

Dear Our Stakeholders

NITTO DENKO GROUP CSR Report & Annual Report 2007



NITTO DENKO GROUP

Sincerely yours
Nitto Denko Group

NITTO DENKO GROUP

CSR Assurance Department
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<http://www.nitto.com/>



The Nitto Denko Group has historically disclosed financial news to its investors through the company *Annual Report*. Through our *Environmental Report* last issued in 2000, we disclosed non-financial news and information about relevant environmental issues. For two years, in an attempt to encourage wider readership of both our *Environmental Report* and *Environmental and Social Report* we have published the *Corporate Social Responsibility (CSR) Report* which provided general information about the companies' social and environmental commitments and related activities. However, with CSR in mind, I came to realize that we would most likely have more stakeholders read our report if we were to amalgamate both our financial and non-financial news.

We have therefore decided to amalgamate both the *Annual Report* and *CSR Report*. Our standard of practice of "Open, Fair and Best," will continue to

inform the way in which this report is produced. The Nitto Denko Group, looks forward to your further understanding and patronage.

This report relates to the Nitto Denko Corporation's business as of March 31, 2007. It includes information relating to the corporation's business and all its additional 117 companies of which 112 are consolidated subsidiaries and the remaining 5 are non-consolidated subsidiaries. In writing this report, we consulted the *Sustainability Reporting Guidelines* v3 issued by Global Reporting Initiative and used them as a guide for disclosing non-financial related information.

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

Stakeholders Around Us



Amalgamation of CSR and Annual Reports	2	Corporate Governance	10
Highlight	4	Compliance	12
Message from the CEO		Risk Management	13
Nitto Denko Group Is Working towards Further Technological Innovation and the Harmonization of Our Society and Environment	6		
The Nitto Denko Group's Business Is All around Us 14			
Products Produced by the Nitto Denko Group	14	Maintaining Product Quality Control whilst Minimizing Manufacturing Plants' Impact on the Environment	22
Membrane Business		Procuring Activities: Under the Standard of "Open, Fair, Best & Partnership"	23
Water—A Prerequisite for Life on Earth	16	Aiming to Develop a Work Environment that Reflects, Encourages and Supports Our People whilst Adding "New Value" to Our Business	24
Medical Products Sector		Safety Comes First—Nothing Is More Precious than Human Life	26
Aiming to Be Kind to People through Mastering Our Specialty	18		
Research and Development			
Creating "New Value" in Research and Development	20		
Intellectual Property	21		
The Nitto Denko Group Upholds Its Commitment to Global Environmental Conservation 28			
Map of the Relationship between the Nitto Denko Group and the Earth	28	Relationship Building within Local Communities Coping with Social Problems	38
Global Environmental Conservation Activities	30	East Asia	38
Material Flow in Fiscal 2006	31	South Asia	40
Adjustments Made to Environmental Targets	32	Americas	41
Contributing to the Prevention of Global Warming	33	Europe	41
Implementing Measures to Prevent Air Pollution	34	A Lot of News	42
Proper Management of Chemical Substances	35		
Reutilizing Industrial Wastes	36		
The Nitto Denko Group's Environmental Conservation Data	37		
Business Result 44			
10-Year Summary	44	Notes to Consolidated Financial Statements	54
Analysis of the Business Result	45	Operating Segment Information	59
Business and Other Risks	48	Segment Information by Geographic Area	60
Consolidated Balance Sheets	50	Sales to Customers outside Japan	61
Consolidated Statements of Income	51	Independent Auditors' Report	62
Consolidated Statements of Cash Flow	52		
Consolidated Statement of Changes in Net Assets	53		
The Nitto Denko Group's Corporate Vision and Guiding Principles 63			

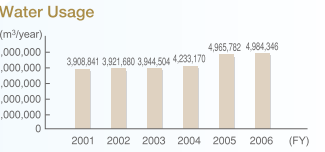
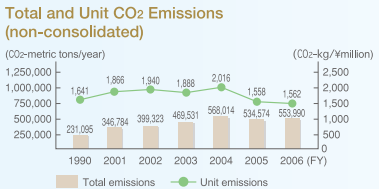
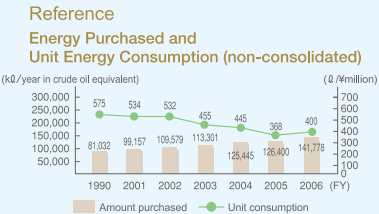
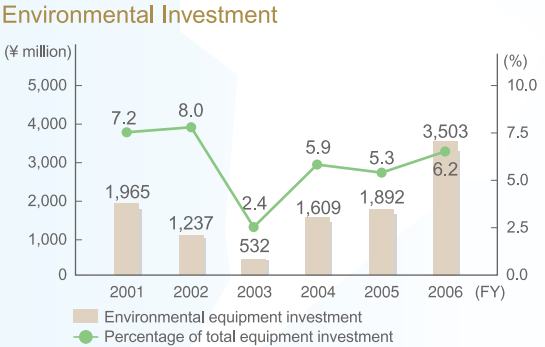
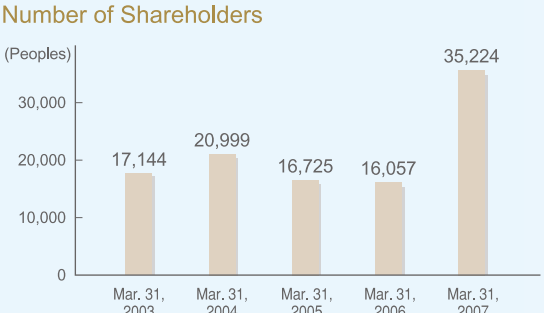
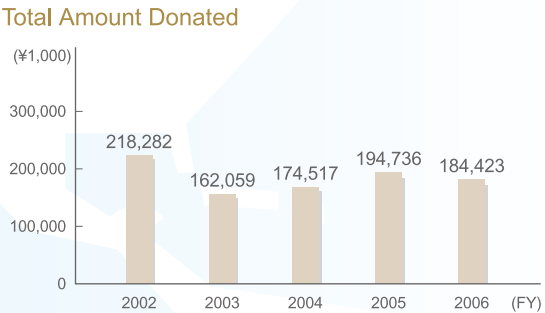
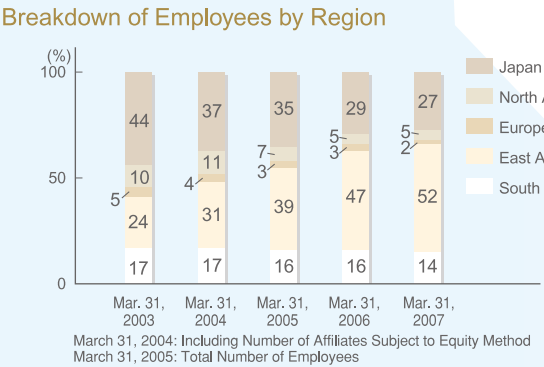
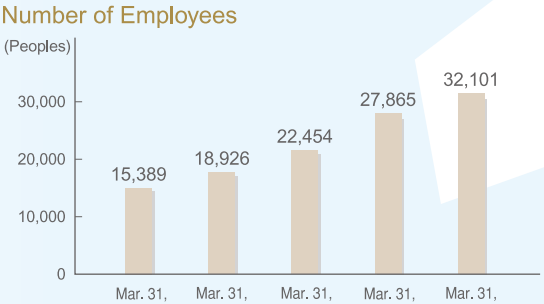
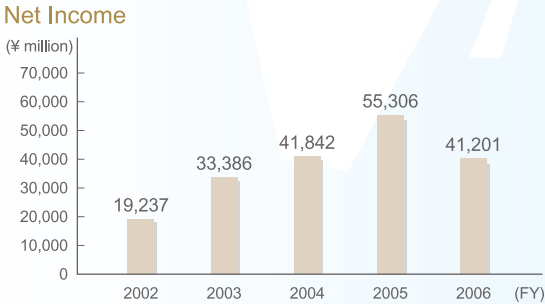
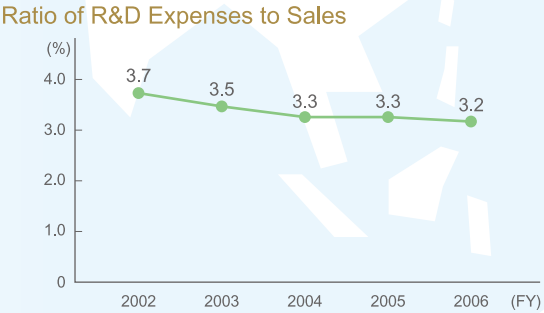
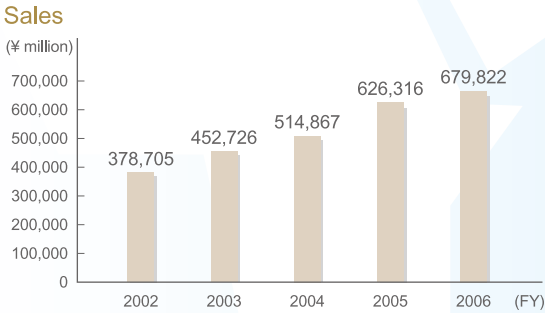
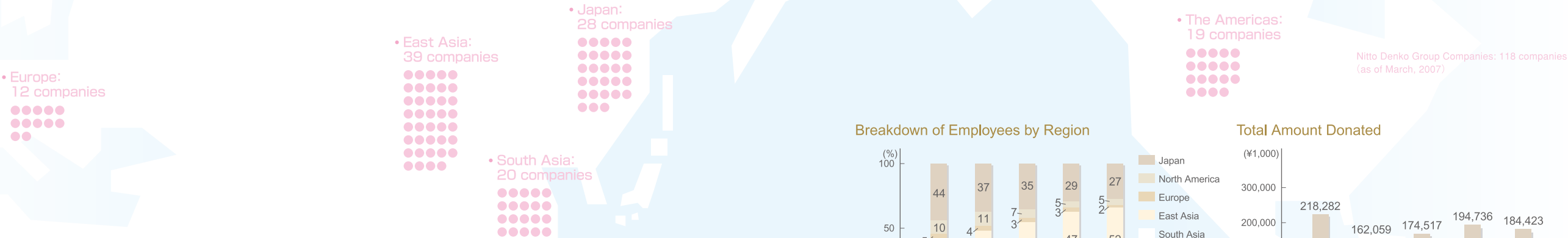
Highlight

Sales ————— ¥679,822 million
Operating Income ————— ¥69,037 million
Income before Provision for Income Taxes — ¥65,100 million
Net Income ————— ¥41,201 million
R&D Expenses ————— ¥21,733 million

Capital Investment ————— ¥75,324 million
Depreciation Cost ————— ¥40,169 million
Total Assets ————— ¥604,208 million
Equity ————— ¥364,942 million

ROE ————— 12.0%
Amount per Share
Net Income per Share ————— ¥248.33
Dividends per Share ————— ¥70

Regional Breakdown of Sales
Japan ————— ¥268,364 million
North America ————— ¥42,349 million
Europe ————— ¥23,787 million
Asia & Oceania ————— ¥345,321 million



The Nitto Denko Group Is Working towards
Further Technological Innovation
and the Harmonization of
Our Society and the Environment

Masamichi Takemoto
CEO, COO, Nitto Denko Group
President, Nitto Denko Corporation



Implementing Fundamental Changes to
Our Manufacturing Process

Last year due primarily to unexpected market changes the Nitto Denko Group experienced an increase in revenue alongside a fall in profits. 2006 saw an increase in demand for larger television screens, an increase in demand from customers for further quality improvements and greater than expected falls in unit prices for all LCD optical film related products. I must say in retrospect that we were neither well prepared for, nor tackled the unexpected changes in the market as well as we could have. This experience helped us to identify a weakness, this being our limited ability to date in predicting changes in market behavior and responding and planning for such drastic changes when they occur.

The Nitto Denko Group's core adhesive tape business, along with both our medical and membrane businesses have developed as expected. Our tape business has especially expanded in our East Asian operations.

Markets relating to optical film production for LCD's are expected to further grow. In order to successfully ride this wave of market expansion, it is necessary for the Nitto Denko Group to be able to reliably and rapidly supply high quality, technologically advanced and competitively priced products. The Nitto Denko Group aims to improve the supply of our products to all our global customers. In order to better achieve this we have been constructing post-process plants in both southern China and the Czech Republic in Europe. For this to happen it is essential that we all reexamine and continually look at ways that we can improve our manufacturing processes. It is with this in mind that we need to vigorously push ahead working under our slogan of "Breaking the n-Fold Barrier."

Aiming for a Niche Top
in the Optical Market

The Nitto Denko Group has managed to maintain the largest market share of the international optical business. Given that markets have become geared towards commoditization, it is necessary for the Nitto Denko Group to change its direction if we are to achieve and maintain a niche top in the optical market. More than ever the use of "differentiation technology" is absolutely essential if we are to achieve our goal. Our greatest concern is how we are going to reliably manufacture high quality products in a prompt and environmentally-friendly manner at a moderate price. We aim to simplify our inspection processes through maintaining high quality manufacturing processes and through investing in manufacturing related R&D activities.

Mid-Term Management Plan Aimed at Sticking to Quality

We have implemented our current Mid-Term Management Plan aimed at sticking to quality. Employees are likely to work with vigor and enthusiasm if working as part of a company that strives towards corporate excellence. I consider employees to be our primary stakeholders. My rationale for this is that employees when working with vigor and enthusiasm produce quality products that our customers are pleased with. Naturally it is when our customers are happy that profits are made which in turn are able to be shared with shareholders and local communities. It is with this in mind that I continue prioritizing my mission of ensuring that Nitto Denko Group employees work under ideal working conditions. It is my belief that the long term success of any business enterprise is dependent on its people and the extent that each of them is supported in both utilizing and maximizing his/her own individual abilities and potential. I believe we are a business enterprise made up of employees that demonstrate "Integrity, Excellence and Accountability."

Fiscal 2007 Has Been a Preparatory Year for Our Future Direction

Fiscal 2007 has served as a year that has enabled us to prepare for our future direction. During this year we have altered our management structure. We have introduced an Outside Director System. Historically the Nitto Denko Group has operated under an open management structure, but we have realized that in order for us to become more transparent in the eyes of

our stakeholders' we have needed to implement a new system. In addition, for the purpose of responding to a rapidly ever changing market, we have amalgamated our management and executive teams so as to enable faster and more responsive decision making and implementation of action plans.

Apart from the above, to ensure our future competitiveness in global markets, we aim to make continued improvements in the following three areas: "Enhance Global Marketing Strength," "Enhance Global Manufacturing Strength" and "Enhance Global Management Infrastructure." Enhancing our business in these three areas in fiscal 2007 will put the Nitto Denko Group in good stead to make further leaps post fiscal 2008.

The Nitto Denko Group has been reorganized to ensure that we are prepared and not left behind with the wave of globalization that is upon us. In fact overseas sales have increased and the number of foreign employees has risen, now exceeding the number of Japanese employees within the Group. Many parts of our operation have been moved to overseas sites. Previously decisions made had very much been based on a Japanese perspective and mode of strategic thinking. It is my hope for the future that as executives of a global enterprise we base decisions and strategic direction on global market trends and on how we are able to improve our infrastructure and manufacturing capacity where possible. Achieving this is dependent on our ability to operate as a Globally Excellent Company, striving towards overall improvements in quality and performance. I am committed to the process of making necessary and beneficial changes and improvements that will enable us to realize this vision. Our Mid-Term Management Plan for fiscal 2008 will reflect this commitment.

The Nitto Denko Group's Core Beliefs Remain the Same

Our standard of practice of being "Open, Fair and Best" has not changed. We aim to keep growing in a global market focusing on our Global Niche Top Strategy for the future.

As for CSR or environmental issues, I believe that it is my duty to play an active part in not only creating but supporting a corporate culture that encourages open and frank communication and the sharing of facts relating to such issues. I believe that it is from this point that solutions to problems or issues responsively come about. I believe business enterprises that do not prioritize working from this premise and that do not prioritize CSR activities, giving priority to compliance and improvements in the environment, safety, quality and social contribution, are destined to fail.

The Nitto Denko Group aspires to being a business enterprise that exists and operates in a global environment serving not only its stakeholders but local communities. Please join with me and share the Nitto Denko Group's vision for the future.

CEO, COO, Nitto Denko Group
President, Nitto Denko Corporation



Corporate Governance

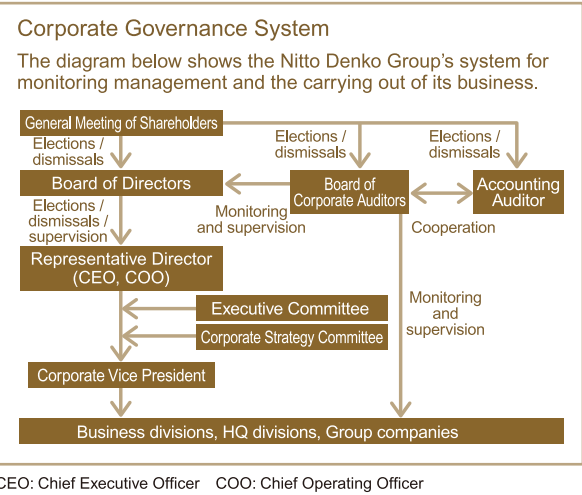
We Prioritize Being a Socially Credible and Responsible Corporation

Window dressing or misconduct by corporations is not peculiar to this century's business as it has occurred throughout the ages. In recent years, however, the occurrence of such behaviors and practices has increased. Every time a company or corporation is disclosed as having been involved in such a scandal whether in Japan or overseas society's confidence is shaken. With the new Company Law enforced in 2006 and J-SOX coming into force in 2008, we will be expected to arrange an internal control system and to look at ways of further enhancing our financial reporting. The Nitto Denko Group has already committed to establishing internal control systems as required under the new Company Law.

“Open, Fair and Best” Standard of Practice

According to the definition of the new Company Law, internal control requires that corporations themselves, including subsidiaries are responsible for the creation and implementation of policies which lay down the rules or procedures by which the company will perform business efficiently in accordance with the law, regulations and articles of incorporation.

The “Open, Fair and Best” spirit has taken root within Nitto Denko's corporate culture. Our Corporate Governance System has been integral in creating this spirit. In conforming to the new Company Law, we have established a new Corporate Governance System outlined below.



Compliance System and Risk Management

In order to assist us with complying with laws and business ethics we have established “Business Conduct Guidelines.” These guidelines reflect our guiding principles and clearly outline our expectations with regard to employee behavior. All employees have been

made fully aware of their importance and relevance. Furthermore, we have established a reporting system within each company which allows employees to make notifications of any legal violations or any cases of noncompliance where the corporate code of ethical conduct has not been adhered to. Alongside the setting up of an in-house help line service, we have made it possible for staff to directly contact external experts via an external help line service as a means of ensuring greater transparency and anonymity for staff reporting noncompliance.

The Board of Directors, Corporate Strategy Committee and business execution bodies constantly oversee and manage our business with the aim of minimizing business risk. Careful consideration is paid to the company's business constitution and overseas business operations when assessing risk. External factors such as exchange fluctuations, the political stability of the countries that the Nitto Denko Group has dealings with, advances in technology and the competitive power of such technology, alongside the intellectual property rights that may be associated with such technology are all risk factors that are carefully considered by the management team when making decisions.

The Emergency Headquarters, headed by the executive in charge of CSR is to be established as a further strategic means of preparing for unforeseeable circumstances. Its aim is to minimize risk and damage caused by unforeseeable incidences. In the case of an unforeseeable incident, immediate reports are required to be made to the president, the executive in charge of CSR and the corporate auditors.

Approach to Compliance in Japan

We have made strong efforts to ensure that all group employees are fully aware of our corporate compliance policy and that investigations attempting to discover any potential risk factors are conducted. Training sessions were conducted with management level employees

from our domestic group companies. These managers were then encouraged to disseminate what they had learned by educating their subordinates in their respected divisions. Approximately 1,100 management level employees, nearly everyone, participated in the training sessions. We also offered some tailored training sessions to some managers depending on their particular assignments and monitored the extent that the important principles of such training had been disseminated to other staff.

We have and continue to examine potential and/or new risks closely, always considering what measures can be taken to minimize damage. The Nitto Denko Group attempts to manage risk responsibly and to reduce risk factors wherever possible.

Global Approach to Compliance

Ensuring that all employees are fully aware of our corporate compliance policy is an integral issue needing to be tackled by the whole company. We consider that every employee has a role to play by modeling behaviors in accordance with *Nitto Denko Group Business Conduct Guidelines*.

Nitto Denko Group Business Conduct Guidelines were first laid out in our *CSR Report 2006*, which was distributed to about 30,000 of our group company employees, extending over 20 countries in the world. Since non-Japanese employees now account for 70% of the total employee population, targeting only Japanese employees is not adequate if we hope to ensure that all staff are aware of the Nitto Denko Group's compliance expectations.

To ensure that this takes place the *Nitto Denko Group Business Conduct Guidelines* manual has been translated into 12 languages. At present almost all 30,000 employees have been trained and have received relevant reading material. Activities relating to this have already started. (More detail can be found on page 40.)

Executives and Corporate Auditors of Nitto Denko Corporation (as of July 1, 2007)

President	Masamichi Takemoto (CEO, COO)
Senior Executive Corporate Vice President and Director	Yukio Nagira Yoshiyasu Kamiyama
Executive Corporate Vice President and Director	Yasuo Ninomiya (CTO) Tatsunosuke Fujiwara (CFO) Tetsuo Horiuchi Kaoru Aizawa
Outside Director	Yoichiro Furuse Kunio Ito
Corporate Auditor	Nobuyuki Tanioka Shigeru Hozan
Outside Corporate Auditor	Hisashi Hosokawa Kazuo Kumagai Kosuke Kimura
Executive Corporate Vice President	Katsuhiko Akamatsu
Senior Corporate Vice President	Ryoichi Ota Wataru Kitao Setsuo Watanabe Yoshihiko Chikuma Koichi Nishikawa Yasuo Yoneda
Corporate Vice President	Tomio Sakka Kenji Matsumoto Hongin Kim Yoichiro Sakuma Yoji Munakata Takeshi Nasu Hideo Takasaki Toshihiko Omote Tagayasu Ishida Masashi Iida

CEO: Chief Executive Officer
COO: Chief Operating Officer
CTO: Chief Technology Officer
CFO: Chief Financial Officer

Compliance

A Common Requirement of All Business Enterprises

Compliance has been a major CSR of the Nitto Denko Group. We consider that business activities are not only about producing legal profits but also about returning benefits to stakeholders and society in a myriad of ways. Compliance is viewed as a matter of necessity if we are to achieve this and maintain our reputation as being a dependable business enterprise.

Thoroughness of Compliance

The Nitto Denko Group has established guiding principles which are promoted as basic compliance standards and behaviors that all employees are required to be fully aware of. The CSR Committee, chaired by the CSR executive uses the committee meetings as a means of enhancing the compliance system.

Employees are assigned to join the Corporate Governance Department to assist mainly the Corporate Auditors with their work. They have initiated this process as a means of obtaining information relating to the appropriateness and efficiency of our business process throughout Group companies. In addition we have set up special divisions relating to environmental management, safety, quality and export control, each of which works in cooperation with auditing departments.

Utilization of Nitto Denko Group Business Conduct Guidelines

In 2006 we distributed *Nitto Denko Group Business Conduct Guidelines* manuals to all employees of the Nitto Denko Group. These manuals outlined five integral principles. These being, "Working Environment," "Protecting Assets," "Conducting Business," "Legal Compliancy" and "On Your Own Time." Each principle is explained and demonstrated within the manual using case studies. Examples of possible business situations where employees may find it difficult to make decisions were outlined with useful information provided and reference being made to the



Nitto Denko Group Business Conduct Guidelines training

relevant principle/s for each case. Coinciding with the distribution of these manuals were briefing and training sessions provided to the Nitto Denko Group employees all over the world. The guidelines have also been posted on the Nitto Denko website. (http://www.nitto.com/company/environment/env_04.html)

As the importance of compliance becomes gradually recognized, understood, appreciated and practiced among all employees throughout the Nitto Denko Group, it will serve as a common tool allowing all employees to comply with ethical standards, regulations and laws with respect to business operations within their local areas and may develop as is the case in China, activities involving cooperation between the government and local areas. (More detail can be found on page 38.)

Implementation of Human Rights Training Sessions (Targeting Domestic Group Companies in Japan)

In fiscal 2006, as a means of broadening employees understanding of human rights issues, human rights training sessions were implemented and targeted towards employees of our Japanese domestic Group companies. Examples of potential problems that may be faced when conducting business were explored. Training sessions relating to compliance have been continuously conducted, as mentioned above, and the emphasis has always been placed on the integral importance of cultivating our human resources in accordance with our core values of Integrity, Excellence and Accountability.

Report System in Japan

The Nitto Denko Group has set up a report system to assist in uncovering systematic cover-ups relating to legal and ethical misconduct. In addition, in order for whistleblowers not to be identified we have established a system by which internal group employees are able to report directly to outside experts. We also provide an in-house consultation service. If we receive reports, we inform the Corporate Ethics Committee which consists of the CSR executive and Corporate Auditors at which time preventive steps are taken.

Risk Management

In Preparation for "If..."

Nowadays there are many potential risks facing the business world. Natural disasters like earthquakes and man made disasters such as accidents or illegal activities for instance are but to name a few. Such risks not only threaten the existence of companies but their influence may also have a ripple effect extending to other concerned parties and society.

The Nitto Denko Group attempts to wherever possible identify any potential or actualized risks and take various measures to promptly manage such risks. We are strongly committed to preventing inconvenience to our customers, stakeholders and our own employees.

Risk Management and Initial Response System

The Nitto Denko Group has an established system in place to ensure that the President is made aware of any actualized risk factors so that he can promptly respond. Employees are encouraged to report any risk indicators as they arise. These concerns are swiftly passed on to our Emergency Headquarters to investigate and come up with strategies and solutions to the particular problem.

Key Risk Areas Identified by the Nitto Denko Group

We have identified key risk areas requiring ongoing attention. These being; "Product/manufacture risks," "Compliance risks," "Labor risks," "Accident/disaster risks," "Environmental risks," "IT risks" and "Company-targeted crime risks." Each department has the responsibility of devising a risk management plan aimed at preventing and/or managing relevant risks if they arise.

In 2003 and 2006, investigations were conducted. Both of these investigations uncovered potential risks in our workplace. We have already taken measures to manage some of these risks. We are also in the process of writing a comprehensive risk prevention and management plan. Naturally our aim is to keep potential risk at a minimum.

Provisions Taken Against Natural Disasters

Business enterprises are unable to prevent natural disasters such as earthquakes, tsunamis and typhoons. Such natural disasters, especially earthquakes, are of great concern to the Nitto Denko Group given our headquarters, research and development and key manufacturing bases are located in Japan. According to recent research reports, earthquakes are predicted to occur within the near future in Tokai, Tonankai and off shore Miyagi. We are in the process of drawing up a Business Continuity Plan (BCP) as a measure to protect the company headquarters and manufacturing bases as best we can against possible future earthquakes. The fundamental purpose of the BCP is to ensure that damage to stakeholders is kept to a minimum if an earthquake affects our manufacturing bases. The plan will outline procedures geared towards ensuring that production is restored to normal levels as soon as possible after an earthquake occurs.

Implementation of Safety Confirmation System

The Nitto Denko Group places great priority on confirming the safety of employees and their family members in the advent of a natural disaster occurring. In fiscal 2006 we introduced a Safety Confirmation System and have carried out many tests since its introduction to ensure its effectiveness and reliability. At the Nitto Denko Group we aim to be an enterprise that is concerned first and foremost with our employees' safety whilst minimizing damage to our stakeholders.

Measures Against Avian Flu

As a preventative safety measure for staff against Avian Flu, Nitto Denko Electronics (Malaysia) Sdn. Bhd. has fully enclosed the canteen with windows. This action has resulted in birds being unable to enter the canteen.



Our previous open style canteen



Our upgraded enclosed canteen

The Nitto Denko Group Produces a Variety of Products that Surround Us in Our Daily Lives, Contributing Widely to Our Society

Vehicles

●NITOHARD®

Expandable reinforcing and vibration-damping material that is able to adhere firmly to steel panels, including curved surfaces



●Non-halogen adhesive tape

Non-halogen adhesive tapes have the same banding properties as PVC and are used for protecting and binding wire harnesses



Production Plant

Occupational Health and Safety is of the utmost importance to us.

●REVALPHA®

Thermal release tape, ideal for temporarily fixing electronic parts throughout the manufacturing process



●High-performance dust preventive adhesive roll cleaner

Foam adhesive completely removes foreign materials in the manufacturing process



●HYPERFLASH®

A new type of waterproof and airproof taping combining deformable rubber substrate, butyl rubber adhesive and release paper. Ideal for water pipes and window sill edges



●All-weather waterproofing tape/sheet

Helpful for the waterproofing of roofs, aperture areas and around pipes



●Curing

Environmentally-friendly products



Procuring Activity

When procuring or forming partnerships, we operate in accordance with our policy of being "Open, Fair, Best and Partnership." See pg. 23

●Medical related business

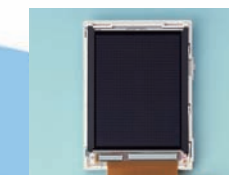
Medical adhesive tapes that are gentle on the skin and transdermal drug delivery patches that administer drugs through the skin eliminating the need for ingestion of drugs



Digital Cameras

●NPF

Standard version of optical film for LCD



●NT-8000/8500 Series

LED encapsulating transparent epoxy resins for protecting semi conductor elements



Game Consoles

●ELECTRYSTA®

Conductive transparent film used for touch panels



Cellular Phones

●TEMISH®

Vent filters with waterproofing and dust proofing function ability as well as a capability to maintain air permeability



Membrane Business

Seawater desalination technology contributing to securing global fresh water supplies for both drinking and industrial use



See pg. 16

Personal Computers

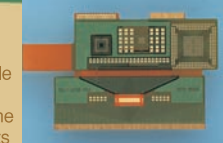
●NIPOCS®

System enhancing film that controls light to ensure that bright clear images can be seen from any direction



●NITOFLEX®

Versatile thin flexible printed circuits are able to be used in folded parts contributing to the downsizing of products



●CS9621

Ultra thin, transparent, strong adhesive tape suitable for bonding various types of optical films to flat panel displays



Research & Development and Intellectual Property

We have a global Research and Development strategy. See pgs. 20-21

Laser Beam Printers

●NITOMID®

A seamless belt produced using the excellent characteristics of polyimide, contributing to the downsizing of equipment and to the saving of energy



Financial Standing

This report outlines the Nitto Denko Group's annual highlights, its achievements over the last ten years and includes an abstract from its Annual Security Report. See pgs. 44-62

Employment

We value our employees as important stakeholders and as integral company assets. See pgs. 24-27

Corporate Governance

We prioritize addressing issues relating to internal control, risk management and compliance in a timely manner. See pgs. 10-11

Membrane Business

Water—A Prerequisite for Life on Earth

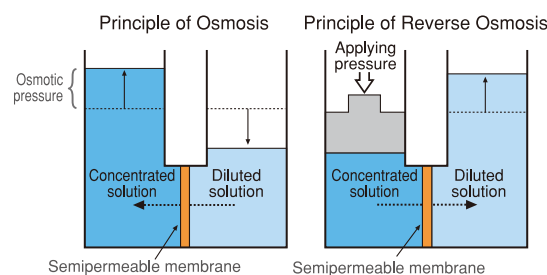
The depletion of the world's energy resources is no longer the only global resource concern that we are facing. The rapid depletion of our global water resources has become a very real and worrying problem. The Nitto Denko Group's polymer separation membrane technology contributes to finding a solution to the problem of fresh water shortages through its ability to convert seawater to freshwater. It is through such technological advances that the Nitto Denko Group is able to directly contribute to the protection of our beautiful Earth.

The Earth is a Water Scarce Planet

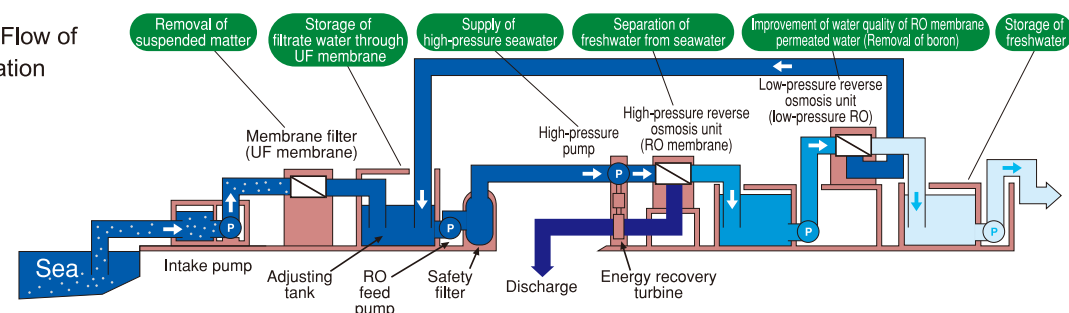
Global water consumption has increased approximately six times within the last century compared to that of the early 20th century. This rapid increase can largely be attributed to the population explosion that has occurred in developing countries and the mass increase in consumption of water that has occurred in advanced countries. The Earth is often described as being a "watery planet," said to have approximately 1,400,000,000 cubic kilometers of water on its surface. Whilst this may be true, only approximately 2.5% of this is fresh water. In addition, 70% of this freshwater is in the form of glaciers, leaving only 0.01% as usable freshwater.

According to United Nations estimates, by the year 2025, 48% of the world population will be "water stressed." Water stress is experienced when a regions annual consumption of water per capita is less than 1,700 cubic meters. "Water scarce" is experienced when a regions annual consumption of water per capita reduces further to below 1,000 cubic meters.

It is through the use of Nitto Denko Group's technology that we will be able to convert ocean water which now accounts for 97.5% of the water on the planet, into usable freshwater.



System Flow of Desalination



The Nitto Denko Group Producing Freshwater

There are a variety of methods that can be used to convert seawater to freshwater, one of which is the distillation method. This method whilst effective is not so energy efficient as it requires a lot of energy to heat seawater. Using the membrane separation method requires less energy expenditure than the distillation method. The Nitto Denko Group's Reverse Osmosis (RO) membrane is used for desalination of seawater.

In 2007 desalination plants with installed RO membrane systems will begin operating at the Escombreras plant in Spain. It is expected that this plant will be able to desalinate seawater at a rate of 64,000m³/day. At the Los Cabos plant in Mexico, through the use of the same filtration system, it is expected that 17,300m³/day of seawater will be desalinated. In 2008 we are scheduling to open large scaled plants in Algeria, which through utilizing our latest SWC5, seawater desalination RO membrane will be able to produce approximately 300,000m³/day of freshwater.

It is expected that when our Algerian operations begin the Nitto Denko Group will be the largest manufacturer of seawater desalination RO membrane in the world and will be producing approximately 2,500,000m³/day of desalinated water.

SWC5

SWC5 is a state-of-the-art RO membrane that allows for high flow and high salt rejection. The high flow allows for lower operating pressures to be applied than previously possible when purifying seawater. With this reduction coupled with the further reduction in associated energy usage, we are looking forward to the desalination process becoming more economically viable.



The Nitto Denko Group's "Membrane" Taking an Active Role in China

In China the market for RO membrane module used to produce industrial pure water has grown as a result of China's general industrial development. Raw water in the form of groundwater or water from rivers is commonly used to produce industrial pure water. Such raw water is used in China as well. Raw water in China however has a higher concentration of various substances such as saline compared to other countries. Given this it is necessary to remove salinity in order to produce pure water. The aforementioned substances can foul RO membrane elements. "PROC10" (Powerful Reverse Osmosis Composite) has four special characteristics that assist in counteracting fouling from occurring. PROC10 is a quality product that the Nitto Denko Group feels will serve our customers well.

The first characteristic relates to PROC10's high salt rejection capability of 99.75% (at our standard test conditions), which boasts the highest level of performance out of any RO membrane-like element being used for the purposes of desalinating groundwater or water from rivers.

The second is fouling resistance. Applying RO membrane to raw water may result in the membrane fouling resulting in a performance decline. Through using a uniquely structured and patented feed spacer, feed channels are secured making it difficult for foulants to remain trapped in the membrane thereby causing fouling of the RO elements. Owing to this useful modification, RO membrane elements become less fouled, and do not require frequent cleaning.

The third characteristic relates to its endurance against chemicals. Once RO elements become fouled they need to be cleaned with chemicals to remove foulants. PROC10 features improved chemical membrane



resistance allows for cleaning using stronger chemicals than those typically used.

The fourth characteristic relates to RO elements and the improved ATD (Anti-Telescoping Device) and air vent mechanism. RO elements are usually installed in pressure vessels. In cases where the air between the elements and the vessels is not adequately purged, the elements can be badly damaged. This improved ATD allows air to pass through the recessed vents from between the elements and vessels thereby preventing damage.

Hydranautics in the U.S.A., part of the Nitto Denko Group specializes in the separation membrane business and has globally developed its business through the production of membrane products. In China there are membrane element production plants and sales bases of another subsidiary company of Nitto Denko Corporation. The Nitto Denko Group aims to strengthen its presence in China along with these overseas sites.

Worldwide Business of Diversified Separation Membrane

In the world of membrane applications, two other main membranes exist, these being the ultrafiltration membrane (UF membrane) and the micro filtration membrane (MF membrane). They are used in the processing of dairy products, in adjusting fruit juice and in refining treatment processes associated with both alcoholic beverages and seasoning production.

UF membrane consists of a skin and a sponge layer, through which high-molecular-weight substances like viruses are not permeable, but water, ion and low-molecular-weight substances are. The pores of the MF membrane are larger than those of the UF membrane and are able because of this to separate fine particles of bacteria in liquid solutions of between 0.05~10μm.

The Nitto Denko Group established a joint venture company with Mitsubishi Rayon Co., Ltd. in 2007. Through combining technology from both Mitsubishi Rayon Co., Ltd. and the Nitto Denko Group we are confident that we will continue to provide total solutions to customers in the water treatment membrane field. This joint venture is sure to give our membrane business a new market advantage.

Medical Products Sector

Aiming to Be Kind to People through Mastering Our Specialty

Adhesive technology is a specialty area of the Nitto Denko Group. In recent years adhesive technology has won the admiration of the electronics industry and is receiving a lot of attention. We have been promoting this technology as being the way of the future for some time. The employees of the Nitto Denko Group are about to bear the fruits of their labor.

Adhesive Technology and Medical Products Sector

The Nitto Denko Corporation's first production aim after its inauguration was to produce domestic electrical insulation material. It was based on the technology used to make our electrical insulation tape that we have developed many adhesive tapes now being used in varied fields. Medical adhesive tape which is now a standard product in the medical sector was developed using this initial technology. Such tape can be used for a multitude of purposes such as for the protection of wounds or for attaching medical equipment to the body when necessary. It is imperative that medical tape is gentle to the skin. It is for this reason that we do not use substances that may cause irritation. Instead we have chosen to use soft base material resembling dermal tissue. Initially we were faced with using an adhesive given the use of our adhesive technology.

The surface of the skin is covered by very thin layers of stratum corneus. The layers of stratum corneus play an important role in guarding the human body from invasion of chemical material or pathogenic bacteria. In the past when adhesive tape was removed there existed a risk of this protective layer also being removed. For a long time the skin irritation caused by this protective layer of skin being removed was thought to be unavoidable. After many years of research the Nitto Denko Group succeeded in developing the world's first effective adhesive tape that could be medically applied and which when removed does not remove the outer protective layer of skin. Our product is called YUKI-BAN. It uses lipo-gel adhesive.



Whilst advances in technology are essential when considering improved medical care, we at the Nitto Denko Group prioritize the need to produce products that endeavor to minimize the patients' pain, discomfort and fear whether they are infants or elderly.

Expansion of Transdermal Drug Delivery Patch

The Nitto Denko Group's transdermal drug delivery patch has been another example of how an idea with a great deal of hard work can become a reality. We have been developing transdermal drug delivery patches since 1970 and now have four available medical products. Our patches enable medicines to be administered continuously through the skin allowing for more effective treatment.

One example of how transdermal patches can be applied is in the treatment and administering of medicines for asthma patients. Asthma episodes tend to begin at dawn with both patients and their families bearing heavy burdens in trying to manage and treat episodes when they occur. Transdermal patches containing tiotropium enable continuous and stable treatment thereby efficiently controlling episodes.

Transdermal drug delivery patches containing isosorbide dinitrate are used as prophylactics in treating angina. By incorporating our YUKI-BAN lipo-gel adhesive technology into the development of this product, it is gentle to the skin and can be applied every day.



The Nitto Denko Group is enthusiastic to expand its development of "people-friendly" transdermal drug delivery patch products. In 2006 we signed a contract with Eisai Co., Ltd. which will have Nitto Denko Corporation and Eisai Co., Ltd. working collaboratively on the development of a transdermal drug delivery patch containing *Aricept*® for the treatment of Alzheimer's disease. We hope to be able to develop a product that will assist patients at the early stages of the condition.

In 2003 Nitto Denko aquired a U.S. specialized producer of transdermal drug delivery patches. By having production sites domestically in Japan and also overseas we expect to be able to more effectively promote the use of this technology globally. Our business collaboration with Aveva Drug Delivery Systems Inc. is an example of this which will enable the development and manufacturing of drug delivery tape globally. In January, 2007 we succeeded in gaining the license to produce and distribute *Penles*® Lidocaine Tape from an associated developer. This is the first transdermal drug delivery patch that Nitto Denko Corporation is selling on a private-label basis.

The Nitto Denko Group is motivated towards progressing "people-friendly" medical care. It is for this reason that the Nitto Denko Group is actively contributing to the driving, development, manufacturing and sales of transdermal drug delivery tape products.

Biotech Sector Role in the Development and Production of Medicines

For the last several decades low molecular weight synthesized drugs have been mainly developed by the pharmaceutical sector. In recent years, advancements in biotechnology have been outstanding and it is considered that remedies for many intractable diseases such as genetic diseases or cancers will be possible as a result of the continued

advancements being made in biotechnologically based medical products. It is foreseeable that peptides and/or genes may feature in such applications.

The practical application of biotechnologically based medicine is dependent on establishing a reliable administering technique. In 2003 the Nitto Denko Group developed gene carrier, *Cytopure*™ with the aid of polymer technology, which is able to carry genes into mammalian cells. As *Cytopure*™ is broken down within a cell, the advantageous effects of the delivered gene begin to show. This product is marketed by Kinovate Life Sciences, Inc., a Nitto Denko Group company in the Americas.

The Nitto Denko Group given the future medical benefits that are envisaged to be possible through the development and advancement of biochemical medicines is directing its attention towards the biochemical-related business. It is in this area that the Nitto Denko Group believes that we will be able to make the largest contribution towards medical improvements.



Aveva Drug Delivery Systems Inc.

Research and Development

Creating “New Value” in Research and Development

Research and Development Conducted by the Nitto Denko Group

The Nitto Denko Group has conducted R&D activities in the fields of optronics, electronics, energy and ecology. In fiscal 2006 the Nitto Denko Group spent a total amount of 21,733 million yen on such R&D activities. These R&D activities have centered on the use of fundamental technology relating to the synthesis, denaturation and processing of wide polymeric materials under our R&D management system led by Chief Technology Officer (CTO). In the U.S.A. our research facility, the Nitto Denko Technical Corporation (NDT) aims to create new business in the fields of photology, biotechnology and nanotechnology.

Research Findings from Our Industrial Materials R&D

The Nitto Denko Group has conducted R&D activities in the electronics, automobiles and home building fields, creating products that are commercially sold and which boast high precision and high performance yet at the same time are environmentally responsible. One such product range that became available on the market in fiscal 2006 was our optical film surface protection material (GE300). Also released in fiscal 2006 were our environmentally conscious “SPV series” tapes or non-PVC protection material (401K and 4001K) which protect surfaces like metal from being scratched when going through production processes.

Research Findings from Our Electrical Materials R&D

Along with the immense increase in LCD television popularity, demand for high-grade panels offering a high standard in contrast quality has also increased. In order to meet this demand, we have developed a new wide viewing angle polarizing film for LCD-TV panels that we are able to produce in large quantities. Our new thinner polarizing film is also being utilized in the production of many products such as cellular phones which are becoming thinner and thinner.

The Nitto Denko Group’s halogen free and flame retardant flexible printed circuits are products that are environmentally friendly. The Nitto Denko Group’s GE series of semi conducting encapsulating materials also fall into this category and have an ever increasing number of applications.

Research Findings from Our Functional Materials R&D

We have steadily increased our sales of our RO membrane, PROC10 designed for seawater desalination which has been commercially marketed at boiler markets in China where water shortage is a serious concern.

Demand for the polyimide belt, NITOMID® used in laser beam printers has been firm as has been the progress made in relation to the development of colorization components for copy machines. Demand for our fluoroplastic porous film “TEMISH®” has expanded from initially being used by automobile manufacturers as an inner pressure controlling membrane in car lights to consumer-electronics makers using it for dust-proof and waterproof filters.

New Drug Delivery Technology Using Polymeric Materials



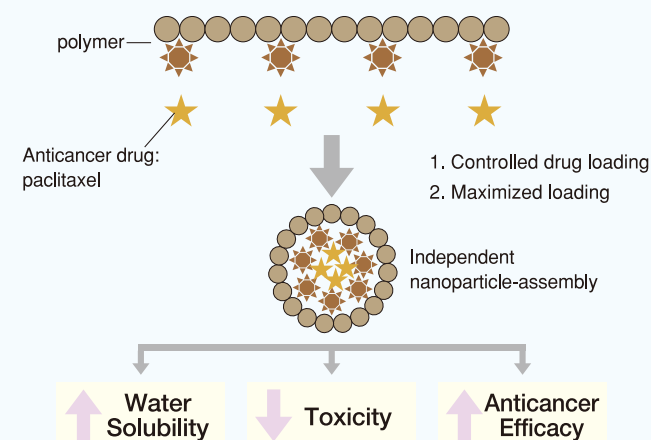
Dr. Stephen B. Howell

In commenting on the progress made by NDT, Dr. Stephen B. Howell, an expert in the development of cancer therapeutics, notes: “The drug delivery system holds great promise for improving the effectiveness of many classes of drugs. The fact that it can direct cancer drugs to the tumor and away from normal tissues is of particular importance, and its ability to enhance drug solubility is expected to result in superior formulations of novel therapeutics.” (Dr. Stephen B. Howell, University of California, San Diego, Moores Cancer Center)

Nitto Denko Technical Corporation, one of the Nitto Denko Group’s overseas local subsidiaries in the U.S.A., has jointly developed with the University of California, San Diego, polymer-based carrier technology which differs from percutaneous absorption technology.

The Nitto Denko Group engages in advanced technological research into biomedical materials and their applications. Part of this research has involved investigating polymer synthesis processes such as “gene delivery reagent” using biodegradable cationic polymers. This technology utilizes Nitto Denko Corporation’s polymer synthesis expertise to create a biodegradable, hydrophilic material that can be used in conjugation with traditional therapeutic agents. The use of this polymer material will enable significantly greater solubility of drug compounds, resulting in greatly enhanced ease of administration. In addition, while most chemicals used as therapeutic agents have extremely small particle sizes, the particles resulting from combining the agents with the NDT carrier have a relatively large particle size of 100nm. This allows the therapeutic agents to remain in the bloodstream for a longer period of time, resulting in greater efficacy, while at the same time reducing side effects by preventing their migration to normal tissues.

NDT-1213 Carrier Platform



NDT-1213 drug carrier platform is a novel biodegradable polymer based anticancer drug delivery carrier technology.



Nitto Denko Technical Corporation is a research institution located in California, U.S.A., established in 2000.

The Nitto Denko Technical Corporation’s Laboratory

It is a substantial facility allowing for not only experiments relating to chemical synthesis and biology but also the analysis of equipment used for testing the chemical and physical properties of materials.



Research and Development

Intellectual Property

Do inventors have invention rights? Is intellectual property appropriately protected? These are issues of corporate concern?

Compensation for Inventors

When an employee joins the Nitto Denko Group it is part of the work agreement that any invention or intellectual property that is developed as part of any work related activity, remains the property of the Nitto Denko Group. An employee is only not bound by intellectual property restrictions if his/her idea neither falls within the area of the Nitto Denko Group’s actual or anticipated business interests and did not result from, nor was inspired by any work assignments linked to the Nitto Denko Group. All new developments and/or inventions depending on their significance and impact on improved business performance are rewarded through testimonials and/or extra prizes depending on the award system of the individual employees group.

To prevent conflicts between inventors and the corporation, inventors are able to receive a compensation payment for the transfer of any intellectual property in addition to an award. In Japan how and when an employee is compensated for an invention or new development is governed by Patent Law legislation, whereas each overseas company relies on its own rules in managing intellectual property situations.

Measures Taken Against Similar Products

It is nothing unusual from time to time for products to enter the market place that are similar to those that the Nitto Denko Group manufactures. Such occurrences may have the potential to cause inconvenience to our stakeholders. To prevent this from happening we apply and obtain patent rights, design rights and trademark rights for each new product we develop, in each country that we operate in.

Business Activity

Maintaining Product Quality Control whilst Minimizing Manufacturing Plants’ Impact on the Environment

The Nitto Denko Group manufactures products using reliable technology. Naturally, if our products varied considerably in quality, our customers would be inconvenienced and dissatisfied. With the need for quality control in mind, we also have to avoid adopting manufacturing methods and processes which adversely effect our global environment. Adding to this it is of absolute importance that our employees’ safety is prioritized and that the manufacturing processes do not compromise this. The Nitto Denko Group has and will continue to adopt a professional attitude in tackling these challenges. One way that the Nitto Denko Group is able to demonstrate its commitment to this is through the effort that has gone into obtaining internationally recognized certification of various standards relating to quality, environment, labor health and safety.

The Nitto Denko Group Gives Consideration to the Environment

Our production output in China and Southeast Asia increases year by year owing to the availability of a capable and affordable labor supply and a reliable infrastructure. Whilst the Nitto Denko Group’s manufacturing business is growing we prioritize conducting our business in accordance with environmental regulation so as to minimize our environmental impact. Wherever possible the Nitto Denko Group aims to perform beyond the legal requirements set in the countries that we operate in.

Manufacturing bases in China, Southeast Asia, Europe and the United States have acquired ISO14001 environmental management certification. Throughout our Asian operations we have also promoted the acquisition of Occupational Health and Safety Management System certification.

Acquisition of Environmental Management System Certification (ISO14001)

Japan	•••••	Nitto Denko	Toyohashi Plant
		Nitto Denko	Onomichi Plant
		Nitto Denko	Shiga Plant
		Nitto Denko	Tohoku Plant
		Other 12 sites	
East Asia	•••	Nitto Denko (Suzhou) Co., Ltd.	
		Nitto Denko (Taiwan) Corporation	
		Nitto Denko (Shanghai Song Jiang) Co., Ltd.	
		Other 10 sites	
South Asia	••	Nitto Denko Electronics (Malaysia) Sdn. Bhd.	
		Nitto Denko Materials Malaysia Sdn. Bhd.	
		Nitto Denko (Australia) Pty. Ltd.	
		Other 7 sites	
Europe	•••••	Nitto Europe NV	
		Nissho Hungary Precision KFT.	
America	••••	Permacel	
		Permacel Kansas City, Inc.	
		Other 3 sites	

Acquisition of Quality Standard Management System Certification

Japan	•••••	Nitto Denko	Toyohashi Plant
		Nitto Denko	Onomichi Plant
		Nitto Denko	Shiga Plant
		Nitto Denko	Tohoku Plant
		Other 12 sites	
East Asia	•••	Nitto Denko (Shanghai Song Jiang) Co., Ltd.	
		Nitto Denko (Shanghai Pu Dong New Area) Co., Ltd.	
		Nitto Denko (HK) Co., Ltd.	
		Other 5 sites	
South Asia	••	Nitto Denko Material (Thailand) Co., Ltd.	
		Nitto Denko (Singapore) Pte. Ltd.	
		Nitto Denko Electronics (Malaysia) Sdn. Bhd.	
		Other 5 sites	
Europe	•••••	Nitto Europe NV	
America	••••	Permacel	
		Hydranautics	

Acquisition of Occupational Health and Safety Management System Certification

Japan	•••••	Nitto Denko	Toyohashi Plant
		Nitto Denko	Onomichi Plant
		Nitto Denko	Shiga Plant
		Nitto Denko	Tohoku Plant
		Other 4 sites	
East Asia	•••	Nitto Denko (Shanghai Song Jiang) Co., Ltd.	
South Asia	••	Nitto Denko Electronics (Malaysia) Sdn. Bhd.	
		Nitto Denko Materials Malaysia Sdn. Bhd.	
		Nitto Denko (Australia) Pty. Ltd.	
		Other 3 sites	

Receiving Award from the Department of Labor Protection and Welfare of Ministry of Labor



A Nitto Matex employee being awarded a Diploma of Merit from Thailand's Deputy Prime Minister, Mr. Paiboon Wattanasiritam (pictured on the right)

Since fiscal 2006, based on OHSAS18001 Nitto Matex (Thailand) Co., Ltd. has performed varied activities relating to occupational health and safety. These have included activities such as implementing company OH&S regulations, performing safety patrols and carrying out safety training programs. Such efforts were recognized and awarded by the Department of Labor Protection and Welfare of Ministry of Labor.

Business Activity

Procuring Activities: Under the Standard of “Open, Fair, Best & Partnership”

The Nitto Denko Group upholds its procurement policy, conducting fair and transparent transactions. This is done in view of the fact that our suppliers are also recognized as our business partners aiming towards future development also.

The CSR-Based Procurement Policy, Action Guideline

1. About the CSR-Based Procurement Policy

The Procurement Business Sector sets up OPEN, FAIR, BEST & Partnership as the guiding concept.

OPEN

The Nitto Denko Group opens the door to partners at home and abroad and creates an environment that promotes unrestrained proposals.

FAIR

The Nitto Denko Group deals with its partners on an equal and fair basis in its procurement activities.

BEST

The Nitto Denko Group will do its best to realize its procurement activities based on care for the natural environment as well as laws and ethics, to create new value.

Partnership

The Nitto Denko Group aims to be the choice not only of its customers but also of its partners. The Nitto Denko Group seeks to establish true partnerships for coexistence and co-prosperity based on trust and cooperation.

2. Action Guideline for Persons Engaged in Procurement Activities:

Every member engaged in procurement activities for the Nitto Denko Group must be committed to behaving with respect for corporate ethics and social common sense, and must observe the following action guideline to promote procurement activities that are fair and free of corruption.

- 1 A person who is engaged in procurement activities shall follow any and all laws and regulations related to procurement processes. If any person finds out any fact indicating noncompliance with the law, the person aware of the noncompliance must immediately report it to his/her supervisor for appropriate actions.
- 2 A person who is engaged in procurement activities shall not accept any kind of gifts from partners, including summer and year-end gifts and presents from visitors. Similarly, he/she shall refuse any offerings of a complimentary nature, including offerings for celebration/condolence or other courtesy calls.
- 3 A person who is engaged in procurement activities shall not acquire unlisted shares of partners or acquire shares based on insider information.
- 4 A person who is engaged in procurement activities shall not purchase products offered by partners at a special discount, for his/her private use.
- 5 A person who is engaged in procurement activities shall not have any partners pay for his/her transportation/hotel/meals on his/her visit to meet with those partners.
- 6 A person who is engaged in procurement activities shall not have any interest in partners, including privately demanding payoffs from them.

※ “A person who is engaged in procurement activities” means any individual who is involved in transactions with business partners, including procurement, material management, purchasing, quality assurance, production technology, and development processes.

Turning to Suppliers for Appraisal

Nitto Denko Corporation (non-consolidated) conducted an inquiry survey where we had partners comment on and assess our procuring activities from their respected points of view. The survey results were analyzed and compiled by outside experts. They showed that Nitto Denko had not deviated from CSR standards.

Abiding Strictly by the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors

Along with the Sales & Distribution Reform that has occurred within our group, the number of partners that Nitto Denko Corporation deals with directly without agency representation has increased. In order to keep the supply chain sound, we select partners under the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors and CSR when closing a new contract.

Business Activity

Aiming to Develop a Work Environment that Reflects, Encourages and Supports Our People whilst Adding “New Value” to Our Business

The Nitto Denko Group has a very high regard for its employees. It is understood that “New Value” is created directly through the contributions that our employees make. The Nitto Denko Group believes that every employee has a tremendous amount of potential regardless of their gender, race or religion. The Nitto Denko Group respects its employees and aims to share the “New Value” that employees bring to the organization with all that are associated with doing business with the Group.

Ensuring Proper Wages

Recently many manufacturing companies have expanded their business into China or South Asian nations being in pursuit of the abundant labor resource that is available. A good number of our overseas affiliated companies are located in such countries. The Nitto Denko Group considers all of its employees whether domestically or internationally based as equally valued employees.

For example, in China minimum wages are set in provinces, autonomous regions and municipalities under their minimum wage system. In rapidly developing cities, laws or ordinances are often changing, so care needs to be taken to ensure that we keep abreast of any changes. The Nitto Denko Group is leading the way, paying at the very least minimum wages but often paying beyond base wages dependent on each employee’s job performance.

The same is equally true of Vietnam. Ho Chi Minh City has the highest minimum wage in the country. The minimum wage of the rural district of Ho Chi Minh City is lower than that of the urban district of the city, and beyond the rural district it is much lower again. Nitto Denko Vietnam Co., Ltd. is located in the rural district. Due to the priority that we place on securing capable and reliable employees, we have set the wages at a rate higher than those paid out in the urban district.

Despite this, it has been difficult to reduce the labor turnover rate. We believe this is partly due to traffic infrastructure in rural areas not improving. Many people move to urban area in order to find employment, but for some people it may take up to four days to travel from work to the family home and back making it a challenging exercise to return to the family home for important events like the New Year’s celebration. Therefore, in addition to wages paid, we support and where possible encourage employees to take long holidays.

Employment Issues in Japan

In relation to the standards set by the international community, especially those of developing countries, the delay of women’s social advancement in Japan is noted as being a major employment issues which should be ameliorated. In overseas Nitto Denko Group companies many women attain management status and are acknowledged for their ability in discharging their duties. Unfortunately this is not the case in Japan. Nitto Denko Corporation, which celebrated its 88th year in business in 2006, has to admit that it too has historically hindered the progression of women in the workforce like so many other companies in Japan.

Recently we have made efforts to shift the business culture to one that pays greater regard to equality between the sexes. An example of this has been to ensure that all employees whether male or female have the opportunity to be exposed to professional development activities. Nitto University, an internal institution focusing on professional development and succession planning is proud to acknowledge that many of its members are motivated and talented women. It may take a while for the cultural changes that have been implemented within the Nitto Denko Group domestically to be noticeably evident in the public arena, but it is expected that the day that the Nitto Denko Group has female leaders will be in the not so distant future.



Training taking place at Nitto University

Ideal Working Conditions

Each domestic company of the Nitto Denko Group has introduced an Employee Assistance Program (EAP), a program available to all employees whether male or female. EAP provides advice and/or services relating to Life Support, Learning and Life Planning. Employees are able to confidentially discuss with experts either via e-mail or through telephone consultations any worries and concerns that they may have whether work or private life related. In addition employees are able to make use of other supportive services provided relating to childbearing, child rearing, financial and banking management and insurance matters.

Nominating Locally-hired Employees as Directors

Throughout overseas operations in South Asia, East Asia, Europe and the Americas some locally-hired employees hold senior management positions above that of General Manager.

Employee-employer Relations within Nitto Denko Corporation

To date within Nitto Denko Corporation (non-consolidated) significant labor disputes have not occurred. Nitto Denko Corporation Labor Union has adopted a basic philosophy of “mutual trust,” “partnership” and “prosperous coexistence.” Forty-three years have passed since 1963. In July 2006 Nitto Denko Central Labor-Management Council convened for the 500th time. Throughout this period the company president has been absent only twice, both times the respected presidents were in hospital and unable to attend. On both these occasions senior executive directors attended the council meetings by proxy.

The council meetings are prioritized as they allow information to be disseminated throughout the whole company. This forum allows for the exchange of opinions and concerns between company employee representatives and management has been held every month for forty-three years without a single interruption to date.

Every business enterprise has a history which strongly shapes its business culture. The positive relationship that exists between the labor unions and management is tribute to the focus that Nitto Denko places on maintaining a corporate culture that prioritizes the building of co-operative relations between employees and management encouraging a spirit of prosperous coexistence and a shared vision of creating “New Value.”

Implementation of “Global Human Resources’ Education” in fiscal 2006

The Employees Education System initiated in 2006 was established to assist those employees who had been dispatched to domestic and overseas Nitto Denko Group companies learn about business and culture in those countries. This program has served as a wonderful opportunity to allow for the interaction of our people globally.

Dispatching Trainees Overseas

Target	Employees approximately 30 years old	Sales staff of overseas subsidiaries
Details	Dispatched to overseas subsidiaries and local language schools for improving communication ability and international business sense.	Take part in actual operations at Nitto Denko’s Sales Department. Provided business experience to prospective managers.
Participants in FY 2006	9	8

Business Activity

Safety Comes First—Nothing Is More Precious than Human Life

The Nitto Denko Group's core business stems from the use of manufacturing technology. The manufacturing industry by its very nature exposes employees to many potential physical dangers within the workplace. It is because of this that we prioritize occupational health and safety, from both an educative and equipment safety check perspective.

Virtual Risk Training Apparatus

Nitto Denko Corporation introduced "Virtual Risk Experience Apparatus" in the Kameyama and Toyohashi Plants in 2005 and the Onomichi and Tohoku Plants in 2006. This equipment enables employees through simulation exercises to acquire safe work practices, thereby minimizing or preventing exposure to potential risk situations. In March 2007, Nitto Denko introduced a "Virtual Risk Experience Vehicle." This vehicle has allowed a greater number of employees to engage in simulation safety training exercises.

At our Global Technology Conference in 2006, a request was made to provide employees from all overseas group companies with occupational health and safety training especially relating to the safe use of industrial machinery. It was decided that the safety training would first be completed domestically and would then be reviewed with the view in mind of making any improvements prior to offering it to our overseas employees.

In the simulation vehicle, employees can receive training in better managing the following risk scenarios:

Demonstrating getting caught in a sheet

Safety confirmation-based systems and risk detection-based systems

Using a machine motor housed in a cubicle with an access door, employees are able to learn the difference between safety confirmation-based systems and risk detection-based systems. In the confirmation-based systems, the door does not open unless the motor stops completely. In contrast when the door is opened on a risk detection-based system the power supply of the motor is cut off, however the motor freewheels and is not fully safe until the motor stops completely.

Demonstrating getting caught in a V-belt

Demonstration of the danger of being wedged in a press machine

Demonstration of the dangers of being wedged in a chucking machine

Demonstration of being cut by a constant-length cutter

Demonstration of an organic solvent explosion

Employees are given the opportunity to conduct an experiment involving the igniting of vaporized organic solvent with sparks. This exercise allows participants to experience how a small amount of organic solvent is able to generate considerable energy. It allows participants to learn about the correct ways of handling organic solvents and the potential dangers associated with fire accidents, even in situations where no trace of fire is evident.

Fatal Accidents

As indicated in the chart below, some fatal industrial accidents have occurred involving staff of the Nitto Denko Group. It is because of this that initiatives such as the Virtual Risk Experience Vehicle have been implemented. The Nitto Denko Group strongly wishes to be an enterprise without accidents and aims to reduce the number of accidents to as close to zero as is humanly possible.



Fatal industrial accidents: Industrial accidents with after effects
Serious industrial accidents: Industrial accidents with the potential for after effects

Annotation:

1. Since fiscal 2005 we have put in place official criteria which clearly clarify the difference between serious industrial accidents and fatal industrial accidents.
2. Prior accidents have been reexamined having the contents of their "accident prompt reports" assessed against our new safety criteria.

The N frequency rate of industrial accidents is an original figure and differs from the general indicator.

The Nitto Denko Group Upholds Its Commitment to Global Environmental Conservation through Aiming to Achieve the Activities and Targets Set in Its Environmental Voluntary Plan

Greenhouse Gases

We are continually looking at ways that will enable us to reduce production of greenhouse gases initially focusing on CO₂ emissions.
See pg. 33

Air Pollutants

To prevent organic solvent vapors from being emitted into the atmosphere we use equipment to recover and reuse it as organic solvents in the manufacturing process. Furthermore through the use of thermal oxidizing equipment we are able to use the heat generated in the incineration process as thermal energy.

See pg. 34

Industrial Wastes

We continue to look at innovative ways that we may better reduce and recycle industrial waste.
See pg. 36

Drainage Water

Industrial wastewater is either reused or effectively treated to convert it into water that is safe for the environment.

Management of Chemical Substances

The Nitto Denko Group's management of chemical substances exceeds both its own voluntary management regulations and external public regulations.
See pg. 35

Environmental Practice

Global Environmental Conservation Activities of the Nitto Denko Group

The Nitto Denko Group uses various natural materials, energy and water resources as part of its manufacturing processes. We recognize that our manufacturing has contributed to the imposed load on our global environment. It is because of this that the Nitto Denko Group wherever possible has made use of technology that enables us to minimize our environmental impact through the setting of targets. In fact the Nitto Denko Group's "Creation of New Value" charter aims at melding the world's best business practices with a commitment to also conserving our global environment.

Changing Environmental Targets

Nitto Denko Corporation formulated the "Voluntary Environmental Plan of Nitto Denko" in 1993 to serve as specific guidelines aimed at promoting environmental

conservation activities. After fiscal 2006, Nitto Denko updated its targets in view of the globalization of our business activities.

Achievement Status of Old and New Targets of the Voluntary Environmental Plan

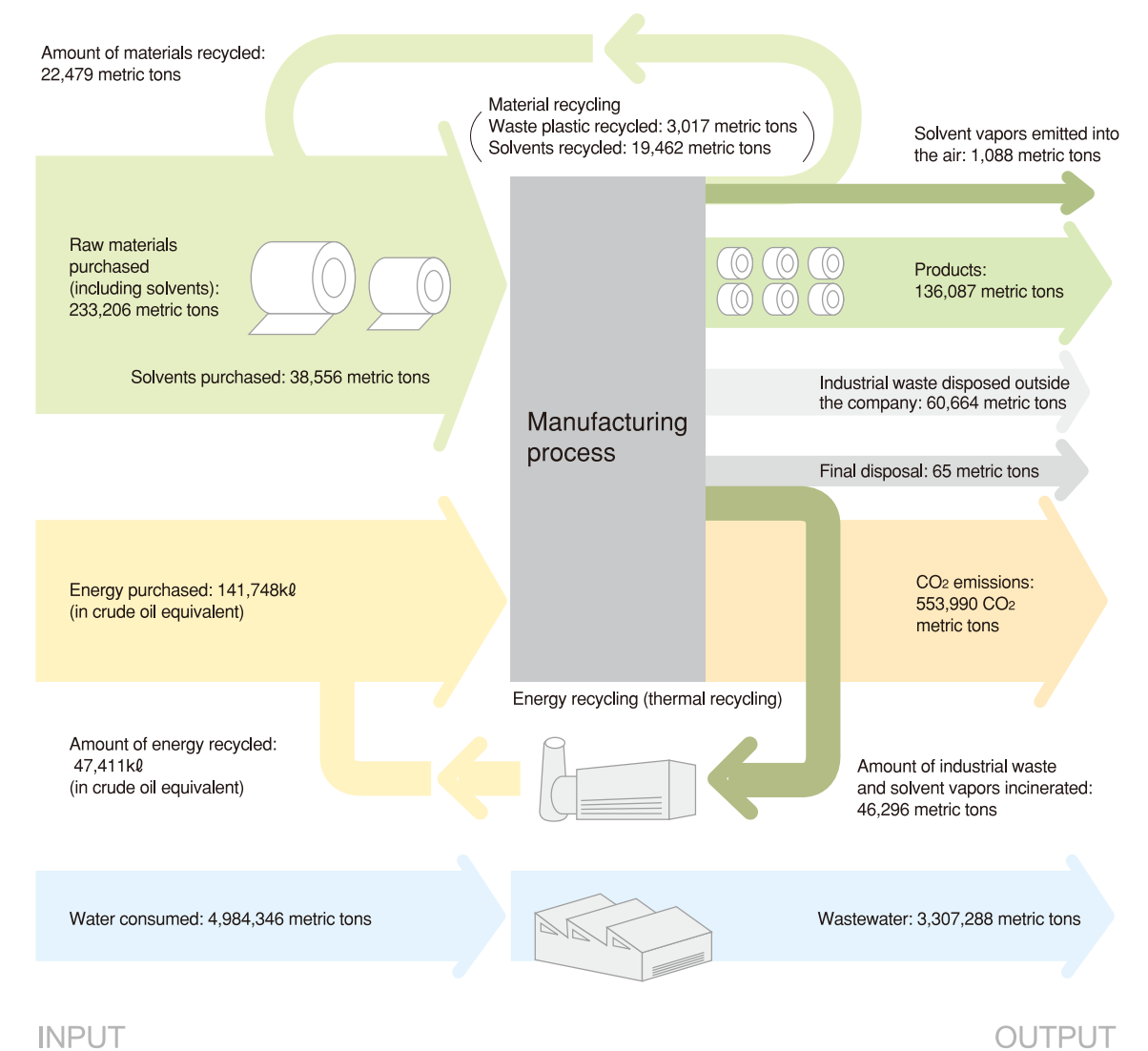
Item		Old Target (Previous Non-consolidated Company's Target)	Current Status	New Target (Including All Group Companies)
Reduction of industrial waste	Recycling rate	Target for fiscal 2005: Maintain a 98% or more recycling rate for the period from fiscal 2003 to fiscal 2005	Final result	Doubling environmental efficiency (environmental management index) in fiscal 2015 as the basis for fiscal 2005
Prevention of global warming	Unit energy consumption	Target for fiscal 2005: Improve to 460 liters per ¥1million in crude oil equivalent by fiscal 2005 (improved 20% from the fiscal 1990 level)	Final result	
		Target for fiscal 2010: Improve to 430 liters per ¥1million in crude oil equivalent by fiscal 2010 (improved 25% from the fiscal 1990 level)	Final result	
Prevention of air pollution	Emissions of organic solvent vapors into the air	Target for fiscal 2005: Reduce at least to 1,200 metric tons per year by fiscal 2005	Final result	Continuation alone
		Target for fiscal 2010: Reduce at least to 960 metric tons per year by fiscal 2010	Continuation alone	
Further acquisition of ISO 14001 certification		Domestic manufacturing sites: further improve their environmental management using ISO 14001 certified systems Overseas manufacturing sites: Acquire and maintain ISO 14001 certification		Continuation
Support of overseas business activities		Conduct environmental conservation activities that are on a par with those conducted in Japan based on the Ten-Point Environmental Guidelines for Japanese Enterprises Operating Abroad shown in the Keidanren Global Environment Charter		Continuation

Environmental Practice

Material Flow in Fiscal 2006

In fiscal 2006 the amount of materials recycled increased. Nitto Denko Corporation (non-consolidated) has commenced material recycling of industrial waste converting waste into useable raw materials or reusing organic solvents through adopted recovery processes.

Throughout fiscal 2006 Nitto Denko has placed priority on the increased recovery of organic solvents used in production processes. Our continued efforts in this area have resulted in a recovery increase from 42% in fiscal 2005 to 50% in fiscal 2006.



Environmental Practice

Adjustments Made to Environmental Targets

The Voluntary Environmental Plan is an action plan drawn up by business enterprises as a strategic measure to work towards reducing their overall environmental impact. Given that the plan is voluntary, the onus is on individual corporations to ensure that strategies are set and that targets are met. The Nitto Denko Group since 1993 has been committed to this process and continues to work with its Voluntary Environmental Plan aiming to achieve the targets set out based on the Group's common environmental indicators.

Achieving Previously Set Environmental Targets

Nitto Denko Corporation (non-consolidated) achieved the fiscal 2005 Voluntary Environmental Plan targets set in 1993. As to the energy consumption per unit of production target, we have exceeded the target set for fiscal 2010. The globalization of Nitto Denko has resulted in considerable corporate growth. In consideration of this we were requested to take a new look at our targets for fiscal 2006. In the past Nitto Denko Corporation worked alone at reaching its targets. Now meeting environmental targets is a shared aim of the whole Nitto Denko Group. Previously our targets related to the reduction of

industrial waste, the prevention of global warming and the prevention of air pollution. More recently we have merged these three together creating one target now known as the Environmental Management Index. Our aim is to double our 2005 environmental efficiency level prior to fiscal 2015.

Environmental Management Index

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

$$\text{Environmental Management Index} = \frac{\text{Value added}}{\text{Environmental impact (Quantity of CO}_2 \text{ emission equivalent)}}$$

Value added = Sales amount - (Material cost + Energy cost)

Environmental Impact Generated by Business Activities

Factors causing environmental impact			Environmental impact calculated to Environmental Management Index		
			(CO ₂ emission equivalent)		
			Direct emission	Indirect emission	Deemed emission
Energy	Used as energy in the production process		Greenhouse gases	—	—
Organic solvent	Internal processing	Incineration	Greenhouse gases	—	—
		Recovery	—	—	—
	External processing	Material recycling	—	—	Deemed emission
		Thermal recycling	—	Greenhouse gases	—
Industrial waste	Atmospheric emission		—	—	Deemed emission
	Internal processing	Material recycling	—	—	—
		Thermal recycling	Greenhouse gases	—	—
	External processing	Material recycling	—	—	Deemed emission
		Thermal recycling	—	Greenhouse gases	—
		Incineration/final disposal	—	—	Deemed emission
Other	Other greenhouse gases		Greenhouse gases	—	—
	Use of forklifts and company vehicles		Greenhouse gases	—	—
	Transportation of products		—	Greenhouse gases	—

We will set new measurable environmental targets for fiscal 2007, sharing international concern relating to global warming and the need for more responsible and efficient use of exhaustible

resources. We aim to ensure that all plants operate within the set targets.

Environmental Practice

Contributing to the Prevention of Global Warming

The Nitto Denko Group acknowledges that manufacturing is the basis of our business activities. It is for this reason that the Nitto Denko Group prioritizes the need to continually look at and implement strategies that will result in the reduction of CO₂ emissions. Our focus has been on the reducing of greenhouse gases such as CO₂ emissions through energy conservation activities.

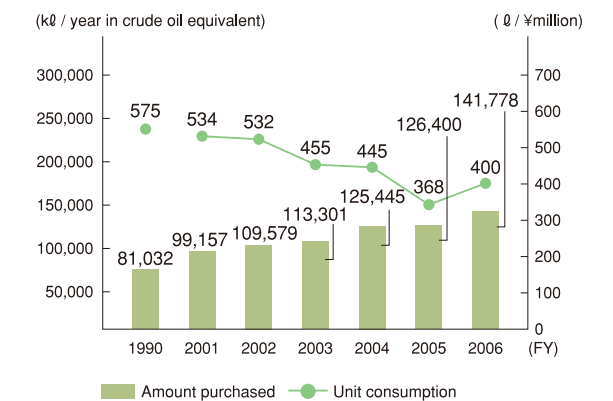
Switching to Environmentally-friendly Energy

At the Toyohashi Plant, we previously used heavy oil to generate both heat and electricity. We exchanged this fuel source for natural gas. CO₂ emissions from natural gas are approximately 25% less than those emitted from use of heavy oil. This switch will considerably reduce the environmental impact that this plant has on greenhouse gas emission levels.

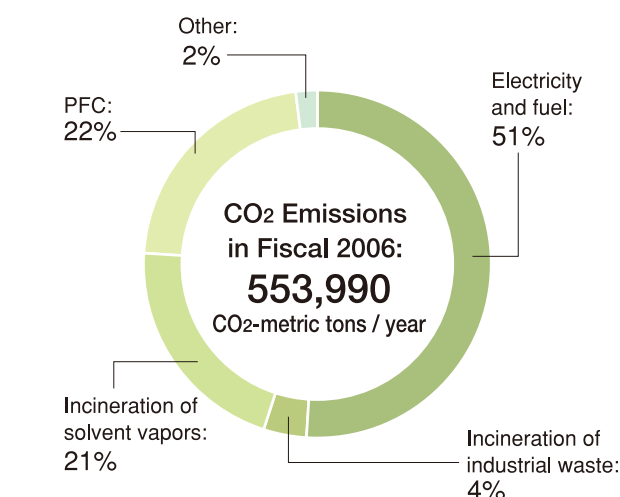
The Onomichi Plant plans to install more photovoltaic panels having been installed in 2005.

Through such changes we have sincerely attempted to make efforts to reduce greenhouse gas emissions, however, despite such efforts the emissions of the whole group have increased along with the increase of overall production output. In fiscal 2005 the emission output was 530,000 metric tons, while in fiscal 2006 it was 550,000 metric tons. (The numerical value previously published partially did not include the amount of fluorocarbon greenhouse gas emissions.)

Energy Purchased and Unit Energy Consumption (non-consolidated)

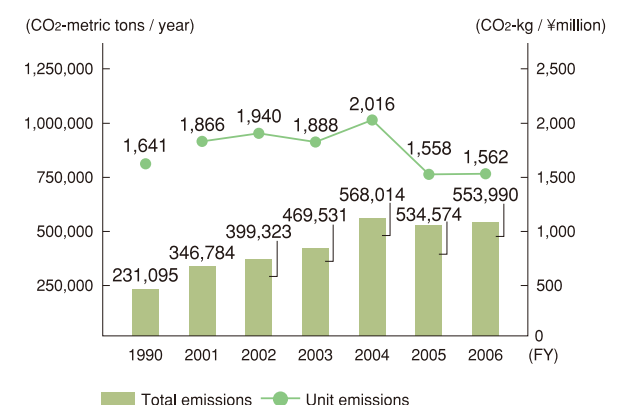


CO₂ Emissions by Source (non-consolidated)



※Perfluorocarbon (PFC) environmental influence measured in terms of CO₂ emission equivalent.

Total and Unit CO₂ Emissions (non-consolidated)



Environmental Practice

Implementing Measures to Prevent Air Pollution

The Nitto Denko Group uses organic solvents during manufacturing processes. So as to prevent these solvents from being vaporized and emitted into the atmosphere causing air pollution, we use equipment that is able to recover these vapors allowing us to reuse them as organic solvents. Our aim is to further increase our efficiency at recovering solvent vapors and decreasing emissions.

Emissions of Organic Solvent Vapors

Nitto Denko Corporation (non-consolidated) has to date not achieved its fiscal 2010 target of reducing emissions of organic solvent vapors to less than 960 metric tons as was set down in the 1993 Voluntary Plan. We have reviewed the targets since 2006 and are still aiming at achieving the fiscal 2010 target within the earliest timeframe possible.

Despite the usage of organic solvents increasing hand in hand with our increases in production, the installation of more recovery equipment has enabled us to recover a larger amount of organic solvent. This in turn has allowed us to further minimize the amount of organic solvent needing to be purchased.

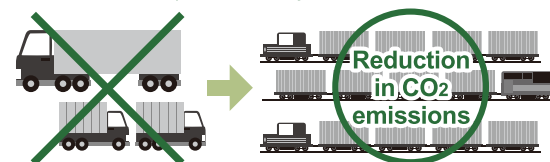
Planning to Install Energy-saving Solvent Recovery Equipment in Nitto Europe

The Nitto Denko Group is committed to engaging in environmental conservation activities.

We are planning to install energy-saving solvent recovery equipment in our Nitto Europe facilities. This equipment enables vaporized solvent to be recovered, processed and reutilized. Through the use of this equipment we will be able to improve efficiencies with the use of energy needed in processing solvent.

Conserving Energy through Changing our Mode of Goods Distribution

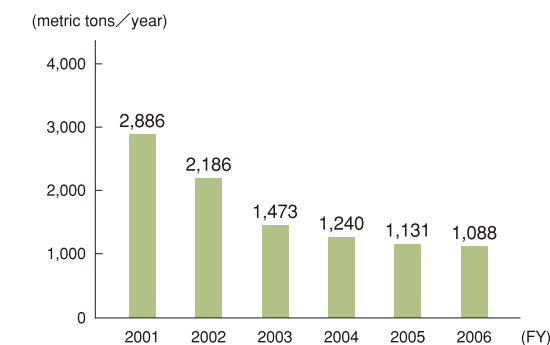
The Nitto Denko Group traditionally has transported materials between plants by truck. In consideration of load efficiency we now promote rail transportation. As a result we have reduced CO₂ emissions through being able to minimize the total number of shipments having to be made.



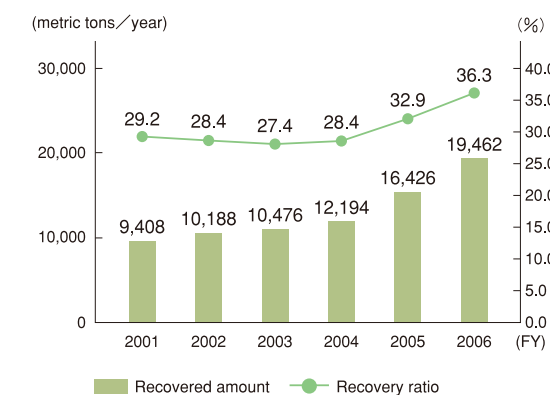
Recycling of Organic Solvents

Nitto Denko Corporation (non-consolidated), used solvent is recovered, recycled and is then refined in the rectification tower. Following this process it is then reused. The residue collected as part of the rectification process is also utilized as fuel.

Emissions of Organic Solvent Vapors into the Air (non-consolidated)



Recovered Amount of Organic Solvents and Recovery Ratio (non-consolidated)



Environmental Practice

Proper Management of Chemical Substances

As is often reported in the media, chemical substances suspended in the atmosphere or that have leached into the soil may have a damaging effect on the human body, environment and ecosystems. Whilst the Nitto Denko Group uses various kinds of chemical substances as product material and throughout our manufacturing processes, their usage is controlled through the Nitto Denko Group's own Regulations on Voluntary Management of Chemicals, which has stricter requirements than relevant external laws and regulations.

Managing the Use of Chemicals under the Voluntary Management Standard

The Nitto Denko Group uses various chemical substances in its manufacturing processes and research and development activities. Their usage is strictly controlled through the Voluntary Management Standards which are more stringent than the legal standards of most of the countries.

Chemical substances prohibited by the EU directive on the Restriction of Hazardous Substances (RoHS) such as lead, cadmium, hexavalent chrome, mercury, polybrominated biphenyls and polybrominated diphenyl ethers are also not used in other countries outside the EU. Only in very rare circumstances, where no other alternative chemical substitute exists and with the permission of the person(s) in charge of quality and safety of products, is permission granted to use such chemicals. The Nitto Denko Group has established the Chemical Substances Control Center which intends to oversee that chemical regulations are being enforced. The center will aim to strengthen the effectiveness of the control system throughout the future.

Promoting Our Products at *Eco-Products 2006*

Most of the Nitto Denko Group companies engage in the production of in-process materials. Given this the end users of our products or external customers rarely have the chance to see all that we produce. Similarly we do not benefit from the experience of hearing comments and suggestions offered from our external customers about such products.

In 2006, we participated in *Eco-Products 2006*. We exhibited panels illustrating and demonstrating the relationship between our products and environmental conservation. A part of our exhibition involved displaying filtration membrane equipment demonstrating to visitors the water filtration process that the Nitto Denko Group uses. On the day a great number of people came to our display and we were fortunate to have received many valuable comments from approximately 5,100 visitors.



At the Nitto Denko display at *Eco-Products 2006*

Results from Ibaraki Office Soil Investigation

Surface soil testing under the Soil Contamination Countermeasures Law* was carried out at the Ibaraki Office. Mercury, fluorine and benzene at limits exceeding the legal limit were detected. We published the results in the press on 18 April 2007. We were concerned about the possible exposure of these chemicals at deeper soil levels but were relieved that the chemicals had not permeated beyond one meter in depth. We also conducted an investigation on groundwater at the Ibaraki site. The results of which were all compliant with acceptable average levels.

As most of the confirmed polluted areas are under paved areas or under buildings, it is unlikely that the contaminated soil will move. Given this it is unlikely that contaminated material will spread to neighboring land. We will remove the contaminated soil in accordance with the current laws and government department requirements within 2007.

Results from Kameyama Plant Soil Investigation

As was the case in Ibaraki, findings from the Kameyama Plant investigation also indicated that excess amounts of polychlorobiphenyl (PCB), fluorine and fluorinated elastomer were present in the soil. We advised the Mie Prefecture of these results on 10 August 2006. The soil where PCB was detected was dug over and removed and is now being stored in a storage area of the plant. The results of groundwater investigations indicated that all chemical levels were within acceptable legal limits. Given this it was concluded by Mie Prefecture that the pollution detected in some soil areas had not spread outside the plant.

*Soil Contamination Countermeasures Law

The Soil Contamination Countermeasures Law obligates the owners of land to carry out soil contamination investigations of land and to provide notice of the results to public administrators who would then determine the appropriate action that would need to be taken including situations where factories are closed down.

Environmental Practice

Reutilizing Industrial Wastes

The Nitto Denko Group manufactures a multitude of products. Through the manufacturing process industrial wastes are generated, such as the snippets from tapes, film edges of punching products, wasters and so on. We promote effective utilization of resources through thermal recycling which utilizes the heat generated through incineration processes as energy. We also actively use material recycling which enables us to reutilize a great deal of industrial waste.

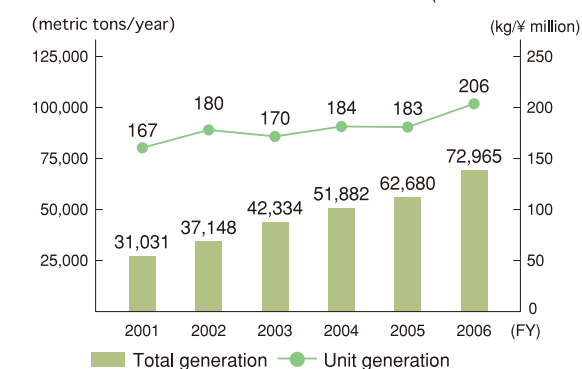
Initial Voluntary Environmental Plan Accomplished by 2005

By 2003, Nitto Denko Corporation (non-consolidated) had achieved 98% of the 2005 recycling rate target as set in the Voluntary Environmental Plan drawn up in 1993 and has managed to maintain this level since. To promote internal material recycling of industrial wastes, we have installed additional processing equipment in the Recycling Promotion Center. Since the center first began operating, we have continued to expand the range of industrial waste we are able to recycle through the creation of eco plastic cores. In the future we will make more effective use of the Interregional Industrial Waste Recycling Manufacturer Appointment System aiming to balance the cost of internal material recycling against outside industrial waste disposal.

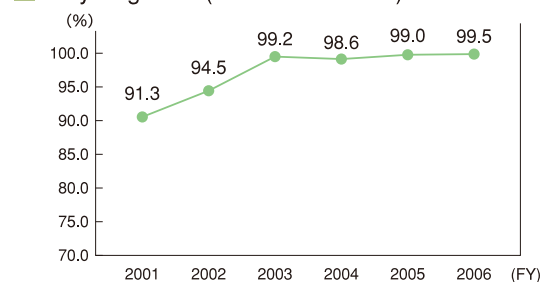
*Interregional Industrial Waste Recycling Manufacturer Appointment System

The Industrial Waste Recycling Manufacturer Appointment System enables manufacturers to collect and recycle end-of-life products obtained from customers between regions. Such recycling can be carried out without having to obtain a license for handling industrial waste.

Total and Unit Generation of Industrial Waste (non-consolidated)



Recycling Rate (non-consolidated)



Accomplishment in Energy Conservation Activities

Nitto Denko Was Awarded the Gold Prize for Prime ESCO Business and the Director General Prize of Agency of Natural Resources and Energy

At the 2006 National Convention for Successful Cases of Energy Conservation in Factories & Buildings, which is organized every February by the Energy Conservation Center of Japan, both the Onomichi and Toyohashi Plants received awards. The Onomichi Plant received the Gold ESCO Prime Business Prize for the improvements that it had made to its fabrication plant resulting in improved VOC emission treatment.

An Energy Service Company (ESCO) is a business which is recognized for the priority that it places on improving the overall energy conservation of its factories and buildings, minimizing the environmental impact on the physical site and achieves a positive and measurable environmental outcome. The Onomichi Plant was able to achieve a significant result for an ESCO business, improving energy consumption efficiency by 25% from the fiscal 2003 level demonstrating a decrease in its energy consumption to a new level of 8800kl a year in crude oil equivalent.

The Agency of Natural Resources and Energy, Director General Prize was awarded to the Toyohashi Plant in recognition of its successful contribution to energy conservation in a factory and building environment. The plant installed an improved gas emission treatment method able to reduce emissions from the coating machines used in the production of adhesive tapes. The shift from using a direct combustion oxidizer which traditionally consumed large amounts of fuel to the more energy-efficient regenerative thermal oxidizing system has resulted in a considerable reduction in overall energy consumption.



Onomichi Plant being awarded the Gold ESCO Prime Business Prize



Toyohashi Plant being awarded the Agency of Natural Resources and Energy, Director General Prize

Environmental Practice

The Nitto Denko Group's Environmental Conservation Data

Nitto Denko Group Companies Involved in the Data Collection Survey:

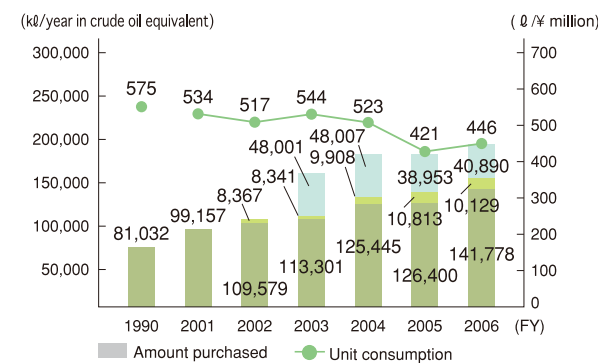
Non-consolidated Companies: Tohoku Plant, Kanto Plant, Toyohashi Plant, Kameyama Plant, Shiga Plant and Onomichi Plant

Consolidated Domestic Group Companies: Nitto Electronics Kyushu, Nitto Life-Tech, Nitto Shinko, Mie Nitto Denko and Nitoms

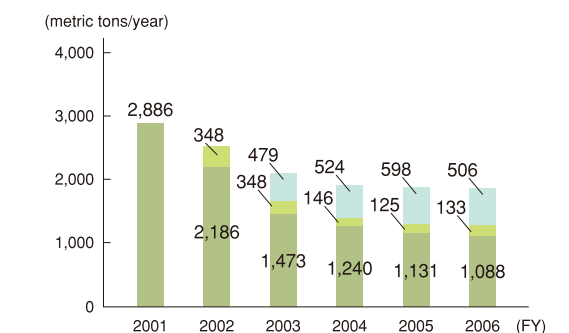
Consolidated Overseas Group Companies: Permacel, Hydranautics, Nitto Europe, Nitto Denko Electronics (Malaysia), Nitto Denko Material (Thailand), Nitto Denko (Shanghai Song Jiang) and Nitto Denko (Taiwan)

Toyohashi Plant also holds Aichi Nitto Denko related data whilst the Kanto Plant also holds Saitama Nitto Denko related data.

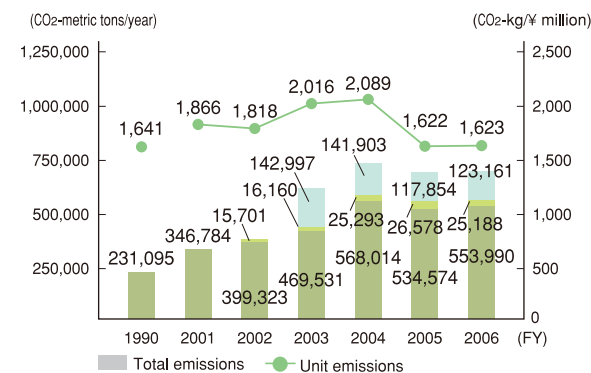
Energy Purchased and Unit Energy Consumption (consolidated)



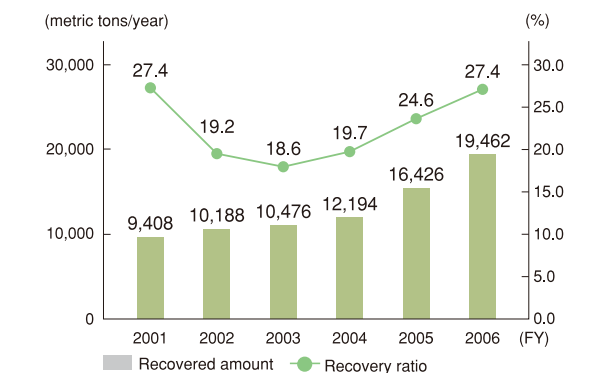
Emissions of Organic Solvent Vapors into the Air (consolidated)



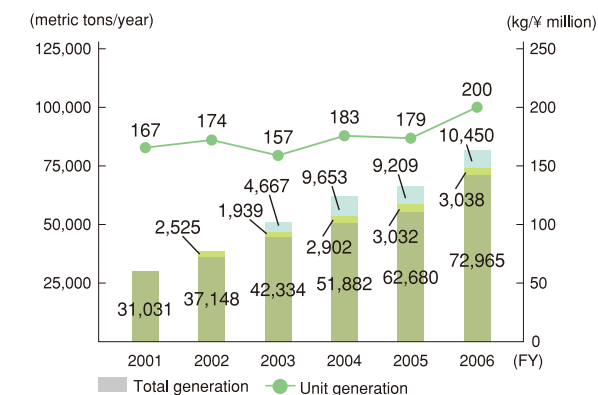
Total and Unit CO2 Emissions (consolidated)



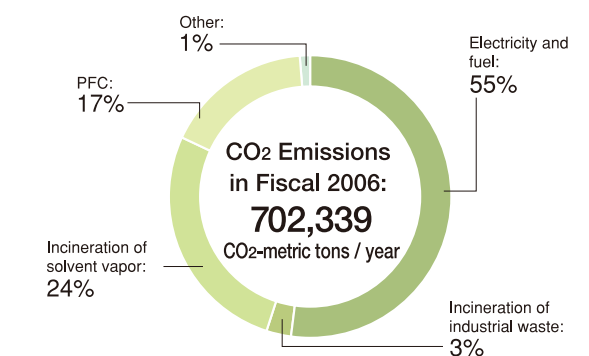
Recovered Amount of Solvent and Recovery Ratio (consolidated)



Total and Unit Generation of Industrial Waste (consolidated)



CO2 Emissions by Source (consolidated)



*Perfluorocarbon (PFC) environmental influence measured in terms of CO2 emission equivalent.

Overseas Group Companies Domestic Group Companies Nitto Denko Corporation

Notice: In and before fiscal 2001 the Nitto Denko Group targeted only the non-consolidated companies in the environmental data collection survey conducted. In fiscal 2002 the Nitto Denko Group targeted only the consolidated domestic group companies. From fiscal 2003 onwards the Nitto Denko Group targeted all group companies in collecting environmental conservation data.



Relationship Building within Local Communities

Coping with Social Problems

The Nitto Denko Group has conducted its business across as many as 20 different countries. The Nitto Denko Group has aimed to be very mindful of wanting to show respect to the people living in each of these respected countries. We have put down roots in each local community and have earnestly attempted to solve any problems as they have arisen. We have as a part of our creed prioritized relationship building within local communities and have made strong efforts to be aware and considerate of any environmental concerns raised. We have also provided support to the disabled within the communities that we have been associated with.

The Nitto Denko Group's Commitment to Societal Improvements Pays Off

China—a highly motorized society with frequently occurring traffic accidents

In China every day many people unfortunately are involved in traffic accidents. Given this it is probable that employees of the Nitto Denko Group also have the potential of being involved in accidents. It is because of this that Nitto Denko (Shanghai Song Jiang) Co., Ltd., the Nitto Denko Group local subsidiary in China, has run traffic safety campaigns. A Traffic Safety Committee has been set up and it has been involved in organizing activities related to the promotion of traffic safety, hazard prediction training, a helmet use promotional campaign and a motorcycle maintenance checking campaign. The committee has also been involved in recommending staff make the switch to utilizing commuter buses.

Waiting is not always the answer to everything

Nitto Denko (Shanghai Song Jiang) offered suggestions to solving identified traffic safety problems at a meeting held in Shanghai Song Jiang Industrial Zone and also at talks with government bodies

and other Japanese business enterprises.

It is an issue that cannot be solved by business corporations solely. It requires the collective efforts of government, business and the wider community.

Nitto Denko (Shanghai Song Jiang) Co., Ltd. invited other companies wishing to support its traffic safety initiatives to participate with the first goal of the group being to address problems relating to the busy and often dangerous Lianyang Road. The first activity was carried out by four co-operating companies. These being TOTO (Shanghai) Co., Ltd., Shanghai Meadville Group, Nitto Denko (Shanghai) Electro-Energy Co., Ltd., and Nitto Denko (Shanghai Song Jiang) Co., Ltd. The Industrial Zone, Chinese Public Security and Song Jiang TV Station also joined the activity as administration officials.

For the second activity the joint companies that had carried out the

first activity invited Public Security, TV stations and newspaper publishers to participate. It was our hope that with a higher profile, we would be able to enlist the support of the government of the day. Time was taken to explain the rationale behind our activities to all the companies along Lianyang Road with the hope that they too would wish to participate. We tried to be very mindful of presenting Nitto Denko (Shanghai Song Jiang) as being a contributing member of the company co-operative and not as the leader. We did this to encourage as many as possible interested companies to join, shape and take part in the co-operatives future initiatives and activities. This activity made the local news.

It was very encouraging to see that what was initially an initiative involving four corporations had grown by the time we began our second activity to comprising ten



participating corporations.

We would like to express our hearty thanks to the following corporations for their involvement and contributions to the traffic safety initiatives; TOTO (Shanghai) Co., Ltd., Shanghai Meadville Group, Shanghai SVA Group, Shanghai FDK Corporation, Shanghai New Wako Precision Plastics Co., Ltd., Shanghai Toyo Plastic Colorant Co., Ltd., Shanghai Ajinomoto Amino Acid Co., Ltd. and Deuchem.

As a result of the combined efforts of all those that have been involved, Song Jiang has been become an area leading the way in traffic safety. Our hope is that the promotional activities that have been carried out will lead to a significant reduction in the number of future traffic accidents that occur.

Future Activities

We hope that the Traffic Safety Initiative spreads out influencing all parts of Song Jiang. We also hope current participants share the role of promoter through rotation and that the initiatives now being followed within the ten corporations become commonplace extending to include all corporations in the Shanghai Song Jiang Industrial Zone.



Taking advantage of *Business Conduct Guidelines*...

Inauguration of WHITE PROJECT

Following the introduction of our *Business Conduct Guidelines* many innovative initiatives occurred. At Nitto Matex (Thailand) Co., Ltd. many employees learned about the importance of compliance through training sessions they had received. This company had a strong interest in employee health management and with this in mind joined the official drug-busting campaign being waged by the Chonburi Province in which Nitto Matex is located. This was an opportunity for the company to not only promote an important part of its own charter but to also support and promote an important provincial campaign aimed at the better health and safety of all its residents.

In the modern world illegal drugs being in close reach to many is not uncommon. When social morals degenerate and measures aren't taken the temptation of drug usage can occur insidiously. With collaboration from the Ministry of Labor of Thailand, Nitto Matex launched the White Project on 1 November 2006. The purpose of this project was to protect Nitto Matex employees, their families and their friends from being caught in the trap of drug usage and to help them live healthily and cheerfully.

Thailand is located in close proximity to areas that cultivate the poppy plant and because of this drugs can be reasonably easily obtained. We hope and aim to prevent the drug culture from affecting our people, their families and our business operations.

Company Activity Aimed at Preventing Drug Usage

Descriptions of the kinds of drugs available and the methods used by drug dealers to coerce people into using drugs have been posted on bulletin boards throughout the Nitto Matex premises.



War against drugs promoted on bulletin boards

In November, a lecture providing basic knowledge of drugs and the symptoms caused by ingesting drugs was held in collaboration with the Chonburi Ministry of Labor. Many employees participated in promoting the lecture. In the weeks prior to the lecture being held a slogan competition was held. The winning slogan read; *By the hands of all employees we will protect ourselves from drugs and make Nitto Matex a good company.*

On another occasion in December 2006, under the banner of "Drug war! Sports Day," we enjoyed playing football and volleyball. In January 2007 we joined the drug war parade that was sponsored by the Chonburi Province. Through our involvement in such drug awareness activities the understanding and knowledge that employees now have in relation to drugs, and the dangers relating to drug usage has improved and broadened. We are committed to continuing our efforts in this area.



Participating in war on drugs parade

Pleasant Prairie Woods

Permacel, one of Nitto Denko's overseas local subsidiaries in the U.S.A., purchased land for a new manufacturing plant in Pleasant Prairie, Wisconsin. Although village officials had been actively supportive of the plant, neighbors to the property were concerned about protecting a stand of old growth Burr Oak trees which were considered historically and environmentally valuable.

Despite the neighbors lobbying for the protection of the oak trees, developers went ahead with their plans and cleared and graded the land. With Permacel's support, approximately 100 small trees growing on the planned construction site were transplanted to other areas. One line of trees, along a drainage pond near the building, was kept. Wild birds can be seen among these trees.

To help mitigate the loss of some of the trees, Nitto Denko purchased 29 acres of wooded land adjoining the property and donated the land to the village on the condition that it would remain undeveloped and be kept in its natural state.

A few years have passed and despite care being taken, many of the transplanted trees were unable to adapt to their changed environment. Unfortunately, in spite of landscape gardener's efforts, 90 percent of the transplanted trees died. Local scientists who have studied the old trees have concluded that they were in very poor health and that their centers had rotted out.

The donation of the 29 acres of wooded land was viewed favorably by the village and Permacel has been able to maintain good relations with their neighbors. The employees feel proud that they have contributed to the environmental conservation of Wisconsin.



The remaining line of trees

Introduction of a Highly Efficient Regenerative Thermo Oxidizer Energy Saving System

Nitto Europe is based in Belgium, an EU member nation. Environmental regulations in Belgium are tight. Given this we have treated the exhausted air drained during the production process with a regenerative thermal oxidizer. It is equipment that transforms exhausted air into clean energy. The exhausted air is burned in a reactor with heat transfer material.



Saddle-type Thermal Storage Device



Monolith-type Thermal Storage Device

Nitto Europe replaced the heat transfer ceramic saddles for more efficient heat transfer monolith blocks at the end of 2006. By doing this we have been able to reduce the pressure drop over the heat transfer material thereby increasing the heat efficiency up to 97% and reducing the energy consumption by 330MWh yearly. In addition to this the total natural gas consumption used through the process has decreased by 840,000 Nm3 yearly which will lead to a reduction of 1,772 tons of CO2 emission. Providing this reactor runs smoothly, Nitto Europe will be actively contributing to Belgium being one step closer to realizing its greenhouse gas emission target as defined by the Kyoto Protocol Agreement.

The investment amount required for this environmental measure was approximately 900,000 euros. We estimate that it will be collectible within a few years.



Japanese Manufacturing Industry's Experiences of Students Hoping to Study in Japan

On 6 February 2007, 17 students and 4 lecturers visited Nitto Denko Electronics (Malaysia) Sdn. Bhd. and Nitto Denko Materials Malaysia Sdn. Bhd. for a half day study tour. The students belonged to the University of Technology of Malaysia (UTM), which is a Malaysian government sponsored university located in the state of Johor. In line with the Malaysian government's "Look East Policy," the Preparatory Center for Technology Studies to Japan (PPKTJ) was established and is now operating within a few Malaysian Universities of which UTM is one.

The students of PPKTJ study in Malaysia for two years and then they are reassigned to Universities or Technical Colleges in Japan for another two years. Such study opportunities provide students with the chance to be exposed to the latest technologies associated with the industry. Students are able to experience the Japanese corporate culture and working environment. This experience allows students to learn a great deal about how to achieve greater efficiencies and improved operational management.



Students looking around the plant

Sponsoring Soccer Team KRC Genk

In July 1998 the first sponsoring deal between Nitto Europe and KRC Genk was entered into. Through this sponsorship Nitto Europe hoped to enhance through the use of shirt sponsoring its company image promoting the company as an attractive employer. We have managed to achieve our goal and as a result have

decided to cease our shirt sponsoring at the end of this season. For the new soccer season starting in August 2007, we have renewed our sponsorship contract and will be focusing more on CSR activities. The number of stadium seats will be increased from 20 to 50 so that more Nitto Europe employees and external affiliates will be able to benefit. In addition we will renew the business lounge contract.



Corporate logo of the Nitto Denko Group at the Fenix stadium in Genk, Belgium



The business lounge in the stadium

Cosponsoring the Osaka International Ladies Marathon

The International Ladies Marathon Meetings are held in Tokyo, Osaka and Nagoya every year. For runners, victories at these competitions may lead to further opportunities to possibly earn places at world class competitions. As we did in 2006 Nitto Denko Corporation in January 2007 cosponsored the organizing of one of these competitions, the Osaka International Ladies Marathon. On the day we provided support in various ways. One of the activities that we were involved with centered on providing directions and guidance to people who were in wheelchairs. Moreover, as a result of a fund raising exercise held involving each domestic company we raised and donated 607,089 yen towards the Japanese Sports Association for the Disabled.



An employee of Nitto Denko Corporation providing directions and support to a person in a wheelchair

Nitto Denko Himawari—a Cheerful Place

Nitto Denko Himawari Co., Ltd. where the disabled and the elderly work in union featured in an external public relations magazine this year.



From the newsletter MIDORI produced by the Midori Kai Co., Ltd.

Donation of 10,000 Euro to 'Een Hart voor Limburg' (A Heart for Limburg)

Since 2005, Nitto Europe has used e-cards instead of paper cards when extending Christmas greetings. The savings made from not purchasing paper Christmas cards and stamps has totaled around 10,000 Euro. Following a suggestion made by Nitto Europe employees this amount saved was donated to Een Hart voor Limburg. This charity organization provides support to people in need, many of which are either sick and/or handicapped children living in the local Limburg Province community.

Cosponsoring I-Ki-Mo-No-Ga-Ta-Ri

I-Ki-Mo-No-Ga-Ta-Ri was edited by the Think the Earth Project, a non-profit organization that became involved as they saw the book as an amazing depiction of life's diversity. *I-Ki-Mo-No-Ga-Ta-Ri* is a "visual book" in which pictures, illustrations and chronologies, etc. are practically applied. It is a book that everyone, irrespective of age, race or gender can share "simple amazement and emotion."

We cosponsored the Sustainable Environment Educational Support Project 2007 alongside the production of this book as a way of supporting activities that prioritize the conservation of life's diversity.



I-Ki-Mo-No-Ga-Ta-Ri (Diamond Agency Inc.)



Business Result

10-Year Summary

	1997	1998	1999	2000	2001	2002	2003	2004	2005	Millions of yen	Thousands of U.S. dollars
Statement of income											
Sales	319,318	297,104	325,398	365,697	338,930	378,705	452,726	514,867	626,316	679,822	5,758,763
Operating income	22,810	18,262	26,612	34,824	19,314	33,901	55,912	70,018	89,224	69,037	584,812
ratio to sales	7.1%	6.1%	8.2%	9.5%	5.7%	9.0%	12.4%	13.6%	14.2%	10.2%	10.2%
Ordinary income	20,325	17,420	27,419	35,330	19,748	35,832	58,045	71,828	90,196	67,319	570,258
ratio to sales	6.4%	5.9%	8.4%	9.7%	5.8%	9.5%	12.8%	14.0%	14.4%	9.9%	9.9%
Net income	12,663	6,739	13,399	15,850	1,115	19,237	33,386	41,842	55,306	41,201	349,013
ratio to sales	4.0%	2.3%	4.1%	4.3%	0.3%	5.1%	7.4%	8.1%	8.8%	6.1%	6.1%
Segment Information											
Operating Segment Information											
Industrial products (Note 1)**Sales	210,487	196,693	185,824	196,535	183,699	192,179	191,682	207,366	251,384	268,888	2,277,747
Operating income	11,803	8,467	10,722	13,229	4,640	11,502	13,437	16,539	22,938	28,019	237,349
Electronic products (Note 1)**Sales	108,831	100,410	107,056	132,144	119,626	146,780	219,709	261,541	327,398	356,941	3,023,643
Operating income	11,007	9,794	12,728	16,391	10,633	16,848	38,881	47,152	58,713	31,449	266,404
Functional products (Note 2)**Sales	—	—	32,516	37,018	35,604	39,745	41,333	45,959	47,533	53,991	457,357
Operating income	—	—	3,161	5,203	4,039	5,550	3,592	6,326	7,573	9,568	81,050
Segment information by geographic area											
Japan*****Sales	217,247	210,490	232,364	248,009	237,459	252,881	286,322	295,115	271,186	268,364	2,273,308
Operating income	15,931	14,785	21,785	28,776	16,727	29,803	51,158	65,918	76,888	52,535	445,023
North America *****Sales	43,227	37,046	36,870	37,983	31,337	33,386	37,216	35,836	38,580	42,349	358,738
Operating income	2,354	1,378	1,635	1,402	172	1,027	-2,399	-2,479	-1,078	-663	-5,616
Europe*****Sales	17,461	15,137	13,916	17,614	13,287	14,496	16,422	17,392	19,395	23,787	201,499
Operating income	2,041	768	903	1,024	248	447	509	246	693	1,587	13,443
Asia & Oceania*****Sales	41,380	34,429	42,246	62,090	56,845	77,940	112,764	166,522	297,153	345,321	2,925,210
Operating income	2,484	1,330	2,288	3,495	1,340	2,396	6,547	5,936	12,575	12,382	104,888
Per share information											
Shareholders' equity per share	1,160.6	1,204.1	1,274.0	1,305.8	1,314.5	1,367.4	1,360.7	1,583.8	1,943.7	Yen 2,192.3	U.S. dollars 18.57
Net income per share	83.0	43.5	82.0	93.5	6.4	108.5	198.0	252.7	332.3	248.3	2.10
Dividends per share	14.0	14.0	18.0	21.0	22.0	24.0	40.0	50.0	60.0	70.0	0.59
Shares outstanding(thousands)	153,752	158,319	166,511	173,758	173,758	173,758	173,758	173,758	173,758	173,758	—
Shareholders	6,164	6,024	6,559	14,903	15,556	17,144	20,999	16,725	16,057	35,224	—
Balance sheet											
Total assets	319,592	317,135	334,500	357,653	350,340	379,811	389,525	443,264	556,934	604,208	5,118,238
Equity	178,440	190,622	212,126	226,893	228,409	237,560	223,114	261,090	321,464	364,942	3,091,419
ROA	4.0%	2.1%	4.1%	4.6%	0.3%	5.3%	8.7%	10.0%	11.1%	7.1%	—
ROE	7.4%	3.7%	6.7%	7.2%	0.5%	8.3%	14.5%	17.3%	19.0%	12.0%	—
Equity to total assets	55.8%	60.1%	63.4%	63.4%	65.2%	62.5%	57.3%	58.9%	57.7%	60.4%	—
Capital investment	17,179	19,932	25,502	26,716	34,684	28,306	31,731	40,101	60,889	75,324	638,069
Depreciation cost	14,582	14,844	16,463	18,344	20,442	21,143	21,386	24,681	31,470	40,169	340,271
R&D expenses	11,439	11,838	10,646	12,423	13,053	13,851	15,822	16,739	20,489	21,733	184,100
Number of Employees (Note 3)	11,772	12,331	12,763	13,834	13,685	15,389	18,926	22,454	27,865	32,101	—

Note 1. From FY1999 to FY2002, Electronic component-related products are categorized in "Industrial products".
2. "Functional products" has been divided from "Industrial products" from FY1999.
3. Part-time employees are included.

Business Result

Analysis of the Business Result

1. Summary of Overall Business

During the past fiscal year, the Japanese economy continued on its recovery, while consumer spending remained somewhat flat, improvements were seen in business earnings, capital investment and employment conditions. In the U.S., although housing construction stalled, overall consumer spending increased and the economy continued its modest expansion. In Asia, China led the continued expansion, while in Europe, the economy recovered supported by an expansion in domestic demand.

In these economic environments, despite the continued growth of the flat panel display (FPD) industry, a key market for Nitto Denko Corporation and its consolidated subsidiaries (the Group), sales of LCD-related products were influenced significantly by the steep decline in the market price of large-size LCD TVs. Business relating to the electronics industry, (hard disk drives (HDD) and cellular phones) and the automotive industry and polymer separation membrane industry (water-related businesses) remained robust but were unable to counter the reduced performance of LCD-related products.

Compared with the previous year, sales have increased by 8.5% to 679,822 million yen. In terms of profits, however, due to the drop in price of LCD-related products and the deterioration of product yields, as well as an increase of depreciation costs related to capital investment, operating income decreased by 22.6% to 69,037 million yen, ordinary income decreased by 25.4% to 67,319 million yen and net income decreased by 25.5% to 41,201 million yen.

2. Summary by Business Segments

Industrial Products

Sales of bonding and joining products for cellular phone components and for small-size LCDs remained robust due to production expansion of cellular phones. Increases were mainly experienced throughout East Asia. Sales for HDD related components also remained strong. Among surface protection products, sales of surface protection film (the product name "E-MASK") for FPD industry were hampered by customer production adjustments in the latter half of the term but remained robust on a year-on-year basis. Sales of automotive paint protection film and metal sheet protection film also remained strong. Sales of sealing materials for peripheral components of cellular phones, flat TVs, game gadgets and for automobiles also continued their strong performance. However, sales of products for use in housing and building leveled off due to a steep increase in raw material costs.

For the segment, sales increased to 268,888 million yen (up 7.0%) and operating income rose to 28,019 million yen (up 22.2%).

Electronic Products

Sales of LCD-related products were significantly influenced by product price decreases, despite the growth in demand for LCD TVs, and greater production efficiencies. While sales for cellular phones remained robust, sales as a whole remained sluggish. In relation to semiconductor related products, sales of environmentally-friendly resin and resin for advanced device remained robust, while sales of general purpose resin remained flat due to production adjustments by customers in the latter half of the term. With regard to printed circuit products, sales for cellular phones remained robust as did sales relating to the storage industry. In the area of electronic processing products, semiconductor package adhesive sheets expanded their share in overseas markets, and sales of processing materials for small



electronic components remained robust, while wafer-protection adhesive tape and taping system for the semiconductor manufacturing process leveled off. As a result, sales increased to 356,941 million yen (up 9.0%) and operating income decreased to 31,449 million yen (down 46.4%).

Functional Products

In relation to medical related products, sales of transdermal therapeutic patches for asthma and ischemic heart disease were influenced by drug price reductions. These reductions were compensated for due to our business streamlining efforts. Sales of local anesthesia patches remained robust. Among medical and sanitary products, despite the withdrawal of some products, sales of our medical and sanitary products as a whole remained strong.

Sales of polymer separation membranes remained strong largely due to new contracts and replacements for ultra-pure water for the semiconductor and LCD industries in Japan, new contracts for wastewater treatment in the U. S., and for seawater desalination plants in the Middle East and in Europe. This all transpired whilst new products with varied industrial applications gained recognition within the Chinese market.

In relation to plastic engineering products, sales of functional products for office automation (OA) and the sales of information equipment and porous film materials for automotive parts, electronic parts, home appliances and for environmental use remained robust. As a result, sales increased to 53,991 million yen (up 13.6%) whilst operating income increased to 9,568 million yen (up 26.3%).

3. Summary of Geographic Area

In Japan, Asia and Oceania, LCD-related products and industrial products for home and information electronics such as LCD TVs, cellular phones and office automation equipment remained strong. Due to the acceleration of decreasing product thickness and the functional enhancement of information electronics, sales of industrial products have increased steadily. However, LCD-related products were influenced by a significant decrease in the market price of large-size LCD TVs.

As a result, sales in Japan decreased to 268,364 million yen (down 1.04%), and operating income decreased to 52,535 million yen (down 31.7%). As for Asia and Oceania, production of panels for LCD TVs increased in Korea and Taiwan, but due to a sharp decrease in LCD panel prices, sales of LCD-related products were influenced by the price decline. As a result, sales increased to 345,321 million yen (up 16.2%), but operating income decreased to 12,382 million yen (down 1.5%).

In Europe, sales of industrial products used in the automobile and cellular phones remained robust. As a result, sales increased to 23,787 million yen (up 22.6%), and operating income increased to 1,587 million yen (up 128.7%).

In North America, despite a trend in earnings recovery due to productivity reform of industrial products and the polymer separation membrane business, sales to U.S. automotive manufacturers remained sluggish. Moreover, a new product of transdermal therapeutic patches (for hypertension) has not yet obtained drug approval, so sales as a whole remained sluggish. As a result, sales in North America increased to 42,349 million yen (up 9.8%), with an operating loss of 663 million yen, despite an improvement of 414 million yen when compared with the last fiscal year.

4. Financial Condition

As of the end of the consolidated fiscal year, cash and cash equivalents (further referred to below as “cash”) decreased to 74,551 million yen, 12,132 million yen down from the end of the previous consolidated fiscal year. The status of each cash flow and major cash flow-related factor is outlined below.

Cash flows from operating activities

Net cash provided by operating activities totaled 63,032 million yen. This was mainly attributable to an increase in net income before taxes of 65,100 million yen, depreciation of 40,169 million yen and purchase liabilities of 9,849 million yen, and to a decrease in accounts receivable of 11,613 million yen and an outlay of corporate taxes of 37,124 million yen and other payments.

Cash flows from investing activities

Net cash decreased as a result of investing activities totaled 77,285 million yen. This was mainly attributable to a decrease in an outlay of 77,716 million yen for the acquisition of fixed assets.

Cash flows from financing operations

Net cash increased as a result of financial operation totaled 879 million yen. This was mainly attributable to a decrease of 10,777 million yen for dividends paid and an increase of 10,000 million yen in commercial paper.

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

	2003	2004	2005	2006
Equity ratio (%)	57.3	58.9	57.7	60.4
Equity ratio on a market value basis (%)	240.2	208.7	296.2	152.4
Debt redemption period (year)	0.4	0.3	0.3	0.6
Interest coverage ratio	193.3	169.0	92.1	57.1

- Note 1. Respective indices are obtained by calculating the financial results on a consolidated basis with the following formulae.
- Equity ratio: $\text{equity} \div \text{total assets}$
 - Equity ratio on a market value basis: $\text{total market value of shares} \div \text{total assets}$
 - Debt redemption period: $\text{liabilities with interest} \div \text{cash flow from operating activities}$
 - Interest coverage ratio: $\text{cash flow from operating activities} \div \text{interest payment}$
2. Total market value of shares is obtained by multiplying the closing price of a share at the end of the year by the number of shares issued at the end, after deduction of treasury stock.
3. Liabilities with interest represent all the liabilities included in the consolidated balance sheet for which interest is paid.
4. Cash flow from operating activities and interest payments used here are those included in the consolidated cash flow statement.



5. Business and Other Risks

1 Optical Business (LCD-related products)

The Group’s optical business achieved the number one global position in market share. This is the core business of the Group. The Group continues to strive to improve profitability by enhancing its unique differentiated technology and efficient investment in production facilities to meet the anticipated growth in demand for large-size LCD TVs. Imbalance between supply and demand of panel manufacturers, a sharp drop in prices, intensified price competition due to competitors entering the market, the under-capacity of material suppliers and sharp increases in material costs could all negatively affect the performance of the Group.

2 Business Operations in North America

The Group still suffers an operating loss in spite of improved corporate earnings due to productivity improvements of industrial products and polymer separation membrane business at a subsidiary in North America. As for sales made to the automotive industry, the Group will expand its product line and expand sales to the “Big Three” as well as Japanese manufacturers. As for the polymer separation membrane business, the Group will concentrate on seawater desalination plants and sewage recycling plants. In relation to medical related products, the Group is working hard towards the development of new products for transdermal therapeutic patches. The Group aims to increase its profits with these measures, but further deterioration of environments surrounding its business and delays of new products approvals by the FDA could negatively affect the performance of the Group.

3 Financial Standing of Our Business Partners

The Group works with business partners who meet its strict financial criteria. However, the credit extended to customers of LCD-related products is significantly larger when compared with other businesses. If a default were to occur, the default amount might be quite significant.

4 Raw material Venders

For some key raw materials, the Group depends on specific vendors. Although it does endeavor to find multiple raw material vendors so as to reduce the risk of failure to procure key materials, failure to obtain the necessary key raw materials could negatively affect the performance of the Group.

5 Currency Fluctuations

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

6 Overseas Operations

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

7 New Product Development

There are severe requirements for technological innovation and cost competition in the area in which the Group operates its business. The Group continues to pursue new technologies and new product development, with research and development investment necessary for production process innovation, as well as plant and equipment investment based on its “Global Niche Top” strategy. However, it is not easy to accurately forecast changes in an industry in which market change and technological innovation are so drastic. So when an unexpected situation develops, it could

affect future business management.

8 Intellectual Property

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

9 Product Defects

The Group manufactures products according to ISO 9000 series of quality standards certification. The Group does its best in quality management to manufacture goods trusted by its customers. As the main business of the Group is manufacturing goods needed for end products, there will be few possibilities for the Group to compensate the end users or recall products. However, if the Group has to compensate the end users for its products, and compensation that exceeds the coverage of products liability insurance is required, the Group would lose trust of the stakeholders and it could negatively affect the performance of the Group.

10 Environment Issues

The Group regards environmental preservation measures to be one of its key business policies, and has been acting from a standpoint of social responsibility as a means of reducing waste and to preventing global warming and air pollution. The Group has not caused any serious environmental problems. The Group publishes the fact that it uses plenty of toluene in the PRTR (The Pollutant Release and Transfer Register) and in CSR reports. The Group established a voluntary reduction plan and observes the plan. However, there is the possibility that the Group could incur significant expenses under the provisions of environmental regulations that may be enacted in the future.

11 Laws and Regulations

Products of the Group include products approved as

drugs, such as transdermal therapeutic patches (for asthma and angina pectoris) and surgical tapes (Yuki series) for medical use. In conducting its business, the Group is governed by various laws and regulations. In case these laws and regulations are strengthened or changed significantly, activity of the Group may be limited or the Group may incur additional cost relating to compliance with laws and regulations. This may negatively affect the performance of the Group.

12 Accidents and Disasters

To prevent accidents due to fires or explosions, or damage due to disasters, the Group performs facility inspections and other safety activities as well as installs safety devices, fire-extinguishing equipment and facilities to enable staff to engage in safety practice sessions. Especially, as a countermeasure against earthquakes, each plant of Nitto Denko Corporation has improved facilities including seismic retrofitting and automatic shut-off, and conducts disaster drills to protect the plant against direct damage or secondary disaster. Nitto Denko is in the process of developing a “Business Continuity Plan” for its plants as a priority given the possibility of the higher earthquake probability. However, accidents and disasters may happen in spite of these precautions. So, from fiscal 2006, Nitto Denko has contracted earthquake insurance for all its plants, but its coverage is limited and may influence the performance of the Group.

13 Retirement Benefit Liability

Employee accrued benefit costs and liabilities of the Group are calculated on the basis of assumptions such as the discount rates and other actuarial calculation and expected returns of pension assets. When the actual result is different from the assumptions or when the assumptions are altered, the influence will be accumulated and will be systematically recognized in the future. This may generally influence recognized costs and calculated liabilities in the future. In the case of where market interest rates go down or investment yields of pension assets deteriorate in the future, an increase in retirement benefit liability and a shortage of funds might occur and thus influence the business results of the Group.



Consolidated Financial Statements

Consolidated Balance Sheets

(Unit: millions of yen)

Assets	Amount		Liabilities	Amount	
	As of March 31, 2007	As of March 31, 2006 (Reference)		As of March 31, 2007	As of March 31, 2006 (Reference)
Current assets:	315,303	307,707	Current liabilities:	209,422	191,463
Cash on hand and in banks	75,762	87,658	Trade notes and accounts payable	104,417	92,636
Trade notes and accounts receivable	150,377	142,697	Short-term loan payable	24,228	18,021
Inventories	72,293	59,528	Commercial paper	10,000	—
Deferred tax assets	7,505	9,310	Accrued expenses	18,552	18,428
Other current assets	10,892	10,040	Income tax payable	9,777	23,999
Allowance for doubtful accounts	△1,528	△1,526	Other current liabilities	42,447	38,377
Fixed assets:	288,904	249,226	Long-term liabilities:	27,174	31,263
Tangible fixed assets:	246,744	206,906	Long-term loans payable	1,806	5,673
Buildings and other structures	97,490	81,649	Provision for retirement benefits	16,102	15,870
Machinery and delivery equipment	95,541	74,624	Reserve for retirement bonuses to directors and corporate auditors	852	864
Tools, furniture and fixtures	9,236	8,454	Deferred tax liabilities	1,628	1,589
Land	19,666	19,749	Negative goodwill	1,540	1,010
Construction in progress	24,809	22,428	Other long-term liabilities	5,244	6,254
Intangible fixed assets:	6,768	7,326	Total liabilities	236,597	222,727
Goodwill	60	70	(Net assets)		
Other intangible fixed assets	6,707	7,255	Shareholders' equity	358,530	318,455
Investments and other assets:	35,391	34,993	Paid-in capital	26,783	26,783
Investment in securities	17,320	19,314	Capital surplus	56,023	51,166
Deferred tax assets	2,191	617	Earned surplus	304,552	274,678
Pre-paid annual pension cost	11,050	10,521	Treasury stock	△28,829	△34,173
Others	5,103	5,058	Valuation and translation adjustments	6,411	3,009
Allowance for doubtful accounts	△274	△518	Valuation difference on available-for-sale securities	5,646	6,712
			Deferred gains or losses on hedges	△76	—
			Translation adjustments	842	△3,702
			Subscription rights to shares	484	—
			Minority interests	2,183	12,742
Total assets	604,208	556,934	Total net assets	367,610	334,206
			Total liabilities and net assets	604,208	556,934

Note: The items included in “Shareholders’ equity” and “Minority interest” section in the prior year are described in the “Net assets” section for sake of simplicity.

Consolidated Financial Statements

Consolidated Statements of Income

(Unit: millions of yen)		
	April 1, 2006 — March 31, 2007	April 1, 2005 — March 31, 2006 (Reference)
Sales	679,822	626,316
Cost of sales	496,361	430,781
Gross profits	183,460	195,535
Selling, general and administrative expenses	114,423	106,310
Operating income	69,037	89,224
Non-operating revenue:	4,523	4,514
Interest and dividend income	790	457
Revenue from equity method investment	392	14
Miscellaneous revenue	3,340	4,042
Non-operating expenses:	6,241	3,542
Interest expenses	1,651	927
Foreign exchange loss	2,220	—
Miscellaneous expenses	2,369	2,614
Ordinary income	67,319	90,196
Extraordinary gains:	400	1,070
Gain on sales of fixed assets	389	753
Gain on sales of investments in securities	11	317
Extraordinary losses:	2,618	1,653
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
Income before provision for income taxes	65,100	89,614
Provision for income taxes		
Current	22,330	35,988
Deferred	1,116	△2,893
Minority shareholder's interest	452	1,212
Net income	41,201	55,306



Consolidated Financial Statements

Consolidated Statements of
Cash Flows (Reference)

(Unit: millions of yen)

	April 1, 2006 – March 31, 2007	April 1, 2005 – March 31, 2006
I. Cash flows from operating activities		
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
Net cash provided by operating activities	63,032	84,525
II. Cash flows from investing activities		
Acquisition of fixed assets	△77,716	△58,157
Proceeds from sale of fixed assets	1,308	1,398
Others	△877	1,393
Net cash used in investing activities	△77,285	△55,365
III. Cash flows from financing activities		
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
Net cash provided by (used in) financing activities	879	△1,010
IV. Effect of exchange-rate changes on cash and cash equivalents	1,240	2,476
V. Net increase (decrease) in cash and cash equivalents	△12,132	30,625
VI. Cash and cash equivalents at the beginning of the period	86,684	48,278
VII. Cash and cash equivalents from new consolidation	–	7,780
VIII. Cash and cash equivalents at the end of the period	74,551	86,684

Consolidated Financial Statements

Consolidated Statement of
Changes in Net Assets

From April 1, 2006 to 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
Repurchases 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

(Unit: millions of yen)

	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							
Cash dividends (Note)							△4,953
Cash dividends							△5,824
Directors' bonuses (Note)							△549
Net income							41,201
Repurchases of treasury stocks							△16
Disposal of treasury stocks							10,217
Net increase/decrease during the fiscal year	△1,065	△76	4,544	3,402	484	△10,558	△6,671
Total increase/decrease during the fiscal year	△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 appropriations of earnings resolved at the General Meeting of Shareholders held on June 2006.



Consolidated Financial Statements

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 NV 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 22 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

1) 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

2) Derivatives: Stated at fair value

3) Inventories: Mainly stated at the lower of average cost or market price

2. Depreciation method of major depreciable assets

1) Tangible fixed assets:

Mainly the declining - balance method

2) Intangible fixed assets:

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

1) 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.

2) 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.

3) 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.

4) Reserve for retirement bonuses to directors and corporate auditors

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

4. Conversion criteria of major assets 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

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. 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, 2006).

(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.

Segment Information

Operating Segment Information

Fiscal 2005 (From April 1, 2005 to March 31, 2006)

(Unit: millions of yen)

	Industrial products	Electronic products	Functional products	Total	Eliminations and corporate	Consolidated total
I. Sales and operating income						
Sales						
(1) Sales to outside customers	251,384	327,398	47,533	626,316	-	626,316
(2) Inter-segment sales or transfers	-	42	472	514	(514)	-
Total	251,384	327,440	48,005	626,831	(514)	626,316
Operating expenses	228,446	268,727	40,432	537,606	(514)	537,091
Operating income	22,938	58,713	7,573	89,224	-	89,224
II. Assets, Depreciation and Amortization, and Capital Expenditures						
Assets	159,432	281,964	50,787	492,185	64,748	556,934
Depreciation and Amortization	10,572	17,587	3,310	31,470	-	31,470
Capital Expenditure	15,092	40,718	5,755	61,566	-	61,566

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

(Unit: millions of yen)

	Industrial products	Electronic products	Functional products	Total	Eliminations and corporate	Consolidated total
I. Sales and operating income						
Sales						
(1) Sales to outside customers	268,888	356,941	53,991	679,822	-	679,822
(2) Inter-segment sales or transfers	-	47	691	738	(738)	-
Total	268,888	356,989	54,683	680,560	(738)	679,822
Operating expenses	240,869	325,539	45,114	611,523	(738)	610,784
Operating income	28,019	31,449	9,568	69,037	-	69,037
II. Assets, Depreciation and Amortization, and Capital Expenditures						
Assets	170,986	316,245	52,395	539,626	64,581	604,208
Depreciation and Amortization	10,278	25,813	4,078	40,169	-	40,169
Capital Expenditure	19,398	54,603	7,500	81,502	-	81,502

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

2. Major products for each business segment

Business segment	Major products
Industrial products	Bonding and joining products, surface protection products, sealing products, packaging products and equipment
Electronic products	LCD-related products, flexible printed circuit products, electronic processing products, semi-conductor related products
Functional products	Medical-related products, polymer separation membranes, fluoroplastic products

3. Corporate assets in fiscal 2005 and fiscal 2006 amounted to 70,837 million and 70,041 million yen, separately, which consisted mainly of the parent company's cash, time deposits and securities



Segment Information

Segment Information by Geographic Area

Fiscal 2005 (From April 1, 2005 to March 31, 2006) (Unit: millions of yen)

	Japan	North America	Europe	Asia & Oceania	Total	Eliminations and corporate	Consolidated total
I. Sales and operating income							
Sales							
(1) Sales to outside customers	271,186	38,580	19,395	297,153	626,316	–	626,316
(2) Intersegment sales or transfers	244,055	2,047	3,542	10,598	260,244	(260,244)	–
Total	515,242	40,628	22,938	307,752	886,561	(260,244)	626,316
Operating expenses	438,353	41,706	22,244	295,176	797,481	(260,389)	537,091
Operating income	76,888	△1,078	693	12,575	89,079	145	89,224
II. Assets	351,564	47,185	14,674	165,316	578,740	(21,806)	556,934

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

	Japan	North America	Europe	Asia & Oceania	Total	Eliminations and corporate	Consolidated total
I. Sales and operating income							
Sales							
(1) Sales to outside customers	268,364	42,349	23,787	345,321	679,822	–	679,822
(2) Intersegment sales or transfers	269,925	2,641	4,381	17,434	294,383	(294,383)	–
Total	538,289	44,991	28,169	362,755	974,205	(294,383)	679,822
Operating expenses	485,753	45,654	26,581	350,373	908,364	(297,579)	610,784
Operating income	52,535	△663	1,587	12,382	65,841	3,195	69,037
II. Assets	381,237	49,621	17,450	188,213	636,522	(32,313)	604,208

- Note 1. Countries and regions are segmented by geographical proximity.
2. Major countries and regions excluding Japan, represented by categories:
North America: U.S.A
Europe: Belgium, France, Germany, Sweden
Asia & Oceania: China, Korea, Taiwan, Singapore, Malaysia, Hong Kong, Thailand
3. Corporate assets in fiscal 2005 and fiscal 2006 amounted to 70,837 million and 70,041 million yen, separately, which consisted mainly of the parent company's cash, time deposits and securities

Segment Information

Sales to Customers outside Japan

Fiscal 2005 (From April 1, 2005 to March 31, 2006) (Unit: millions of yen)

	North America	Europe	Asia & Oceania	Others	Total
I. Sales to customers outside Japan	33,279	20,786	320,679	553	375,298
II. Consolidated sales					626,316
III. Ratio of sales to customers outside Japan to consolidated sales	5.3%	3.3%	51.2%	0.1%	59.9%

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

	North America	Europe	Asia & Oceania	Others	Total
I. Sales to customers outside Japan	36,510	25,650	362,816	722	425,699
II. Consolidated sales					679,822
III. Ratio of sales to customers outside Japan to consolidated sales	5.4%	3.8%	53.4%	0.1%	62.6%

- Note 1. Countries and regions are listed in the order of geographical proximity.
2. Major countries and regions excluding Japan represented by categories:
North America: U.S.A
Europe: Belgium, France, Germany, Sweden
Asia & Oceania: China, Korea, Taiwan, Singapore, Malaysia, Hong Kong, Thailand
3. Sales to customers outside Japan represent the sales by the parent company and its consolidated subsidiaries in the countries and regions outside Japan.
[English Translation of the Auditors' Report Originally Issued in the Japanese Language]



Independent Auditors' Report

Independent Auditors' Report

The Board of Directors
NITTO DENKO CORPORATION

May 9, 2007

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.



Corporate Vision

“Creation of New Value”

Guided by “Open, Fair and Best” as the very foundation of corporate activities, Nitto Denko Group will contribute to human living and industry’s future with its power to generate innovative and unique ideas

Nitto Denko Group will:

- Swiftly create products and services offering new functions that give satisfaction to customers
- Honor autonomy and originality to enhance the working environment with the total freedom for the employees to face their challenges
- Pursue sound business activities and continually earn shareholders’ trust through appropriate information disclosure and communications
- Always be mindful of corporate social responsibility including sustainability and community relations

Guiding Principles

Leveraging our pride and resolve as a Nitto Denko Group member, we will always act with integrity in accordance with “Open, Fair and Best”

We will:

1. Provide our customers with the highest-quality product and service
2. Place safety before everything else
3. Always act with a challenging spirit
4. Conduct ourselves guided by laws and ethics
5. Keep in mind to help protect the global environment and conserve resources

Derived from an original design showing symbols of technology development, nature, the arts and mankind with Leonardo da Vinci’s drawing of the Vitruvian Man in the background, this poster depicts a nexus of images and feelings which transcend time immemorial. It represents the “Creation of New Value” anticipating a sensitivity-oriented society where greater importance is placed on humanity and spirituality.

The background design of the poster was taken from a mural entitled “Transcending Time Immemorial”, which Nitto Denko Corporation had commissioned in 1993 to Prof. Emeritus Kosuke Kimura of Kyoto Institute of Technology, in commemoration of the 75th Anniversary of the company’s foundation.



GRI Content Index

Content				Page
1 Strategy and Analysis				P6-9
2 Organizational Profile				P6-9, 10-11
3 Report Parameters				
Report Profile				P2
Report Scope and Boundary				P2, 37
GRI Content Index				P64-67
Assurance				P62
4 Governance, Commitments, and Engagement				
Governance				P10-11
Commitments to External Initiatives				P2
Stakeholder Engagement				P35
5 Management Approach and Performance Indicators				P22

Economic Performance Indicators				Page
Economic Performance	Core	EC1.	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	P4-5, 24, 44-62
	Core	EC2.	Financial implications and other risks and opportunities for the organization's activities due to climate change.	P5, 33, 34
	Core	EC3.	Coverage of the organization's defined benefit plan obligations.	P49-50
	Core	EC4.	Significant financial assistance received from government.	—
Market Presence	Additional	EC5.	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	P24
	Core	EC6.	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	P23
	Core	EC7.	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	P25
Indirect Economic Impacts	Core	EC8.	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	P42
	Additional	EC9.	Understanding and describing significant indirect economic impacts, including the extent of impacts.	—

Environmental Performance Indicators				Page
Materials	Core	EN1.	Materials used by weight or volume.	P5, 31, 37
	Core	EN2.	Percentage of materials used that are recycled input materials.	P34, 36, 37
Energy	Core	EN3.	Direct energy consumption by primary energy source.	P33
	Core	EN4.	Indirect energy consumption by primary source.	—
	Additional	EN5.	Energy saved due to conservation and efficiency improvements.	P33, 34, 36, 37
	Additional	EN6.	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	P34, 36, 37, 41
	Additional	EN7.	Initiatives to reduce indirect energy consumption and reductions achieved.	P34
Water	Core	EN8.	Total water withdrawal by source.	P5, 31
	Additional	EN9.	Water sources significantly affected by withdrawal of water.	—
	Additional	EN10.	Percentage and total volume of water recycled and reused.	—
Biodiversity	Core	EN11.	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	P41
	Core	EN12.	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	P41
	Additional	EN13.	Habitats protected or restored.	P41
	Additional	EN14.	Strategies, current actions, and future plans for managing impacts on biodiversity.	—
	Additional	EN15.	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	—
Emissions, Effluents, and Waste	Core	EN16.	Total direct and indirect greenhouse gas emissions by weight.	P5, 33
	Core	EN17.	Other relevant indirect greenhouse gas emissions by weight.	P33, 37
	Additional	EN18.	Initiatives to reduce greenhouse gas emissions and reductions achieved.	P33, 36, 41
	Core	EN19.	Emissions of ozone-depleting substances by weight.	—
	Core	EN20.	NO, SO, and other significant air emissions by type and weight.	—
	Core	EN21.	Total water discharge by quality and destination.	P31
	Core	EN22.	Total weight of waste by type and disposal method.	P31
	Core	EN23.	Total number and volume of significant spills.	—
	Additional	EN24.	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I , II , III , and VIII, and percentage of transported waste shipped internationally.	—
Products and Services	Additional	EN25.	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	—
	Core	EN26.	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	P6-9, 16, 22
	Core	EN27.	Percentage of products sold and their packaging materials that are reclaimed by category.	P36
Compliance	Core	EN28.	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Not applicable
Transport	Additional	EN29.	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	P34
Overall	Additional	EN30.	Total environmental protection expenditures and investments by type.	P5, 41



Social Performance Indicators				
Labor Practices and Decent Work Performance Indicators				Page
Employment	Core	LA1.	Total workforce by employment type, employment contract, and region.	P5
	Core	LA2.	Total number and rate of employee turnover by age group, gender, and region.	—
	Additional	LA3.	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	P25
Labor/Management Relations	Core	LA4.	Percentage of employees covered by collective bargaining agreements.	P25
	Core	LA5.	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	—
Occupational Health and Safety	Additional	LA6.	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	P22, BCG
	Core	LA7.	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	P27
	Core	LA8.	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	P25
	Additional	LA9.	Health and safety topics covered in formal agreements with trade unions.	—
Training and Education	Core	LA10.	Average hours of training per year per employee by employee category.	—
	Additional	LA11.	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	P24-25
	Additional	LA12.	Percentage of employees receiving regular performance and career development reviews.	—
Diversity and Equal Opportunity	Core	LA13.	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	P25
	Core	LA14.	Ratio of basic salary of men to women by employee category	—

Human Rights Performance Indicators				
				Page
Investment and Procurement Practices	Core	HR1.	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	—
	Core	HR2.	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	—
	Additional	HR3.	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained,.	P12, BCG
Non-discrimination	Core	HR4.	Total number of incidents of discrimination and actions taken.	—
Freedom of Association and Collective Bargaining	Core	HR5.	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	—
Child Labor	Core	HR6.	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	BCG
Forced and Compulsory Labor	Core	HR7.	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	BCG
Security Practices	Additional	HR8.	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	P12, BCG
Indigenous Rights	Additional	HR9.	Total number of incidents of violations involving rights of indigenous people and actions taken.	—

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Society Performance Indicators				Page
Community	Core	SO1.	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	—
Corruption	Core	SO2.	Percentage and total number of business units analyzed for risks related to corruption.	P13
	Core	SO3.	Percentage of employees trained in organization's anti-corruption policies and procedures.	P12, BCG
	Core	SO4.	Actions taken in response to incidents of corruption.	—
Public Policy	Core	SO5.	Public policy positions and participation in public policy development and lobbying.	BCG
	Additional	SO6.	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	BCG, No donations made
Anti-Competitive Behavior	Additional	SO7.	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	BCG, Not applicable
Compliance	Core	SO8.	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Not applicable

Product Responsibility Performance Indicators				Page
Customer Health and Safety	Core	PR1.	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	P35
	Additional	PR2.	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	P22, Not applicable
Product and Service Labeling	Core	PR3.	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	P35
	Additional	PR4.	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	—
	Additional	PR5.	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	—
Marketing Communications	Core	PR6.	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	BCG, Not applicable
	Additional	PR7.	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	BCG, Not applicable
Customer Privacy	Additional	PR8.	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	BCG
Compliance	Core	PR9.	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	—

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