

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



Corporate Governance

Aiming at sound and transparent management

<Governance System>

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

<Basic Policy>

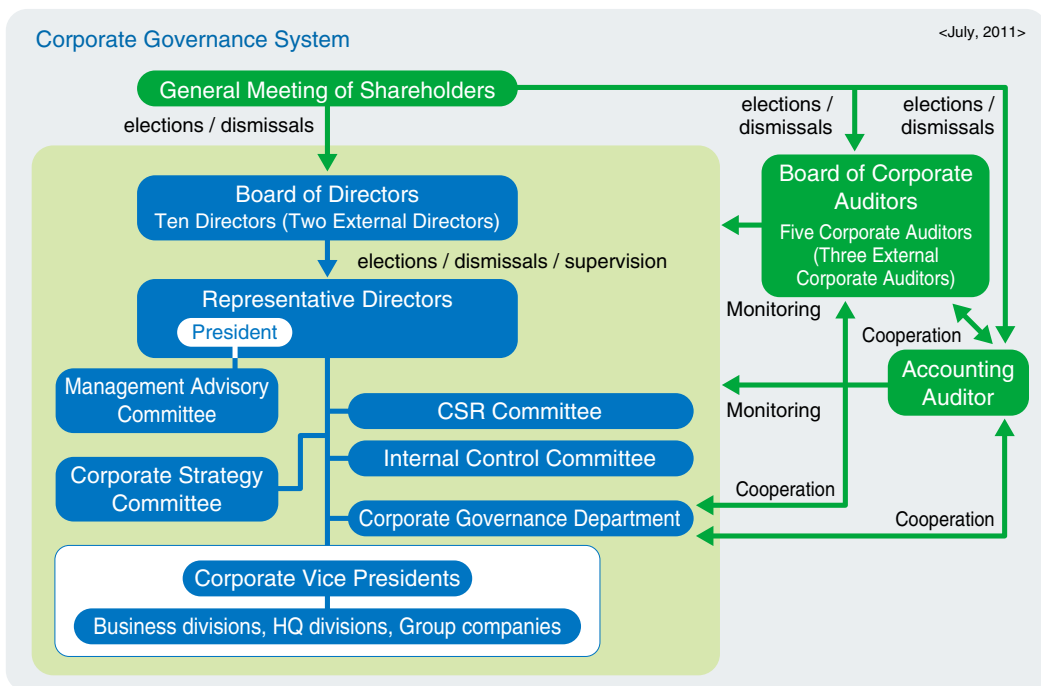
To ensure that the organizational system is pro-

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

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

<Education and Training>

It is integral that we continue to develop our human



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

<Audits and Internal Control>

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

<Risk Management>

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

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

<Helpline>

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

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

<Revision of “Business Conduct Guidelines”>

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

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



TOPICS

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

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

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

(1) Optoelectronics Business

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

(2) Overseas Operations

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

(3) Global Politics and Economic Currents

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

(4) Mergers and Acquisitions

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

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

(5) Raw Material Vendors

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

(6) Financial Standing of Our Customers

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

(7) New Product Development

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

(8) Intellectual Property

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

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

(9) Product Defects

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

(10) Environmental Issues

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

(11) Compliance and Legal Regulations

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

the performance of the Group.

(12) Lawsuits

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

(13) Accidents and Disasters

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

(14) Retirement Benefit Liability

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

QES Audit

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

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

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

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

Product Risk Management

Aiming at providing safe and useful products to our customers

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

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

Product Quality Management and Compliance with Environmental Laws and Safety Laws

(1) Quality Management According to Customer Requests

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

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

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

(3) Compliance with Laws Concerning Packaging and Product Description

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

Product Risk Committee

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

Quality and Chemical Substance Management

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

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

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



GATE Global Presentation

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

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

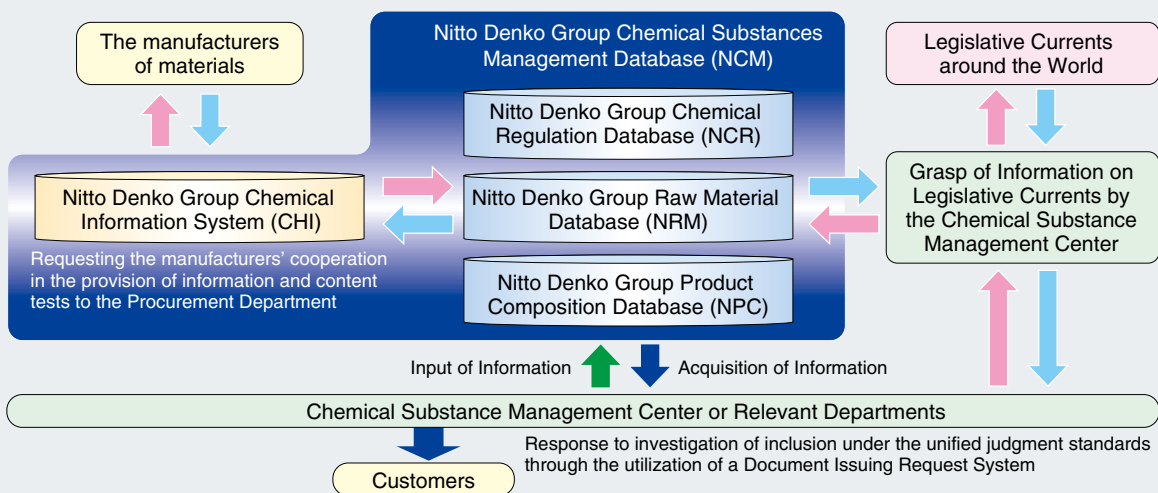
To prevent the use of chemical substances which are harmful to humans and the environment, the Corporate Chemical Substances Department established self-governing regulations regarding the management of chemical substances used. The department continues to control raw materials procurement within the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

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

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

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

The Nitto Denko Group's Chemical Substance Management



Procurement

Aiming towards global “Open, Fair and Best” procurement

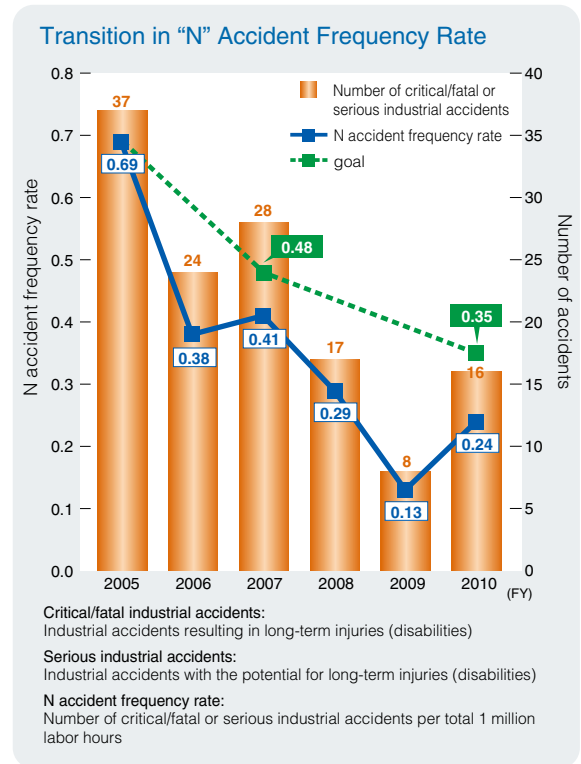
The Nitto Denko Group considers procurement should be done globally in accordance with our spirit of being “Open, Fair and Best”. In particular, using CHI (Chemical Information System), which we manage through the Corporate Chemical Substances Department, environmentally-conscious and safe procurement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

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

Safety Measures for Employees

Making Safety a Primary Concern

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



TOPICS

Outside Honor

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

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

Nitto Denko Toyohashi Plant Receives Award from Labor Standards Bureau

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

(1) Occurrence of Accidents

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

(2) Preventing Accidents Involving Chemical Substances

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

■ Certification

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

Personnel Matters and the Cultivation of Human Resources

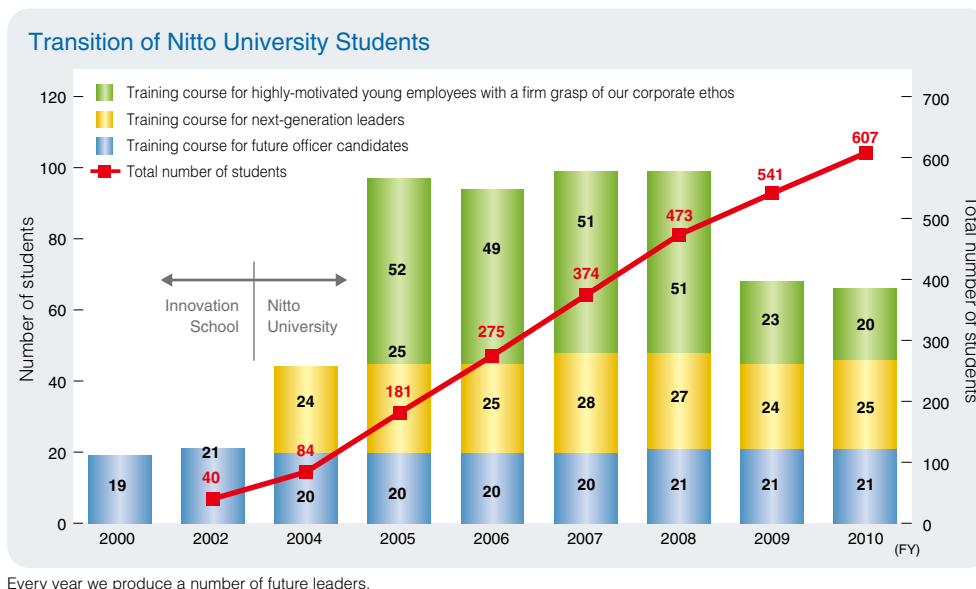
The cultivation of employees playing globally-active roles

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

(1) Nitto University

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

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



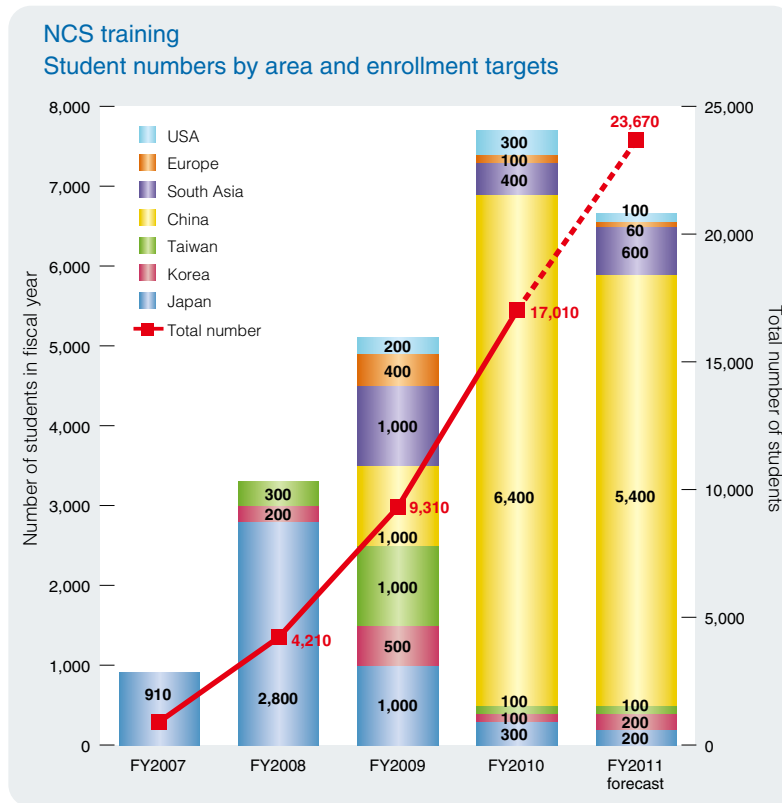
(2)General Training (NCS*) *Nitto Denko Group Cultivation System

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

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



Training at Nissho Hungary Precision KFT.



We are expanding rapidly overseas.

(3)Dispatching Trainees Overseas

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

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

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