

Consolidated Balance Sheets

Nitto Denko Corporation and Consolidated Subsidiaries
As of March 31, 2005 and 2004

Assets	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Current Assets:				
Cash on hand and in banks (Note 2)	¥ 50,355	¥ 49,145	\$ 468,898	\$ 457,631
Trade notes and accounts receivable	119,735	108,583	1,114,955	1,011,109
Allowance for doubtful receivables	(1,598)	(1,169)	(14,880)	(10,886)
Inventories (Note 4)	44,171	40,671	411,314	378,722
Deferred tax assets and other (Note 5)	14,543	14,064	135,423	130,953
	227,206	211,294	2,115,710	1,967,529
Plant and Equipment, at Cost (Note 6):				
Land	19,001	18,824	176,935	175,286
Buildings	122,785	111,061	1,143,356	1,034,184
Machinery and equipment	234,300	217,898	2,181,767	2,029,034
Construction in progress	22,228	10,215	206,984	95,121
	398,314	357,998	3,709,042	3,333,625
Accumulated depreciation	(231,790)	(218,668)	(2,158,395)	(2,036,204)
	166,524	139,330	1,550,647	1,297,421
Investments and Other Assets:				
Investments in nonconsolidated subsidiaries and affiliates	15,571	13,538	144,995	126,064
Investments in securities (Notes 3 and 6)	11,468	11,603	106,788	108,045
Goodwill	81	621	754	5,783
Prepaid pension cost (Note 1 (j))	10,524	—	97,998	—
Deferred tax assets and other (Note 5)	11,890	13,139	110,718	122,358
	49,534	38,901	461,253	362,250
	¥ 443,264	¥ 389,525	\$ 4,127,610	\$ 3,627,200

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Current Liabilities:				
Short-term bank loans, including current portion				
of long-term debt (Note 6)	¥ 8,809	¥ 12,116	\$ 82,028	\$ 112,822
Trade notes and accounts payable (Note 6)	103,417	97,776	963,004	910,476
Accrued expenses	15,635	15,202	145,591	141,559
Income taxes (Note 5)	16,089	12,573	149,818	117,078
Other current liabilities	1,269	607	11,817	5,652
	145,219	138,274	1,352,258	1,287,587
Long-term Liabilities:				
Long-term debt (Note 6)	6,504	3,748	60,564	34,901
Allowance for severance and pension benefits				
(Notes 1(j) and 7)	14,030	8,642	130,645	80,473
Retirement allowances for directors and				
corporate auditors	595	1,339	5,541	12,469
Consolidation differences (Notes 1(n))	2,012	—	18,735	—
Other long-term liabilities	3,545	2,425	33,011	22,581
	26,686	16,154	248,496	150,424
Minority Interests	10,268	11,983	95,614	111,584
Commitments and Contingent Liabilities (Note 11)				
Shareholders' Equity (Note 9):				
Common stock	26,784	26,784	249,409	249,409
Authorized — 400,000,000 shares				
Issued — 173,758,428 shares in 2005 and 2004				
Capital surplus	50,482	50,482	470,081	470,081
Retained earnings	228,927	196,596	2,131,735	1,830,673
Net unrealized holding gains on securities	3,022	3,057	28,141	28,466
Foreign currency translation adjustments	(11,913)	(13,629)	(110,932)	(126,911)
Cost of treasury stock (9,164,140 shares in 2005 and				
10,169,504 shares in 2004).....	(36,211)	(40,176)	(337,192)	(374,113)
	261,091	223,114	2,431,242	2,077,605
	¥ 443,264	¥ 389,525	\$ 4,127,610	\$ 3,627,200

Consolidated Statements of Income

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Net Sales	¥ 514,868	¥ 452,726	\$ 4,794,376	\$ 4,215,718
Cost of Sales	355,881	314,786	3,313,912	2,931,241
Gross profit	158,987	137,940	1,480,464	1,284,477
Selling, General and Administrative Expenses	88,968	82,028	828,457	763,833
Operating income	70,019	55,912	652,007	520,644
Other Income (Expenses):				
Interest and dividend income	306	526	2,849	4,898
Interest expense	(323)	(246)	(3,008)	(2,291)
Foreign exchange gain (loss)	—	1,088	—	10,131
Equity in earnings of nonconsolidated subsidiaries and affiliates	2,626	2,534	24,453	23,596
Loss on disposal of plant and equipment	(1,207)	(973)	(11,239)	(9,060)
Loss on evaluation of fixed assets (Note 13)	—	(683)	—	(6,360)
Loss on evaluation of goodwill (Note 13)	(258)	(683)	(2,402)	(6,360)
Reversal of allowance for severance and pension benefits (Note 1 (j))	—	1,958	—	18,233
Special benefits on retirement (Note 7)	(718)	(428)	(6,686)	(3,985)
Other, net	(469)	(1,930)	(4,368)	(17,972)
	(43)	1,163	(401)	10,830
Income before Provision for Income Taxes	69,976	57,075	651,606	531,474
Provision for Income Taxes (Note 5):				
Current	24,464	18,954	227,805	176,497
Deferred, net	2,152	2,947	20,039	27,442
	26,616	21,901	247,844	203,939
Minority Interests in Net Income of Consolidated Subsidiaries ..	(1,517)	(1,788)	(14,126)	(16,649)
Net Income	¥ 41,843	¥ 33,386	\$ 389,636	\$ 310,886
Per Share of Common Stock (Note 9):				
	Yen		U.S. dollars	
Net Income	¥ 252.72	¥ 197.99	\$ 2.35	\$ 1.84
Net Income — Diluted	252.58	197.93	2.35	1.84
Cash Dividends, Applicable to Earnings of the Year	50.00	40.00	0.47	0.37

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2005 and 2004

	Number of Shares (thousands)		Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004	2005	2004
Common Stock (Note 9):						
Authorized shares	400,000	400,000				
Outstanding shares						
Beginning balance	173,758	173,758	¥ 26,784	¥ 26,784	\$ 249,409	\$ 249,409
Net increase	—	—	—	—	—	—
Ending balance	173,758	173,758	¥ 26,784	¥ 26,784	\$ 249,409	\$ 249,409
Capital Surplus (Note 9):						
Beginning balance			¥ 50,482	¥ 50,482	\$ 470,081	\$ 470,081
Net increase			—	—	—	—
Ending balance			¥ 50,482	¥ 50,482	\$ 470,081	\$ 470,081
Retained Earnings (Note 9):						
Beginning balance			¥ 196,596	¥ 168,632	\$ 1,830,673	\$ 1,570,276
Net income			41,843	33,386	389,636	310,886
Cash dividends paid			(7,854)	(5,034)	(73,135)	(46,876)
Directors' bonuses			(552)	(386)	(5,140)	(3,594)
Loss on treasury stock			(1,106)	(2)	(10,299)	(19)
Ending balance			¥ 228,927	¥ 196,596	\$ 2,131,735	\$ 1,830,673
Net Unrealized Holding Gains on Securities:						
Beginning balance			¥ 3,057	¥ 243	\$ 28,466	\$ 2,263
Net increase (decrease)			(35)	2,814	(325)	26,203
Ending balance			¥ 3,022	¥ 3,057	\$ 28,141	\$ 28,466
Foreign Currency Translation Adjustments:						
Beginning balance			¥ (13,629)	¥ (7,514)	\$ (126,911)	\$ (69,976)
Net increase (decrease)			1,716	(6,115)	15,979	(56,935)
Ending balance			¥ (11,913)	¥ (13,629)	\$ (110,932)	\$ (126,911)
Cost of Treasury Stock (Note 10):						
Beginning balance			¥ (40,176)	¥ (1,067)	\$ (374,113)	\$ (9,936)
Net decrease (increase)			3,965	(39,109)	36,921	(364,177)
Ending balance			¥ (36,211)	¥ (40,176)	\$ (337,192)	\$ (374,113)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Cash Flows from Operating Activities:				
Income before provision for income taxes	¥ 69,976	¥ 57,075	\$ 651,606	\$ 531,474
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization	24,681	21,386	229,826	199,143
Increase (decrease) in allowance for severance and pension benefits	(5,135)	(7,974)	(47,816)	(74,253)
Interest and dividend income	(306)	(526)	(2,849)	(4,898)
Interest expense	323	246	3,008	2,291
Equity in earnings of nonconsolidated subsidiaries and affiliates	(2,626)	(2,534)	(24,453)	(23,596)
Loss on evaluation of investments in securities	8	2	74	19
Loss on evaluation of goodwill	258	683	2,402	6,360
(Gain) loss on sales and disposal of fixed assets	1,152	978	10,727	9,107
Decrease (increase) in trade notes and accounts receivable ..	(8,041)	(18,458)	(74,876)	(171,878)
Decrease (increase) in inventories	(2,006)	(3,948)	(18,680)	(36,763)
Decrease (increase) in other receivables	620	(1,949)	5,773	(18,149)
Increase (decrease) in trade notes and accounts payable	(37)	15,566	(345)	144,948
Other, net	(1,728)	5,014	(16,090)	46,689
Total	77,139	65,561	718,307	610,494
Interest and dividend income received	824	804	7,673	7,487
Interest paid	(332)	(239)	(3,092)	(2,226)
Income taxes refunded (paid)	(21,563)	(19,858)	(200,791)	(184,914)
Net cash provided by operating activities	56,068	46,268	522,097	430,841
Cash Flows from Investing Activities:				
Decrease in marketable securities, net	—	1,717	—	15,988
Acquisitions of plant and equipment	(47,594)	(27,085)	(443,188)	(252,212)
Proceeds from sales of plant and equipment	1,051	973	9,787	9,060
Decrease (increase) in time deposits, net	(1,048)	1	(9,759)	9
Purchase of investments in securities	(81)	(611)	(754)	(5,690)
Proceeds from sales of investments in securities	133	460	1,238	4,283
Acquisitions of subsidiaries	(1,514)	(7,660)	(14,098)	(71,329)
Other, net	(118)	893	(1,099)	8,318
Net cash used in investing activities	(49,171)	(31,312)	(457,873)	(291,573)
Cash Flows from Financing Activities:				
Proceeds from long-term debt	4,022	3,446	37,452	32,089
Repayments of long-term debt	(1,687)	(284)	(15,709)	(2,645)
Increase (decrease) in short-term debt, net	(3,779)	1,944	(35,189)	18,102
Decrease (increase) in treasury stock	438	(39,111)	4,079	(364,196)
Dividends paid	(7,854)	(5,034)	(73,135)	(46,876)
Other, net	(295)	(131)	(2,748)	(1,219)
Net cash used in financing activities	(9,155)	(39,170)	(85,250)	(364,745)
Foreign Currency Exchange Gain (Loss) in Cash and Cash Equivalents	742	(948)	6,909	(8,828)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,516)	(25,162)	(14,117)	(234,305)
Cash and Cash Equivalents, Beginning of Year	48,544	73,342	452,035	682,950
Increase in Cash and Cash Equivalents due to Change in Scope of Consolidated Subsidiaries	1,250	364	11,640	3,390
Cash and Cash Equivalents, End of Year (Note 2)	¥ 48,278	¥ 48,544	\$ 449,558	\$ 452,035

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2005 and 2004

1. Basis of Presenting Consolidated Financial Statements

NITTO DENKO CORPORATION (the "Corporation") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Significant accounting and reporting policies are summarized as follows:

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Corporation and significant companies over which the Corporation has power of control through majority voting right or existence of certain conditions evidencing control by the Corporation.

Investments in nonconsolidated subsidiaries and affiliates over which the Corporation has the ability to exercise significant influence over operating and financial policies of the investees are accounted for under the equity method.

In the elimination of investments in subsidiaries, the portion of the assets and liabilities of a subsidiary attributable to the subsidiary's shares owned by the Corporation are evaluated based on the fair value at the time when the Corporation acquired control of the subsidiary. The amounts of assets and liabilities attributable to minority shareholders of the subsidiary are determined using the financial statements of the subsidiary.

Material intercompany balances and transactions have been eliminated in consolidation.

(b) Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end rates.

Investments in the common stock of foreign nonconsolidated subsidiaries and affiliates denominated in foreign currencies are translated into Japanese yen at the historical rates.

Balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the year-end rates except for shareholders' equity accounts, which are translated at the historical rates. Profit and loss accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the average rates.

Revenue and expenses accounts of the consolidated foreign subsidiaries are translated into Japanese yen at average rates.

The resulting foreign currency translation adjustments are included in minority interests and foreign currency translation adjustments in shareholders' equity.

(c) Leases

Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are primarily accounted for as operating leases.

(d) Investments in Securities

Investments in securities consist principally of marketable and non-marketable equity securities and interest-bearing securities.

Securities not classified as trading securities or held-to-maturity debt securities are classified as "other securities" by the Corporation and its domestic subsidiaries.

Other securities with fair market value are stated at fair value. Unrealized holding gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Related deferred tax assets (net) are included in other assets. Realized gains and losses on sales of such securities are principally determined by the moving average method.

Other securities with no available fair market value are stated at moving average cost.

If the fair market value of other securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of decline. If the net asset value of other securities with no fair market value declines significantly, such securities should be written down to the net asset value by charging to income. In these cases, such fair market value or the net asset value will be carried forward to the next year.

(e) Inventories

Inventories are mainly stated at the lower of average cost or market.

Notes to Consolidated Financial Statements

(f) Depreciation

Depreciation of plant and equipment is computed by using primarily the declining-balance method over their estimated useful lives.

Maintenance and repairs, including minor replacements and betterments, are charged to income as incurred.

(g) Impairment of Fixed Assets

In the years ended March 31, 2005 and 2004, the Company did not adopt early the new accounting standard for impairment of fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005.

(h) Income Taxes

The Corporation and its consolidated subsidiaries recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(i) Research and Development Expenses

Research and development expenses are charged to income as incurred. Research and development expenses charged to income amounted to ¥16,739 million (\$155,871 thousand) and ¥15,822 million (\$147,332 thousand) for the years ended March 31, 2005 and 2004, respectively.

(j) Employees' Severance and Pension Benefits

The Corporation and its domestic subsidiaries have retirement plans and a contributory funded pension plan for employees, which are defined benefit plans.

The Corporation and its domestic subsidiaries provided the allowance for employees' severance and pension benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the balance sheet date. The allowance and expenses for severance and pension benefits are determined based on the amounts actuarially calculated using certain assumptions. The discount rate of projected benefit obligation and the rate of expected return on plan assets used by the Corporation and its domestic subsidiaries are 2.0-2.5% and 1.5-3.5%, respectively.

Prior service cost of pension plans are amortized on the straight-line method over 12 years which are less than the estimated average remaining service lives of the employees from fiscal 2005.

An actuarial net losses are amortized on the straight-line method over years less than or equal to the estimated average remaining service lives of the employees from the next fiscal year.

In the previous year, a reversal of allowance for severance and pension benefits amounting to ¥1,958 million (\$18,233 thousand) was incurred due to a change in the employees' pension plan of the Corporation and certain domestic subsidiaries, which decreased prior service costs.

The allowance for severance and pension benefits and prepaid pension cost were previously netted in the consolidated financial statements. However, in consideration of materiality, they are shown in gross amount at March 31, 2005. Prepaid pension cost for the previous year was ¥6,187 million (\$57,612 thousand)

(k) Definition of Cash Equivalents in the Consolidated Statements of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, demand deposits, time deposits maturing within three months from the date of acquisition, and short-term investments maturing within three months from the date of acquisition with high liquidity and low risk in terms of fluctuations in value.

(l) Derivative Transactions and Hedge Accounting

Derivative financial instruments are stated at fair value and recorded on the balance sheets.

However, if a foreign exchange forward contract is executed to hedge a future transaction denominated in a foreign currency, the Corporation and its domestic subsidiaries defer recognition of gains or losses on evaluation of derivative financial instruments until the related gains or losses on the hedged items are recognized.

A. Hedging instruments and hedged items

Hedging instruments:

Foreign exchange forward contracts

Hedged items:

Trade receivables associated with export of products and payables associated with purchase of certain plants and equipments

B. Hedge policy

The Corporation and its domestic subsidiaries use foreign exchange forward contracts to hedge the risk due to the effect of foreign currency exchange rates.

(m) Reclassifications

Certain prior year amounts have been reclassified to conform to 2005 presentation.

(n) Consolidation differences

The minor differences arising from the investments in subsidiaries and affiliates over the equity in their net assets at fair value are charged or credited to income in the year of acquisition significant differences are, as a rule, amortized over period of 5 years.

2. Cash and Cash Equivalents

The reconciliations of cash and cash equivalents to the accounts on the balance sheets as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Cash on hand and in banks	¥ 50,355	¥ 49,145	\$ 468,898	\$ 457,631
Time deposits with maturities exceeding three months.	(2,077)	(601)	(19,340)	(5,596)
Cash and cash equivalents	¥ 48,278	¥ 48,544	\$ 449,558	\$ 452,035

3. Securities

A. The following tables summarize acquisition costs, book values and fair value of securities with available fair values:

Other securities as of March 31, 2005 and 2004:

2005

Type	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs						
Equity securities	¥ 3,218	¥ 8,528	¥ 5,310	\$ 29,966	\$ 79,411	\$ 49,445
Others	268	304	36	2,496	2,831	335
Total	¥ 3,486	¥ 8,832	¥ 5,346	\$ 32,462	\$ 82,242	\$ 49,780
Securities with book values not exceeding acquisition costs						
Equity securities	¥ 16	¥ 12	¥ (4)	\$ 149	\$ 112	\$ (37)
Total	¥ 16	¥ 12	¥ (4)	\$ 149	\$ 112	\$ (37)

2004

Type	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs						
Equity securities	¥ 2,739	¥ 8,276	¥ 5,537	\$ 25,505	\$ 77,065	\$ 51,560
Others	165	201	36	1,536	1,872	336
Total	¥ 2,904	¥ 8,477	¥ 5,573	\$ 27,041	\$ 78,937	\$ 51,896
Securities with book values not exceeding acquisition costs						
Equity securities	¥ 517	¥ 516	¥ (1)	\$ 4,814	\$ 4,805	\$ (9)
Others	105	103	(2)	978	959	(19)
Total	¥ 622	¥ 619	¥ (3)	\$ 5,792	\$ 5,764	\$ (28)

Notes to Consolidated Financial Statements

B. The following table summarizes the book values of other securities with no available fair values as of March 31, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Other securities with no fair value				
Carrying amount	¥ 2,623	¥ 2,507	\$ 24,425	\$ 23,345

C. Total sales of other securities sold in the year ended March 31, 2004 amounted to ¥460 million (\$4,283 thousand) and the related gains and losses amounted to ¥38 million (\$354 thousand) and ¥14 million (\$130 thousand), respectively. Those amounts in the year ended March 31, 2005 are immaterial.

4. Inventories

Inventories as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Finished products	¥ 15,063	¥ 15,262	\$ 140,264	\$ 142,117
Work in process	17,514	17,496	163,088	162,920
Raw materials	11,594	7,913	107,962	73,685
	¥ 44,171	¥ 40,671	\$ 411,314	\$ 378,722

5. Income Taxes

The normal statutory tax rate used for calculation of deferred taxes assets and liabilities was 40.5% for the year ended March 31, 2005. Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of the business. Based on the change of income tax rates, for the calculation of deferred taxes assets and liabilities, the Corporation and its consolidated domestic subsidiaries used the normal statutory tax rates of 40.5% for both current items and non-current items, for the years ended March 31, 2005 and 2004.

As the result of the change in the normal statutory tax rates, deferred tax assets decreased by ¥150 million (\$1,397 thousand) and income taxes-deferred increased by the same amount at March 31, 2004 compared with what would have been recorded under the previous local tax law.

The consolidated financial statements for the year ended March 31, 2005 applied the new legislation and included the sum of the value added component and the capital-based component of local enterprise taxes in selling, general and administrative expenses. As a result of applying the new legislation, selling, general and administrative expenses increased by ¥626 million (\$5,829 thousand). Operating income and income before provision for income taxes decreased by the same amount.

The Corporation is subject to a number of different income taxes which, in aggregate, indicate normal tax rate in Japan of approximately 41% and 42% for the years ended March 31, 2005 and 2004, respectively.

The following table summarizes the significant differences between the normal tax rate and the Corporation's effective tax rate for financial statement purposes for the years ended March 31, 2005 and 2004.

	2005	2004
Normal statutory tax rate	41 %	42 %
Tax credits	(4)	(4)
Valuation allowance	5	3
Difference in normal tax rate of foreign subsidiaries	(2)	(4)
Other, net	(2)	1
Effective tax rate	38 %	38 %

Significant components of the Corporation's deferred tax assets and liabilities as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Deferred Tax Assets:				
Current				
Deferred tax assets:				
Inventories	¥ 147	¥ 300	\$ 1,369	\$ 2,794
Unrealized gains on inventories	1,256	1,014	11,696	9,442
Allowance for doubtful receivables	157	166	1,462	1,546
Accrued revenue	—	—	—	—
Enterprise taxes	1,132	1,226	10,541	11,416
Accounts payable	243	248	2,263	2,309
Accrued expenses	2,852	2,705	26,557	25,189
Other	529	752	4,926	7,002
Total current deferred tax assets	6,316	6,411	58,814	59,698
Net current deferred tax assets	¥ 6,316	¥ 6,411	\$ 58,814	\$ 59,698
Long-term				
Deferred tax assets:				
Depreciation	¥ 2,008	¥ 1,754	\$ 18,698	\$ 16,333
Intangible assets	200	222	1,862	2,067
Severance and pension benefits	1,803	3,009	16,789	28,019
Retirement allowance for directors and corporate auditors	387	542	3,604	5,047
Net operating loss carry forwards	1,102	1,587	10,262	14,778
Other	2,826	2,096	26,315	19,518
Gross deferred tax assets	8,326	9,210	77,530	85,762
Less valuation allowance	(3,146)	(1,811)	(29,295)	(16,864)
Total long-term deferred tax assets	5,180	7,399	48,235	68,898
Deferred tax liabilities:				
Prepaid pension cost	549	—	5,112	—
Reserve for special depreciation	709	1,499	6,602	13,958
Undistributed earnings of overseas subsidiaries and affiliates	1,099	976	10,234	9,088
Net unrealized holding gains on securities	2,161	2,254	20,123	20,989
Total deferred tax liabilities	4,518	4,729	42,071	44,035
Net long-term deferred tax assets	¥ 662	¥ 2,670	\$ 6,164	\$ 24,863

6. Short-term Bank Loans and Long-term Debt

Short-term bank loans are principally notes payable to banks due in 30-365 days. The average interest rates on these loans, as of March 31, 2005 and 2004 were approximately 2.8% and 1.7%, respectively.

Long-term debt as of March 31, 2005 and 2004 is summarized below:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
0.00% to 4.98% loans from banks and others, due in installments through 2012	¥ 7,640	¥ 4,998	\$ 71,143	\$ 46,541
2.1% mortgage bonds, due 2005	300	300	2,793	2,793
	7,940	5,298	73,936	49,334
Current portion	(1,436)	(1,550)	(13,372)	(14,433)
	¥ 6,504	¥ 3,748	\$ 60,564	\$ 34,901

Notes to Consolidated Financial Statements

At March 31, 2005, land of ¥596 million (\$5,550 thousand), buildings with a net book value of ¥742 million (\$6,909 thousand) and investments in securities of ¥65 million (\$605 thousand) are pledged as collateral for ¥300 million (\$2,793 thousand) of mortgage bonds, ¥64 million (\$596 thousand) of trade notes and accounts payable, ¥41 million (\$382 thousand) of short-term bank loans, and ¥667 million (\$6,211 thousand) of long-term debt, respectively.

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will

be given upon request of the bank, and that any collateral so furnished will be applicable to all indebtedness to that bank. To date, the Corporation and its subsidiaries have not received any such requests from the banks. In addition, the agreements provide that the bank has the right to offset cash deposited against any short-term debt or long-term debt that becomes due, and, in case of default and certain other specified events, against all other debt payable to the bank.

The aggregate annual maturities of long-term debt are summarized below:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 1,057	\$ 9,843
2008	3,442	32,051
2009	734	6,835
2010	553	5,149
2011 and thereafter	718	6,686
	¥ 6,504	\$ 60,564

7. Employees' Severance and Pension Benefits

The allowance for severance and pension benefits as of March 31, 2005 and 2004 consist of the following:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Projected benefit obligation	¥ 88,625	¥ 87,539	\$ 825,263	\$ 815,150
Unrecognized prior service benefits (costs)	4,873	3,469	45,377	32,303
Unrecognized actuarial differences	(22,330)	(23,361)	(207,934)	(217,534)
Less fair value of pension assets	(67,662)	(59,250)	(630,059)	(551,727)
Prepaid pension cost	10,524	245	97,998	2,281
Allowance for severance and pension benefits	¥ 14,030	¥ 8,642	\$ 130,645	\$ 80,473

Severance and pension benefits expenses for the years ended March 31, 2005 and 2004 comprise the following:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Service costs-benefits earned during the year	¥ 3,155	¥ 3,177	\$ 29,379	\$ 29,584
Interest costs on projected benefit obligation	2,164	2,168	20,151	20,188
Expected return on plan assets	(2,529)	(1,721)	(23,550)	(16,026)
Amortization of actuarial differences	2,343	2,917	21,818	27,163
Amortization of prior service costs (benefits)	(320)	(230)	(2,980)	(2,142)
Severance and pension benefits expense	¥ 4,813	¥ 6,311	\$ 44,818	\$ 58,767
Plan amendments	—	(1,958)	—	(18,233)
Net	¥ 4,813	¥ 4,353	\$ 44,818	\$ 40,534

Besides the above costs, the Corporation and its consolidated subsidiaries paid a special retirement allowance amounting to ¥718 million and ¥428 million and charged them to income for the years ended March 31, 2005 and 2004, respectively.

8. Leases

Finance Leases

Information relating to finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, at March 31, 2005 and 2004 and for the fiscal years then ended, is as follows:

2005	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
Buildings	¥ 18	¥ 12	¥ 6	\$ 56
Machinery and vehicles	492	273	219	2,039
Tools and equipment	275	208	67	624
Other	404	296	108	1,006
	¥ 1,189	¥ 789	¥ 400	\$ 3,725

2004	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
Buildings	¥ 19	¥ 10	¥ 9	\$ 84
Machinery and vehicles	600	356	244	2,272
Tools and equipment	340	216	124	1,155
Other	496	300	196	1,825
	¥ 1,455	¥ 882	¥ 573	\$ 5,336

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Future minimum lease payments				
Due within one year	¥ 214	¥ 273	\$ 1,992	\$ 2,542
Due after one year	198	318	1,844	2,961
	¥ 412	¥ 591	\$ 3,836	\$ 5,503
Lease payments for the year ended March 31	¥ 302	¥ 423	\$ 2,812	\$ 3,939

Operating Leases

Future minimum lease payments due under operating leases as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
Due within one year	¥ 2	¥ 3	\$ 19	\$ 28
Due after one year	—	2	—	19
	¥ 2	¥ 5	\$ 19	\$ 47

9. Shareholders' Equity and Per Share Data

The Japanese Commercial Code provides that at least one-half of the proceeds from shares issued be included in common stock and the remaining amount of the proceeds be accounted for as additional paid-in-capital.

The Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriations of retained earnings with respect to each annual period shall be appropriated and set aside

as a legal reserve until the total amount of legal reserve and additional paid-in-capital equals 25% of stated capital.

On condition that the total amount of legal reserve and additional paid-in-capital remains being equal to or exceeding 25% of stated capital, they are available for distribution by the resolution of the shareholders' meeting.

Legal reserve is included in retained earnings and additional paid-in-capital is included in capital surplus.

Notes to Consolidated Financial Statements

Cash dividends are declared by the Board of Directors on a semi-annual basis in the three months after the end of each six-month period, and are payable to the shareholders of record at the end of such six-month period. Dividends applicable to the last six months and related appropriations of retained earnings are subject to the approval of the shareholders and are recorded at the time they are approved.

However, dividends per share are shown in the accompanying consolidated statements of income in the period to which they are applicable.

Net income per share is based on the weighted average number of shares of common stock outstanding during the year.

Diluted net income per share is based on the assumption that all warrants were exercised at the beginning of the year or the issuance date.

On June 24, 2004, the Corporation's annual general meeting passed a resolution on modifying the articles of incorporation to allow the Corporation to purchase its outstanding shares upon approval of the Board of Directors' meeting in conformity with Article 211-3 of the Commercial Code of Japan.

The shareholders approved, at the general meeting of shareholders held on June 24, 2005, the declaration of the final cash dividends of ¥25.00 (\$0.23) per share totaling ¥4,115 million (\$38,318 thousand).

10. Stock Option Plans

At the general meeting of shareholders held on June 21, 2002, the Corporation resolved to grant all directors, key employees and some of subsidiaries' directors the right to purchase the ordinary shares of the Corporation. The options were granted at an exercise price of 105 percent of the higher of the average of daily closing prices on the Tokyo Stock Exchange during the month preceding the month in which the option is issued, and the closing price of the Corporation's stock on the market on the day the options were issued. The Corporation acquired 314,700 shares of its common stock for the plan upon the resolution of the shareholders' meeting. The options are exercisable at an exercise price of ¥3,905 per share for three years from January 1, 2003 to December 31, 2005.

At the general meeting of shareholders held on June 20, 2003, the Corporation resolved to grant all directors, key employees and some of subsidiaries' directors the right to purchase the ordinary shares of the Corporation. The exercise price was calculated on the same conditions above. The Corporation acquired 326,200 shares of its common stock for the plan upon the resolution of the shareholders' meeting. The options are exercisable at an exercise price of ¥5,177 for three years from January 1, 2004 to December 31, 2006.

At the general meeting of shareholders held on June 24, 2004, the Corporation resolved to grant all directors, key employees and some of subsidiaries' directors the right to purchase the ordinary shares of the Corporation. The exercise price was calculated on the same conditions above. The Corporation acquired 350,000 shares

of its common stock for the plan upon the resolution of the shareholders' meeting. The options are exercisable for three years from January 1, 2005 to December 31, 2007.

At the general meeting of shareholders held on June 24, 2005, the Corporation resolved to grant all directors, key employees and some of subsidiaries' directors the right to purchase the ordinary shares of the Corporation. The exercise price was calculated on the same conditions above. The Corporation acquired 400,000 shares of its common stock for the plan upon the resolution of the shareholders' meeting. The options are exercisable for three years from January 1, 2005 to December 31, 2008.

At the general meeting of shareholders held on June 24, 2004, the Corporation resolved to grant all directors and corporate officers the right to purchase the ordinary shares of the Corporation. The options were granted at an exercise price of ¥1. The Corporation acquired 45,000 shares of its common stock for the plan upon the resolution of shareholders' meeting. The options are exercisable for twenty years from June 25, 2004 to June 24, 2024.

In addition, at the general meeting of shareholders held on June 24, 2005, the Corporation resolved to grant all directors and corporate officers the right to purchase the ordinary shares of the Corporation. The options were granted at an exercise price of ¥1. The Corporation acquired 40,000 shares of its common stock for the plan upon the resolution of shareholders' meeting. The options are exercisable for twenty years from June 25, 2005 to June 24, 2025.

11. Commitments and Contingent Liabilities

Capital Expenditure Program

Under the capital expenditure program of the Corporation and its subsidiaries, it is estimated that ¥82,066 million (\$764,187 thousand) will be expended during the two years ending March 31, 2006, of which ¥31,291 million (\$291,377 thousand) represents contractual commitments.

Contingent Liabilities

The Corporation and certain consolidated subsidiaries are contingently liable, as of March 31, 2005, for trade notes receivable which were discounted or endorsed of ¥834 million (\$7,766 thousand), and as guarantors for borrowings of ¥1,812 million (\$16,873 thousand) by certain employees and nonconsolidated subsidiaries.

12. Derivative Financial Instruments

The Corporation and its domestic subsidiaries use foreign exchange forward and option contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Corporation and its domestic subsidiaries do not hold or issue derivatives for trading or speculative purpose. If these derivative transactions are used as hedges and meet certain hedging criteria, the Corporation and its domestic subsidiaries apply hedge accounting for the derivatives

Because the counterparties to these derivatives are limited to

international financial institutions, the Corporation and its domestic subsidiaries do not anticipate any losses arising from credit risk. Derivative transactions used by the Corporation and its domestic subsidiaries have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

The following tables summarize market value information as of March 31, 2005 of derivative transactions for which hedge accounting has not been applied:

	Contract amounts			Market value	Millions of yen	
	Due within 1 year	Due over 1 year	Total		Unrealized gain (loss)	
Year ended March 31, 2005						
Currency option contracts						
Buy						
Put U.S. dollars	¥ 322	—	¥ 322	¥ 3	¥ 1	
Sell						
Call U.S. dollars	485	—	485	(5)	(1)	

	Contract amounts			Market value	Thousands of U.S. dollars	
	Due within 1 year	Due over 1 year	Total		Unrealized gain (loss)	
Year ended March 31, 2005						
Currency option contracts						
Buy						
Put U.S. dollars	\$ 2,998	—	\$ 3,000	\$ 28	\$ 9	
Sell						
Call U.S. dollars	4,516	—	4,516	(47)	(9)	

13. Loss on evaluation of Fixed Assets and Goodwill

In the previous year, ¥683 million (\$6,360 thousand) was written off for loss on evaluation of fixed assets as a result of a factory shutdown in one of the U.S. subsidiaries.

In addition, ¥683 million (\$6,360 thousand) was written off for loss on evaluation of goodwill in one of the U.S. subsidiaries. In the current year, ¥258 million (\$2,402 thousand) was written off for loss on evaluation of goodwill in one of the U.S. subsidiaries.

Notes to Consolidated Financial Statements

14. Operating Segment Information

(1) Business Segments

The Corporation operates principally in three business segments: Industrial Products, Electronic Products, and Functional Products.

Industrial Products include bonding and joining products, surface protection products, anti-corrosion and waterproof products, sealing products, and packaging products and equipment.

Electronic Products include semiconductor-related products,

LCD-related products, flexible printed circuit products, and electronic processing products.

Functional products include medical-related products, polymer separation membranes, and fluoroplastic products.

Business segment information for the years ended March 31, 2005 and 2004 is as follows:

	Millions of yen				
	Industrial Products	Electronic Products	Functional Products	Eliminations Corporate	Consolidated Total
2005					
Sales:					
Sales to outside customers	¥ 207,366	¥ 261,542	¥ 45,960	¥ —	¥ 514,868
Intersegment sales	16	86	455	(557)	—
Total	207,382	261,628	46,415	(557)	514,868
Operating expenses	190,843	214,475	40,088	(557)	444,849
Operating income	16,539	47,153	6,327	—	70,019
Assets	123,053	208,948	45,986	65,277	443,264
Depreciation and amortization	7,248	14,251	3,182	—	24,681
Capital expenditure	12,768	34,890	5,256	—	52,914

	Thousands of U.S. dollars				
	Industrial Products	Electronic Products	Functional Products	Eliminations Corporate	Consolidated Total
2005					
Sales:					
Sales to outside customers	\$ 1,930,962	\$ 2,435,441	\$ 427,973	\$ —	\$ 4,794,376
Intersegment sales	149	801	4,237	(5,187)	—
Total	1,931,111	2,436,242	432,210	(5,187)	4,794,376
Operating expenses	1,777,102	1,997,160	373,294	(5,187)	4,142,369
Operating income	154,009	439,082	58,916	—	652,007
Assets	1,145,852	1,945,693	428,215	607,850	4,127,610
Depreciation and amortization	67,492	132,703	29,631	—	229,826
Capital expenditure	118,894	324,891	48,943	—	492,727

	Millions of yen				
	Industrial Products	Electronic Products	Functional Products	Eliminations Corporate	Consolidated Total
2004					
Sales:					
Sales to outside customers	¥ 191,683	¥ 219,709	¥ 41,334	¥ —	¥ 452,726
Intersegment sales	11	96	495	(602)	—
Total	191,694	219,805	41,829	(602)	452,726
Operating expenses	178,257	180,923	38,236	(602)	396,814
Operating income	13,437	38,882	3,593	—	55,912
Assets	118,462	165,957	41,457	63,649	389,525
Depreciation and amortization	7,833	10,439	3,114	—	21,386
Capital expenditure	11,995	19,148	5,175	—	36,318

	Thousands of U.S. dollars				
	Industrial Products	Electronic Products	Functional Products	Eliminations Corporate	Consolidated Total
2004					
Sales:					
Sales to outside customers	\$ 1,784,924	\$ 2,045,898	\$ 384,896	\$ —	\$ 4,215,718
Intersegment sales	103	894	4,610	(5,607)	—
Total	1,785,027	2,046,792	389,506	(5,607)	4,215,718
Operating expenses	1,659,904	1,684,728	356,049	(5,607)	3,695,074
Operating income	125,123	362,064	33,457	—	520,644
Assets	1,103,101	1,545,367	386,042	592,690	3,627,200
Depreciation and amortization	72,940	97,206	28,997	—	199,143
Capital expenditure	111,696	178,303	48,189	—	338,188

(2) Geographic Area

Geographic area information for the years ended March 31, 2005 and 2004 is as follows:

	Millions of yen					
2005	Japan	North America	Europe	Asia & Oceania	Eliminations Corporate	Consolidated Total
Sales:						
Sales to outside customers	¥ 295,115	¥ 35,837	¥ 17,393	¥ 166,523	¥ —	¥ 514,868
Intersegment sales	147,655	1,749	2,618	7,351	(159,373)	—
Total	442,770	37,586	20,011	173,874	(159,373)	514,868
Operating expenses	376,852	40,065	19,764	167,937	(159,769)	444,849
Operating income	65,918	(2,479)	247	5,937	396	70,019
Assets	280,505	41,569	12,325	94,895	13,970	443,264

	Thousands of U.S. dollars					
2005	Japan	North America	Europe	Asia & Oceania	Eliminations Corporate	Consolidated Total
Sales:						
Sales to outside customers	\$ 2,748,068	\$ 333,709	\$ 161,961	\$ 1,550,638	\$ —	\$ 4,794,376
Intersegment sales	1,374,942	16,286	24,379	68,451	(1,484,058)	—
Total	4,123,010	349,995	186,340	1,619,089	(1,484,058)	4,794,376
Operating expenses	3,509,191	373,079	184,039	1,563,805	(1,487,745)	4,142,369
Operating income	613,819	(23,084)	2,301	55,284	3,687	652,007
Assets	2,612,022	387,084	114,769	883,648	130,087	4,127,610

	Millions of yen					
2004	Japan	North America	Europe	Asia & Oceania	Eliminations Corporate	Consolidated Total
Sales:						
Sales to outside customers	¥ 286,323	¥ 37,216	¥ 16,423	¥ 112,764	¥ —	¥ 452,726
Intersegment sales	98,163	1,607	1,949	4,873	(106,592)	—
Total	384,486	38,823	18,372	117,637	(106,592)	452,726
Operating expenses	333,328	41,222	17,862	111,089	(106,687)	396,814
Operating income	51,158	(2,399)	510	6,548	95	55,912
Assets	245,749	47,628	11,369	57,222	27,557	389,525

	Thousands of U.S. dollars					
2004	Japan	North America	Europe	Asia & Oceania	Eliminations Corporate	Consolidated Total
Sales:						
Sales to outside customers	\$ 2,666,198	\$ 346,550	\$ 152,928	\$ 1,050,042	\$ —	\$ 4,215,718
Intersegment sales	914,079	14,964	18,149	45,377	(992,569)	—
Total	3,580,277	361,514	171,077	1,095,419	(992,569)	4,215,718
Operating expenses	3,103,901	383,853	166,328	1,034,445	(993,453)	3,695,074
Operating income	476,376	(22,339)	4,749	60,974	884	520,644
Assets	2,288,379	443,505	105,866	532,843	256,607	3,627,200

(3) Net Sales to Customer Outside Japan

Manufacturing operations of the Corporation and its subsidiaries are primarily in Japan. Net sales of the Corporation and its subsidiaries to customers outside Japan for the years ended March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2004	2005	2004
North America	¥ 31,806	¥ 33,443	\$ 296,173	\$ 311,416
Europe	19,352	17,635	180,203	164,215
Asia & Oceania	216,949	158,448	2,020,197	1,475,445
	¥ 268,107	¥ 209,526	\$ 2,496,573	\$ 1,951,076

Independent Auditors' Report

**To the Board of Directors of
NITTO DENKO CORPORATION:**

We have audited the accompanying consolidated balance sheets of NITTO DENKO CORPORATION and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NITTO DENKO CORPORATION and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 24, 2005