th>Description</th>
<th>Common stock at the end of December (in millions of yen)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>5,826</td>
<td>6,850</td>
</tr>
<tr>
<td>Dividends per share</td>
<td>35</td>
<td>40</td>
</tr>
</tbody>
</table>

Record date: March 31, 2007
Effective date: June 30, 2007

(End of report)
2. Of the dividends for which the record date falls during the current fiscal year and items for which the effective date arrives during the following fiscal year, the following proposal on dividends for ordinary shares will be presented for resolution at the General Meeting of Shareholders scheduled to be held on June 20, 2006.

3. Effective date: June 23, 2006

4. Notes on business combinations

(Merger with consolidated subsidiaries)

At its Board of Directors meeting held on April 27, 2007, the Company resolved to merge through absorption, effective July 1, 2007, with Kyushin Co., Ltd., and Nitto Denko Maxis Corporation, both wholly owned subsidiaries, and concluded a merger agreement with each party as of the meeting date.

Name and business outline of combined entity

1. Name: Kyushin Co., Ltd., Nitto Denko Maxis Corporation
2. Business: The above two companies were engaged in the sale of industrial, electronic and functional products.
3. Purpose of the merger: Amid the ongoing globalization in the market, in order for the Nitto Denko Group to establish a system that facilitates the offering of solutions built on the Company's exclusive core technology, the Group is striving to further strengthen its competitiveness as a Group through reforming Group businesses into a simplified structure.

4. Method of the merger

The merger was implemented by way of absorption (simple merger) in which the Company was the surviving company, while Kyushin Co., Ltd., and Nitto Denko Maxis Corporation were dissolved.

5. Merger ratio and delivery of money

As both Kyushin Co., Ltd., and Nitto Denko Maxis Corporation were wholly owned subsidiaries of the Company, no issuance of new shares, no capital increase and no delivery of money were to be made under the merger.

6. Succession of corporate assets

The Company succeeded from the two companies any and all assets, liabilities, rights and obligations on the effective date of the merger.
Assets in total: 26,261 million yen
Liabilities in total: 17,727 million yen

7. Overview of the surviving company

There has been no change in capital or business as a result of the merger.

5. Notes on information per share

Net asset value per share: 2,297.12 yen
Net income per share: 280.07 yen

In the consolidated balance sheets, consolidated statements of income and consolidated statement of changes in net assets, figures less than 1 million yen are omitted.

Fiscal 2006 (From April 1, 2006 to March 31, 2007)

<table>
<thead>
<tr>
<th>Segment Information (Reference)</th>
<th>Operating Segment Information</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Fiscal 2006 (From April 1, 2006 to March 31, 2007)</th>
<th>(Unit: millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Sales and operating income</td>
<td></td>
</tr>
<tr>
<td>Sales (1)</td>
<td>269,688</td>
</tr>
<tr>
<td>Sales (2)</td>
<td>365,988</td>
</tr>
<tr>
<td>Total</td>
<td>635,676</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>240,665</td>
</tr>
<tr>
<td>Operating income</td>
<td>19,021</td>
</tr>
<tr>
<td>II. Assets, depreciation and amortization, and capital expenditures</td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>170,967</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>25,817</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>19,399</td>
</tr>
</tbody>
</table>

Fiscal 2007 (From April 1, 2007 to March 31, 2008)

<table>
<thead>
<tr>
<th>Fiscal 2007 (From April 1, 2007 to March 31, 2008)</th>
<th>(Unit: millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Sales and operating income</td>
<td></td>
</tr>
<tr>
<td>Sales (1)</td>
<td>256,915</td>
</tr>
<tr>
<td>Sales (2)</td>
<td>432,381</td>
</tr>
<tr>
<td>Total</td>
<td>689,296</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>238,989</td>
</tr>
<tr>
<td>Operating income</td>
<td>37,921</td>
</tr>
<tr>
<td>II. Assets, depreciation and amortization, and capital expenditures</td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>166,948</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>32,485</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>12,065</td>
</tr>
</tbody>
</table>

Note 1. Methods of business segmentation
The Corporation classifies its operations principally in three business segments, industrial products, electronic products, and functional products, depending on the use of the products in the market.

2. Major products for each business segment

<table>
<thead>
<tr>
<th>Business segment</th>
<th>Major products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial products</td>
<td>Bending and joining products, surface protective products, welding products, packaging products and equipment</td>
</tr>
<tr>
<td>Electronic products</td>
<td>LCD-related products, flexible printed circuit products, electronic processing products, semi-conductor-related products</td>
</tr>
<tr>
<td>Functional products</td>
<td>Medical-related products, polymer association maintenance, engineering plastics products</td>
</tr>
</tbody>
</table>

3. Corporate assets in fiscal 2006 and fiscal 2007 amount to 70,041 million and 89,183 million yen, respectively, which consisted mainly of the parent company's cash, time deposits and securities.
### Segment Information by Geographic Area

#### Fiscal 2006 (From April 1, 2006 to March 31, 2007) (Unit: millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia &amp; Oceania</th>
<th>Total</th>
<th>Adjusted for sales prices</th>
<th>Consolidated total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Sales and operating income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Sales to outside customers</td>
<td>268,866</td>
<td>42,349</td>
<td>73,787</td>
<td>345,371</td>
<td>679,837</td>
<td>-</td>
<td>679,827</td>
</tr>
<tr>
<td>(2) Inter-segment sales or transfers</td>
<td>269,925</td>
<td>2,041</td>
<td>4,361</td>
<td>17,434</td>
<td>294,833</td>
<td>294,833</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>539,851</td>
<td>44,390</td>
<td>78,151</td>
<td>362,805</td>
<td>947,632</td>
<td>294,833</td>
<td>679,827</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>485,753</td>
<td>45,654</td>
<td>26,581</td>
<td>350,375</td>
<td>906,984</td>
<td>297,579</td>
<td>610,784</td>
</tr>
<tr>
<td>Operating income</td>
<td>55,535</td>
<td>△683</td>
<td>1,587</td>
<td>12,362</td>
<td>65,841</td>
<td>3,195</td>
<td>69,037</td>
</tr>
<tr>
<td>II. Assets</td>
<td>381,237</td>
<td>49,621</td>
<td>17,451</td>
<td>188,313</td>
<td>636,573</td>
<td>27,313</td>
<td>604,286</td>
</tr>
</tbody>
</table>

#### Fiscal 2007 (From April 1, 2007 to March 31, 2008) (Unit: millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia &amp; Oceania</th>
<th>Total</th>
<th>Adjusted for sales prices</th>
<th>Consolidated total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Sales and operating income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Sales to outside customers</td>
<td>256,286</td>
<td>45,054</td>
<td>29,712</td>
<td>414,743</td>
<td>745,259</td>
<td>-</td>
<td>745,259</td>
</tr>
<tr>
<td>(2) Inter-segment sales or transfers</td>
<td>216,760</td>
<td>2,513</td>
<td>4,995</td>
<td>28,294</td>
<td>452,747</td>
<td>362,077</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>573,046</td>
<td>47,568</td>
<td>34,706</td>
<td>442,337</td>
<td>1,297,607</td>
<td>352,077</td>
<td>745,259</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>526,082</td>
<td>47,230</td>
<td>31,890</td>
<td>415,393</td>
<td>1,025,598</td>
<td>354,931</td>
<td>667,305</td>
</tr>
<tr>
<td>Operating income</td>
<td>44,964</td>
<td>△388</td>
<td>2,178</td>
<td>27,614</td>
<td>76,106</td>
<td>2,853</td>
<td>77,954</td>
</tr>
<tr>
<td>II. Assets</td>
<td>375,232</td>
<td>45,482</td>
<td>20,912</td>
<td>160,127</td>
<td>632,951</td>
<td>25,351</td>
<td>658,302</td>
</tr>
</tbody>
</table>

### Sales to Customers outside Japan

#### Fiscal 2006 (From April 1, 2006 to March 31, 2007) (Unit: millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Europe</th>
<th>Asia &amp; Oceania</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Sales to customers outside Japan</td>
<td>36,510</td>
<td>25,650</td>
<td>365,816</td>
<td>720</td>
<td>435,699</td>
</tr>
<tr>
<td>II. Consolidated sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>679,827</td>
</tr>
<tr>
<td>III. Ratio of sales to customers outside Japan to consolidated sales</td>
<td>5.4%</td>
<td>3.8%</td>
<td>53.4%</td>
<td>0.1%</td>
<td>62.6%</td>
</tr>
</tbody>
</table>

#### Fiscal 2007 (From April 1, 2007 to March 31, 2008) (Unit: millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Europe</th>
<th>Asia &amp; Oceania</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Sales to customers outside Japan</td>
<td>38,075</td>
<td>33,992</td>
<td>440,765</td>
<td>1,256</td>
<td>506,016</td>
</tr>
<tr>
<td>II. Consolidated sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>745,259</td>
</tr>
<tr>
<td>III. Ratio of sales to customers outside Japan to consolidated sales</td>
<td>5.1%</td>
<td>4.6%</td>
<td>58.1%</td>
<td>0.3%</td>
<td>67.7%</td>
</tr>
</tbody>
</table>

Note 1. Countries or regions listed in the order of geographical proximity.

2. Major countries and regions, excluding Japan, represented by categories:
   - North America: U.S.A., Europe: Belgium, France, Germany, Sweden, Asia & Oceania: China, Korea, Taiwan, Singapore, Malaysia, Hong Kong, Thailand
   - Others: African and South American countries

3. Sales to customers outside Japan represent sales by the parent company and its consolidated subsidiaries in the countries and regions outside Japan.

(English Translation of the Auditors' Report Originally Issued in the Japanese Language)
Independent Auditors’ Report

May 7, 2008

KPMG AZSA & Co
Masakazu Nakao (Joint)
Designated and Engagement Partner
Certified Public Accountant
Hisae Kikayama (Joint)
Designated and Engagement Partner
Certified Public Accountant
Tanaka Miyahara (Joint)
Designated and Engagement Partner
Certified Public Accountant

We have audited the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the related notes of NITTO DENKO CORPORATION (the “Company”) as of March 31, 2008 and for the year from April 1, 2007 to March 31, 2008 in accordance with Article 444 (4) of the Corporate Law. The consolidated statutory report is the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated statutory report based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the consolidated statutory report is free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the consolidated statutory report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statutory report referred to above presents fairly, in all material respects, the financial position and the results of operations of NITTO DENKO CORPORATION and its consolidated subsidiaries for the period, for which the consolidated statutory report was prepared, in conformity with accounting principles generally accepted in Japan.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.
## GRI Content Index

### Economic Performance Indicators

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<th>Description</th>
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<td>Gasket economic value generated and distributed, including revenue, operating costs, employee compensation, depreciation and other operating expenses, plant and equipment balances, and payments to capital providers and governments.</td>
<td>P3, 35</td>
</tr>
<tr>
<td>Core EGI2</td>
<td>44-62</td>
<td>Financial indicators and other risks and opportunities for the organization and its business due to climate change.</td>
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<tr>
<td>Core EGI3</td>
<td>44-62</td>
<td>Coverage of the organization’s defined benefit plans, including past service costs, present service costs, and total costs.</td>
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<td>Share of the market by standardized products, and market share of significant customers and clients operating.</td>
<td>CSIR Annual Report 2007-2008, P13</td>
</tr>
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<td>Core EGI5</td>
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<td>Intensity of research and development activities, and annual R&amp;D expenditures.</td>
<td>CSIR Annual Report 2007-2008, P13</td>
</tr>
<tr>
<td>Core EGI6</td>
<td>44-62</td>
<td>Intensity of research and development activities, and annual R&amp;D expenditures.</td>
<td>CSIR Annual Report 2007-2008, P13</td>
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<td>P3, 35</td>
</tr>
<tr>
<td>Core EGI10</td>
<td>44-62</td>
<td>Emissions of significant environmental pollutants, such as greenhouse gases, carbon dioxide, sulfur dioxide, and nitrogen oxides, by operation.</td>
<td>P3, 35</td>
</tr>
<tr>
<td>Core EGI11</td>
<td>44-62</td>
<td>Emissions of significant environmental pollutants, such as greenhouse gases, carbon dioxide, sulfur dioxide, and nitrogen oxides, by operation.</td>
<td>P3, 35</td>
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<td>44-62</td>
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</tr>
<tr>
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<td>44-62</td>
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<td>P3, 35</td>
</tr>
<tr>
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<td>44-62</td>
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<td>P40</td>
</tr>
<tr>
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<td>44-62</td>
<td>Environmental and social impact of significant economic impacts, including the impact of disasters.</td>
<td>P40</td>
</tr>
<tr>
<td>Additional EGI18</td>
<td>44-62</td>
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<td>P40</td>
</tr>
</tbody>
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<td>P3, 35</td>
</tr>
<tr>
<td>Additional EGI20</td>
<td>44-62</td>
<td>Environmental and social impact of significant economic impacts, including the impact of disasters.</td>
<td>P40</td>
</tr>
<tr>
<td>Additional EGI21</td>
<td>44-62</td>
<td>Environmental and social impact of significant economic impacts, including the impact of disasters.</td>
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</tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>LA2</td>
<td>Total number of employees by employment status (full-time, part-time, etc.)</td>
<td>146</td>
</tr>
<tr>
<td>Core</td>
<td>LA3</td>
<td>Percentage of full-time employees who have access to collective bargaining agreements</td>
<td>P115</td>
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<td>Minimum wages and benefits as a percentage of total payroll</td>
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</tr>
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<table>
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<tr>
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<tr>
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<td>Hours of basic skills training by employee category</td>
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</tr>
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<td>P124-13, BCG</td>
</tr>
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<td>SD3</td>
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<td>BCG</td>
</tr>
</tbody>
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#### Public Policy

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<thead>
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<td>Core</td>
<td>SD6</td>
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<td>P124-13, BCG</td>
</tr>
</tbody>
</table>

#### Compliance

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<th>Core</th>
<th>SD7</th>
<th>Percentage of employees trained in organizational anti-corruption policies and procedures</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>SD8</td>
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<td>BCG</td>
</tr>
<tr>
<td>Core</td>
<td>SD9</td>
<td>Percentage of employees trained in organizational anti-corruption policies and procedures</td>
<td>BCG</td>
</tr>
</tbody>
</table>

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#### Customer Health and Safety

<table>
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<tr>
<th>Core</th>
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<th>Percentage of employees trained in organizational anti-corruption policies and procedures</th>
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</thead>
<tbody>
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<td>PR2</td>
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</tbody>
</table>

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</tbody>
</table>

### Marketing and Communications

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<tr>
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<th>PR6</th>
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<tr>
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</tr>
</tbody>
</table>

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</tbody>
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<tr>
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</tbody>
</table>

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</tbody>
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*Note: The text provided is a simplified representation of the data, and the page numbers refer to the original document for more detailed information.*