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## **Report for the 142nd Fiscal Term**

### **Business Report**

—For Fiscal 2006 (April 1, 2006 to March 31, 2007)—

#### **1. Overview of operations of the Nitto Denko Group**

##### **(1) Operating progress and results**

This business year we continued to see a trend of recovery in the Japanese economy, which was driven by improved corporate profit, increased facility investment and improved employment situation despite domestic consumer spending remaining flat. In the US, the housing construction has reduced, but the economy has gradually expanded with increased consumer spending. In Asia, the economic expansion has been continuing mainly in China, and in Europe, the economy has been recovering supported by the increased internal demands.

Under this economic situation, the FPD (flat panel display) industry, the major market of the Group, has continued to expand, although the performance of the LCD (liquid crystal display) related material business was significantly affected by the largely reduced market price of the large liquid crystal TV. There were favorable sales of industrial materials and electronics related materials to the automobile industry and the electronic device industry, especially for HDD (hard disk drives) and mobile phones. Sales of high-polymer separation membranes for water related environment were also favorable but not enough to counter the reduced performance of LCD-related products.

As a result, consolidated net sales increased by 8.5% from the previous year (changes in percentage hereafter are in comparison to the previous year) to 679,822 million yen. Operating income decreased by 22.6% to 69,037 million yen on account of the reduced prices for LCD-related materials and the reduced yield rate of products as well as the increased depreciation costs for facility investment. Ordinary income also decreased by 25.4% to 67,319 million yen, with net income decreasing by 25.5% to 41,201 million yen.

## (2) Summary of operations by segment

Sales by business segment were as follows:

(Unit: millions of yen)

Business segment	FY2006 (under review)	FY2005 (141st term)
	Sales (year-on-year change)	Sales
Industrial products	268,888 (up 7.0%)	251,384
Electronic products	356,941 (up 9.0%)	327,398
Functional products	53,991 (up 13.6%)	47,533
Total	679,822 (up 8.5%)	626,316

### [Industrial products]

Bonding and joining products benefited from solid sales for use in mobile phone components and small liquid crystal modules due to growth of mobile phone production, with sales expanding mainly in East Asia. Sales for components used in HDD (hard disk drives) were also brisk. With regard to surface protection products, sales of surface protection film (the product name E-MASK) for the FPD industry were favorable compared to the previous year despite the influences of production adjustments by customers in the latter half of the year. Sales of automobile paint protection film and metal sheet protection film were also favorable. Sealing products sold well for automobile components, and peripheral components for appliances such as mobile phones, flat TVs and game gadgets. Construction materials sales remained flat on account of the sharp rise in material costs.

As a result, sales from the industrial products segment rose by 7.0% to 268,888 million yen, and operating income increased by 22.2% to 28,019 million yen.

### [Electronic products]

In relation to the LCD related materials, demand for LCD televisions expanded, but the production efficiency was deteriorated including the yield rate of optical film, largely affected by the reduced product prices and the larger LCD TV panels at a rapid pace. Sales for mobile equipment were favorable, but the results as a whole remained low. As for sales of semiconductor-related materials, sales of environmentally friendly resin and resin for advanced device were favorable, but sales of all-purpose resin remained flat on account of the production adjustments by customers in the latter half of the year. As for circuit materials, sales for mobile phones and sales in the storage industry, mainly for HDD were strong. With regard to electronic processing materials, adhesive tapes for semiconductor manufacturing packaging expanded shares in the overseas market, and sales for small electronic components were favorable, but sales of wafer-protection adhesive tape and taping system for semiconductor manufacturing processes remained flat.

As a result, sales for the electronic products segment rose by 9.0% to 356,941 million yen, and operating income decreased by 46.4% to 31,449 million yen.

### **[Functional products]**

In medical related products, sales of transdermal therapeutic patches for the treatment of bronchiectasis (asthma) and ischemic heart disease (angina) were affected by reduced drug prices, which were made up for by rationalization efforts, and further, overall sales were steady with strengthened sales of local anesthesia patches. In medical/sanitary materials, overall sales were steady despite withdrawal of some of the products. Sales of high-polymer separation membranes were steady, with new demands and replacement demands for membranes used in ultrapure water equipment for the semiconductor industry and the LCD industry in Japan, demands for waste water processing in the US, demands for sea water desalination in the Middle East and Europe and gaining of awareness for the new industrial-use products in the markets in China. As for engineering plastic materials, functional materials for OA and information equipment and porous film materials for the automobile parts, electronic parts, home appliances and environmental use were favorable.

As a result, sales in the functional products segment increased by 13.6% to 53,991 million yen, and operating income rose by 26.3% to 9,568 million yen.

### (3) Trends in operating results and assets

Item	FY2002 (138th term)	FY2003 (139th term)	FY2004 (140th term)	FY2005 (141st term)	FY2006 (under review)
Net sales (million yen)	378,705	452,726	514,867	626,316	679,822
Operating income (million yen)	33,901	55,912	70,018	89,224	69,037
Ordinary income (million yen)	35,832	58,045	71,828	90,196	67,319
Net income (million yen)	19,237	33,386	41,842	55,306	41,201
Net income per share (yen)	108.52	197.99	252.72	332.30	248.33
Total assets (million yen)	379,811	389,525	443,264	556,934	604,208
Net assets (million yen)	237,560	223,114	261,090	321,464	367,610
Net assets per share (yen)	1,367.38	1,360.71	1,583.77	1,943.73	2,192.29

Note: The “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Business Accounting Standards No. 5, December 9, 2005) and the “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Business Accounting Standards Implementation Guidance No. 8, December 9, 2005) have been applied from 2006.

### (4) Plant and equipment investment

The Group made a total of 75,324 million yen in plant and equipment investment during the business year under review. Of this total, 56,464 million yen was invested in a non-consolidated basis in production facilities for LCD-related materials at the Onomichi Plant, facilities for circuit materials at the Kameyama Plant, and facilities for joining materials, construction of plant No. 14 for surface protection materials, and production facilities at the Toyohashi Plant. For group companies, a total of 18,860 million yen was invested in new factories for LCD-related materials in Taiwan and South Korea, and new factories for circuit materials in China.

### (5) Fund procurement

It has been the fundamental policy of the Group to allocate cash reserve for capital investments and other purposes. However, when the required funds exceeded the cash reserve, the investment was financed by bank loans and commercial papers. This was the case for the expansion of production facilities for LCD materials in domestic and overseas plants as well as for the increase in operating funds for this business year.

### (6) Issues to be addressed

When making forecasts for the future of the US economy, based on economic trends, there are uncertain factors, such as declining housing construction. High rises in the prices of crude oil and raw materials are also expected. In the Japanese economy, the consumer consumption and the corporate capital investment are expected to grow, and a gradual economic recovery is also expected, but still uncertainty remains.

Especially in the FPD industry, the major market of the Company, a large production increase

is expected in large TV, but the starting period of production of LCD panel manufacturers and influences by the panel price fall remain uncertain.

Under these economic circumstances, considering that the “changes are the opportunities” and 2007 is placed as a “preparatory year for the next growth,” the Group will reform the group business structure and make concentrated efforts forwards the productivity reform for LCD-related materials, the accelerated overseas development of the industrial material business and the management infrastructure establishment for IT, logistics and personnel that support such businesses.

As for the LCD-related materials, the Company will make efforts to improve the productivity at the new manufacturing process building and the yield rate of new products in the Onomichi Plant that manufactures optical films. As for the optical film finishing process, the Company will establish new factories in China (Shenzhen) and Europe (Czech) to establish the production system optimal for customers and to improve productivity.

Furthermore, for the tape business that is the core business of the Company, the Company will establish the structure that focuses on the global B-to-B (inter-company transactions) business, accelerating the progress of the proprietary core technology.

In addition to promoting such reforms, the Company will steadily launch new products for circuit materials for the HDD industry, and new products for transdermal therapeutic patches that are medical products as the differentiation technology products. As for high-polymer separation membranes expected as the water related environment products, the Company will take measures to expand business for sea water desalination and reuse of waste water.

Moreover, in order to not only achieve favorable business performance but also fulfill its overall responsibility as a good corporate citizen in terms of the environment and society as a whole, the Company will promote the CSR (corporate social responsibility) activities including compliance of the Group as a whole with the action standard of “Open, Fair and Best” and actively promote responses to the internal control system (J-SOX) to be implemented from 2008 to achieve transparent management.

**(7) Main business of the Group (as of March 31, 2007)**

Business segment	Main products
Industrial products	Bonding and joining materials, surface protection materials, sealing materials, packaging material and equipment
Electronic products	LCD related materials, printed circuit materials, electronic process materials, semiconductor-related materials
Functional products	Healthcare products, high-polymer separation membranes, fluororesin products

**(8) Status of major subsidiaries (as of March 31, 2007)**

Corporate name	Capital	Company's stake	Main business
Kyoshin Corp.	in million yen 767	% 100.0	Sales of industrial products, electronic products, functional products.
Nissho Corp.	in million yen 500	100.0	Sales of industrial products, electronic products, functional products.
Nitto Denko Matex Corp.	in million yen 350	100.0	Sales of industrial products, electronic products, functional products.
Nitto Europe N.V.	in thousand euro 6,198	100.0	Production and sales of industrial products, electronic products.
Nitto Americas, Inc.	in thousand dollars 1,024	100.0	Administration of the Group companies in the U.S.
Nitto Denko (China) Investment Co., Ltd.	in thousand RMB 253,435	100.0	Administration of the Group companies in China.
Nitto Denko (Suzhou) Co., Ltd.	in thousand RMB 370,902	100.0 (65.8)	Production and sales of electronic products.
Taiwan Nitto Optical Co., Ltd.	in thousand NT\$ 567,503	100.0 (3.6)	Production and sales of electronic products.
Korea Nitto Optical Co., Ltd.	in million won 29,768	80.4 (10.5)	Production and sales of electronic products.
Nitto Denko (HK) Co., Ltd.	in thousand HK\$ 13,826	100.0	Sales of industrial products, electronic products.
Shanghai Nitto Optical Co., Ltd.	in thousand RMB 26,486	100.0 (24.5)	Production and sales of electronic products.

## Notes:

- Figures in parenthesis in "Company's Stake" indicate the percentage of indirect stake.
- Company's stake in Kyoshin Corp. in the previous year was 51%, but on September 1, 2006, the Company exchanged shares with other Kyoshin Corp. shareholders by allocating 1,205,900 shares of the Company's ordinary stock (0.31 share of the Company to 1 share of Kyoshin), becoming a 100% owner of Kyoshin.
- On April 1, 2007, Nissho Corp., Kyoshin Corp. and Nitto Denko Matex Corp. were merged and divided to reorganize the sales function. On April 1, 2007, the Company succeeded the businesses of Nissho Corp., other than electronics parts processing and purchased product business, and Nissho Corp. succeeded the electronics parts processing business and the purchased product business of Kyoshin Corp. and Nitto Denko Matex Corp.
- The Company plans to merge with Kyoshin Corp. and Nitto Denko Matex Corp. on July 1, 2007, with the Company being the surviving company.

**(9) Principal offices of the Group (as of March 31, 2007)**

Nitto Denko Corporation	Head office	2-5-25 Umeda, Kita-ku, Osaka
	Offices (Plants)	Tohoku Plant (Osaki, Miyagi), Kanto Plant (Fukaya, Saitama), Toyohashi Plant (Toyohashi, Aichi), Kameyama Plant (Kameyama, Mie), Shiga Plant (Kusatsu, Shiga), Onomichi (Onomichi, Hiroshima)
	Branches	Tokyo Sales Branch (Shinagawa-ku, Tokyo), Nagoya Sales Branch (Naka-ku, Nagoya), Osaka Sales Branch (Kita-ku, Osaka), Kyushu Sales Branch (Hakata-ku, Fukuoka)
	Laboratory	Core Technology Center (Ibaraki, Osaka)
Kyoshin Corp.	Head office: Suita, Osaka	
Nissho Corp.	Head office: Kita-ku, Osaka	
Nitto Denko Matex Corp.	Head office: Chiyoda-ku, Tokyo	
Nitto Europe N.V.	Head office & plant: Genk, Belgium	
Nitto Denko (Suzhou) Co., Ltd.	Head office & plant: Suzhou, China	
Taiwan Nitto Optical Co., Ltd.	Head office & plant: Taichung, Taiwan	
Korea Nitto Optical Co., Ltd.	Head office & plant: Pyeongtaek, South Korea	
Nitto Denko (HK) Co., Ltd.	Head office: Hong Kong	
Shanghai Nitto Optical Co., Ltd.	Head office & plant: Shanghai, China	

**(10) Employees of the Group and the Company (as of March 31, 2007)**

	Number of employees	(Changes from the end of the previous year)
Group	24,776	(+3,249)
Company	3,490	(+303)

Note: The number of employees does not include directors (those who are classified as employees) and temporary workers.

**(11) Major creditors (as of March 31, 2007)**

(Unit: millions of yen)

Creditor	Balance at the end of the fiscal year
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	21,646
Mizuho Corporate Bank, Ltd.	4,112

## 2. Shareholders' equity (as of March 31, 2007)

- |   |                    |
|---|--------------------|
| (1) Number of shares authorized to be issued: | 400,000,000 shares |
| (2) Number of shares outstanding              | 173,758,428 shares |
| (Number of treasury shares held)              | 7,292,233 shares   |
| (3) Number of shareholders                    | 35,224             |
| (4) Major shareholders (Top 10)               |                    |

Name of shareholding party	The stake in the Company	
	Number of shares held	Ownership percentage
The Chase Manhattan Bank, N.A. London	Thousands of shares 17,060	% 10.25
Japan Trustee Services Bank, Ltd. (Trust Account)	9,421	5.66
State Street Bank and Trust Company 505103	8,083	4.86
State Street Bank and Trust Company	7,876	4.73
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,651	4.60
JPMCB USA Residents Pension Jasdec Lend 385051	3,913	2.35
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	3,619	2.17
The Dai-ichi Mutual Life Insurance Company	3,017	1.81
Sompo Japan Insurance Inc.	2,566	1.54
Nippon Life Insurance Company	2,252	1.35

### Notes:

- The Company holds treasury stock totaling 7,292,233 shares, but is not included in the above major shareholding parties.
  - The ownership percentage has been calculated based on the number of shares outstanding excluding treasury stock.
  - Although the following three companies (groups) have submitted reports on large scale shareholdings, the Company lists major shareholders above according to the shareholder register as of March 31, 2007.
    - Group of five companies, including Capital Research and Management Company and its joint holders:  
24,709,600 shares (as of March 13, 2007)
    - Group of two companies of Alliance Bernstein, LP and its joint holder:  
10,611,350 shares (as of February 28, 2007)
    - Group of six companies, including Morgan Stanley Investment Management Inc. and its joint holders:  
9,683,264 shares (as of February 15, 2007)
- Further, after April 1, 2007, the following reports on large scale shareholdings were submitted.
- Group of five companies, including Capital Research and Management Company and its joint holders:  
22,798,100 shares (as of April 11, 2007)
  - Group of seven companies, including Morgan Stanley Investment Management Inc. and its joint holders:  
11,577,598 shares (as of April 30, 2007)

### 3. Matters concerning the Warrant

(1) Summary of Warrant issued as compensation for executing duties and responsibilities owned by directors at the end of this business year

1) Warrant (general stock option)

- Number of the Warrant units issued: 1,207 units (100 shares of common stock per unit)
- Class and number of underlying shares that are the subject to the Warrant: Company's common stock: 120,700 shares
- Classified total of Warrant units held by directors and other executives

	No. 3 Warrant (Note 1)	No. 4 Warrant (Note 1)	No. 5 Warrant (Note 1)
Exercise value (payment amount per unit at the time of exercise)	541,000 yen	663,400 yen	705,000 yen
Exercise period	January 1, 2005 through December 31, 2007	January 1, 2006 through December 31, 2008	January 1, 2007 through December 31, 2009
Number of owners and units by classification (Note 2)			
Directors of the Company	5 persons 367 units	6 persons 435 units	6 persons 405 units

Notes:

1. The No. 3 Warrant and the No. 4 Warrant were approved as incentive compensation at the 139th and the 140th ordinary general meetings of shareholders under the former Commercial Code. The No. 5 Warrant was approved as compensation for executing duties and responsibilities at the 141st ordinary general meeting of shareholders.
2. As of the end of this business year, the Corporate Auditors (including Outside Corporate Auditors) did not own the above-mentioned Warrant, and the Company had no outside directors.

2) Warrant (stock option of equity based compensation) (Note 3)

- Number of the Warrant units issued: 513 units (100 shares of common stock per unit)
- Class and number of underlying shares that are the subject to the Warrant: Company's common stock: 51,300 shares
- Classified total of Warrant units held by directors and other executives

	Type 1 (Note 4)	Type 2 (Note 4)
Exercise value (payment amount per unit at the time of exercise)	100 yen	100 yen
Exercise period	<ul style="list-style-type: none"> <li>• 20 years from the day following the issuing date</li> <li>• Six years from the day following the day they no longer serve as Directors, Corporate Vice Presidents, Corporate Auditors, advisers or specific staff members</li> </ul>	<ul style="list-style-type: none"> <li>• 30 years from the day following the issuing date</li> <li>• 10 days from the day following the day they no longer serve as Directors</li> </ul>
Number of owners and units by classification (Note 5)		
Directors of the Company	6 persons 386 units	6 persons 127 units

Notes:

3. Following the discontinuation of traditional retirement benefit in cash approved at the 139th ordinary general meeting of shareholders, issue of the Warrant (stock option of equity based compensation) was approved as its replacement at the 139th ordinary general meeting of shareholders and onward.
4. Type 1 of the Warrant (stock option of equity based compensation) was approved as incentive compensation at the 139th and the 140th ordinary general meetings of shareholders under the former Commercial Code. Type 2 of the Warrant (stock option of equity based compensation) was approved as compensation for executing duties and responsibilities at the 141st ordinary general meeting of shareholders.
5. As of the end of this business year, the Corporate Auditors (including Outside Corporate Auditors) did not own the above-mentioned Warrant and furthermore, the Company had no outside directors.

- (2) Summary of Warrant issued as compensation for executing duties and responsibilities to the employees of the Company and the directors and the employees of the subsidiaries during this business year

	No. 5 Warrant (general stock option)	Warrant issued in July 2006 (stock option of equity based compensation) (Note 6)
Number of the Warrant issued	3,164 units (100 shares of common stock per unit)	138 units (100 shares of common stock per unit)
Class and number of underlying shares that are the subject to the Warrant	Company's common stock: 316,400 shares	Company's common stock: 13,800 shares
Exercise value (payment amount per unit at the time of exercise)	705,000 yen	100 yen
Exercise period	January 1, 2007 through December 31, 2009	July 11, 2006 through July 10, 2036 10 days from the day following the day when the Corporate Vice President of the Company no longer serves as Corporate Vice President ("Right Exercise Starting Day"). Provided, however, that if the Warrant owner is the Corporate Vice President of the Company and has an employment contract with the Company, the later of the day following the day the Warrant owner no longer serves as Corporate Vice President or the day following the said employment contract expires shall be the Right Exercise Starting Day.
Classified number of persons and units issued		
Employees of the Company (excluding those who also serve as Directors of the Company)	100 persons 2,427 units	12 persons 138 units
Directors and employees of the subsidiaries of the Company (excluding those who also serve as Directors or employees of the Company)	39 persons 737 units	

Note:

6. The Warrant issued in July 2006 (stock option of equity based compensation) was approved by the Board of Directors of the Company to grant to the Directors and the Corporate Vice Presidents as a replacement of the traditional directors' retirement benefit in cash, the discontinuation of which was approved at the 139th ordinary general meeting of shareholders.

#### 4. Executives

##### (1) Directors and corporate auditors (as of March 31, 2007)

Position	Name	Responsibility or main job
Representative Director President	Masamichi Takemoto	CEO & COO (Group Chief Executive Officer and Chief Operating Officer)
Director	Yukio Nagira	Deputy COO (Group Deputy Chief Operating Officer)
Director	Yoshiyasu Kamiyama	Deputy COO (Group Deputy Chief Operating Officer)
Director	Yasuo Ninomiya	CTO (Group Chief Technology Officer)
Director	Tatsunosuke Fujiwara	CFO (Group Chief Financial Officer)
Director	Wataru Kitao	CSO (Group Chief Strategy Officer)
Corporate Auditor (full-time service)	Nobuyuki Tanioka	
Corporate Auditor (full-time service)	Shigeru Hozan	
Corporate Auditor (part-time service)	Hisashi Hosokawa	Executive Partner of Strategy Design Institute, MSK Research Institute Co., Ltd.
Corporate Auditor (part-time service)	Kazuo Kumagai	Special Adviser of Hitachi, Ltd.
Corporate Auditor (part-time service)	Kosuke Kimura	Professor Emeritus, Kyoto Institute of Technology

Notes:

1. Of the Corporate Auditors, Hisashi Hosokawa, Kazuo Kumagai and Kosuke Kimura are the outside corporate auditors stipulated in Paragraph 16, Article 2 of the Corporation Law.
2. Shigeru Hozan, the full-time Corporate Auditor, has had experiences in the Company's accounting division over the years, having a broad range of knowledge in finance and accounting.
3. In addition to the matters mentioned above, important concurrent serving of outside directors and outside corporate auditors is specified in (4) outside directors and outside corporate auditors.
4. The Company adopts the executive officer system and the following 13 persons take on the duties as indicated.

Position	Name	Responsibility or main job
Executive Corporate Vice President	Katsuhiro Akamatsu	GNT Promotion, Global management issues
Executive Corporate Vice President	Tetsuo Horiuchi	QES Management (Environmental protection, comprehensive safety, and quality assurance)
Executive Corporate Vice President	Kaoru Aizawa	Industrial Business Management
Executive Corporate Vice President	Hideo Abe	Optical business management
Senior Corporate Vice President	Ryoichi Ota	Procurement
Senior Corporate Vice President	Setsuo Watanabe	Sales & Marketing
Corporate Vice President	Yoshihiko Chikuma	Management of operations in East Asia
Corporate Vice President	Tomio Sakka	Development of manufacturing technology
Corporate Vice President	Masakazu Ozawa	Corporate Planning / Human Resources Management
Corporate Vice President	Kenji Matsumoto	Technical Information (Technical planning and intellectual property)
Corporate Vice President	Hongin Kim	Optical Business Management in South Korea area
Corporate Vice President	Koichi Nishikawa	Industrial Business Management (Production Control)
Corporate Vice President	Yoichiro Sakuma	Management of operations in American area

**(2) Compensation, etc. paid to directors and corporate auditors**

(Unit: millions of yen)

Category	Director		Corporate Auditor (including Outside Corporate Auditor)		Outside Corporate Auditor	
	Number of payees	Amount of payment	Number of payees	Amount of payment	Number of payees	Amount of payment
Compensation approved by the general shareholders meeting	6	186	5	98	3	30
Bonus paid to directors	6	187	-	-	-	-
Stock Purchase/Subscription Warrant (stock option)	6	108	-	-	-	-
Total		482		98		30

Notes:

1. The amount of employee's salary (including bonus) for a director who also holds an employee post is paid separately the above-mentioned compensation approved by the general meeting of shareholders. The amount of employee's salary (including bonus) was not paid for the current term.
2. The limit of compensation for directors is 20 million yen per month (approved by the 130th general meeting of shareholders) and that for corporate auditors is 12 million yen per month (approved by the 139th general meeting of shareholders).
3. Matters related to the Warrant (stock option) were approved at the 141st ordinary general meeting of shareholders.
4. 50 million yen is additionally paid as retirement benefit in addition to the compensation mentioned in the table above. This was paid to the director who was to receive reimbursement following the discontinuation of the directors' retirement benefit which was approved at the 139th ordinary general meeting of shareholders held on June 24, 2004.

**(3) Summary of policy to determine amount or calculation method of compensation for directors and corporate auditors**

## 1) Compensation for directors

Compensation in cash, compensation by the Warrant and bonus of Directors are determined by the Representative Director in accordance with the duties, responsibilities and performances of each Director within the range of the total amount approved by the general meetings of shareholders.

## 2) Compensation for corporate auditors

Compensation for Corporate Auditors is determined by consultation among Corporate Auditors in accordance with the duties and responsibilities of each Corporate Auditor within the range of the total amount of compensation for Corporate Auditors approved by the general meetings of shareholders.

**(4) Outside directors and outside corporate auditors (as of March 31, 2007)**

- 1) Concurrent serving of outside corporate auditors (in case of business executors and outside directors and/or corporate auditors of other companies)

Name	Important concurrent serving
Hisashi Hosokawa	Executive Partner of Strategy Design Institute, MSK Research Institute Co., Ltd. Outside Director of Hitachi Construction Machinery Co., Ltd.
Kazuo Kumagai	Outside Director of Hitachi Construction Machinery Co., Ltd. Outside Director of Hitachi Transport System, Ltd.

Notes:

1. Mr. Hisashi Hosokawa concurrently serves as the Executive Partner of Strategy Design Institute, MSK Research Institute Co., Ltd., but MSK and the Company have no significant business relationships. In addition, he is to resign from the position of outside director of Hitachi Construction Machinery Co., Ltd. in June 2007.
2. Mr. Kazuo Kumagai is to resign from the positions of both outside directors of the companies mentioned above in June 2007.

- 2) Major activities of the outside corporate auditors

Name	Major activities
Hisashi Hosokawa	Participation: Board of Directors 93% (13 times out of 14 times) Board of Corporate Auditors 100% (7 times out of 7 times) Major comments He mainly makes comments based on his broad insight and knowledge for global economy and information.
Kazuo Kumagai	Participation: Board of Directors 93% (13 times out of 14 times) Board of Corporate Auditors 100% (7 times out of 7 times) Major comments He mainly makes comments from the viewpoint of experienced corporate executive.
Kosuke Kimura	Participation: Board of Directors 86% (12 times out of 14 times) Board of Corporate Auditors 86% (6 times out of 7 times) Major comments He mainly makes comments based on his broad insight as a learned person and academic expert.

- 3) Liability limitation agreement of outside corporate auditors

The Company has executed agreements with all of the Outside Auditors to limit the compensation liability in accordance with Paragraph 1, Article 423 of the Corporation Law, and the compensation limitation amount under these agreements are the amount determined under laws or regulations.

## 5. Accounting auditors

(1) Name of accounting auditor: KPMG Azsa & Co.

(2) Amount of compensation for accounting auditor for this business year

(Unit: millions of yen)

a.	Amount of compensation as an accounting auditor for this business year	45
b.	Total amount of money and other asset interests to be paid by the Company and the subsidiaries of the Company	116

Notes:

1. The compensation for auditing as an accounting auditor under the Corporation Law and the compensation for auditing under the Securities Exchange Law have not been differentiated in the auditing agreement between the Accounting Auditor and the Company, and also cannot be materially differentiated, so the above figure is the total of these compensations.
2. The Company entrusts the specialized advisory service for evaluation operation of internal control in relation to the financial reporting that is the service other than those stipulated in Paragraph 1, Article 2 of the Certified Public Accountant Law to the Accounting Auditor and pays the compensation for it.
3. Taiwan Nitto Optical Co., Ltd., Korea Nitto Optical Co., Ltd. and Nitto Denko (HK) Co., Ltd., the subsidiaries of the Company, are audited by the accounting auditors other than the Accounting Auditor of the Company.

(3) Policy to determine dismissal or non-reelection of the accounting auditor

In addition to the dismissal of the Accounting Auditors by the Board of Corporate Auditors in accordance with the provision of Article 340 of the Corporation Law, in principle, the Company does not reelect the Accounting Auditor, elects another relevant accounting auditor and brings the accounting auditor election agenda to the general meeting of shareholders upon consent or request of the Board of Corporate Auditors when the relevant execution of the business by the Accounting Auditor is deemed difficult or when problems are found for eligibility or creditworthiness of the Accounting Auditor based on the auditing standards. The Company also intends to determine election or non-election of the Accounting Auditor based on the number of years continued for auditing in addition to the factors mentioned above.

## **6. Internal Controls and Policies of the Company**

- (1) Controls to ensure that the exercise of duties by directors complies with legal provisions and the Articles of Incorporation, and controls to secure appropriateness of operations

The Company, in accordance with the provisions of Article 362 of the Corporation Law and of Article 100 of the Enforcement Rules of the Corporation Law, defined the Company's fundamental policies on a system to secure appropriateness of operations (hereafter referred to as "internal controls") at its Board of Directors meeting held on May 26, 2006. Subsequently at the Board of Directors meeting held on March 29, 2007, these internal controls were confirmed and the policies were partly revised as described below.

- 1) Internal controls to ensure that the exercise of duties by directors and the employee complies with legal provisions and the Articles of Incorporation
  - i) As the basis of a compliance system, corporate vision and guiding principles and a code of business conducts aimed at ensuring legal and ethical compliance as an action standard are defined, and the code is issued and enforced to the entire staff not only of the Company but also of the whole Group.
  - ii) Directors take lead in exercising due diligence for securing legal and ethical compliance, and appoint a CSR Director as well as set up a CSR Committee chaired by the appointed Director for promoting CSR activities (including the setting up of the compliance system).
  - iii) An audit department, as an internal audit division, is established for conducting internal audits of each division of the Company and the Group companies to measure reasonableness of operational processes and validity and effectiveness of operations. In addition, departments specializing in environment, safety, quality and export management are established for coordinating with the audit department when conducting audits.
  - iv) Under the internal whistle-blower system for handling legal violations and non-compliance with corporate ethics, a reporting channel is established in which to secure anonymity of informants, the direct recipient of information is an external institution. In addition, the Company establishes an in-house hotline window as well as a Corporate Ethics Committee including the CSR Director and Corporate Auditors, for handling non-compliance matters and preventing reoccurrence of any act of noncompliance.

- 2) Internal controls regarding retention and management of information associated with the exercise of directors' duties

All documents associated with the exercise of Directors' duties such as the minutes of the

general meeting of shareholders, the Board of Directors meeting and the management strategy meeting and the collective decision-making document, in accordance with the regulations on document management and retention, are properly and surely retained and managed in the form of paper or electronic means, and if necessary is made available for viewing.

3) Rules on managing the risk of loss and other internal controls

As the basis of the Company's risk management system, operational risks associated with business structuring or foreign business management, risks emerging from external factors such as exchange volatility and country risk, and risks associated with technological competitiveness including new technology development skills and intellectual property rights, are managed at all times and measured when necessary by the Board of Directors, Management Strategy Committee and each of the business executive organizations. With regard to risks associated with product quality/deficiency, environment, disaster and safety, and risks related to compliance matters such as information security, the Anti-trust Law, the Pharmaceutical Affairs Law and the Export Law, the CSR (including risk management) Director and the designated responsible department are empowered to periodically perform a thorough review of the key risks. These risks are monitored and measured respectively by management bodies and through various committee activities as well as projects organized as necessary. In the event of an unforeseen situation, the President, the CSR Director and Corporate Auditors are promptly notified, and the emergency headquarters is established under the President for preventing enlargement of damage, keeping any loss to a minimum, maintaining continuity of business and restoring operations as soon as possible.

4) Internal controls to ensure efficient execution of directors' duties

- i) As the basis of a system to ensure that the duties of Directors are exercised efficiently, the Board of Directors meeting is normally held on a monthly basis, and an extraordinary meeting is held when necessary. Internal decision-making rules are defined so that important matters related to specific management policies and strategies of the Company are, in accordance with the level of importance, discussed and approved at the Board of Directors meeting, the management strategy meeting (normally held monthly) and/or meetings held by each business executive division or through the collective decision-making system. Also operation systems utilizing IT technologies are positively implemented for securing an environment that enables efficient operational executions.
- ii) Managers responsible for operational execution and the scope of their responsibilities as well as detailed operational procedures are provided respectively by the organization designated by the Board of Directors or under group decision-making rules.

- 5) Internal controls for ensuring appropriateness of operations in a corporate entity
  - i) As the basis of controls to secure appropriateness of operations in the Nitto Denko Group as a corporate entity, a code of business conducts aimed at ensuring legal and ethical compliance is defined, and issued and enforced to the entire staff of group companies.
  - ii) For securing appropriateness of operations as a group, a group-wide chief officer system is implemented under which the Directors of the Company hold concurrent responsibilities over the management of the entire group, while group regulations and standards are developed to ensure that decision making regarding management of domestic and overseas group companies, and preliminary discussions, reporting, etc. regarding such important matters are properly carried out between the group companies and the Company.
  - iii) Corporate Auditors coordinate with the audit department in performing audits of each group company in accordance with the audit plan, and when deemed necessary may request at any time reports from corporate auditors, directors and executive managements of any group company.
  
- 6) Matters concerning a staff appointment of which has been requested by a corporate auditor for assisting the auditor, and matters concerning independence of the staff from directors
  - i) An assistant to the Corporate Auditor is assigned in the audit department for assisting the duties of the Corporate Auditor. Election, transfer and evaluation of the assistant to the Corporate Auditor are determined based on concurrence from the full-time Corporate Auditor, and the assistant is independent from the Directors.
  - ii) The assistant to the Corporate Auditor does not hold concurrent responsibility for a position related to operational execution.
  
- 7) Internal controls on reporting to corporate auditors (or the board of corporate auditors), including reporting by directors and employees to corporate auditors (or the board of corporate auditors), and internal controls to ensure execution of effective audits by corporate auditors.
  - i) Directors and the employees in accordance with the audit plan provided for by Corporate Auditors (or the Board of Corporate Auditors), report any critical matters that may be influential to the operations or to the business results of the Company, to the Corporate Auditors. Regardless of the aforementioned, Corporate Auditors may at any time demand, as necessary, reports from Directors and the employees, and may also request attendance to important meetings as well as call for disclosure of the minutes of such meetings and of collective decision-making documents and various reports.
  - ii) Directors define an internal whistle-blower system on compliance along with

emergency/accident reporting system, and ensure that these systems are duly operated and maintained so that problems, as they occur, are promptly and properly reported to the Corporate Auditors.

- iii) Corporate Auditors collaborate with Accounting Auditors, the audit department and others as well as exchange opinions and information with the corporate auditors of subsidiaries to secure an environment in which audits can be performed effectively. Directors acknowledge and understand the importance and the usefulness of audits performed by the Corporate Auditors, and then promote effectiveness of the audit department and the internal auditing system.

## (2) Basic Policy on Corporate Dominance

The basic views of the Company on acquisition of substantial shares of the Company are as follows:

In case acquisition aimed at substantial shareholdings is to be made, the Company is in the opinion that the decision on whether or not to accept the acquisition should ultimately be left to the judgment of its shareholders. On the other hand however, the Company cannot deny the existence of corporate takeovers with unjust objectives such as sell-offs at high prices, and realize that it is obviously the responsibility of the management of the Company, to secure the basic principles and the brand of the Company and protect the interests of our shareholders and other stakeholders from such unjust parties.

At present, neither is the Company placed under any specific threat for acquisition of substantial shareholdings nor does the Company intend to define explicit defense measures against the advent of such a buyer (so-called takeover defense measures). Yet the Company, having assumed the management responsibility entrusted from its shareholders, is committed at all times to keep close watch over its stock transactions and shareholder movements, and will immediately take measures deemed most appropriate should there be any sign of a party with the intention to acquire substantial shares of Nitto Denko stocks.

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In the amounts of money and the number of shares in the Business Report, fractions below the shown figures are omitted. Percentages (%) are rounded to the nearest decimal point.

## Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2007	As of March 31, 2006 (Reference)
<b>(Assets)</b>		
<b>Current assets:</b>	<b>315,303</b>	<b>307,707</b>
Cash on hand and in banks	75,762	87,658
Trade notes and accounts receivable	150,377	142,697
Inventories	72,293	59,528
Deferred tax assets	7,505	9,310
Other current assets	10,892	10,040
Allowance for doubtful accounts	(1,528)	(1,526)
<b>Fixed assets:</b>	<b>288,904</b>	<b>249,226</b>
<b>Tangible fixed assets:</b>	<b>246,744</b>	<b>206,906</b>
Buildings and other structures	97,490	81,649
Machinery and delivery equipment	95,541	74,624
Tools, furniture and fixtures	9,236	8,454
Land	19,666	19,749
Construction in progress	24,809	22,428
<b>Intangible fixed assets:</b>	<b>6,768</b>	<b>7,326</b>
Goodwill	60	70
Other intangible fixed assets	6,707	7,255
<b>Investments and other assets:</b>	<b>35,391</b>	<b>34,993</b>
Investment in securities	17,320	19,314
Deferred tax assets	2,191	617
Pre-paid annual pension cost	11,050	10,521
Others	5,103	5,058
Allowance for doubtful accounts	(274)	(518)
<b>Total assets</b>	<b>604,208</b>	<b>556,934</b>

## Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2007	As of March 31, 2006 (Reference)
<b>(Liabilities)</b>		
<b>Current liabilities:</b>	<b>209,422</b>	<b>191,463</b>
Trade notes and accounts payable	104,417	92,636
Short-term loan payable	24,228	18,021
Commercial paper	10,000	-
Accrued expenses	18,552	18,428
Income tax payable	9,777	23,999
Other current liabilities	42,447	38,377
<b>Long-term liabilities:</b>	<b>27,174</b>	<b>31,263</b>
Long-term loans payable	1,806	5,673
Provision for retirement benefits	16,102	15,870
Reserve for retirement bonuses to directors and corporate auditors	852	864
Deferred tax liabilities	1,628	1,589
Negative goodwill	1,540	1,010
Other long-term liabilities	5,244	6,254
<b>Total liabilities</b>	<b>236,597</b>	<b>222,727</b>
<b>(Net assets)</b>		
<b>Shareholders' equity</b>	<b>358,530</b>	<b>318,455</b>
Paid-in capital	26,783	26,783
Capital surplus	56,023	51,166
Earned surplus	304,552	274,678
Treasury stock	(28,829)	(34,173)
<b>Valuation and translation adjustments</b>	<b>6,411</b>	<b>3,009</b>
Valuation difference on available-for-sale securities	5,646	6,712
Deferred gains or losses on hedges	(76)	-
Translation adjustments	842	(3,702)
<b>Subscription rights to shares</b>	<b>484</b>	<b>-</b>
<b>Minority interests</b>	<b>2,183</b>	<b>12,742</b>
<b>Total net assets</b>	<b>367,610</b>	<b>334,206</b>
<b>Total liabilities and net assets</b>	<b>604,208</b>	<b>556,934</b>

Note: The items included in the "Shareholders' equity" section in the prior year are described in the "Net assets" section for sake of simplicity.

## Consolidated Statements of Income

(Unit: millions of yen)

	Amount	
	April 1, 2006 – March 31, 2007	April 1, 2005 – March 31, 2006 (Reference)
<b>Sales:</b>	<b>679,822</b>	<b>626,316</b>
Cost of sales	496,361	430,781
<b>Gross profits</b>	<b>183,460</b>	<b>195,535</b>
Selling, general and administrative expenses	114,423	106,310
<b>Operating income</b>	<b>69,037</b>	<b>89,224</b>
<b>Non-operating revenue:</b>	<b>4,523</b>	<b>4,514</b>
Interest and dividend income	790	457
Revenue from equity method investment	392	14
Miscellaneous revenue	3,340	4,042
<b>Non-operating expenses:</b>	<b>6,241</b>	<b>3,542</b>
Interest expenses	1,651	927
Foreign exchange loss	2,220	-
Miscellaneous expenses	2,369	2,614
<b>Ordinary income</b>	<b>67,319</b>	<b>90,196</b>
<b>Extraordinary gains:</b>	<b>400</b>	<b>1,070</b>
Gain on sales of fixed assets	389	753
Gain on sales of investments in securities	11	317
<b>Extraordinary losses:</b>	<b>2,618</b>	<b>1,653</b>
Loss on sales and disposal of fixed assets	1,653	837
Impairment loss on fixed assets	86	115
Annuity purchase cost for an overseas pension plan	218	472
Special benefits on retirement	582	211
Loss on sales of affiliated companies	77	-
Other extraordinary losses	-	15
<b>Income before provision for income taxes</b>	<b>65,100</b>	<b>89,614</b>
Provision for income taxes		
Current	22,330	35,988
Deferred	1,116	(2,893)
Minority shareholder's interest	452	1,212
<b>Net income</b>	<b>41,201</b>	<b>55,306</b>

## Consolidated Statements of Cash Flows (Reference)

(Unit: millions of yen)

	April 1, 2006 - March 31, 2007	April 1, 2005 - March 31, 2006
<b>Cash flows from operating activities</b>		
Income before provision for income taxes	65,100	89,614
Depreciation and amortization	40,169	31,470
Increase (decrease) in trade notes and accounts receivable	(5,401)	(18,767)
Increase (decrease) in inventories	(11,613)	(7,480)
Increase (decrease) in trade notes and accounts payable	9,849	17,836
Interest paid	(1,104)	(917)
Income taxes paid and refunded	(37,124)	(29,457)
Others, net	3,156	2,227
<b>Net cash provided by operating activities</b>	<b>63,032</b>	<b>84,525</b>
<b>Cash flows from investing activities</b>		
Acquisition of fixed assets	(77,716)	(58,157)
Proceeds from sale of fixed assets	1,308	1,398
Others	(877)	1,393
<b>Net cash used in investing activities</b>	<b>(77,285)</b>	<b>(55,365)</b>
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term loans	2,555	8,695
Increase (decrease) in commercial paper	10,000	-
Repayment of long-term loans	(1,386)	(2,880)
Dividends paid	(10,777)	(9,059)
Others	489	2,233
<b>Net cash provided by (used in) financing activities</b>	<b>879</b>	<b>(1,010)</b>
<b>Effect of exchange-rate changes on cash and cash equivalents</b>	<b>1,240</b>	<b>2,476</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(12,132)</b>	<b>30,625</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>86,684</b>	<b>48,278</b>
<b>Cash and cash equivalents from new consolidation</b>	<b>-</b>	<b>7,780</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>74,551</b>	<b>86,684</b>

## Consolidated Statement of Changes in Net Assets

April 1, 2006 – March 31, 2007

(Unit: millions of yen)

	Shareholders' equity				
	Paid-in capital	Capital surplus	Earned Surplus	Treasury stock	Total shareholders' equity
Balance March 31, 2006	26,783	51,166	274,678	(34,173)	318,455
Net increase/decrease during the fiscal year					
Cash dividends (Note)			(4,953)		(4,953)
Cash dividends			(5,824)		(5,824)
Directors' bonuses (Note)			(549)		(549)
Net income			41,201		41,201
Repurchase of treasury stocks				(16)	(16)
Disposal of treasury stocks		4,857		5,360	10,217
Net increase/decrease during the fiscal year					
Total increase/decrease during the fiscal year	-	4,857	29,873	5,343	40,075
Balance March 31, 2007	26,783	56,023	304,552	(28,829)	358,530

	Valuation and translation adjustments				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustments	Total			
Balance March 31, 2006	6,712	-	(3,702)	3,009	-	12,742	334,206
Net increase/decrease during the fiscal year under review							
Cash dividends (Note)							(4,953)
Cash dividends							(5,824)
Directors' bonuses (Note)							(549)
Net income							41,201
Repurchase of treasury stocks							(16)
Disposal of treasury stocks							10,217
Net increase/decrease during the fiscal year under review	(1,065)	(76)	4,544	3,402	484	(10,558)	(6,671)
Total increase/decrease during the fiscal year under review	(1,065)	(76)	4,544	3,402	484	(10,558)	33,403
Balance March 31, 2007	5,646	(76)	842	6,411	484	2,183	367,610

Note: These are items concerning the appropriation of earnings resolved at the General Meeting of Shareholders held on June 2006.

## Notes to consolidated financial statements

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

#### (1) Scope of consolidation

##### 1) Number of consolidated subsidiaries: 112

Major companies: Kyoshin Corp., Nissho Corp., Nitto Denko Matex Corp., Nitto Europe N.V., Nitto Americas, Inc., Nitto Denko (China) Co., Ltd., Nitto Denko (Suzhou) Co., Ltd., Taiwan Nitto Optical Co., Ltd., Korea Nitto Optical Co., Ltd., Nitto Denko (HK) Co., Ltd., Shanghai Nitto Optical Co., Ltd.

Newly consolidated subsidiaries:

Established: Shenzhen Nitto Optical Co., Ltd. and other 5 companies

Company whose status as a non-consolidated subsidiary ceased as a result of corporate integration between affiliates:

Nitto Machinery Co., Ltd.

##### 2) Number of non-consolidated subsidiaries: 5

Major company: Korea Nitto Denko Co., Ltd.

Company whose status as a non-consolidated subsidiary ceased as a result of liquidation:

Kyoshin Building Co., Ltd.

All of the non-consolidated subsidiaries are small, and their total net assets, net sales, net profit or loss, and earned surplus, etc., which correspond to holdings under the equity method have little effect on the consolidated financial statements. Hence, these companies are excluded from the scope of consolidation.

#### (2) Application of equity method

##### 1) Number of non-consolidated subsidiaries subject to equity method: 5

Major company: Korean Nitto Denko Co., Ltd.

Company whose status as a non-consolidated subsidiary ceased as a result of liquidation:

Kyoshin Building Co., Ltd.

##### 2) Number of affiliates subject to equity method: None

Company whose status as an affiliate ceased as a result of sale:

Philippine Advanced Processing Technology, Inc.

- (3) Fiscal year of the consolidated subsidiaries  
 Number of companies whose fiscal year is the same as that of the company: 90  
 Number of companies whose fiscal year is different from that of the company: 22  
 \*For the twenty-two companies above, a provisional settlement of accounts based on March 31, 2007 were used.
- (4) Accounting policies
- 1) Valuation basis and methods for principal assets
- i) Securities  
 Other 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
- ii) Derivatives: Stated at fair value
- iii) Inventories: Mainly stated at the lower of average cost or market price
- 2) Depreciation method of major depreciable assets
- i) Tangible fixed assets:  
     Mainly the declining-balance method
- ii) Intangible fixed assets:  
     Straight-line method (software for in-house use is depreciated using the straight-line method over its useful life of 5 years)
- 3) Accounting criteria for major allowances
- i) Allowance for doubtful accounts  
 Allowance for doubtful accounts is provided to cover probable losses on collection. It is the sum of the probable uncollectable amount estimated using the rate of actual collection losses for normal receivables and a review of the individual collectability of the specific receivables.
- ii) Provision for bonuses to directors  
 The Company and its domestic consolidated subsidiaries make provisions for the amount of bonuses for directors deemed to accrue during the fiscal year, based on the Company's estimated payment obligation for the current consolidated accounting year.  
 (Change in accounting policies)

As for the current consolidated fiscal year, the "Accounting Standards for Directors' Bonuses"

(Business Accounting Standards No. 4, November 29, 2005) has been applied. As a result, operating income, ordinary income and income before provision for income taxes declined by 498 million yen respectively .

iii) Provision for retirement benefits

The Company makes provisions for the necessary amount of allowance for employees' severance and retirement benefits deemed to accrue during the term based on the Company's estimated payment obligation and the balance of the pension fund at the term-end.

Prior service cost of pension plans is amortized from 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.

Actuarial gain or loss 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.

iv) 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 or liabilities in foreign currencies into Japanese yen  
Monetary credits and debts in foreign currencies are converted into Japanese yen by using the spot exchange rates 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 consolidated subsidiaries 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

i) Method of hedge accounting

Deferred hedging is used for forward exchange contracts applied 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.

ii) Hedge instruments and targets

Hedge instruments: Forward exchange contracts, Currency swaps, Interest rate swaps

Hedge targets: Foreign currency-denominated receivables and payables

iii) Hedge policy

The Company adopts a policy aimed at averting 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, it is fully amortized when accrued.

**2. Changes in significant accounting policies regarding the preparation of consolidated financial statements**

(Accounting standards for the presentation of net assets in the consolidated balance sheets)

As of the current consolidated fiscal year, the Company has adopted the “Accounting Standards for Presentation of Net Assets in the Balance Sheet” (Business Accounting Standards No. 5, December 9, 2005) and the “Implementation Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet” (Business Accounting Standards Implementation Guidance No. 8, December 9, 2005). The amount corresponding to the conventional measure of shareholders’ equity is 365,018 million yen.

(Accounting standards for business combinations)

As of the current consolidated fiscal year, the Company has adopted the “Accounting Standards for Business Combinations” (Business Accounting Council, October 31, 2003), the “Accounting Standards for Business Divestitures” (Business Accounting Standards No. 7, December 27,

2005), and the “Implementation Guidance on Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures” (Business Accounting Standards Implementation Guidance No. 10, December 27, 2005).

(Accounting standards for stock options)

As of the current consolidated fiscal year, the Company has adopted the “Accounting Standards for Share-based Payment” (Business Accounting Standards No. 8, December 27, 2005) and the “Implementation Guidance on Accounting Standards for Share-based Payment” (Business Accounting Standards Implementation Guidance No. 11, May 31, 2006). As a result, operating income, ordinary income and income before provision for income taxes declined by 484 million yen respectively.

### **3. Change in classification**

(Consolidated balance sheets)

Balance sheet items “Goodwill” and “Consolidated adjustment accounts” in the previous consolidated fiscal year are presented as “Goodwill” and “Negative goodwill” effective for the current consolidated fiscal year.

### **4. Notes to consolidated balance sheets**

- |   |                     |
|---|---------------------|
| (1) Accumulated depreciation of tangible fixed assets   | 291,348 million yen |
| (2) Pledged assets and secured liabilities  |                     |
| Pledged assets:   |                     |
| Investment in securities  | 61 million yen      |
| Secured liabilities:  |                     |
| Trade notes and accounts payable  | 13 million yen      |
| (3) Guarantees on liabilities and contracts for future guarantees on liabilities (including notes on management guidance, etc.) |                     |
| The Company extends guarantees on liabilities for its employees’ bank loans.  |                     |
| Employees’ housing loans  | 27 million yen      |
| (4) Endorsed amounts for notes receivable   | 657 million yen     |

## 5. Notes to consolidated statement of changes in net assets

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

Common stock 173,758 thousand shares

- (2) Dividends

- 1) Dividend payments

Resolution	General meeting of shareholders held on June 23, 2006	Board of Directors meeting held on October 27, 2006	Total
Type of shares	Common stock	Common stock	-
Total dividends (in millions of yen)	4,953	5,824	10,777
Dividend per share (in yen)	30	35	-
Record date	March 31, 2006	September 30, 2006	-
Effective date	June 26, 2006	November 29, 2006	-

- 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 on June 22, 2007.

Total dividends	5,826 million yen
Dividend per share	35 yen
Record date	March 31, 2007
Effective date	June 25, 2007

- 3) Type and number of shares for the target of warrant (excluding items for which the initial date of the rights exercise period has not arrived) as of the end of the current fiscal year

Common stock 882,900 shares

## 6. Notes on business combinations

(Kyoshin Corporation becomes a wholly owned subsidiary)

The Company, at its Board of Directors meeting held on June 23, 2006, reached a resolution to make Kyoshin Corporation a wholly owned subsidiary through a share exchange, and concluded the share exchange agreement on the same date.

- (1) Name and business outline of combined entity

- 1) Name: Kyoshin Corporation
- 2) Business: Sales of industrial products, electronic materials and functional products
- 3) Purpose of share exchange

The Company has determined to wholly own Kyoshin Corporation as a subsidiary, to enhance the Group's consolidated management through strengthening the fundamental relationship with the Corporation and secure stronger mobility and flexibility while pursuing globalization.

- 4) Share exchange

With the Company becoming the wholly-own parent of Kyoshin Corporation and Kyoshin becoming a wholly owned subsidiary of the Company, effective September 1, 2006, shares owned by shareholders of Kyoshin Corporation (excluding the Company) were transferred to the Company, while the shareholders of Kyoshin Corporation (excluding the Company) received an allotment of the Company's common stock and became shareholders of the Company.

- 5) Share exchange ratio

The share exchange ratio was 0.31 common stock of the Company per 1 common stock of Kyoshin Corporation. Instead of issuing new shares, 1,205,900 shares of treasury stock owned by the Company (worth the appraisal value of 4,766 million yen) have been transferred.

- (2) Accounting treatment

The Company has adopted accounting procedures provided for under the "Accounting Standards for Business Combinations 3-4 Accounting Procedures for Combinations between Mutual Enterprises (2) Accounting for Non-controlling (Minority) Interests."

## 7. Notes on information per share

Net asset value per share	2,192.29 yen
Net income per share	248.33 yen

## 8. Subsequent Events

(Mergers with consolidated subsidiaries)

The Company at its Board of Directors meeting held on April 27, 2007, reached a resolution to merge through absorption, effective July 1, 2007, with Kyoshin Corporation and Nitto Denko Matex Co., both wholly owned subsidiaries engaged in sales of industrial, electronic, and functional products, and concluded a merger agreement with each party as of the meeting date.

(1) Purpose of 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.

(2) Method of merger

The merger will be implemented by way of absorption (simple merger) in which the Company will be the surviving corporation, and Kyoshin Corporation and Nitto Denko Matex Co. will be dissolved.

(3) Merger ratio and delivery of money

As Kyoshin Corporation and Nitto Denko Matex Co. are wholly owned subsidiaries of the Company, no issuance of new stock, no capital increase and no delivery of money will be made under the merger.

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

## Non-Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2007	As of March 31, 2006 (Reference)
<b>(Assets)</b>		
<b>Current assets:</b>	<b>179,774</b>	<b>186,811</b>
Cash on hand and in banks	20,061	44,705
Notes receivable	851	796
Accounts receivable	103,097	104,544
Products and merchandise	3,093	2,883
Materials and stored goods	7,568	5,664
Goods in process	17,890	12,347
Short-term loans	11,868	882
Deferred tax assets	3,723	5,013
Other current assets	11,920	10,274
Allowance for doubtful accounts	(300)	(300)
<b>Fixed assets:</b>	<b>252,636</b>	<b>209,701</b>
<b>Tangible fixed assets:</b>	<b>158,902</b>	<b>124,792</b>
Buildings	59,057	44,925
Other structures	2,842	2,611
Machinery	60,773	46,082
Delivery equipment	162	133
Tools, furniture and fixtures	4,905	4,221
Land	13,847	14,071
Construction in progress	17,312	12,746
<b>Intangible fixed assets:</b>	<b>3,846</b>	<b>3,925</b>
Software	2,193	2,751
Utility rights	127	131
Other intangible fixed assets	1,524	1,043
<b>Investments and other assets:</b>	<b>89,887</b>	<b>80,983</b>
Investment in securities	11,884	14,012
Stock of subsidiaries	65,632	49,345
Long-term loans	3,431	3,739
Deferred tax assets	2,336	7,723
Prepaid pension cost	7,070	6,743
Others	1,242	1,125
Allowance for doubtful accounts	(94)	(92)
Allowance for loss on investment	(1,614)	(1,614)
<b>Total assets</b>	<b>432,411</b>	<b>396,513</b>

## Non-Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2007	As of March 31, 2006 (Reference)
<b>(Liabilities)</b>		
<b>Current liabilities:</b>	<b>145,745</b>	<b>129,663</b>
Trade Accounts payable	76,421	62,242
Commercial paper	10,000	-
Accounts payable	34,194	31,580
Accrued expenses	6,719	7,261
Income tax payable	5,029	17,289
Deposits received	12,735	10,684
Other current liabilities	645	604
<b>Long-term liabilities:</b>	<b>12,424</b>	<b>12,746</b>
Provision for retirement benefits	11,989	12,098
Guarantee deposits received	88	263
Other long-term liabilities	347	384
<b>Total liabilities</b>	<b>158,170</b>	<b>142,409</b>
<b>(Net assets)</b>		
<b>Shareholders' equity</b>	<b>269,319</b>	<b>248,302</b>
<b>Paid-in capital</b>	<b>26,783</b>	<b>26,783</b>
<b>Capital surplus</b>	<b>56,023</b>	<b>51,166</b>
Capital legal reserve	50,482	50,482
Other capital surplus	5,541	684
<b>Earned surplus:</b>	<b>215,341</b>	<b>204,526</b>
Earned legal reserve	4,095	4,095
Other earned surplus	211,246	200,430
Special depreciation reserve	1,063	1,325
Fixed asset depreciation reserve	301	-
Special reserve	168,000	151,000
Earned surplus brought forward	41,881	48,105
<b>Treasury stock</b>	<b>(28,829)</b>	<b>(34,173)</b>
<b>Valuation and translation adjustments</b>	<b>4,436</b>	<b>5,800</b>
Valuation difference on available-for-sale securities	4,513	5,800
Deferred gains or losses on hedges	(76)	-
<b>Subscription rights to shares</b>	<b>484</b>	<b>-</b>
<b>Total net assets</b>	<b>274,240</b>	<b>254,103</b>
<b>Total liabilities and net assets</b>	<b>432,411</b>	<b>396,513</b>

Note: The items included in the "Shareholders' equity" section in the prior year, are described in the "Net assets" section for sake of simplicity.

## Non-Consolidated Statements of Income

(Unit: millions of yen)

	Amount	
	April 1, 2006 - March 31, 2007	April 1, 2005 - March 31, 2006 (Reference)
<b>Sales</b>	<b>400,339</b>	<b>378,922</b>
<b>Cost of sales</b>	<b>304,540</b>	<b>261,856</b>
Gross profit	95,798	117,066
Selling, general and administrative expenses	58,445	53,355
<b>Operating income</b>	<b>37,352</b>	<b>63,710</b>
<b>Non-operating revenue</b>	<b>10,024</b>	<b>7,671</b>
Interest and dividend income	6,119	3,858
Miscellaneous revenue	3,904	3,813
<b>Non-operating expenses</b>	<b>4,544</b>	<b>2,188</b>
Interest expense	124	45
Miscellaneous expense	4,420	2,142
<b>Ordinary income</b>	<b>42,832</b>	<b>69,193</b>
<b>Extraordinary gains</b>	<b>44</b>	<b>727</b>
Gain on sales of fixed assets	34	410
Gain on sales of investments in securities	9	316
<b>Extraordinary losses</b>	<b>1,067</b>	<b>17,827</b>
Loss from revaluation of stock of subsidiaries	-	17,017
Loss from revaluation of investment in securities	2	-
Loss on sales and disposal of fixed assets	920	642
Special retirement benefits	144	167
<b>Income before provision for income taxes</b>	<b>41,809</b>	<b>52,092</b>
Provision for income taxes		
Current	12,430	26,570
Deferred	7,595	(8,870)
<b>Net income</b>	<b>21,783</b>	<b>34,392</b>
Earnings brought forward	-	18,657
Interim dividends	-	4,944
<b>Unappropriated earned surplus</b>	<b>-</b>	<b>48,105</b>

## Non-Consolidated Statement of Changes in Net Assets

April 1, 2006 – March 31, 2007

(Unit: millions of yen)

	Shareholders' equity											
	Paid-in capital	Capital surplus			Earned legal reserve	Earned surplus				Treasury stock	Total shareholders' equity	
		Capital legal reserve	Other capital surplus	Total		Special depreciation reserve	Fixed asset depreciation reserve	Special reserve	Earned surplus brought forward			Total
Balance March 31, 2006	26,783	50,482	684	51,166	4,095	1,325	-	151,000	48,105	204,526	(34,173)	248,302
Net increase/decrease during the fiscal year												
Cash dividends (Note)									(4,953)	(4,953)		(4,953)
Cash dividends									(5,824)	(5,824)		(5,824)
Directors' bonuses (Note)									(190)	(190)		(190)
Provision of special depreciation reserve (Note)						544			(544)	-		-
Provision of special depreciation reserve						44			(44)	-		-
Liquidation of special depreciation reserve (Note)						(356)			356	-		-
Liquidation of special depreciation reserve						(494)			494	-		-
Reserve for fixed asset depreciation reserve (Note)							280		(280)	-		-
Reserve for fixed asset depreciation reserve							54		(54)	-		-
Liquidation of fixed asset depreciation reserve							(33)		33	-		-
Reserve for special reserve (Note)								17,000	(17,000)	-		-
Net income									21,783	21,783		21,783
Repurchase of treasury stock											(16)	(16)
Disposal of treasury stock			4,857	4,857							5,360	10,217
Net increase/decrease												
Total increase/decrease	-	-	4,857	4,857	-	(261)	301	17,000	(6,224)	10,815	5,343	21,016
Balance March 31, 2007	26,783	50,482	5,541	56,023	4,095	1,063	301	168,000	41,881	215,341	(28,829)	269,319

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total		
Balance March 31, 2006	5,800	-	5,800	-	254,103
Net increase/decrease during the fiscal year					
Cash dividends (Note)					(4,953)
Cash dividends					(5,824)
Directors' bonuses (Note)					(190)
Provision of special depreciation reserve (Note)					-
Provision of special depreciation reserve					-
Liquidation of special depreciation reserve (Note)					-
Liquidation of special depreciation reserve					-
Reserve for fixed asset depreciation reserve (Note)					-
Reserve for fixed asset depreciation reserve					-
Liquidation of fixed asset depreciation reserve					-
Reserve for special reserve (Note)					-
Net income					21,783
Repurchase of treasury stock					(16)
Disposal of treasury stock					10,217
Net increase/decrease	(1,287)	(76)	(1,364)	484	(879)
Total increase/decrease	(1,287)	(76)	(1,364)	484	20,137
Balance March 31, 2007	4,513	(76)	4,436	484	274,240

Note: These are items concerning the appropriation of earnings resolved in General Meeting of Shareholders held on June 2006.

## Notes to Non-Consolidated Financial Statements

### 1. Significant accounting policies

#### (1) Valuation basis and method for securities

Other securities:

Securities with available fair value:

Carried at fair value at the end of the period (valuation adjustments are reported in the net assets section, and selling cost is calculated using the moving average method.)

Securities with no available fair value:

Stated at cost based on the moving average method

Stocks issued by subsidiaries and affiliate companies:

Stated at cost based on the moving average method

#### (2) Valuation basis and method for derivatives:

Stated at fair value

#### (3) Inventory valuation basis and method

Products, merchandise, materials, and goods in process:

Stated at the lower of average cost or market price

Stored goods: Stated at cost using the most recent purchasing price

#### (4) Depreciation method of major depreciable assets

Tangible fixed assets:

Declining-balance method

Intangible fixed assets:

Straight-line method

Software for in-house use is amortized using the straight-line method over its useful life of 5 years.

#### (5) Accounting criteria for allowances

Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover probable losses on collection. It is the sum of the probable uncollectable amount estimated using the rate of actual collection losses for normal receivables and a review of the individual collectability of the specific receivables.

#### Allowance for loss on investment

An amount for potential loss is stated by taking into account the company's financial condition, etc., in accordance with the Company's criteria, in preparation for losses related to investments in subsidiaries.

#### Provision for bonuses to directors

The Company makes provisions for the amount of bonuses for directors deemed to accrue during the fiscal year, based on the Company's estimated payment obligation for the current fiscal year.

(Change in accounting policies)

As of the current fiscal year, the "Accounting Standards for Directors' Bonuses" (Business Accounting Standards No. 4, November 29, 2005) has been applied, as a result, operating income, ordinary income and income before provision for income taxes declined 187 by million yen respectively.

#### Provision for retirement benefits

The Company makes provisions for the necessary amount of allowance for employees' severance and retirement benefits deemed to accrue during the term based on the Company's estimated payment obligation and the balance of the pension fund at the term-end.

Prior service cost of pension plans is amortized from 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.

Actuarial gain or loss 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.

#### (6) Method of hedge accounting

##### 1) Method of hedge accounting

Deferred hedging is used for forward exchange contracts applied 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 targets

Hedge instruments: Forward exchange contracts, Currency swaps, Interest rate swaps

Hedge targets: Foreign currency-denominated receivables and payables

3) Hedge policy

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

(7) The consumption tax and similar taxes are excluded from the transaction amount.

**2. Changes in accounting policies**

(Accounting standards for the presentation of net assets in the balance sheets)

As of the current fiscal year, the Company has adopted the “Accounting Standards for Presentation of Net Assets in the Balance Sheet” (Business Accounting Standards No. 5, December 9, 2005) and the “Implementation Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet” (Business Accounting Standards Implementation Guidance No. 8, December 9, 2005). The amount corresponding to the conventional measure of shareholders’ equity is 273,832 million yen.

(Accounting standards for business combinations)

As of the current fiscal year, the Company has adopted the “Accounting Standards for Business Combinations” (Business Accounting Council, October 31, 2003), the “Accounting Standards for Business Divestitures” (Business Accounting Standards No. 7, December 27, 2005), and the “Implementation Guidance on Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures” (Business Accounting Standards Implementation Guidance No. 10, December 22, 2005).

(Accounting standards for stock options)

As of the current fiscal year, the Company has adopted the “Accounting Standards for Share-based Payment” (Business Accounting Standards No. 8, December 27, 2005) and the “Implementation Guidance on Accounting Standards for Share-based Payment” (Business Accounting Standards Implementation Guidance No. 11, May 31, 2006). As a result, operating income, ordinary income and income before provision for income taxes declined 484 million yen respectively.

**3. Notes to non-consolidated balance sheets**

(1) Accumulated depreciation of tangible fixed assets	206,971 million yen
(2) Short-term receivables from affiliates	103,097 million yen
Long-term receivables from affiliates	3,421 million yen
Short-term payables to affiliates	19,013 million yen

(3) Guarantees on liabilities

The Company offers guarantees on liabilities for loans from banks as follows:

Employees' housing fund	3 million yen
Nitto Denko (China) Co., Ltd.	3,565 million yen (30,200 thousand US dollars)
Nitto Denko (Suzhou) Co., Ltd.	6,895 million yen (52,300 thousand US dollars) (47,300 thousand Chinese yuan)
Nitto Americas, Inc.	1,863 million yen (15,785 thousand US dollars)
Taiwan Nitto Optical Co., Ltd.	2,856 million yen (800,000 thousand new Taiwan dollars)
Nitto Denko Vietnam Co., Ltd.	283 million yen (2,400 thousand US dollars)
Nitto Denko Fine Circuit Technology (Shenzhen) Co., Ltd.	3,548 million yen (23,985 thousand US dollars) (47,000 thousand Chinese yuan)
Nitto Denko (Tianjin) Co., Ltd.	246 million yen (150 thousand US dollars) (15,000 thousand Chinese yuan)

The Company offers the following guarantee on the fulfillment of a contract.

Hydranautics	3,156 million yen (26,558 thousand US dollars) (134 thousand euro)
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**4. Notes to non-consolidated statements of income**

Sales to affiliates	347,998 million yen
Purchases from affiliates	25,554 million yen
Transactions other than business deals with affiliates	9,542 million yen

**5. Notes to non-consolidated statement of changes in net assets**

Type and number of treasury stock at the end of the current fiscal year

Common stock	7,292 thousand shares
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## 6. Notes on tax effect accounting

[Current Assets]

(Deferred Tax Assets)	(Unit: millions of yen)
Accrued bonuses	2,197
Accrued enterprise tax	593
Amount in arrears	218
Others	713
<u>Total deferred tax assets</u>	<u>3,723</u>
Net deferred tax assets	3,723

[Fixed Assets]

(Deferred Tax Assets)	(Unit: millions of yen)
Provision for retirement benefits	1,976
Excess of limit in inclusion of depreciation expenses	2,538
Unrealized loss on revaluation of stocks of affiliates	6,919
Others	1,365
<u>Gross deferred tax assets</u>	<u>12,798</u>
<u>Less valuation allowance</u>	<u>(6,836)</u>
Total deferred tax assets	5,962

(Deferred Tax Liabilities)	(Unit: millions of yen)
Valuation difference on available-for-sale securities	3,030
Reserve for special depreciation	410
Fixed assets reduction reserve	184
<u>Total deferred tax liabilities</u>	<u>3,625</u>
<u>Net deferred tax liabilities</u>	<u>2,336</u>

## 7. Notes on fixed assets used under a lease contract

The Company uses, in part, production facilities and office equipment, etc., under finance/lease contracts without ownership transfer.

## 8. Notes on Transactions with Affiliated Parties

Relationship		Subsidiary
Name of company		NITTO AMERICAS, INC.
Location		Wisconsin U.S.A.
Capital		US\$1,024,000
Business		Holding company
Holding ratio of voting rights (holders)		Direct 100%
Details of relationship	Concurrent responsibility as Director, etc.	One person
	Actual role	Supervisory function in the U.S.
Transaction type and amount		Loan out of funds 11,272 million yen Receiving interest 83 million yen
Category / Balance as of fiscal year-end		Short-term loan 11,272 million yen

Note: The interest rate applied on the loan to Nitto Americas, Inc. has been determined rationally with consideration for the prevailing market rates. The term of the loan is one year, with full repayment on maturity. No collateral is involved.

## 9. Notes on business combinations

Please refer to notes on business combinations under the consolidated notes section.

## 10. Notes on information per share

Net asset value per share	1,644.52 yen
Net income per share	131.29 yen

## 11. Subsequent Events

With regard to the mergers with the consolidated subsidiaries, please refer to the Subsequent Events under the consolidated notes section.

In non-consolidated balance sheets and non-consolidated statement of income, and non-consolidated statement of changes in net assets, figures less than one million yen are omitted.

**Independent Auditors' Report**

May 9, 2007

The Board of Directors  
NITTO DENKO CORPORATION

KPMG AZSA & Co.

Masataka Nakao (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

Hisae Kitayama (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

Toshiro Miyabayashi (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the consolidated statutory report, comprising 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, 2007 and for the year from April 1, 2006 to March 31, 2007 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.

Without qualifying our opinion, we draw attention to the Notes on Subsequent Events to the consolidated financial statements, which discuss that on April 27, 2007, the Company’s Board of Directors resolved to merge, effective July 1, 2007, with KYOSHIN CORPORATION and NITTO DENKO MATEX CORPORATION, which are wholly-own subsidiaries of the Company, and that each party signed merger agreements on the same day as the resolution.

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.

**Independent Auditors' Report**

May 9, 2007

The Board of Directors  
NITTO DENKO CORPORATION

KPMG AZSA & Co.

Masataka Nakao (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

Hisae Kitayama (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

Toshiro Miyabayashi (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the statutory report, comprising the balance sheet, the statement of income, the statement of changes in net assets and the related notes, and its supporting schedules of NITTO DENKO CORPORATION( the “Company”) as of March 31, 2007 and for the 142nd business year from April 1, 2006 to March 31, 2007 in accordance with Article 436(2)①of the Corporate Law. The statutory report and supporting schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on the statutory report and supporting schedules 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 statutory report and supporting schedules are 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 statutory report and supporting schedules. We believe that our audit provides a reasonable basis for our opinion.

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

Without qualifying our opinion, we draw attention to the Notes on Subsequent Events to the financial statements, which discuss that on April 27, 2007, the Company’s Board of Directors resolved to merge, effective July 1, 2007, with KYOSHIN CORPORATION and NITTO DENKO MATEX CORPORATION, which are wholly-own subsidiaries of the Company, and that each party signed merger agreements on the same day as the resolution.

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.

## Corporate Auditor's Report

The Board of Corporate Auditors based on audit reports prepared by each Corporate Auditor, discussed the execution of duties of Directors for the 142nd term from April 1, 2006 to March 31, 2007, and prepared this audit report under unanimous assent from all Corporate Auditors, as follows.

1. Audit methods adopted by Corporate Auditors and the Board of Corporate Auditors
  - (1) The Board of Corporate Auditors defined the audit policy and the audit plan for the current business term, received reports on audit status and results from each Corporate Auditor as well as reports on execution of duties from Directors and Accounting Auditors, and requested further explanation whenever necessary.
  - (2) Each Corporate Auditor complied with the Audit Standards for Corporate Auditors defined by the Board of Corporate Auditors, and in accordance with the audit policy and the audit plan for the current business term, promoted communication with Directors, the internal audit department and others and made efforts to collect information and to secure an audit environment.
  - (3) Corporate Auditors attended the meetings of the Board of Directors as well as other key meetings, received briefings from Directors and staffs on execution of their duties, requested further explanation whenever necessary, inspected critical approvals made in writing and examined the status of business operations and assets at the Company's head office and other major offices.
  - (4) Corporate Auditors monitored and validated the systems (internal controls systems) implemented under the resolutions reached by the Board of Directors, such as the systems necessary to ensure that execution of duties by Directors complies with legal provisions and the Articles of Incorporation and the systems deemed necessary for securing appropriateness of operations of the Company provided for in Paragraphs 1 and 3 of Article 100 of the Enforcement Regulations of the Corporation Law.
  - (5) Corporate Auditors, with respect to the basic policy provided for in Article 127 of the Enforcement Regulations of the Corporation Law and indicated in the Business Report, examined the contents in consideration of the status of discussions made by the Board of Directors and at other meetings.
  - (6) With respect to subsidiaries, Corporate Auditors promoted communication and exchange of information with Directors, Auditors and other staffs of the subsidiaries, and received reports on business operations from the subsidiaries as necessary.
  - (7) Corporate Auditors monitored and evaluated the Accounting Auditors to determine whether the Accounting Auditors maintained their independence and duly conducted the audits, received reports on execution of duties from the Accounting Auditors and requested further

explanation whenever necessary.

- (8) Corporate Auditors received notification from the Accounting Auditors that the “controls to ensure appropriate execution of duties” (provided for in each of the Paragraphs of Article 159 of the Rules on Corporate Financial Statements) have been implemented in accordance with “Quality Assurance Standards for Audits” (Corporate Accounting Council of October 28, 2005), and requested further explanation as necessary.

Based on the aforementioned methods, Corporate Auditors reviewed the Business Report and the supporting documents for the current business term. We also reviewed the statutory reports (i.e. Non-Consolidated Balance Sheet, Non-Consolidated Statement of Income, Non-Consolidated Statement of Changes in Net Assets and Notes to Non-Consolidated Financial Statements) and the supporting documents as well as the consolidated reports (i.e. Consolidated Balance Sheet, Consolidated Statement of Income, Consolidated Statement of Changes in Net Assets and Notes to Consolidated Financial Statements).

## 2. Audit Results

- (1) Audit results of the Business Report, etc.
  - 1) We hereby state that the Business Report and the supporting documents fairly present the status of the Company, in accordance with the law and the Articles of Incorporation.
  - 2) We hereby state that there are no significant facts indicating any unfair act or violation of the law or the Articles of Incorporation with respect to the execution of Directors’ duties.
  - 3) We hereby state that the resolutions of the Board of Directors regarding internal control systems are adequate. There is no particular matter to be indicated with respect to the execution of Directors’ duties concerning the internal control systems.
  - 4) There is no particular matter to be indicated with respect to the basic policy on Corporate Dominance of the Company presented in the Business Report.
- (2) Audit results of non-consolidated and consolidated statutory reports and supporting documents

We hereby acknowledge that the audit methods and results of KPMG AZSA & Co., independent auditors, are appropriate.

May 11, 2007

The Board of Corporate Auditors, Nitto Denko Corporation

Full-time Corporate Auditor: Nobuyuki Tanioka (seal)

Full-time Corporate Auditor: Shigeru Hozan (seal)

Corporate Auditor: Hisashi Hosokawa (seal)

Corporate Auditor: Kazuo Kumagai (seal)

Corporate Auditor: Kosuke Kimura (seal)

(Note) Hisashi Hosokawa, Kazuo Kumagai and Kosuke Kimura of Corporate Auditors are the outside corporate auditors in accordance with Paragraph 16 of Article 2 and Paragraph 3 of Article 335 of the Corporation Law.