

To Win Stakeholders' Trust, We Will Promote Sound and Transparent Management

Corporate Governance

Setting out New Policies on Internal Controls to Comply with the Company Law Enforced in May 2006

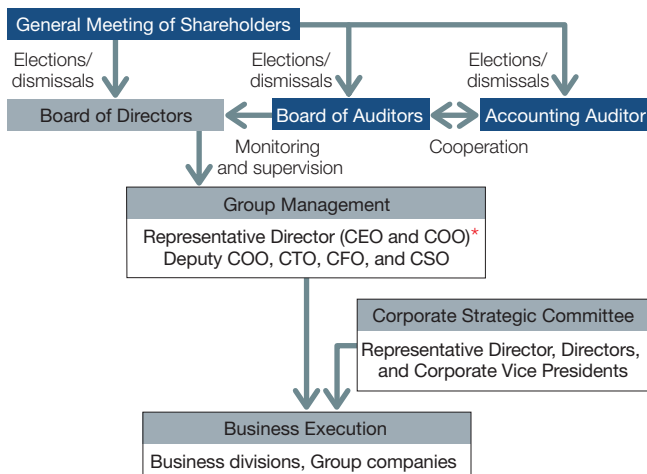
The Nitto Denko Group has been traditionally committed to open, fair, and best business practices. Specifically, we are committed to openly sharing information, holding fair discussions, and putting forth our best efforts to achieve predefined goals, thereby pursuing sound and transparent management. To this end, three out of five auditors are chosen from outside.

In addition, we have established a management system that allows us to respond to changes in the business environment in a proper and prompt manner. Furthermore, to clarify the management responsibilities of directors, we decided, at the general meeting of shareholders held in fiscal 2004, to shorten their term of office from two years to one. In fiscal 2005, the number of directors was five.

The Company Law enforced in May 2006 requires large companies to set out basic policies on establishing internal control systems to ensure proper corporate operations, including compliance with laws and regulations by directors in performing their duties. To meet this requirement, the Nitto Denko Group decided to adopt basic policies on internal control at the board of directors meeting held in May 2006 and started implementing these policies.

Corporate Governance System

The diagram below shows the Nitto Denko Group's system of monitoring management and carrying out business.



* CEO: Chief executive officer of the Group
 COO: Chief operating officer of the Group
 CTO: Chief technology officer of the Group
 CFO: Chief financial officer of the Group
 CSO: Chief strategy officer of the Group

Internal Audits (QES Audits)

Conducting Internal Audits on Quality, the Environment, and Safety to Manage Risks

To strengthen its internal control system, the Nitto Denko Group established the Quality Environmental Safety (QES) Audit Department in fiscal 2004. In addition to general business audits conducted by Corporate Auditors, this department simultaneously conducts technical audits on quality, the environment, and safety, which were conducted separately in the past. As a result, problems related to these issues are now pointed out from multilayered viewpoints. Through a QES audit, we determine if the quality, environmental, and safety systems are effective and identify any potential managerial risks associated with them to reduce such risks.

The department began QES audits in the latter half of fiscal 2004, targeting the Group's manufacturing and processing companies. The first round of audits was completed, and a second one was started at the end of fiscal 2005. An analysis of the results of the first round of audits revealed that many of the identified risks could have been detected by field managers in their daily operations, thus in fiscal 2006, we will encourage the supervisors in charge of managing our sites to go on daily patrols to detect such risks. We will continue these efforts and make the audits more effective by clarifying important audit points through prior investigations.

For the Group to maintain and improve quality, the environment, and safety, it needs to promote dialogue from a technical point of view and encourage employees to pay more attention to possible risks. Accordingly, we will improve our internal audit functions at all our sites and conduct internal audits to increase our self-correcting functions.



A QES audit

Policy and Slogan of QES Audit for Fiscal 2006

Drive for CSR Progress Based on Welcomed Audit

1. Audit to find business management risk derived from QES based on manufacturing.
2. Audit with suitable condition and frequency to meet the present environments.
3. Audit to encourage the ability of self-auditing and self-controlling.