

Consolidated Balance Sheets

Nitto Denko Corporation and Consolidated Subsidiaries
As of March 31, 2006 and 2005

Assets	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Current Assets:				
Cash on hand and in banks (Note 2)	¥ 87,658	¥ 50,355	\$ 746,216	\$ 428,663
Trade notes and accounts receivable	144,444	119,735	1,229,625	1,019,282
Allowance for doubtful receivables	(1,526)	(1,598)	(12,991)	(13,603)
Inventories (Note 4)	59,528	44,171	506,751	376,019
Deferred tax assets and other (Note 5)	17,603	14,543	149,851	123,801
	307,707	227,206	2,619,452	1,934,162
Plant and Equipment, at Cost:				
Land	19,750	19,001	168,128	161,752
Buildings	149,377	122,785	1,271,618	1,045,245
Machinery and equipment	272,605	234,300	2,320,635	1,994,552
Construction in progress	22,428	22,228	190,926	189,223
	464,160	398,314	3,951,307	3,390,772
Accumulated depreciation	(257,253)	(231,790)	(2,189,947)	(1,973,185)
	206,907	166,524	1,761,360	1,417,587
Investments and Other Assets:				
Investments in nonconsolidated subsidiaries and affiliates	1,776	15,571	15,119	132,553
Investments in securities (Notes 3 and 6)	17,539	11,468	149,306	97,625
Goodwill	71	81	604	690
Prepaid pension cost (Notes 1 (j) and 7)	10,522	10,524	89,572	89,589
Deferred tax assets and other (Note 5)	12,412	11,890	105,661	101,217
	42,320	49,534	360,262	421,674
	¥ 556,934	¥ 443,264	\$ 4,741,074	\$ 3,773,423

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	
	2006	2005	2006	2005
Current Liabilities:				
Short-term bank loans, including current portion of long-term debts (Note 6)	¥ 18,022	¥ 8,809	\$ 153,418	\$ 74,989
Trade notes and accounts payable (Note 6)	128,647	103,417	1,095,148	880,369
Accrued expenses	18,429	15,635	156,883	133,098
Income taxes (Note 5)	23,999	16,089	204,299	136,963
Other current liabilities	2,367	1,269	20,149	10,803
	191,464	145,219	1,629,897	1,236,222
Long-term Liabilities:				
Long-term debts (Note 6)	5,674	6,504	48,302	55,367
Allowance for severance and pension benefits (Notes 1(j) and 7)	15,871	14,030	135,107	119,435
Retirement allowances for directors and corporate auditors	864	595	7,355	5,065
Consolidation differences (Note 1(n))	1,011	2,012	8,606	17,128
Deferred tax liabilities and other (Note 5)	7,843	3,545	66,766	30,178
	31,263	26,686	266,136	227,173
Minority Interests	12,742	10,268	108,470	87,410
Commitments and Contingent Liabilities (Note 11)				
Shareholders' Equity (Note 9):				
Common stock	26,784	26,784	228,007	228,007
Authorized — 400,000,000 shares				
Issued — 173,758,428 shares in 2006 and 2005				
Capital surplus	51,166	50,482	435,566	429,744
Retained earnings	274,679	228,927	2,338,291	1,948,812
Net unrealized holding gains on securities	6,712	3,022	57,138	25,726
Foreign currency translation adjustments	(3,703)	(11,913)	(31,523)	(101,413)
Cost of treasury stock (8,645,982 shares in 2006 and 9,164,140 shares in 2005)	(34,173)	(36,211)	(290,908)	(308,258)
	321,465	261,091	2,736,571	2,222,618
	¥ 556,934	¥ 443,264	\$ 4,741,074	\$ 3,773,423

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

Consolidated Statements of Income

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Net Sales	¥ 626,317	¥ 514,868	\$ 5,331,719	\$ 4,382,974
Cost of Sales	430,781	355,881	3,667,158	3,029,548
Gross profit	195,536	158,987	1,664,561	1,353,426
Selling, General and Administrative Expenses (Note 1(i))	106,311	88,968	905,005	757,367
Operating income	89,225	70,019	759,556	596,059
Other Income (Expenses):				
Interest and dividend income	458	306	3,899	2,605
Interest expense	(928)	(323)	(7,900)	(2,750)
Foreign exchange gain (loss)	827	43	7,040	366
Equity in earnings of nonconsolidated subsidiaries and affiliates	15	2,626	128	22,355
Loss on disposal of plant and equipment	(784)	(1,207)	(6,674)	(10,275)
Impairment loss on fixed assets (Note 1(g))	(116)	—	(987)	—
Loss on evaluation of goodwill (Note 13)	—	(258)	—	(2,196)
Special benefits on retirement (Note 7)	(212)	(718)	(1,805)	(6,112)
Other, net	1,129	(512)	9,610	(4,359)
	389	(43)	3,311	(366)
Income before Provision for Income Taxes	89,614	69,976	762,867	595,693
Provision for Income Taxes (Note 5):				
Current	35,989	24,464	306,368	208,257
Deferred, net	(2,894)	2,152	(24,636)	18,320
	33,095	26,616	281,732	226,577
Minority Interests in Net Income of Consolidated Subsidiaries	(1,212)	(1,517)	(10,317)	(12,914)
Net Income	¥ 55,307	¥ 41,843	\$ 470,818	\$ 356,202
Per Share of Common Stock (Note 9):				
	Yen		U.S. dollars	
Net Income	¥ 332.30	¥ 252.72	\$ 2.83	\$ 2.15
Net Income — Diluted	331.72	252.58	2.82	2.15
Cash Dividends, Applicable to Earnings of the Year	60.00	50.00	0.51	0.43

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, 2006 and 2005

	Number of Shares (thousands)		Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005	2006	2005
Common Stock (Note 9):						
Authorized shares	400,000	400,000				
Outstanding shares						
Beginning balance	173,758	173,758	¥ 26,784	¥ 26,784	\$ 228,007	\$ 228,007
Ending balance	173,758	173,758	¥ 26,784	¥ 26,784	\$ 228,007	\$ 228,007
Capital Surplus (Note 9):						
Beginning balance			¥ 50,482	¥ 50,482	\$ 429,744	\$ 429,744
Gain on treasury stock			684	—	5,822	—
Ending balance			¥ 51,166	¥ 50,482	\$ 435,566	\$ 429,744
Retained Earnings (Note 9):						
Beginning balance			¥ 228,927	¥ 196,596	\$ 1,948,812	\$ 1,673,585
Net income			55,307	41,843	470,818	356,202
Cash dividends paid			(9,059)	(7,854)	(77,117)	(66,860)
Directors' bonuses			(496)	(552)	(4,222)	(4,699)
Loss on treasury stock			—	(1,106)	—	(9,416)
Ending balance			¥ 274,679	¥ 228,927	\$ 2,338,291	\$ 1,948,812
Net Unrealized Holding Gains on Securities:						
Beginning balance			¥ 3,022	¥ 3,057	\$ 25,726	\$ 26,024
Net increase (decrease)			3,690	(35)	31,412	(298)
Ending balance			¥ 6,712	¥ 3,022	\$ 57,138	\$ 25,726
Foreign Currency Translation Adjustments:						
Beginning balance			¥ (11,913)	¥ (13,629)	\$ (101,413)	\$ (116,021)
Net increase (decrease)			8,210	1,716	69,890	14,608
Ending balance			¥ (3,703)	¥ (11,913)	\$ (31,523)	\$ (101,413)
Cost of Treasury Stock (Note 10):						
Beginning balance			¥ (36,211)	¥ (40,176)	\$ (308,257)	\$ (342,011)
Net decrease (increase)			2,038	3,965	17,349	33,753
Ending balance			¥ (34,173)	¥ (36,211)	\$ (290,908)	\$ (308,258)

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, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Cash Flows from Operating Activities:				
Income before provision for income taxes	¥ 89,614	¥ 69,976	\$ 762,867	\$ 595,693
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization	31,471	24,681	267,907	210,105
Impairment loss on fixed assets	116	—	987	—
Increase (decrease) in allowance for severance and pension benefits	1,265	(5,135)	10,769	(43,713)
Interest and dividend income	(458)	(306)	(3,899)	(2,605)
Interest expense	928	323	7,900	2,750
Equity in earnings of nonconsolidated subsidiaries and affiliates	(15)	(2,626)	(128)	(22,355)
Loss on evaluation of investments in securities	1	8	9	68
Loss on evaluation of goodwill	—	258	—	2,196
(Gain) loss on sales and disposal of fixed assets	84	1,152	715	9,807
Decrease (increase) in trade notes and accounts receivable	(18,184)	(8,041)	(154,797)	(68,452)
Decrease (increase) in inventories	(7,480)	(2,006)	(63,676)	(17,077)
Decrease (increase) in other receivables	130	620	1,107	5,278
Increase (decrease) in trade notes and accounts payable	17,836	(37)	151,835	(315)
Other, net	(911)	(1,728)	(7,756)	(14,710)
Total	114,397	77,139	973,840	656,670
Interest and dividend income received	504	824	4,291	7,015
Interest paid	(918)	(332)	(7,815)	(2,827)
Income taxes refunded (paid)	(29,457)	(21,563)	(250,762)	(183,562)
Net cash provided by operating activities	84,526	56,068	719,554	477,296
Cash Flows from Investing Activities:				
Acquisitions of plant and equipment	(58,158)	(47,594)	(495,088)	(405,159)
Proceeds from sales of plant and equipment	1,398	1,051	11,901	8,947
Decrease (increase) in time deposits, net	1,263	(1,048)	10,752	(8,921)
Purchase of investments in securities	(126)	(81)	(1,073)	(690)
Proceeds from sales of investments in securities	753	133	6,410	1,132
Acquisitions of subsidiaries	(473)	(1,514)	(4,027)	(12,888)
Other, net	(23)	(118)	(195)	(1,004)
Net cash used in investing activities	(55,366)	(49,171)	(471,320)	(418,583)
Cash Flows from Financing Activities:				
Proceeds from long-term debts	124	4,022	1,056	34,239
Repayments of long-term debts	(3,180)	(1,687)	(27,071)	(14,361)
Increase (decrease) in short-term debts, net	8,696	(3,779)	74,027	(32,170)
Decrease (increase) in treasury stock	2,721	438	23,163	3,729
Dividends paid	(9,059)	(7,854)	(77,118)	(66,860)
Other, net	(312)	(295)	(2,655)	(2,512)
Net cash used in financing activities	(1,010)	(9,155)	(8,598)	(77,935)
Foreign Currency Exchange Gain (Loss) in Cash and Cash Equivalents	2,476	742	21,077	6,317
Net Increase (Decrease) in Cash and Cash Equivalents	30,626	(1,516)	260,713	(12,905)
Cash and Cash Equivalents, Beginning of Year	48,278	48,544	410,982	413,246
Increase in Cash and Cash Equivalents due to Change in Scope of Consolidated Subsidiaries	7,780	1,250	66,230	10,641
Cash and Cash Equivalents, End of Year (Note 2)	¥ 86,684	¥ 48,278	\$ 737,925	\$ 410,982

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, 2006 and 2005

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 Corporation 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, 2006, which was ¥117.47 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 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.

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

The Corporation and its domestic subsidiaries adopted 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).

As a result of adopting this standard, income before provision for income taxes decreased by ¥116 million (\$987 thousand) compared to amount that would have been reported if the previous standards had been applied consistently. The accumulated impairment loss ¥116 million (\$987 thousand) has been deducted from the respective assets, in accordance with the revised Regulations of Consolidated Financial Statements.

(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 ¥20,489 million (\$174,419 thousand) and ¥16,739 million (\$142,496 thousand) for the years ended March 31, 2006 and 2005, 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 costs of pension plans are amortized on the straight-line method over 12 years which is less than or equal to the estimated average remaining service lives of the employees from the fiscal year in which the cost is recognized.

Actual net losses are amortized on the straight-line method over 12 years which is less than or equal to the estimated average remaining service lives of the employees from the next fiscal year.

(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 plant and equipment

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 the 2006 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, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Cash on hand and in banks	¥ 87,658	¥ 50,355	\$ 746,216	\$ 428,663
Time deposits with maturities exceeding three months	(974)	(2,077)	(8,291)	(17,681)
Cash and cash equivalents	¥ 86,684	¥ 48,278	\$ 737,925	\$ 410,982

3. Securities

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

Other securities as of March 31, 2006 and 2005

2006

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	¥ 3,293	¥ 14,954	¥ 11,661	\$ 28,033	\$ 127,301	\$ 99,268
Others	172	259	87	1,464	2,204	740
Total	¥ 3,465	¥ 15,213	¥ 11,748	\$ 29,497	\$ 129,505	\$ 100,008
Securities with book values not exceeding acquisition costs						
Equity securities	¥ 13	¥ 10	¥ (3)	\$ 111	\$ 85	\$ (26)
Total	¥ 13	¥ 10	¥ (3)	\$ 111	\$ 85	\$ (26)

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	\$ 27,394	\$ 72,597	\$ 45,203
Others	268	304	36	2,282	2,588	306
Total	¥ 3,486	¥ 8,832	¥ 5,346	\$ 29,676	\$ 75,185	\$ 45,509
Securities with book values not exceeding acquisition costs						
Equity securities	¥ 16	¥ 12	¥ (4)	\$ 136	\$ 102	\$ (34)
Total	¥ 16	¥ 12	¥ (4)	\$ 136	\$ 102	\$ (34)

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, 2006 and 2005.

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Other securities with no fair value				
Carrying amount	¥ 2,316	¥ 2,623	\$ 19,716	\$ 22,329

C. Total sales of other securities sold in the year ended March 31, 2006 amounted to ¥753 million (\$6,410 thousand) and the related gains and losses amounted to ¥317 million (\$2,699 thousand) and ¥14 million (\$119 thousand), respectively. Those amounts in the year ended March 31, 2005 are immaterial.

4. Inventories

Inventories as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Finished products	¥ 21,313	¥ 15,063	\$ 181,434	\$ 128,228
Work in process	21,387	17,514	182,063	149,093
Raw materials	16,828	11,594	143,254	98,698
	¥ 59,528	¥ 44,171	\$ 506,751	\$ 376,019

5. Income Taxes

The normal statutory tax rate used for calculation of deferred taxes assets and liabilities was 40.2% for the year ended March 31, 2006.

The Corporation is subject to a number of different income taxes which, in aggregate, indicate normal tax rates in Japan of approximately 40% and 41% for the years ended March 31, 2006 and 2005, respectively.

The following table summarizes the significant differences between the normal tax rate and the Corporation's effective tax rates for financial statement purposes for the years ended March 31, 2006 and 2005.

	2006	2005
Normal statutory tax rate	40 %	41 %
Tax credits	(4)	(4)
Valuation allowance	3	5
Difference in normal tax rate of foreign subsidiaries	(2)	(2)
Other, net	(0)	(2)
Effective tax rate	37 %	38 %

Significant components of the Corporation's deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Deferred Tax Assets:				
Current				
Deferred tax assets:				
Inventories	¥ 478	¥ 147	\$ 4,069	\$ 1,251
Unrealized gains on inventories	2,098	1,256	17,860	10,692
Enterprise taxes	1,873	1,132	15,944	9,637
Accounts payable	299	243	2,545	2,069
Accrued expenses	4,289	2,852	36,511	24,279
Other	1,391	686	11,842	5,839
Total current deferred tax assets	10,428	6,316	88,771	53,767
Less valuation allowance	(1,118)	—	(9,517)	—
Net current deferred tax assets	¥ 9,310	¥ 6,316	\$ 79,254	\$ 53,767
Long-term				
Deferred tax assets:				
Depreciation	¥ 2,428	¥ 2,008	\$ 20,669	\$ 17,094
Intangible assets	190	200	1,617	1,703
Severance and pension benefits	2,948	1,803	25,096	15,349
Retirement allowances for directors and corporate auditors	490	387	4,171	3,294
Net operating loss carry forwards	6,168	1,102	52,507	9,381
Other	1,714	2,826	14,592	24,056
Gross deferred tax assets	13,938	8,326	118,652	70,877
Less valuation allowance	(4,787)	(3,146)	(40,751)	(26,781)
Total long-term deferred tax assets	9,151	5,180	77,901	44,096
Deferred tax liabilities:				
Prepaid pension cost	586	549	4,989	4,673
Adjustments to fixed assets based on corporate tax law	216	—	1,839	—
Reserve for special depreciation	729	709	6,206	6,036
Undistributed earnings of overseas subsidiaries and affiliates	1,426	1,099	12,139	9,356
Net unrealized holding gains on securities	4,718	2,161	40,163	18,396
Depreciation of overseas subsidiaries	1,778	—	15,136	—
Other	671	—	5,712	—
Total deferred tax liabilities	10,124	4,518	86,184	38,461
Net long-term deferred tax assets	¥ (973)	¥ 662	\$ (8,283)	\$ 5,635

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

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, 2006 and 2005 were approximately 2.7% and

2.8%, respectively. Long-term debts as of March 31, 2006 and 2005 are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
0.00% to 5.62% loans from banks and others, due in installments through 2012	¥ 6,991	¥ 7,640	\$ 59,513	\$ 65,038
2.1% mortgage bonds, due 2005	—	300	—	2,554
	6,991	7,940	59,513	67,592
Current portion	(1,317)	(1,436)	(11,211)	(12,225)
	¥ 5,674	¥ 6,504	\$ 48,302	\$ 55,367

Notes to Consolidated Financial Statements

At March 31, 2006, investments in securities of ¥78 million (\$664 thousand) are pledged as collateral for ¥46 million (\$392 thousand) of trade notes and accounts payable.

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
2008.....	¥ 3,986	\$ 33,932
2009.....	808	6,878
2010.....	645	5,491
2011.....	235	2,001
	¥ 5,674	\$ 48,302

7. Employees' Severance and Pension Benefits

The allowance for severance and pension benefits as of March 31, 2006 and 2005 consists of the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Projected benefit obligation.....	¥ 97,988	¥ 88,625	\$ 834,153	\$ 754,448
Unrecognized prior service benefits (costs).....	4,746	4,873	40,402	41,483
Unrecognized actuarial differences.....	(8,827)	(22,330)	(75,143)	(190,091)
Less fair value of pension assets.....	(88,558)	(67,662)	(753,877)	(575,994)
Prepaid pension cost.....	10,522	10,524	89,572	89,589
Allowance for severance and pension benefits.....	¥ 15,871	¥ 14,030	\$ 135,107	\$ 119,435

Severance and pension benefits expenses for the years ended March 31, 2006 and 2005 comprise the following:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Service costs-benefits earned during the year.....	¥ 3,344	¥ 3,155	\$ 28,467	\$ 26,858
Interest costs on projected benefit obligation.....	2,307	2,164	19,639	18,422
Expected return on plan assets.....	(2,465)	(2,529)	(20,984)	(21,529)
Amortization of actuarial differences.....	2,553	2,343	21,733	19,945
Amortization of prior service costs (benefits).....	(475)	(320)	(4,044)	(2,724)
Severance and pension benefits expense.....	¥ 5,264	¥ 4,813	\$ 44,811	\$ 40,972

Besides the above costs, the Corporation and its consolidated subsidiaries paid special retirement allowances amounting to ¥212 million (\$1,805 thousand) and ¥718 million (\$6,112 thousand) and charged them to income for the years ended March 31, 2006 and 2005, 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, 2006 and 2005 and for the fiscal years then ended, is as follows:

2006	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
Buildings	¥ 19	¥ 15	¥ 4	\$ 34
Machinery and vehicles	566	279	287	2,443
Tools and equipment	455	281	174	1,481
Other	274	232	42	358
	¥ 1,314	¥ 807	¥ 507	\$ 4,316

2005	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
Buildings	¥ 18	¥ 12	¥ 6	\$ 51
Machinery and vehicles	492	273	219	1,864
Tools and equipment	275	208	67	570
Other	404	296	108	920
	¥ 1,189	¥ 789	¥ 400	\$ 3,405

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Future minimum lease payments				
Due within one year	¥ 232	¥ 214	\$ 1,975	\$ 1,822
Due after one year	295	198	2,511	1,685
	¥ 527	¥ 412	\$ 4,486	\$ 3,507
Lease payments for the year ended March 31	¥ 358	¥ 302	\$ 3,048	\$ 2,571

Operating Leases

Future minimum lease payments due under operating leases as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
Due within one year	¥ —	¥ 2	\$ —	\$ 17
Due after one year	—	—	—	—
	¥ —	¥ 2	\$ —	\$ 17

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.

The shareholders approved, at the general meeting of shareholders held on June 23, 2006, the declaration of the final cash dividends of ¥30.00 (\$0.26) per share totaling ¥4,953 million (\$42,164 thousand).

10. Stock Option Plans

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 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 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 per share 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 ¥165,024 million (\$1,404,818 thousand) will be expended during the two years ending March 31, 2008, of which ¥28,196 million (\$240,027 thousand) represents contractual commitments.

Contingent Liabilities

The Corporation and certain consolidated subsidiaries are contingently liable, as of March 31, 2006, for trade notes receivable which were discounted or endorsed of ¥826 million (\$7,032 thousand), and as guarantors for borrowings of ¥39 million (\$332 thousand) by certain employees.

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 Corporation and its domestic subsidiaries don't have any derivative transactions for which hedge accounting has not been applied as of March 31, 2006.

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

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

Year ended March 31, 2005	Contract amounts			Market value	Thousands of U.S. dollars	
	Due within 1 year	Due over 1 year	Total		Unrealized gain (loss)	
	Currency option contracts					
Buy						
Put U.S. dollars	\$ 2,741	—	\$ 2,741	\$ 26	\$ 9	
Sell						
Call U.S. dollars	4,129	—	4,129	(43)	(9)	

13. Loss on evaluation of Goodwill

In the previous year, ¥258 million (\$2,196 thousand) was written off for loss on evaluation of goodwill in one of the U.S. subsidiaries.

14. Subsequent Events

At the Board of Directors' meeting held on June 23, 2006, the Corporation and its subsidiary, Kyoshin Co., Ltd. ("Kyoshin") resolved to sign, and signed a share exchange agreement, for the purpose of turning Kyoshin into a wholly owned subsidiary of the Corporation.

The exchange of shares is expected to take place on September 1, 2006. The share exchange ratio will be one share of Kyoshin for 0.31 shares of the Corporation's common stock. The Corporation will use its treasury stock to exchange for Kyoshin's common stock instead of issuing new shares.

Notes to Consolidated Financial Statements

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

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

Business segment information for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen				
2006	Industrial Products	Electronic Products	Functional Products	Eliminations Corporate	Consolidated Total
Sales:					
Sales to outside customers	¥ 251,384	¥ 327,399	¥ 47,534	¥ —	¥ 626,317
Intersegment sales	—	42	472	(514)	—
Total	251,384	327,441	48,006	(514)	626,317
Operating expenses	228,446	268,727	40,433	(514)	537,092
Operating income	22,938	58,714	7,573	—	89,225
Assets	159,433	281,965	50,787	64,749	556,934
Depreciation and amortization	10,573	17,588	3,310	—	31,471
Capital expenditure	15,093	40,719	5,755	—	61,567

	Thousands of U.S. dollars				
2006	Industrial Products	Electronic Products	Functional Products	Eliminations Corporate	Consolidated Total
Sales:					
Sales to outside customers	\$ 2,139,985	\$ 2,787,086	\$ 404,648	\$ —	\$ 5,331,719
Intersegment sales	—	358	4,018	(4,376)	—
Total	2,139,985	2,787,444	408,666	(4,376)	5,331,719
Operating expenses	1,944,718	2,287,623	344,198	(4,376)	4,572,163
Operating income	195,267	499,821	64,468	—	759,556
Assets	1,357,223	2,400,315	432,340	551,196	4,741,074
Depreciation and amortization	90,006	149,723	28,178	—	267,907
Capital expenditure	128,484	346,633	48,991	—	524,108

	Millions of yen				
2005	Industrial Products	Electronic Products	Functional Products	Eliminations Corporate	Consolidated Total
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				
2005	Industrial Products	Electronic Products	Functional Products	Eliminations Corporate	Consolidated Total
Sales:					
Sales to outside customers	\$ 1,765,267	\$ 2,226,458	\$ 391,249	\$ —	\$ 4,382,974
Intersegment sales	137	732	3,873	(4,742)	—
Total	1,765,404	2,227,190	395,122	(4,742)	4,382,974
Operating expenses	1,624,611	1,825,785	341,261	(4,742)	3,786,915
Operating income	140,793	401,405	53,861	—	596,059
Assets	1,047,527	1,778,735	391,470	555,691	3,773,423
Depreciation and amortization	61,701	121,316	27,088	—	210,105
Capital expenditure	108,692	297,012	44,743	—	450,447

(2) Geographic Area

Geographic area information for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen					
2006	Japan	North America	Europe	Asia & Oceania	Eliminations Corporate	Consolidated Total
Sales:						
Sales to outside customers	¥ 271,187	¥ 38,581	¥ 19,395	¥ 297,154	¥ —	¥ 626,317
Intersegment sales	244,056	2,047	3,543	10,599	(260,245)	—
Total	515,243	40,628	22,938	307,753	(260,245)	626,317
Operating expenses	438,354	41,707	22,244	295,177	(260,390)	537,092
Operating income	76,889	(1,079)	694	12,576	145	89,225
Assets	351,565	47,185	14,674	165,317	(21,807)	556,934

	Thousands of U.S. dollars					
2006	Japan	North America	Europe	Asia & Oceania	Eliminations Corporate	Consolidated Total
Sales:						
Sales to outside customers	\$ 2,308,564	\$ 328,433	\$ 165,106	\$ 2,529,616	\$ —	\$ 5,331,719
Intersegment sales	2,077,603	17,426	30,161	90,227	(2,215,417)	—
Total	4,386,167	345,859	195,267	2,619,843	(2,215,417)	5,331,719
Operating expenses	3,731,625	355,044	189,359	2,512,786	(2,216,651)	4,572,163
Operating income	654,542	(9,185)	5,908	107,057	1,234	759,556
Assets	2,992,807	401,677	124,917	1,407,312	(185,639)	4,741,074

	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	\$ 2,512,258	\$ 305,074	\$ 148,063	\$ 1,417,579	\$ —	\$ 4,382,974
Intersegment sales	1,256,959	14,889	22,287	62,578	(1,356,713)	—
Total	3,769,217	319,963	170,350	1,480,157	(1,356,713)	4,382,974
Operating expenses	3,208,070	341,066	168,247	1,429,616	(1,360,084)	3,786,915
Operating income	561,147	(21,103)	2,103	50,541	3,371	596,059
Assets	2,387,886	353,869	104,921	807,823	118,924	3,773,423

(3) Net Sales to Customers 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, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2005	2006	2005
North America	¥ 33,280	¥ 31,806	\$ 283,306	\$ 270,758
Europe	20,786	19,352	176,947	164,740
Asia & Oceania	320,679	216,949	2,729,880	1,846,846
Other	554	—	4,717	—
	¥ 375,299	¥ 268,107	\$ 3,194,850	\$ 2,282,344

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, 2006 and 2005, 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 years ended March 31, 2006 and 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 23, 2006