

To Our Shareholders



Masamichi Takemoto

President

In fiscal 2006, the Nitto Denko Group posted record results for the fourth consecutive year, with double-digit increases in every major category, and Asia overtook Japan as the Group's largest market in terms of net sales. Over the past five years, the Group has transformed itself into a global entity, with overseas sales accounting for more than half of the total. Key to this impressive transformation has been a strategy centered on the development and marketing of world-leading niche products. Through massive capital investment and a renewed focus, the Group is poised for the next stage of growth.

The Year in Review

> Nitto Denko not sitting on its laurels despite record results

The global economy remained firm overall during fiscal 2006, ended March 31, 2006, despite such negative factors as soaring crude oil and raw materials prices. Although adversely affected by hurricanes, the U.S. economy was supported by brisk personal consumption and capital investment, and European economies continued to recover, helped by a stable euro, which helped increase exports. Meanwhile, exports of electronics and information technology (IT) products served as the drivers of growth for Asian economies. The Japanese economy was affected by high petroleum and

raw materials prices, but overall recovery continued. Improved corporate profits encouraged higher levels of capital investment, and personal consumption rebounded, spurred by a resurgence of demand in the IT and digital home electronics fields.

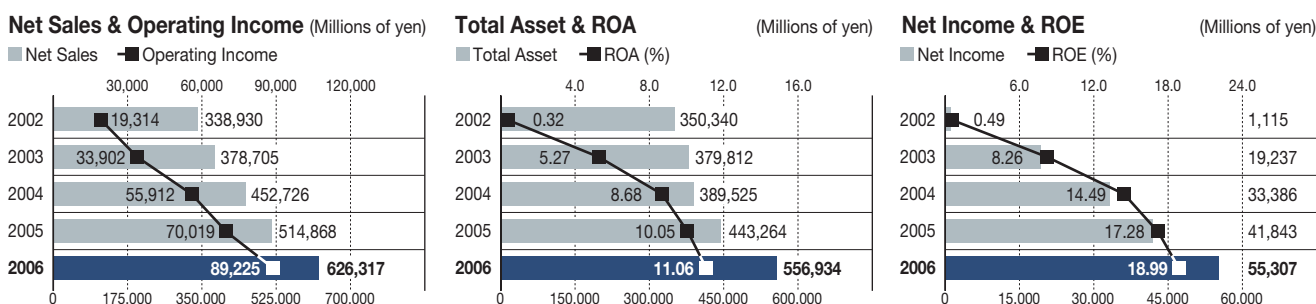
In this economic climate, the Nitto Denko Group continued to concentrate on global growth businesses, providing materials for liquid crystal displays (LCDs) and industrial materials for flat panel displays (FPDs), as well as industrial materials for automobiles and mobile telephones. Electronics materials also entered a recovery phase. As a result, in fiscal 2006 consolidated net sales increased significantly, surging ¥111,449 million, or 21.6%, to ¥626,317 million. Expanding the scope of consolidation to include 53 formerly non-consolidated equity-method affiliates was responsible for ¥26,367 million of this increase. Despite such negative factors as declining selling prices and increased depreciation and amortization expenses, profits benefited from such factors as improved capacity utilization owing to expanded sales, lower unit costs on materials, favorable exchange rates and higher production yields. As a result, the Group achieved record profits for the fourth consecutive fiscal year, with operating income rising ¥19,206 million, or 27.4%, to ¥89,225 million, and net income increased ¥13,464 million, or 32.2%, to ¥55,307 million.

The Company believes that periods of strong performance are precisely the right times for making systematic capital investments aimed at achieving sustained growth. In fiscal 2007, we are planning capital investments to substantially expand our capacity to manufacture optical films. The Company took this investment climate into account when deciding to raise per-share dividends by ¥10, compared with the previous term, to ¥60 per share.

The Past Five Years

> Substantial changes over the past five years prompting the need for “quality-enhanced growth”

The Nitto Denko Group has changed remarkably over the past five years, not least in its scale of operations. During the five-year period that began in fiscal 2002, net sales expanded 1.8 times, operating income grew 4.6 times, and employee headcount doubled. Much of this rapid growth was attributable to our performance in optical films,

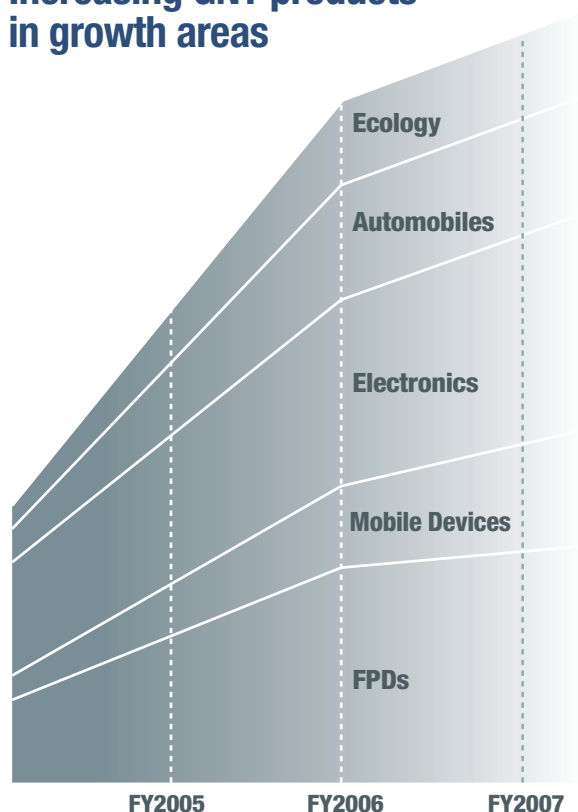


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such as polarizers for LCD televisions. Our success in optical film products has significantly altered the composition of our business. Optical films belong to our electronics materials business, which has steadily increased in importance to the Group's overall business. In 2001, electronics materials accounted for 39% of net sales; this business now contributes a much larger 52%. While making major strides in electronics materials, our business in industrial materials, which focus on automotive applications, has also grown steadily. In fiscal 2006, this business registered operating income 4.4 times that of five years ago. In addition, our operations have rapidly gone global. Overseas sales now account for 57% of the total, compared with 30% in 2001.

Focused Areas for Global Niche Top™ Products

Increasing GNT products
in growth areas



Ecology



Automobiles



Electronics



Mobile Devices



FPDs

The Nitto Denko Group has adopted a global niche top (GNT) strategy, which has helped ensure growth and kept the Group's technologies and ideas at the forefront of its industry. Using the GNT strategy, we ask ourselves several questions: "Is this a growth market?" "Is it a market niche for Nitto Denko?" "Do we have the right tools to be successful here?" "Can we afford the investment of people, equipment and money?" Getting the answers right has earned us a top market share in our GNT products.

The basic strategy underlying this growth has been our Global Niche Top (GNT) product strategy. Based on this strategy, we have leveraged our own core technologies and pursued intimately customer-focused marketing to develop products that meet customer needs for quality, price, volume and speed. Our products have established a solid share in many fields, including the automotive, electronics and medical sectors. We believe that the Nitto Denko Group's future growth also hinges on generating an uninterrupted stream of high-profitability businesses based on new GNT products.

To evolve as a "global excellent company" in the true sense, we intend to focus not only on financial performance but will also pursue "quality-enhanced growth." This growth involves strengthening management and business infrastructures, fulfilling our corporate social responsibility (CSR), improving our corporate brand value and further developing our human resources.

Future Strategies Building on Quality-Enhanced Growth

> Strategic moves to help us evolve into a global excellent company

Our numerical targets to achieve global excellent company status are operating income of ¥100 billion, return on assets (ROA) of 12% and an operating margin of 17%. We now expect to achieve our operating income target in fiscal 2007—one year earlier than initially planned. We will continue to work toward our ROA and operating margin targets, but meeting them is by no means easy. For the Nitto Denko Group to achieve sustained growth and clear those targets in a market environment growing ever more challenging, we believe implementing the following measures is essential.

Creating New GNT Products and Exiting from Low-Profitability Areas

Our group of GNT products allows us to maintain high profitability and take advantage of our unique technical and marketing strengths, and we have undertaken a project to double our number of new GNT products. In the future, we will concentrate on increasing the number of GNT products and on speeding their development to raise the share of GNT products in total sales.

At the same time we boost our high-profitability businesses, we also plan to consolidate or withdraw from low-growth, low-profit businesses with few prospects of technological synergy. As a result, we intend to adopt a simpler business structure, narrowing our portfolio into three types of business: businesses delivering stable profitability, those supporting current growth and those driving future growth.

Aggressive Capital Investment and Breaking Free of the "n-Fold" Mentality

The environment in which the Company operates is one of tumultuous change. To leverage such changes in a positive way, we will invest our management resources aggressively, mainly in those areas showing promise of high growth in fiscal 2007 and beyond.

In the area of optical film products, we have accelerated our investment plan by one year while increasing the total investment amount to ¥100 billion in fiscal 2007.



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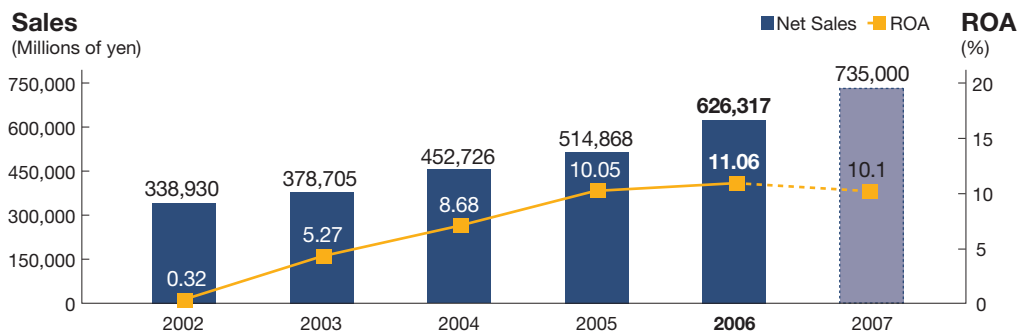
As additional investment of ¥30 billion is scheduled for other businesses, a grand total of ¥130 billion—the highest-ever capital investment in our company history—is being earmarked for the fiscal year. The special feature section of this annual report describes our investment plan in more detail.

At the same time, we believe it is important to radically change our thinking pattern to realize still higher performance, efficiency and productivity. Specifically, we will move away from the conventional mentality, which suggests that doubling our operating results requires twice as many people and twice as much production hardware. Instead, we will transform our thinking, working to achieve 10 times or 20 times better performance using the same resources. As demonstrated by the new



Mid-Term Management Plan (Fiscal 2006—2008)

One-NITTO Dream Plan



processing wing at our Onomichi Plant, which came on line in June 2006, in the future we will plan investment based not just on expansion of scale but on ways of achieving many times higher performance by consciously exploiting the assets at hand.

Outlook for Fiscal 2007

> Reforming productivity and enhancing sales and marketing to overcome the challenges of economic uncertainty

The economic prospects for fiscal 2007 are clouded by such uncertainties as the impact of monetary tightening in the United States, a potential downswing in the demand cycle for IT-related products, and even higher petroleum prices brought about by expanded demand in emerging markets and exchange rate fluctuations. In our own areas of business, we anticipate significantly higher production in FPD-related industries, particularly of large-screen TVs. At the same time, we expect our customers to adjust production levels as the supply-demand balance relaxes, which will drive down product prices further.

In this economic environment, the Group will pursue capacity expansion in the FPD field by instituting thorough productivity reform while strengthening sales in all product segments. As a result, in fiscal 2007 we project net sales of ¥735 billion (up 17.4%), operating income of ¥100 billion (up 12.1%), ordinary income of ¥100 billion (up 10.9%) and net income of ¥62 billion (up 12.1%).

In fiscal 2006, the first year of our new mid-term management plan, “One-NITTO Dream Plan (fiscal 2006—2008),” we were pleased to report record levels of operating performance. However, I feel that our Group still needs to achieve further growth to meet the increasing globalization of our customers, take Group-wide initiatives to raise productivity, develop our corporate culture and improve employee attitudes and conduct. In fiscal 2007, the second year of our mid-term plan, we plan to fully address the goals of both growing our critical mass and improving quality. Therefore, we are positioning fiscal 2007 as the year for the entire Group to work in unison to complete preparations for achieving Global Excellent Company status. We thank our shareholders for their unwavering contributions to date and ask for your continued support.



A handwritten signature in black ink that reads "Masamichi Takemoto". The signature is written in a cursive, flowing style.

Masamichi Takemoto,
President