

The Nitto Denko Group has sound and transparent approaches to management and aims to be a group trusted by society.

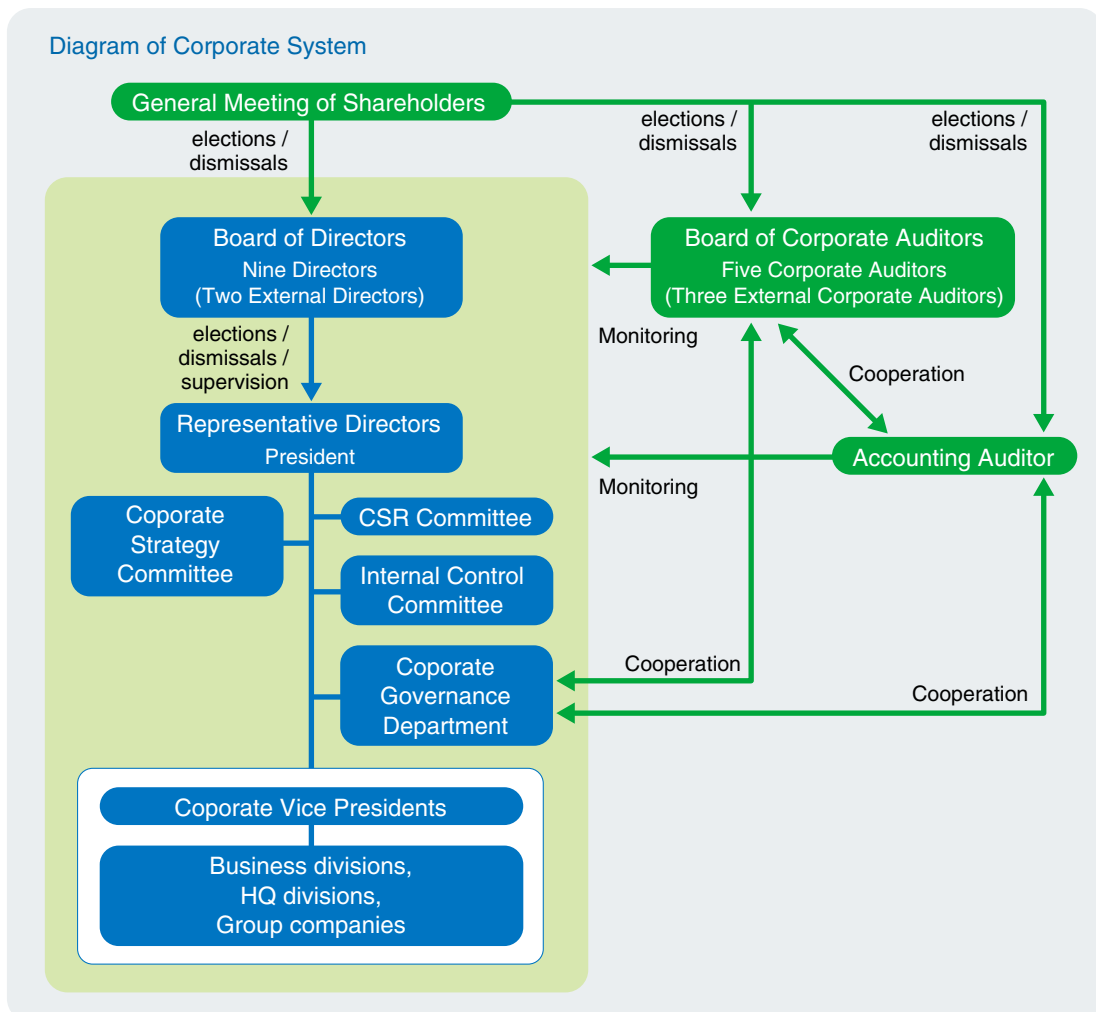
## Corporate Governance

Aiming at implementing long-lasting harmonious activities involving every stakeholder

### <Governance System>

The Nitto Denko Group believes that to enhance corporate value it is important to implement long-

lasting harmonious activities involving all stakeholders. The governance model we use to realize this is illustrated in the diagram below. We have nine directors and five corporate auditors each committed to maintaining fairness and transparency with the work that they do. Two out of the nine directors and three out of the five corporate auditors have been appointed to objectively carry out the function of governance.



### <Basic Policy>

To ensure that the organizational system is pro active, the Nitto Denko Group has introduced policies based on action principles which target employees working in each particular field of our business. Some of the areas addressed concern; "basic policy of internal control under corporate law", "basic policy of internal control relating to financial reporting", "disclosure policy", "environmental policy", "quality policy" and "basic information security policy". Not only have we devised these operational policies but we have developed our "Corporate Vision", "Guiding Principles" and "Business Conduct Guidelines" as common guides for every employee to follow both as employees of the Nitto Denko Group but also as members of society.

Through the integration of both, governance becomes effective.

### <Education and Training>

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

### <Audit and Internal Control>

The Nitto Denko Group carries out many internal audits relating to export control, antisocial trading, the environment, safety and quality which are carried out by specialty units. The results of these audits are reported to the department responsible and the relevant management teams. Any identified problems are considered and followed up with strategies that are initiated to improve the situation as speedily as possible. We have also implemented the internal control evaluation measures which are outlined in the Financial Instruments and Exchange

Act. These measures focus on six areas; "control environment", "risk evaluation and response", "control activities", "information and transmission", "monitoring" and the "handling of IT". We believe that in order to enhance future governance, it is necessary to successfully combine our internal audits with the internal control evaluation measures.

### <Risk Management>

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

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

### <Help Line>

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

In fiscal 2009, there were some reports made primarily concerning harassment within the workplace. We are taking preventative measures aimed at focusing on raising employee consciousness around the importance of individual human rights.

## Associated Business Risks Listed in the Financial Report as of March 2010

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

### 1. Optical Business (LCD-related products)

Our optical business constitutes the core of the Group's sales. However, while demand for LCD TVs in emerging markets (particularly China) is anticipated to grow, there are many companies participating in this market and competition continues to be stiff. Our relationship with panel manufacturers (our customers), an imbalance between the supply and demand conditions of the industry, decline 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.

### 2. Business Operations in North America

The Group focused on medical related products which received FDA approval for transdermal therapeutic patches and polymer separation membrane products for water related business and aimed to improve profitability and turn into black by reorganizing industrial products related subsidiaries in U.S. However, uncertainty in U.S. market and stiff competition could negatively affect the performance of the Group.

### 3. Financial Standing of Our Customers

The Group works with customers all over the world who meet its strict financial criteria. However, some customers are in rapidly changing business environments and serious financial problems could occur with such customers with whom the Group possesses account receivables. In particular, LCD-related products are significantly large compared with other businesses. If a default were to occur, the amount involved would tend to be quite significant.

### 4. Raw Material Vendors

For some key raw materials, the Group depends on specific vendors. Although it does endeavor to find multiple raw material vendors so as to reduce the

risk of being unable to procure key materials, for some raw materials we need to depend on specific vendors. Failure to obtain the necessary key raw materials due to a possible disaster or vendors going bankrupt could negatively affect the performance of the Group.

### 5. Currency Fluctuations

The Group manufactures and markets its products throughout the world; therefore, its business is affected by the trend of the global economy. A worldwide recession, a further and longer struggling global economy, country bankruptcy, fluctuations of crude oil prices and currency exchange rates could all negatively affect the performance of the Group.

### 6. Overseas Operations

The Group operates businesses in Europe, North America and Asia, actively pursuing future possible global business opportunities through marketing and focusing on the reduction of production costs in each area. Depending on the area, there are inherent unavoidable risks that can occur. Such risks include; unanticipated changes to laws and ordinances, taxes and regulations, deteriorating employment relationships and 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.

### 7. New Product Developments

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

## 8. Intellectual Property

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

## 9. Product Defects

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

## 10. Environmental Issues

The Group regards environmental preservation measures as one of its key business policies and has been acting from a position whereby it takes social responsibility, focuses on reducing waste and prevents global warming and air pollution. The Group has not caused any serious environmental problems. To protect the global environment, the Group established a voluntary reduction plan, which it duly observes. However, there is a chance there could be changes in future laws and regulations which could result in significant expenses due to environmental issues and this could negatively affect the performance of the Group.

## 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 must 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 the compliance of laws 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. If a large-scale earthquake were to occur in a particular area within Japan, despite the existence of earthquake insurance, its coverage would be limited and costs incurred could influence the performance of the Group.

Injuries could occur throughout the production process due to fire or chemicals. Any injuries could cause loss of public confidence, business interruption, compensation for damages and other related expenditure. Moreover, if there were a massive outbreak of new infections across the world, depending on the nature of the outbreak, it may not only influence the global economy, but also the performance of the Group.

## 13. Retirement Benefit Liability

Employee accrued benefit costs and liabilities of the Group are calculated on the basis of assumptions made concerning such things as the discount rate and other actuarial calculations and expected returns of pension assets. When the actual results differ from the assumptions or when the assumptions are altered, effects will accumulate and be systematically recognized in the future. This may generally influence recognized costs and calculated liabilities in the future. If market interest rates 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.

## QES Audit

Auditing quality, environmental impact and safety are fundamental in ensuring that a high standard of manufacturing is maintained. We have a specialized department delegated with the responsibility of carrying out such audits.

In order to ensure that the Nitto Denko Group is audited from the perspective of its stakeholders the QES Audit Department was created. This department audits from two separate standpoints. Firstly it looks at quality from a customers perspective and secondly environmental and safety aspects from an employee, their families' and the local communities perspectives. Any identified risks form the basis for future improvement works.

The target auditing group includes the 70 Nitto Denko Group bases concerned with manufacturing and design across Japan, Asia, Oceania, USA and Europe. In fiscal 2009 we audited 22 bases. Alongside this we carried out follow up audits on those bases audited during the previous fiscal year. In fiscal 2010 we will visit 42 bases and conduct audits focusing on three key areas; quality, environment and safety.

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

## Product Risk Management

Aiming at providing safe and useful products for our customers

The Nitto Denko Group through setting up a "Product Risk Committee" aims to reduce risks associated with products.

Section meetings have been set up to address the risk areas identified throughout fiscal 2009.

We will continue to implement risk reduction measures throughout fiscal 2010.

### (1) Product Liability Risk

As our products are mainly parts or component focused, it is rare that we market our products directly to consumers. Given this we have to manage the potential risk of situations where reparations are needed to be made against a single component product in order to prevent or minimize the possibility of further troubles with the final product.

In order to deal with such risks, we have contingency measures in place where establishing guidelines, specifying compensation on contracts and so on.

### (2) Chemical Products Risk

Regarding legislative control requirements, we have considered countermeasures for RoHS and REACH.

For situations where harmful substances appear in materials, raw materials and consigned goods, we have established the Nitto Denko Group Green Procurement Standards, which have been thoroughly reviewed.

### (3) Packaging and Indication Risk

Products are labeled according to legislative requirements for both inner and external packaging.

f.e.: GHS, UL, source and other indications

#### Product Risk Committee

Section Meeting of Risk	Actual Achievement of Fiscal 2009
Product Liability	<ul style="list-style-type: none"> <li>• Review of Basic Regulations for Product Safety</li> <li>• Introduction of a System of Arrangement of Quality Assurance Agreement</li> </ul>
Chemical Products	<ul style="list-style-type: none"> <li>• Review of Nitto Denko Group Green Procurement Standards</li> <li>• Review of Nitto Denko Group Regulations on Voluntary Management of Chemicals</li> <li>• Response to REACH</li> <li>• Response to Amendment to the Chemical Substances Control Law</li> </ul>
Packaging and Indicating	<ul style="list-style-type: none"> <li>• Purchase and Distribution of Classification Software of GHS</li> </ul>
Others	<ul style="list-style-type: none"> <li>• Building of Document to Customer Management System</li> </ul>

## Procurement

Aiming towards global "Open, Fair and Best" procurements

Care for the natural environment and global laws and ethics are primary Nitto Denko Group procurement considerations. The priority we place on these considerations stems from our spirit of being "Open, Fair and Best".

In prioritizing "green procurement" we give consideration to the environment, safety and the use of chemical substances when procuring and work closely alongside the Chemical Substance Management Center.

We have established a "partner hotline" which allows our partners to report any violation of compliance or suspicion thereof. When a problem occurs, we attempt to deal with it rapidly.

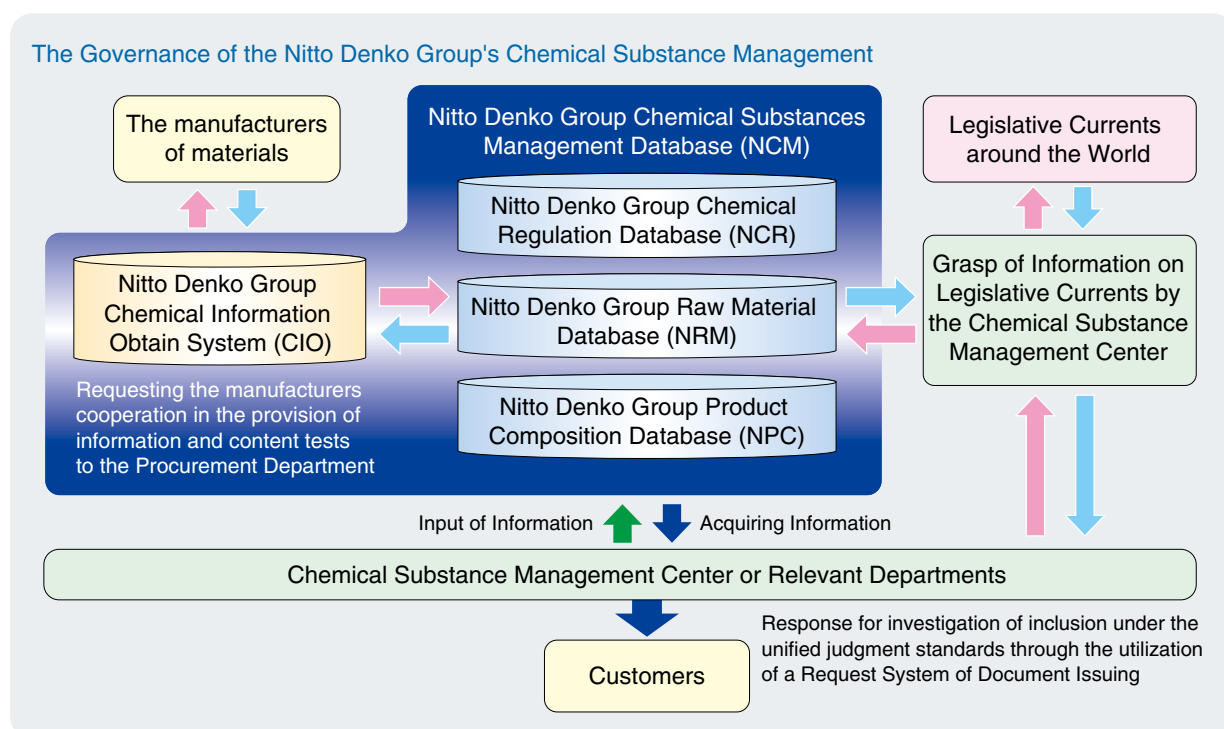
For further details, please visit the following website: <http://www.nitto.com/company/materials/index.html>

## Quality and Chemical Substance Management

Aiming at consistent quality and safe products

In fiscal 2009, the Nitto Denko Group's Central Quality Management Department worked co-operatively with production engineering departments and the Quality, Environment & Safety Management Sector to improve the standard of facility design review. Both groups worked together embracing the motto; "our pursuit of quality makes for content customers". Through the introduction of various techniques, we have reduced the number of problems arising and have been able to make improvements in maintaining greater quality consistency.

To prevent the use of chemical substances which are harmful to humans and the environment, the Chemical Substance Management Center has established self-management regulations regarding the management of chemical substances used. The center continues to control raw material procurement within the group. The "Nitto Denko Group Chemical





Substances Management Database (NCM)" began in December 2008. In fiscal 2009 the center joined alongside other departments in our commitment towards wanting to ensure that we are responsive to customer inquiries about chemical substances that are used in our products.

This strategy has benefited the Nitto Denko Group's ability to better manage the overall governance of chemical substance usage.

With respect to certifications, on 27 August 2009, Nitto Denko Automotive, Virginia, Inc. obtained its ISO/TS16949 certificate. This certification relates to the automobile industry and quality management systems. On 24 September 2009, Nitto Denko Czech s.r.o. obtained its AEO (Authorized Economic Operator) EU certification. AEO is a system whereby custom houses can authorize corporations that have favorably demonstrated compliance and cargo management protocols. Once a corporation is authorized, they may receive favorable treatment throughout the export and import process.

Please refer to the following website to see other certifications gained in the past.  
[http://www.nitto.com/company/environment/env\\_0202.html](http://www.nitto.com/company/environment/env_0202.html)



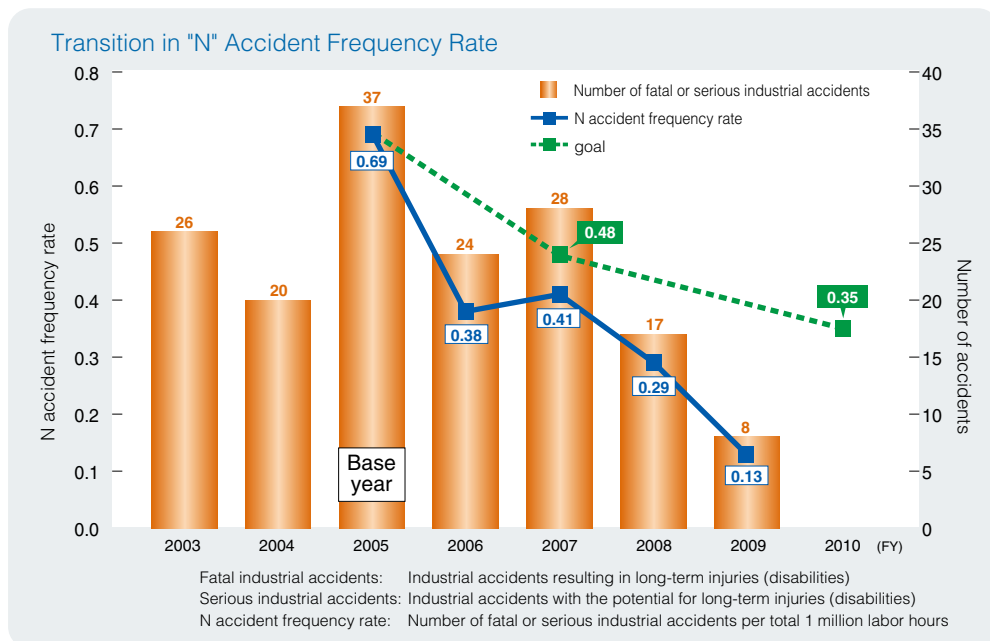
## Safety Measures for Employees

### Occurrence of fatal accident in fiscal 2009

In an attempt to achieve the Group's objective of "Zero Fatal or Serious Industrial Accidents", the Nitto Denko Group has continued to implement robust safety activities at each base. For a long time, fatal or serious industrial accidents have been steadily reducing, however on 21 January 2010, an accident occurred at one of our bases in China and an employee died as a result. During a production process, an unusual work practice caused the generation of a poisonous gas which was inhaled by the employee and who died as a result.

The company concerned with the accident in China and Nitto Denko established an immediate countermeasures headquarters and gave due attention to the bereaved and the other administrative agencies involved. Furthermore, in order to prevent such accidents from reoccurring, we have given guidance not only at the plant where the accident occurred but also at every other plant, both domestically and abroad.

Please refer to the following website to view previous certifications obtained relating to health and safety.  
[http://www.nitto.com/company/environment/env\\_0203.html](http://www.nitto.com/company/environment/env_0203.html)



## Personnel Matters

Becoming a corporation where every employee is encouraged to live and participate within their local and broader communities

Nitto Denko Corporation has systems in place to ensure that employees maintain a vocational quality of life and live together within their community and society. They are as follows:

### (1) Reserve paid holidays system

We have had a system in place for a long time which has allowed employees to use any unused vacation leave in situations involving illness, the provision of care during pregnancy and childbirth in addition to maternity leave and child-rearing and caring responsibilities. The situations where unused leave can be utilized have been expanded to include;

- Donor organ transplants
- Individual fertility treatments
- Volunteer activities including contributions to local communities and
- Taking child-support holidays during periods of compulsory education

### (2) Welcome Home Plan

This is a system whereby retired employees due to family circumstances are able to return to work at Nitto Denko. Once retired, it was often difficult for people to reenter employment. However due to this system, retired staff are able to return to work if they have enrolled in the program before retirement.

## Cultivation of Human Resources

Provision of basic knowledge through use of Nitto Denko's original educational materials

There are many mandatory knowledge areas which employees of the Nitto Denko Group have to have received training in. With a view to enhancing the quality of employees, employees themselves are encouraged to participate in training employees. The training received relates to many areas such as the history of Nitto Denko, production, maintaining quality, safety, environmental conservation, laws and accounting.



Training scenerary  
(Nitto Denko (Taiwan))



Training scenerary  
(Aveva Drug Delivery  
Systems, Inc. in USA)

## TOPICS

### Promoting Vaccination against the H1N1 2009 Virus by Two Companies in USA

The H1N1 flu pandemic spread around many countries between 2009 and 2010. During the National Influenza Vaccination Week, Hydranautics and Nitto Denko Technical Corporation hosted an on-site flu vaccination clinic on 19 January 2010 for all employees.



A total of 128 employees  
received vaccinations

### Health Check in Nitto Denko (Australia)

Australia has no law requiring employers to conduct employee health checks. Despite this the Victorian Government offered a subsidy and Nitto Denko (Australia) Pty. Ltd. carried out health checks on its staff on 23 November 2009.