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Business Report for the 145th Fiscal Term

—For Fiscal Year of 2009 (April 1, 2009 to March 31, 2010)—

NITTO DENKO CORPORATION

Business Report for the 145th Fiscal Term

—For Fiscal Year of 2009 (April 1, 2009 to March 31, 2010)—

1. Overview of business operations of the Nitto Denko Group

(1) Operating progress and results

The economic situation of this business year was uncertain at the beginning of this year in the wake of the global financial uncertainty created in the US in the latter half of the previous fiscal year. However, the economy has resulted in the return of positive growth on the back of various economic stimulus measures implemented by countries worldwide, although not a fully self-sustained recovery in emerging countries.

Under these economic circumstances, the Nitto Denko Group (“the Group”) has promoted its efforts in the reform of the cost structure called the “*Mu* (eliminate), *Gen* (reduce), *Dai* (substitute)” plan and cost reduction as well as steadily responded to the recovery in demand of flat TVs, PCs and automobiles and other products benefiting from the economic stimulus measures, which led to a recovery in orders for electronic products and industrial products. Furthermore, upfront development of products including electric insulation materials for hybrid vehicles, materials for touch panels and the official approval of transdermal therapeutic patches in US contributed to the sales.

As a result, consolidated net sales increased 4.1% from the previous year (changes hereafter are in comparison to the previous year) to 601,859 million yen. Operating income increased 4.1 times to 56,086 million yen. Ordinary income rose 4.0 times to 58,833 million yen and net income increased 140.2 times to 37,570 million yen.

(2) Summary of operations by segment

Sales by business segment were as follows:

(Unit: millions of yen)

Business segment	FY2009 (145th term)	FY2008 (144th term)
	Sales (year-on-year change)	Sales
Industrial products	194,711 (down 7.1%)	209,491
Electronic products	355,357 (up 13.1%)	314,315
Functional products	51,789 (down 4.3%)	54,114
Total	601,859 (up 4.1%)	577,922

[Industrial products]

In the electronic industry, protection film for optical application, sealing products and other materials fared well because of a substantial recovery in the demand for flat TVs, PCs, HDDs (hard disk drives) and other products in emerging countries, particularly in China. With regard to products for cellular phones, there was an expansion of sales of transparent double-side adhesive sheet for optical application as a result of an increase in the production of smart phones (multi-functional cellular phones) with touch panels. For the automobile industry, electric insulation material fared well due to an increase in the production output of hybrid vehicles from eco-car tax credits, although influenced by reduced production adjustments in the former half. As for housing construction materials, the market did not make a full-scale recovery, and sales of construction materials such as waterproof tape and protection tape were affected.

As a result, sales for the industrial products segment were 194,711 million yen (down 7.1%) while operating income was 14,667 million yen (up 76.7%) with the effects of cost reduction as part of “*Mu* (eliminate), *Gen* (reduce), *Dai* (substitute)” activities.

[Electronic products]

LCD related products fared well due to constant cost reduction and productivity improvement activities as well as a recovery in demand for LCD TVs, PCs and other products led by economic stimulus measures implemented in Japan and other countries in Asia. Sales of transparent electro-conductive films also fared well accompanied by the increase of application to touch panels of cellular phones. As for semiconductor related products, the market did not make a full-scale recovery, but there was a gradual recovery led by environmentally friendly resin. Printed circuits fared well because of the growth in the HDDs market. As for electronic processing materials, sales were sluggish due to the impact of restraints by customers on capital investment in semiconductors and competition of general-purpose products. Meanwhile, sales of electronic components were favorable because the demand for final products such as flat TVs, PCs and cellular phones improved

and production of electronic components for application recovered.

As a result, sales in the electronic products segment were 355,357 million yen (up 13.1%) and operating income, back in the black, was 37,290 million yen (compared with an operating loss of 933 million yen in the previous year).

[Functional products]

Medical related products fared well because the approval for the Clonidine Patch, transdermal therapeutic patches for treatment of hypertension, a pharmaceutical product, was newly obtained and its sales were commenced in the U.S. Sales of membrane products were weak overall, despite firm demand in India and other emerging countries, due to the deteriorating demand for new projects for industrial applications and overseas projects amid recession. Engineering plastics followed a recovery trend in functional parts for automobile industry but demand of functional parts for information equipment and fluoroplastic product for industrial application was weak, and the overall sales were low.

As a result, sales for the functional products segment were 51,789 million yen (down 4.3%) with an operating income of 4,128 million yen (down 36.2%).

(3) Trends in operating results and assets

Item	FY2005 (141st term)	FY2006 (142nd term)	FY2007 (143rd term)	FY2008 (144th term)	FY2009 (under review)
Sales (million yen)	626,316	679,822	745,259	577,922	601,859
Operating income (million yen)	89,224	69,037	77,954	13,838	56,086
Ordinary income (million yen)	90,196	67,319	74,468	14,807	58,833
Net income (million yen)	55,306	41,201	46,634	267	37,570
Net income per share (yen)	332.30	248.33	280.07	1.61	225.52
Total assets (million yen)	556,934	604,208	595,972	558,258	624,992
Net assets (million yen)	321,464	367,610	385,593	361,130	388,724
Net assets per share (yen)	1,943.73	2,192.29	2,297.12	2,148.15	2,320.86

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 fiscal 2006.

(4) Capital investment

The Group invested a total of 37,147 million yen in plant and equipment during the business year under review. Of this total, 26,339 million yen was invested on a domestic basis for capital investment to improve production facilities for LCD-related products at the Onomichi Plant and to improve production facilities for high-polymer separation membranes at the Shiga Plant. For overseas group companies, a total of 10,807 million yen was invested in production facilities for LCD related products and facilities for industrial materials in China, Taiwan and South Korea.

(5) Financing

Due to the dramatic changes in business environment surrounding the Group caused by global financial uncertainty that was triggered in the U.S. in the previous year, we have been working to secure cash on hand. During the fiscal year under review, in addition, we issued the first unsecured bonds to make funds more secure. As a result, our interest-bearing debts increased by 228 million yen (decrease by 43,165 million yen in short-term debts and increase by 43,393 million yen in long-term debts).

(6) Key issues to be addressed

As for the global economic outlook for fiscal 2010, the Group anticipates the corporate earnings to improve further and the economy to continually trend upwards particularly in the emerging countries, although employment conditions remain harsh. On the other hand, there are concerns over downward pressures on the economy such as ongoing deflation in Japan and sluggish economy in Europe.

Under these economic circumstance, the Group will continue to execute “*Mu* (Eliminate), *Gen* (Reduce), *Dai* (Substitute)” activities and disseminate them. In fiscal 2010, global events are

scheduled such as World Expo in Shanghai and Soccer World Cup in South Africa and with the expectation of robust market for LCD TVs, PCs and other products, we aim to aggressively expand sales of displays and products for the electronics industry. In these industries, depending on the market environment, competition with Korea and Taiwan may intensify beyond expectation. However, we aim to further fortify our business structure to make them into a cash cow business, while maintaining our current technological advantage. Concerning tape-related products, we will further promote globalization and establish a framework to capture internal demand in China, India and other emerging countries. Concerning medical (transdermal therapeutic patches, sanitary material) and membrane (reverse osmosis membrane), which represent a specific product category of “Green” (contribution for global environment), “Clean” (support for new energy), “Fine”(life sciences), considered to be growth areas, we will further strive to increase sales.

Furthermore, we will focus on the following efforts in each operating segment

- Industrial Products

In the tape business, the Group will further promote globalization by making proactive advances towards emerging markets displaying high growth rates and by manufacturing its products overseas, all the while focusing on the development of new eco-friendly products in the manufacturing process of own products and customers products.

- Electronic Products

In the LCD related products, we will focus on addressing the growing emerging markets and reforming the productivity for commoditization. In the printed circuits and semiconductor-related products, the Group will focus on expansion of profits through further rationalization of existing products, and development of new products in the growth areas.

- Functional Products

In the medical related products, the Group will focus on expanding transdermal therapeutic patches and strengthening manufacturing on a global basis.

Concerning membrane products, we will work towards securing orders for seawater desalination and water recycling projects and cost reduction efforts.

(7) Main business of the Group (as of March 31, 2010)

Business segment	Major products
Industrial products	Bonding and joining products, surface protection products, sealing products, packaging products and equipment
Electronic products	LCD related products, printed circuits, electronic process materials, semiconductor related products
Functional products	Medical related products, high-polymer separation membrane products, engineering plastics

(8) Status of major subsidiaries (as of March 31, 2010)

Corporate name	Capital	Company's stake	Main business
Nissho Corporation	in million yen 500	% 100.0	Production, processing and sales of industrial products, electronic products
Nitto Europe NV	in thousand euro 6,198	100.0	Production, processing 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, processing and sales of electronic products
Taiwan Nitto Optical Co., Ltd.	in thousand NT\$ 568,003	100.0 (3.6)	Production, processing and sales of electronic products
Korea Nitto Optical Co., Ltd.	in million won 29,768	97.5	Production, processing 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, processing and sales of electronic products

Note: Figures in parenthesis in "Company's stake" indicate the percentage of indirect stake.

(9) Principal offices of the Group (as of March 31, 2010)

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 Plant (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)
Nissho Corporation	Head office: Kita-ku, Osaka	
Nitto Europe NV	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, China	
Shanghai Nitto Optical Co., Ltd.	Head office & plant: Shanghai, China	

(10) Employees of the Group and the Company (as of March 31, 2010)

	Number of employees	(Changes from the end of the previous year)
Group	24,851	(+1,688)
Company	4,632	(+291)

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, 2010)

(Unit: millions of yen)

Creditor	Balance at the end of the fiscal year
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	9,980
Japan Bank for International Cooperation (JBIC)	4,221
Mizuho Corporate Bank, Ltd.	3,258

2. Shareholders' equity (as of March 31, 2010)

- | | |
|---|--------------------|
| (1) Number of shares authorized to be issued: | 400,000,000 shares |
| (2) Number of shares outstanding | 173,758,428 shares |
| (Number of treasury stock held) | 7,154,335 shares |
| (3) Number of shareholders | 66,032 |
| (4) Major shareholders (Top 10) | |

Name	Number of shares held	Ownership percentage
	Thousands of shares	%
Japan Trustee Services Bank, Ltd. (Trust Account)	11,256	6.76
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,570	5.74
JP Morgan Chase Bank, N.A. 380055	4,407	2.65
State Street Bank and Trust Company 505225	3,809	2.29
SSBT OD 05 Omnibus Account China Treaty Clients 808150	3,266	1.96
The Dai-ichi Mutual Life Insurance Company	3,017	1.81
Nippon Life Insurance Company	2,602	1.56
Sompo Japan Insurance Inc.	2,566	1.54
State Street Bank West Pension Fund Clients Exempt	2,341	1.41
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,266	1.36

Notes:

- The Company holds treasury stock totaling 7,154,335 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.
- The Dai-ichi Mutual Life Insurance Company reorganized to The Dai-ichi Life Insurance Company, Limited as of April 1, 2010.
- Although the reports on large scale shareholdings have been submitted as follows, the Company lists major shareholders above according to the shareholder register as of March 31, 2010.
 - JPMorgan Asset Management (Japan) Limited. and its joint holders
8,827,240 shares (as of January 15, 2010)
 - BlackRock Japan Co. Ltd and its joint holders
10,713,665 shares (as of March 15, 2010)

3. Matters concerning the Warrants

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

1) Warrants (general stock options)

- Number of Warrants issued: 1,690 units (100 shares of common stock per unit)
- Class and number of underlying shares that are the subject to Warrants: Company's common stock: 169,000 shares
- Classified total of Warrants held by Directors and other executives

Name	No. 6 Warrants	No. 7 Warrants	No. 8 Warrants
Exercise value (payment amount per unit at the time of exercise)	594,800 yen	357,300 yen	304,800 yen
Exercise period	January 1, 2008 through December 31, 2010	January 1, 2009 through December 31, 2011	January 1, 2010 through December 31, 2012
Number of owners and units by classification (Note 1)			
Directors	8 persons 510 units	8 persons 550 units	8 persons 550 units
Corporate Auditors (Note 2)	2 persons 80 units	- -	- -

Notes:

1. Outside Directors and Corporate Auditors are not eligible for the above-mentioned Warrants.
2. The above Warrants held by Corporate Auditors were granted when they were employees prior to assuming office as Corporate Auditors.

2) Warrants (stock options of equity based compensation) (Note 3)

- Number of the Warrants: 1,432 units (100 shares of common stock per unit)
- Class and number of underlying shares that are the subject to the Warrants: Company's common stock: 143,200 shares

• Classified total of Warrant units held by Directors and other executives

Classification	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"> • 20 years from the day following the issuing date • 6 years from the day following the day they no longer serve as Directors, Corporate Vice Presidents, Corporate Auditors, Advisers or specific staff members (in principle) 	<ul style="list-style-type: none"> • 30 years from the day following the issuing date • 10 days from the day following the day they no longer serve as Directors
Number of owners and units by classification (Note 5)		
Directors	7 persons 410 units	8 persons 991 units
Corporate Auditors (Note 6)	1 person 31 units	- -

Notes:

3. Following the discontinuation of traditional retirement benefit in cash approved at the 139th ordinary general meeting of shareholders, issue of the above Warrants was approved as its replacement at the 139th ordinary general meeting of shareholders and onward.
4. Type 1 was approved at the 139th and 140th ordinary general meetings of shareholders under the former Commercial Code. Type 2 was approved at the 141st ordinary general meeting of shareholders and onward.
5. Outside Directors and Corporate Auditors are not eligible for the above-mentioned Warrants.
6. The above Warrants held by Corporate Auditors were granted when they were employees prior to assuming office as Corporate Auditors.

- (2) Summary of Warrants 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

Name	No. 8 Warrants (general stock option)	Warrants issued in August 2009 (stock option of equity based compensation) (Note 1)
Number of the Warrants issued	2,754 units (100 shares of common stock per unit)	274 units (100 shares of common stock per unit)
Class and number of underlying shares that are the subject to the Warrants	Company's common stock: 275,400 shares	Company's common stock: 27,400 shares
Exercise value (payment amount per unit at the time of exercise)	304,800 yen	100 yen
Exercise period	January 1, 2010 through December 31, 2012	August 3, 2009 through August 2, 2039 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)	93 persons 2,283 units	12 persons 274 units
Directors and employees of the subsidiaries of the Company (excluding those who also serve as Directors or employees of the Company)	25 persons 471 units	/

Note:

- The Warrants issued in August 2009 were 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, 2010)

Position	Name	Duties and significant concurrent positions
Representative Director Chairman	Masamichi Takemoto	
Representative Director President	Yukio Nagira	CEO (Group Chief Executive Officer) COO (Group Chief Operating Officer) CTO (Group Chief Technology Officer)
Director	Yoshiyasu Kamiyama	Senior Executive Corporate Vice President General Manager of Corporate Sector
Director	Yasuo Ninomiya	Executive Corporate Vice President General Manager of Quality, Environment & Safety Management Sector General Manager of Information and Communication Technology Sector in charge of semiconductor related products and printed circuits products
Director	Tatsunosuke Fujiwara	Executive Corporate Vice President CFO (Group Chief Financial Officer)
Director	Kaoru Aizawa	Executive Corporate Vice President in charge of tape business and environment management strategy
Director	Kenji Matsumoto	Senior Corporate Vice President in charge of medical related products and membrane products President of Nitto Denko Technical Corporation
Director	Hideo Takasaki	Corporate Vice President in charge of optical business
Director	Yoichiro Furuse	
Director	Kunio Ito	Professor of Graduate School of Commerce and Management of Hitotsubashi University
Corporate Auditor (full-time service)	Ryoichi Ota	
Corporate Auditor (full-time service)	Takashi Awazu	
Corporate Auditor (part-time service)	Hisashi Hosokawa	
Corporate Auditor (part-time service)	Norio Akai	
Corporate Auditor (part-time service)	Masashi Teranishi	

Note:

1. Directors' "duties" were changed as follows on April 1, 2010.

Position	Name	Duties
Director	Yasuo Ninomiya	Executive Corporate Vice President General Manager of Information and Communication Technology Sector in charge of GNT promotion
Director	Kaoru Aizawa	Executive Corporate Vice President General Manager of Quality, Environment & Safety Management Sector in charge of environment management strategy

2. Both Yoichiro Furuse and Kunio Ito are the Outside Directors stipulated in Item 15, Article 2 of the Companies Act.
3. Of the Corporate Auditors, Hisashi Hosokawa, Norio Akai and Masashi Teranishi are the Outside Corporate Auditors stipulated in Item 16, Article 2 of the Companies Act.
4. Takashi Awazu, the full-time Corporate Auditor, has had experiences in the Company's accounting and auditing departments over the years, having a broad range of knowledge in finance and accounting.
5. The Company designated all of the Outside Directors and Outside Corporate Auditors as Independent Directors/Auditors stipulated by Tokyo Stock Exchange and Osaka Securities Exchange and reported them to the Exchanges.
6. The Company adopts the executive officer system. Addition to the Directors listed above, the following 14 persons take on the duties as indicated.

Position	Name	Duties
Executive Corporate Vice President	Koichi Nishikawa	Sales and Marketing
Senior Corporate Vice President	Wataru Kitao	Management of operations in East Asia
Senior Corporate Vice President	Yoshihiko Chikuma	Personnel and general affairs
Senior Corporate Vice President	Hongin Kim	South Korea general management
Senior Corporate Vice President	Yoji Munakata	Sales management
Senior Corporate Vice President	Minoru Sano	Quality assurance & group training
Senior Corporate Vice President	Hiroshi Ito	Nissho Corporation
Corporate Vice President	Tomio Sakka	Development of manufacturing technology
Corporate Vice President	Yoichiro Sakuma	Management of operations in American area
Corporate Vice President	Takeshi Nasu	Tape business
Corporate Vice President	Toshihiko Omote	Corporate technology Technical information (Technical planning and intellectual property)
Corporate Vice President	Masami Kanzaki	Sales and Marketing
Corporate Vice President	Masahiko Arimoto	Corporate Sector
Corporate Vice President	Kenji Ueki	Procurement

Corporate Vice Presidents' "Duties" were changed as follows on April 1, 2010.

Position	Name	Duties
Corporate Vice President	Tomio Sakka	Manufacturing Engineering
Corporate Vice President	Yoichiro Sakuma	Tape business management Management of operations in America area
Corporate Vice President	Takeshi Nasu	Manufacturing Engineering
Corporate Vice President	Masami Kanzaki	IT Management
Corporate Vice President	Masahiko Arimoto	Corporate Strategy Management of operations in East Asia

(2) Compensation, etc. paid to Directors and Corporate Auditors (Unit: millions of yen)

Category	Director (including Outside Director)		Outside 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	Number of payees	Amount of payment
Compensation in cash	11	277	2	21	5	95	3	28
Bonus paid to Directors	8	150	-	-	-	-	-	-
Stock Purchase/Subscription Warrants (stock options)	8	142	-	-	-	-	-	-
Total		570		21		95		28

Notes:

1. The above includes 1 Director who retired upon the closure of the 144th general meeting of shareholders held on June 19, 2009.
2. The amount of employee's salary (including bonus) for a Director who also holds an employee post is paid separately the above-mentioned compensation. Meanwhile, the amount of employee's salary (including bonus) was not paid for the current term.
3. The limit of compensation for Directors is 30 million yen per month (approved at the 143rd general meeting of shareholders) and that for Corporate Auditors is 12 million yen per month (approved at the 139th general meeting of shareholders).
4. Bonus for Directors is a tentative amount and its payment is subject to the approval of the Item 2 for the 145th general meeting of shareholders as proposed.
5. Matters related to the Warrant (stock option) were approved at the 144th ordinary general meeting of shareholders.
6. The Company also paid an amount of 12 million yen as Directors' retirement benefit in addition to the compensation mentioned in the table above. This was paid to the 1 officer who was eligible for the payment in accordance with the approval at the 138th ordinary general meeting of shareholders.

(3) Summary of policy to determine amount or calculation method of compensation for Directors and Corporate Auditors

1) Compensation for Directors

Compensation in cash, bonus and compensation by the Warrant, of Directors, are determined by the Representative Director(s) 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, 2010)

1) Significant concurrent positions of Outside Directors and Outside Corporate Auditors

Kunio Ito concurrently serves as Professor of Graduate School of Commerce and Management of Hitotsubashi University, but the University and the Company have no significant business relationships.

2) Major activities of Outside Directors and Outside Corporate Auditors

Name	Major activities	
1. Outside Directors		
Yoichiro Furuse	Participation Major comments	Board of Directors: 100% (12 times out of 12 times) He mainly makes comments from the viewpoint of experienced corporate executive
Kunio Ito	Participation Major comments	Board of Directors: 83% (10times out of 12 times) He mainly makes comments based on his broad insight as a learned person and academic expert.
2. Outside Corporate Auditors		
Hisashi Hosokawa	Participation Major comments	Board of Directors 100% (12 times out of 12 times) Board of Corporate Auditors 100% (7 times out of 7 times) He mainly makes comments based on his broad insight and knowledge for global economy and information.
Norio Akai	Participation Major comments	Board of Directors 100% (12 times out of 12 times) Board of Corporate Auditors 100% (7 times out of 7 times) He mainly makes comments from the viewpoint of experienced corporate executive.
Masashi Teranishi	Participation Major comments	Board of Directors 100% (12 times out of 12 times) Board of Corporate Auditors 100% (7 times out of 7 times) He mainly makes comments based on his experience at financial institutions over many years and deep financial knowledge.

3) Liability limitation agreement of Outside Directors and Outside Corporate Auditors

The Company has executed agreements with all of the Outside Directors and Outside Corporate Auditors to limit the compensation liability provided in Paragraph 1, Article 423 of the Companies Act, and the compensation limitation amount under these agreements are the amount determined under laws and regulations.

5. Accounting auditors

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

(2) Amount of compensation for accounting auditor

(Unit: millions of yen)

1)	Amount of compensation as an accounting auditor for this business year	114
2)	Total amount of money and other asset interests to be paid by the Company and the subsidiaries of the Company	133

Note:

1. The compensation for auditing as an accounting auditor under the Companies Act and the compensation for auditing under the Financial Instruments and Exchange Act 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 consigns to the accounting auditor the drafting of comfort letters relating to the issuance of corporate bonds, which is a service other than those stipulated in Paragraph 1, Article 2 of Certified Public Accountants Act (non-auditing work).

(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 Companies Act, 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 Companies Act and of Article 100 of the Enforcement Rules of the Companies Act, 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. Since then the Company has regularly checked how our internal controls are working and revised them to the fundamental policies as needed. The policies as of the end of this fiscal year were defined 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 compliance with legal and ethical standards 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. Directors take the lead in complying with legal and ethical standards.
 - ii) In order to promote CSR activities, including the establishment of compliance and risk management system, a CSR Director is appointed and a CSR Committee chaired by the appointed Director is set up. In addition, an outside director system is adopted. By doing this, we will increase the transparency of the whole management system including the process of corporate decision-making. We will also establish a system to ensure the reasonableness, validity and effectiveness of the operational process and our businesses in general, including the internal control to maintain confidence in financial reporting.
 - iii) Audit department, as an internal audit division, is established for conducting internal audits on each division of the Company and the Group companies to measure reasonableness and other aspects of operational processes and operations in general. 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 reporting system for handling legal violations and ethical standards, 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, correspondence to information security and antisocial forces, and risks related to compliance matters such as the Anti-trust Law, the Pharmaceutical Affairs Law and the Export Law, the designated responsible departments are empowered to periodically perform a thorough review of the key risks. These risks are monitored and measured respectively by departments 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 compliance with legal and ethical standards is defined, and issued and enforced to the entire staff of group companies.
 - ii) For securing appropriateness of group-wide operations: group decision-making regulations and standards are developed to ensure that domestic and overseas group companies properly carry out decision-making on management and preliminary discussions and reporting, etc. regarding important matters with the Company; as well as a system is established under which Directors and Corporate Vice Presidents of the Company receive reports from group companies engaged in businesses supervised by these officers, and if necessary, take part in relevant decision-making, based on these regulations and standards. With regard to technological and financial matters, chief officers in responsible for each matter are appointed from among Directors and a system is set up under which these matters are conducted appropriately and efficiently on a group-wide basis.
 - 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 the 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 reporting system on compliance along with emergency/accident reporting system, and ensure that these systems are duly operated and maintained so that problems 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 group companies 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.

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, 2010	As of March 31, 2009 (Reference)
(Assets)		
Current assets	381,554	289,234
Cash and deposits	171,921	113,965
Notes and accounts receivable-trade	135,727	93,524
Merchandise and finished Goods	19,776	20,300
Work in process	27,031	28,960
Raw materials and supplies	11,120	11,726
Deferred tax assets	8,444	7,164
Other	8,364	14,264
Allowance for doubtful accounts	(831)	(672)
Noncurrent assets	243,438	269,023
Property, plant and equipment	208,405	230,188
Buildings and structures	99,069	100,566
Machinery, equipment and vehicles	73,921	81,019
Tools, furniture and fixtures	7,972	8,716
Land	19,119	19,688
Construction in progress	8,323	20,198
Intangible assets	7,273	8,579
Goodwill	56	65
Software	4,030	3,633
Other	3,186	4,880
Investments and other assets	27,758	30,255
Investments securities	8,890	7,578
Deferred tax assets	9,703	8,674
Prepaid pension cost	5,642	9,682
Other	3,771	4,620
Allowance for doubtful accounts	(248)	(301)
Total assets	624,992	558,258

Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2010	As of March 31, 2009 (Reference)
(Liabilities)		
Current liabilities	149,688	153,718
Notes and accounts payable-trade	79,531	53,879
Short-term loans payable	10,667	28,832
Commercial papers	–	25,000
Accrued expenses	18,590	11,667
Income taxes payable	15,746	1,545
Other	25,153	32,793
Noncurrent liabilities	86,579	43,409
Bonds payable	50,000	–
Long-term loans payable	14,316	20,923
Provision for retirement benefits	19,219	18,351
Provision for directors' retirement benefits	514	506
Deferred tax liabilities	181	348
Negative goodwill	0	574
Other	2,347	2,705
Total liabilities	236,268	197,127
(Net assets)		
Shareholders' equity	406,969	379,310
Capital stock	26,783	26,783
Capital surplus	56,153	56,166
Retained earnings	352,316	324,740
Treasury stock	(28,284)	(28,380)
Valuation and translation adjustments	(20,304)	(21,471)
Valuation difference on available-for-sale securities	1,755	1,040
Deferred gains or losses on hedges	(284)	(129)
Foreign currency translation adjustment	(21,775)	(22,382)
Subscription rights to shares	1,067	1,086
Minority interests	992	2,204
Total net assets	388,724	361,130
Total liabilities and net assets	624,992	558,258

Consolidated Statements of Income

(Unit: millions of yen)

	Amount	
	April 1, 2009 – March 31, 2010	April 1, 2008 – March 31, 2009 (Reference)
Net sales	601,859	577,922
Cost of sales	440,714	455,763
Gross profit	161,144	122,158
Selling, general and administrative expenses	105,058	108,320
Operating income	56,086	13,838
Non-operating income	6,297	4,808
Interest and dividends income	394	663
Foreign exchange gains	304	899
Miscellaneous income	5,597	3,245
Non-operating expenses	3,550	3,838
Interest expenses	1,348	1,278
Equity in losses of affiliates	84	173
Miscellaneous loss	2,116	2,386
Ordinary income	58,833	14,807
Extraordinary income	967	995
Gain on sales of noncurrent assets	227	93
Other	739	902
Extraordinary loss	6,103	14,127
Loss on sales and retirement of noncurrent assets	3,299	5,359
Impairment loss	256	5,014
Special retirement expenses	226	739
Other	2,320	3,014
Income before income taxes	53,698	1,676
Income taxes-current	18,669	3,232
Income taxes-deferred	(2,695)	(2,820)
Minority interests in income	153	995
Net income	37,570	267

Consolidated Statements of Cash Flows (Reference)

(Unit: millions of yen)

	April 1, 2009 – March 31, 2010	April 1, 2008 – March 31, 2009
I Net cash provided by (used in) operating activities		
Income before income taxes	53,698	1,676
Depreciation and amortization	44,810	50,556
Decrease (increase) in notes and accounts receivable-trade	(41,992)	43,149
Increase (decrease) in inventories	2,892	8,354
Increase (decrease) in notes and accounts payable-trade	26,358	(41,844)
Interest expenses paid	(1,520)	(1,369)
Income taxes paid	1,418	(19,831)
Other, net	16,832	10,599
Net cash provided by (used in) operating activities	102,498	51,290
II Net cash provided by (used in) investing activities		
Net decrease (increase) in time deposits	(61,013)	660
Purchase of noncurrent assets	(33,955)	(61,396)
Proceeds from sales of noncurrent assets	729	509
Other, net	(2,348)	(524)
Net cash provided by (used in) investing activities	(96,588)	(60,751)
III Net cash provided by (used in) financing activities		
Increase (decrease) in short-term loans payable	(23,838)	21,046
Proceeds from issuance of bonds	50,000	–
Increase (decrease) in commercial papers	(25,000)	25,000
Repayment of long-term loans payable	(420)	(781)
Cash dividends paid	(9,995)	(13,325)
Other, net	123	14,765
Net cash provided by (used in) financing activities	(9,129)	46,703
IV Effect of exchange rate change on cash and cash equivalents	124	(2,758)
V Net increase (decrease) in cash and cash equivalents	(3,095)	34,484
VI Cash and cash equivalents at the beginning of period	113,722	79,238
VII Cash and cash equivalent at the end of period	110,627	113,722

Consolidated Statement of Changes in Net Assets

April 1, 2009 – March 31, 2010

(Unit: millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2009	26,783	56,166	324,740	(28,380)	379,310
Changes of items during the period					
Dividends from surplus			(9,995)		(9,995)
Net income			37,570		37,570
Purchase of treasury stock				(3)	(3)
Disposal of treasury stock		(13)		99	86
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	(13)	27,575	95	27,658
Balance as of March 31, 2010	26,783	56,153	352,316	(28,284)	406,969

	Valuation and translation adjustments				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total valuation and translation adjustments			
Balance as of March 31, 2009	1,040	(129)	(22,382)	(21,471)	1,086	2,204	361,130
Changes of items during the period							
Dividends from surplus							(9,995)
Net income							37,570
Purchase of treasury stock							(3)
Disposal of treasury stock							86
Net changes of items other than shareholders' equity	714	(155)	607	1,166	(19)	(1,211)	(64)
Total changes of items during the period	714	(155)	607	1,166	(19)	(1,211)	27,594
Balance as of March 31, 2010	1,755	(284)	(21,775)	(20,304)	1,067	992	388,724

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: 102

Major companies: Nissho Corporation, Nitto Europe NV, Nitto Americas, Inc., Nitto Denko (China) Investment 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: Nitto Denko Automotive, New Jersey, Inc.
Nitto Denko India Private Limited
Nitto Denko Nitoms Korea Co., Ltd.

Company whose status as a consolidated subsidiary ceased:

Liquidated, etc.: Nistem Cosmo Technology Co., Ltd.
Nitto Matex (Hong Kong) Co., Ltd.
Kyoshin Technology (Thailand) Co., Ltd.

2) Number of non-consolidated subsidiaries: 6

Major company: Nitto Denko Technical Corporation

All of the non-consolidated subsidiaries are small, and their total assets, net sales, net income or loss, and retained earnings, 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: 6

Major company: Nitto Denko Technical Corporation

2) Number of affiliates subject to equity method: 1

Kathyd Technology, LLC

Although the Company owns 20% or more of the voting rights of Algotochip Corporation (“Algotochip”), it is not able to exert material influences on the determination of Algotochip’s financial, sales or operational policies through its personnel, technical or commercial relationships and others and, as such, does not include Algotochip as an affiliate.

(3) Fiscal year of the consolidated subsidiaries

Number of companies whose fiscal year is the same as that of the company: 81

Number of companies whose fiscal year is different from that of the company: 21

*For the 21 companies above, a provisional settlement of accounts based on March 31, 2010 was 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, as of the consolidated balance sheet date. (Valuation adjustments were reported in the net assets section, and selling costs were 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 gross average cost (for balance sheet valuation, in the event that an impairment is determined: impairment write down is calculated based on inventory net realizable value).

2) Depreciation method of major depreciable assets

i) Property, plant and equipment (excluding lease assets):

Mainly the declining-balance method

ii) Intangible assets (excluding lease assets):

Straight-line method (software for in-house use is depreciated using the straight-line method over its useful life of 5 years)

iii) Lease assets:

Lease assets, determined to be finance leases not involving the transfer of ownership of the leased property to the lessee are accounted for using the straight-line method, with the useful life set as the period of the lease contract, with no residual value.

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 directors' bonuses

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 fiscal year.

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 end of the consolidated accounting fiscal year.

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 consolidated accounting fiscal year following the consolidated accounting fiscal 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.

(Changes in accounting policies)

From this consolidated accounting fiscal year, the "Partial Revision (version 3) to the Accounting Standard for Retirement Benefits" (ASBJ Statement No. 19, July 31, 2008) has been adopted.

Since any actuarial differences shall be written off during the next consolidated accounting fiscal year and onward, this change has no impact on operating income, ordinary income and income before income taxes.

The balance of the differences in retirement benefit obligations that arises as a result of adopting this accounting standard which has not been accounted for is 4,352 million yen.

iv) Provision for directors' and corporate auditors' retirement benefits

The domestic consolidated subsidiaries calculate the required amount based on internal regulations in preparation for the 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 subsidiaries and others are converted into yen based on the spot exchange rate on the day of consolidated settlement of accounts, and revenue and expenses are converted into yen by using the average exchange rate during the fiscal year, while the difference arising from the conversion is shown as foreign currency translation adjustment and minority interests.

5) 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, etc.

iii) Hedge policy

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

iv) Method of assessing the effectiveness of the hedges

The effectiveness is assessed by comparing market change in hedged instruments or cumulative change in its cash flows with market change in hedging instruments or cumulative change in its cash flow to observe a ratio of those changes. However, the assessment of the effectiveness is omitted for interest rate swaps that are handled under special rules.

6) Other important items for compiling consolidated financial statements

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

(5) Matters relating to the valuation of the assets and liabilities of consolidated subsidiaries

Partial fair value method is adopted for valuing assets and liabilities of our consolidated subsidiaries.

(6) Matters relating to the amortization of goodwill or negative goodwill

Goodwill or negative goodwill is accounted for by equal amortization over five years. In case of the absence of materiality, it is fully amortized in the consolidated accounting fiscal year during which it was incurred.

2. Notes to consolidated balance sheets

(1) Accumulated depreciation of property, plant and equipment 374,595 million yen

(2) Pledged assets and secured liabilities

Pledged assets:

Investment in securities 18 million yen

Secured liabilities:

Accounts payable 15 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

5 million yen

3. Notes to consolidated statement of changes in net assets

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

Common stock

173,758 thousand shares

- (2) Dividends

1) Dividend payments

Resolution	Type of shares	Total dividends (in millions of yen)	Dividend per share (in yen)	Record date	Effective date
General meeting of shareholders held on June 19, 2009	Common stock	6,663	40	March 31, 2009	June 22, 2009
Board of Directors meeting held on October 30, 2009	Common stock	3,331	20	September 30, 2009	November 27, 2009
Total	-	9,995	-	-	-

- 2) Of the dividends for which the record date falls during the current consolidated accounting fiscal year and items for which the effective date arrives during the following consolidated accounting fiscal year

The following proposal on dividends for common stock will be presented for resolution at the General Meeting of Shareholders scheduled on June 18, 2010.

Total dividends	3,332 million yen
Dividend per share	20 yen
Record date	March 31, 2010
Effective date	June 21, 2010

Dividends are to be paid out of retained earnings.

- 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 consolidated accounting fiscal year

Common stock

1,278,600 shares

4. Notes to financial instruments

1. Matters relating to the status of financial instruments

- (1) Policies in engaging in transactions of financial instruments

The Company Group has policies to restrict the investment activities of its fund to short-term deposits, etc. and use bank borrowings for its financing purpose. It uses derivatives to hedge risks

described in the below and does not engage in speculative transactions.

(2) Details of and risks associated with financial instruments

Notes and accounts receivables, which are trade receivables, are exposed to the credit risk of customers. Foreign currency-denominated trade receivables, which are generated by our global business operations, are also exposed to changes in foreign exchange rates. However, the Company in principle hedges such exposures by using FX forward transactions for the net positions of foreign currency-denominated trade receivables. Investment securities mostly represent shares of companies with which we have business relationships and are exposed to changes in their market prices.

Accounts payable, which are trade obligations, have maturity dates of one year or less. Some of them are related to the import of raw materials, etc. and denominated in foreign currencies. Thus, they are exposed to changes in foreign exchange rates, but they are constantly within the balance of accounts receivables of the same foreign currency. Among loans payable, short-term loans payable primarily represent the funding relating to operating transactions and long-term loans payable mainly concern the funding relating to capital expenditure. Corporate bonds are primarily sought to secure long-term stable funds and procure the funds necessary for capital expenditure, and reach maturity 4 years and 3 months after the day of account settlement.

Derivative transactions include FX forward transactions, currency swaps and interest rate swaps which seek to provide hedges for the risks of changes in foreign exchange rates and interest rates associated with foreign currency-denominated trade receivables and payables, etc. For hedge instruments and targets, hedging policy, the method of assessing the effectiveness of the hedges, and other details in relation to hedge accounting, please refer to the 'Methods of hedge accounting' described in the above "Accounting policies."

(3) Risk management system relating to financial instruments

(i) Management of credit risk (risk relating to non-performance of a contract obligation by a counterparty, etc.)

The Company adheres to the credit management rules for its trade receivables by having the Sales Management Division monitor the status of major counterparties regularly and managing due dates and balances by counterparty, while working to detect early and mitigate any concerns about collection due to the deterioration in their financial positions and other reasons. Our consolidated subsidiaries also conform to the Company's credit management rules and conduct similar management activities.

In terms of using derivative transactions, the Company engages in transactions with highly rated financial institutions only in order to mitigate counterparty risk.

The maximum credit risk amount as of the day of consolidated account settlement for this accounting year is shown in the value on the balance sheet of financial assets which are subject to credit risk.

(ii) Management of market risk (risk of changes in foreign exchange rates and interest rates, etc.)

The Company and some of its consolidated subsidiaries hedge away the risk of changes in foreign exchange rates as captured by currency and month in relation to foreign currency-denominated trade receivables and payables, primarily through the use of FX forward transactions. Also, depending on the condition of foreign exchange markets, FX forward transactions may be executed for foreign currency-denominated trade receivables and payables which are forecasted reliably to be generated by scheduled export and import transactions. Further, the Company and some of its consolidated subsidiaries use currency swaps and interest rate swaps to control the risk of changes in foreign exchange rates and interest rates in relation to other foreign currency-denominated claims and debts, etc.

With regard to investments securities, we keep track of their fair values and the financial status of the issuers (counterparties) and review the holdings continuously with the relationships with the counterparties taken into account.

As for derivative transactions, in accordance with the derivative transaction management rules that provide transaction authority, limit amounts, and others, the Accounting & Finance Department is responsible for executing and booking transactions and reconciling the balances with counterparties. Transaction records for each month are submitted to the CFO. Consolidated subsidiaries also adhere to the Company's derivative transaction management rules to manage derivative transaction activities.

(iii) Management of liquidity risk in relation to funding (risk of being unable to make payment on due dates)

The Company manages liquidity risk by having the Accounting & Finance Department prepare and update a cash flow management plan as appropriate based on the reports by respective departments, maintaining cash at hand to above a certain level and taking other measures.

(4) Supplementary explanation for the matters relating to the fair values, etc. of financial instruments
Fair values of financial instruments are determined by market prices. If no market prices are available, fair values are based on values as calculated in a reasonable manner. Determination of such values contains variable factors and the adoption of different presumptions may cause the values to change.

Further, with regard to the contract amounts, etc. of derivative transactions in “2. Matters relating to the fair values, etc. of financial instruments,” such amounts themselves do not indicate the size of market risks associated with the derivative transactions.

2. Matters relating to the fair values, etc. of financial instruments

Amounts on the consolidated balance sheet, fair values and the differences between the two on March 31, 2010 are as shown below. Those for which fair values are considered extremely difficult to determine are not included in the below. (Please refer to (Note 2).)

(Unit: millions of yen)

	Amount on the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	171,921	171,921	-
(2) Notes and accounts receivable-trade	135,727	135,727	-
(3) Investments securities			
Other securities	6,045	6,045	-
(4) Notes and accounts payable-trade	(79,531)	(79,531)	-
(5) Short-term loans payable	(10,667)	(10,667)	-
(6) Unpaid amounts	(20,943)	(20,943)	-
(7) Bonds payable	(50,000)	(50,980)	(980)
(8) Long-term loans payable	(14,316)	(14,376)	(59)
(9) Derivative transactions	(1,548)	(1,548)	-

(*1) Those on the liabilities side are shown in parenthesis.

(*2) Net receivables and payables arising from derivative transactions are shown as a net amount, and items for which aggregated results lead to net payables are shown in parenthesis.

(Note 1) Matters relating to the method of determining the fair values of financial instruments as well as securities and derivative transactions

(1) Cash and deposits, and (2) notes and accounts receivable-trade

Since they are settled in a short time and thus their fair values approximate the book values, the respective book values are used.

(3) Investments securities

Their fair values are based on market prices, etc. on the day of consolidated account settlement.

(4) Notes and accounts payable-trade, (5) short-term loans payable, and (6) Unpaid amounts

Since they are settled in a short time and thus their fair values approximate the book values, the respective book values are used.

(7) Bonds payable

The fair values of corporate bonds issued by the Company are based on market prices.

(8) Long-term loans payable

The fair values of long-term loans payable are calculated by discounting the sum of the principal and interest at a yield which is assumed to be used in a new similar borrowing. Also, because interest rate swaps for long-term loans payable with variable coupons can qualify for hedge

accounting, the sum of the principal and interest when combined with cash flows from the relevant interest rate swaps are discounted at a yield which is assumed reasonably to be applied in a similar borrowing.

(9) Derivative transactions

The fair values are calculated based on forward exchange rate markets, prices quoted by financial institutions with which we transacted, and others. Further, with regard to interest rate swaps to which hedge accounting is applied, they are accounted for as a package with hedge targets of long-term loans payable, and thus their fair values are included in the fair values of the relevant long-term loans payable.

(Note 2) Since unlisted shares, etc. (with an amount on the consolidated balance sheet of 2,844 million yen) do not have market prices and it is not possible to estimate their future cash flows, making it extremely difficult to determine the fair values, they are not included in “(3) Investments securities, other securities.”

(Additional information)

From the current consolidated accounting year, the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, March 10, 2008) and the “Guidance on Accounting Standard for the Disclosure of Fair Values, etc. of Financial Instruments” (ASBJ Guidance No. 19, March 10, 2008) have been adopted.

5. Notes on information per share

Net asset per share	2,320.86 yen
Net income per share	225.52 yen

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, 2010	As of March 31, 2009 (Reference)
(Assets)		
Current assets	261,889	180,134
Cash and deposits	113,877	66,816
Notes receivable-trade	3,007	2,729
Accounts receivable-trade	101,538	61,882
Merchandise and finished goods	5,284	4,815
Work in process	14,249	15,326
Raw materials and supplies	5,734	6,434
Short-term loans receivable	5,040	5,643
Deferred tax assets	5,360	5,350
Income taxes receivable	-	4,921
Other	7,807	6,223
Allowance for doubtful accounts	(13)	(10)
Noncurrent assets	230,455	249,101
Property, plant and equipment	140,206	158,211
Buildings	63,397	63,579
Structures	3,784	3,856
Machinery and equipment	48,672	56,039
Vehicles	164	166
Tools, furniture and fixtures	4,728	5,164
Land	14,101	14,101
Construction in progress	5,357	15,304
Intangible assets	4,793	5,900
Software	2,925	2,718
Right of using facilities	96	106
Other	1,770	3,075
Investments and other assets	85,455	84,988
Investments securities	5,960	4,720
Stocks of subsidiaries and affiliates	62,202	47,774
Long-term loans receivable	5,118	18,009
Deferred tax assets	7,762	6,649
Prepaid pension cost	3,120	6,513
Other	1,387	1,450
Allowance for doubtful accounts	(43)	(75)
Allowance for investment loss	(52)	(52)
Total assets	492,344	429,236

Non-Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2010	As of March 31, 2009 (Reference)
(Liabilities)		
Current liabilities	126,277	126,006
Accounts payable-trade	66,848	40,988
Short-term loans payable	-	15,000
Commercial papers	-	25,000
Accounts payable-other	16,669	26,115
Accrued expenses	8,651	2,642
Income taxes payable	12,076	-
Deposits received	20,344	15,630
Other	1,687	629
Noncurrent liabilities	78,189	28,479
Bonds payable	50,000	-
Long-term loans payable	14,121	14,239
Provision for retirement benefits	13,247	13,151
Guarantee deposits received	286	284
Other	534	803
Total liabilities	204,466	154,485
(Net assets)		
Shareholders' equity	285,476	272,667
Capital stock	26,783	26,783
Capital surplus	56,153	56,166
Legal capital surplus	50,482	50,482
Other capital surplus	5,670	5,683
Retained earnings	230,823	218,097
Legal retained earnings	4,095	4,095
Other retained earnings	226,728	214,001
Reserve for special depreciation	65	233
Reserve for advanced depreciation of noncurrent assets	279	448
General reserve	185,000	185,000
Retained earnings brought forward	41,383	28,320
Treasury stock	(28,284)	(28,380)
Valuation and translation adjustments	1,333	996
Valuation difference on available-for-sale securities	1,611	1,036
Deferred gains or losses on hedges	(277)	(39)
Subscription rights to shares	1,067	1,086
Total net assets	287,877	274,750
Total liabilities and net assets	492,344	429,236

Non-Consolidated Statements of Income

(Unit: millions of yen)

	Amount	
	April 1, 2009 – March 31, 2010	April 1, 2008 – March 31, 2009 (Reference)
Net sales	420,954	378,333
Cost of sales	328,149	318,246
Gross profit	92,804	60,087
Selling, general and administrative expenses	63,710	62,322
Operating income (loss)	29,094	(2,235)
Non-operating income	11,807	9,152
Interest and dividends income	4,445	4,410
Foreign exchange gains	839	964
Miscellaneous income	6,522	3,777
Non-operating expenses	3,181	2,578
Interest expenses	491	365
Interest on bonds	508	–
Miscellaneous loss	2,182	2,213
Ordinary income	37,720	4,337
Extraordinary income	624	633
Gain on sales of noncurrent assets	52	6
Gain on patent assignment	–	285
Other	571	341
Extraordinary loss	4,579	15,081
Loss on valuation of stocks of subsidiaries and affiliates	414	5,063
Loss on sales and retirement of noncurrent assets	2,758	4,653
Impairment loss	–	2,845
Other	1,406	2,519
Income (loss) before income taxes	33,764	(10,110)
Income taxes-current	12,393	(629)
Income taxes-deferred	(1,350)	(2,220)
Net income (loss)	22,721	(7,260)

Non-Consolidated Statement of Changes in Net Assets

April 1, 2009 – March 31, 2010

(Unit: millions of yen)

	Shareholders' equity											
	Capital stock	Capital surplus			Retained earnings						Treasury stock	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other earned surplus				Total retained earnings		
						Reserve for special depreciation	Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward			
Balance as of March 31, 2009	26,783	50,482	5,683	56,166	4,095	233	448	185,000	28,320	218,097	(28,380)	272,667
Net changes of items during the fiscal year												
Dividends from surplus				-					(9,995)	(9,995)		(9,995)
Provision of reserve for special depreciation				-		13			(13)	-		-
Reversal of reserve for special depreciation				-		(180)			180	-		-
Provision of reserve for advanced depreciation of noncurrent assets				-			25		(25)	-		-
Reversal of reserve for advanced depreciation of noncurrent assets				-			(194)		194	-		-
Net income				-					22,721	22,721		22,721
Purchase of treasury stock				-						-	(3)	(3)
Disposal of treasury stock			(13)	(13)						-	99	86
Net change of items other than shareholders' equity during the fiscal year				-						-		-
Total changes of items during the fiscal year	-	-	(13)	(13)	-	(167)	(169)	-	13,062	12,726	95	12,809
Balance as of March 31, 2010	26,783	50,482	5,670	56,153	4,095	65	279	185,000	41,383	230,823	(28,284)	285,476

	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 valuation and translation adjustments		
Balance as of March 31, 2009	1,036	(39)	996	1,086	274,750
Net changes of items during the fiscal year					
Dividends from surplus			-		(9,995)
Provision of reserve for special depreciation			-		-
Reversal of reserve for special depreciation			-		-
Provision of reserve for advanced depreciation of noncurrent assets			-		-
Reversal of reserve for advanced depreciation of noncurrent assets			-		-
Net income			-		22,712
Purchase of treasury stock			-		(3)
Disposal of treasury stock			-		86
Net change of items other than shareholders' equity during the fiscal year	575	(237)	337	(19)	317
Total changes of items during the fiscal year	575	(237)	337	(19)	13,127
Balance as of March 31, 2010	1,611	(277)	1,333	1,067	287,877

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, as of the end of the fiscal period (valuation adjustments are reported in the net assets section, and selling costs are 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 and merchandise, raw materials, and work in process:

Stated at gross average cost (for balance sheet valuation, in the event that an impairment is determined: impairment write down is calculated based on inventory net realizable value)

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

(4) Depreciation method of major depreciable assets

Property, plant and equipment (excluding lease assets):

Declining-balance method

Intangible assets (excluding lease assets):

Straight-line method (For software used internally, the straight-line depreciation method over the internal useful life (5 years) is adopted.)

Lease assets:

Lease assets, determined to be finance leases not involving the transfer of ownership of the leased property to the lessee are accounted for using the straight-line method, with the useful life set as the period of the lease contract, with no residual value.

(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 investment loss

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 directors' bonuses

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.

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.

(Changes in accounting policies)

From this fiscal year, the "Partial Revision (version 3) to the Accounting Standard for Retirement Benefits" (ASBJ Statement No. 19, July 31, 2008) has been adopted. Since any actuarial differences shall be written off during the next fiscal year and onward, this change has no impacts on operating income, ordinary income and income before income taxes.

The balance of the differences in retirement benefit obligations incurred as a result of the adoption of this accounting standard which has not been accounted for is 3,407 million yen.

- (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, etc.
 - 3) Hedge policy
The Company adopts a policy aimed at averting the risks associated with exchange fluctuations and interest rate fluctuations.
 - 4) Method of assessing the effectiveness of the hedges
The effectiveness is assessed by comparing a market change in a hedged instrument or cumulative change in its cash flows with a market change in a hedging instrument or cumulative change in its cash flow to observe a ratio of those changes. However, the assessment of the effectiveness is omitted for interest rate swaps that are handled under special rules.
- (7) The consumption tax and similar taxes are excluded from the transaction amount.

2. Notes to non-consolidated balance sheets

- | | |
|---|--|
| (1) Accumulated depreciation of property, plant and equipment | 276,041 million yen |
| (2) Short-term receivables from affiliates | 66,902 million yen |
| Long-term receivables from affiliates | 5,116 million yen |
| Short-term payables to affiliates | 27,043 million yen |
| (3) Guarantees on liabilities | |
| The Company offers guarantees on liabilities for loans from banks as follows: | |
| Employees' housing fund | 0 million yen |
| Nitto Denko (Suzhou) Co., Ltd. | 1,079 million yen
(11,600 thousand US dollars) |
| Nitto Americas, Inc. | 539 million yen
(5,795 thousand US dollars) |
| Taiwan Nitto Optical Co., Ltd. | 2,940 million yen
(1,000,000 thousand new Taiwan dollars) |
| Shanghai Nitto Optical Co., Ltd. | 2,305 million yen
(5,000 thousand US dollars) |

	(100,000 thousand Chinese yuan)
	(477 million yen)
Shenzhen Nitto Optical Co., Ltd.	3,965 million yen
	(5,000 thousand US dollar)
	(3,500 million yen)
Nitto Matex (Thailand) Co., Ltd.	258 million yen
	(90,000 thousand Thai Baht)

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

Hydranautics	608 million yen
	(4,953 thousand US dollars)
	(1,185 thousand euro)

3. Notes to non-consolidated statements of income

Sales to affiliates	280,763 million yen
Purchases from affiliates	46,301 million yen
Transactions other than business deals with affiliates	7,624 million yen

4. 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	7,154 thousand shares
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5. Notes on deferred tax accounting

The primary reasons why deferred tax assets arise are exceeding the limit of inclusion in depreciation expenses and disallowed provision for retirement benefits, while deferred tax liabilities are mainly caused by valuation differences on available-for-sale securities.

6. Notes on noncurrent assets used under a lease contract

In addition to noncurrent assets that are included in the balance sheet, some of the buildings, vehicles, office equipment and other items are used under financial lease contracts that do not transfer ownership rights.

7. Notes on transactions with affiliated parties

Relationship	Name of company	Location	Capital	Business	Holding ratio of voting rights (holders)	Details of relationship		Transaction type	Transaction amount	Category	Balance as of fiscal year-end
						Concurrent responsibility as Director, etc.	Actual role				
Subsidiary	NITTO AMERICAS, INC.	Wisconsin U.S.A.	US\$ 1,024,000	Holding company	Direct 100%	Applicable	Supervisory function in the U.S.	Loan out of funds	3,148 million yen	Long-term loan	3,148 million yen
								Receiving interest	63 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. No collateral is involved.

8. Notes on information per share

Net asset per share	1,721.51 yen
Net income per share	136.39 yen

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.