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## **Report of the 140th Ordinary General Meeting of Shareholders**

### **Business Report**

**—For Fiscal 2004 (April 1, 2004 to March 31, 2005)—**

#### **1. Overview of operations**

##### **(1) Operating progress and results of the Nitto Denko Group**

In the fiscal year under review, the Japanese economy remained steady in general, due mainly to strong performance in the digital equipment sector and sharp increases in corporate capital spending, although this was partially tempered by some factors that slowed the pace of its growth, including rising costs of energy and unprocessed source materials. However, toward the end of the period, the outlook for the nation's economy became more uncertain, as it was muted by a slowdown in exports and production adjustments amid uncertainty over the U.S. and Chinese economies and adjustment among manufacturers.

Under these circumstances, the Nitto Denko Group formulated the medium-term “One-NITTO Dream Plan” and, by stating “doubling the lineup of global niche top products”, continued to concentrate its corporate resources on fields with strong growth potential. For the flat panel display (FPD) industry, the Group focused on industrial products centering on LCD materials, circuit materials and high polymer separation membranes. Meanwhile, it put considerable effort into industrial products, engineering plastics materials for automotive and office automation equipment manufacturers, as well as healthcare products such as transdermal therapeutic patches for the pharmaceutical market. As a result, overall sales were robust.

The Group strove to promote its globalization strategy centering on Asia, and to expand the lineup of conventional global niche top products as well as innovative new ones.

As a result, consolidated net sales increased 13.7% from a year earlier (changes in percentage hereafter are in comparison to the previous year) to 514,867 million yen. Operating income rose 25.2% to 70,018 million yen thanks to increased capacity utilization in line with sales increase, lowered unit prices of materials and better production yields, which offset such unfavorable factors as falling product prices, rising prices of certain base materials due to higher oil prices, the strong yen and increased write-off costs. Ordinary income also gained 23.7% to 71,828 million yen, with net income climbing 25.3% to 41,842 million yen.

## (2) Summary of operations by segment of the Nitto Denko Group

Sales by business segment were as follows:

(Unit: millions of yen)

Business segment	FY2004 (under review)	FY2003 (139th term)
	Sales (year-on-year change)	Sales
Industrial products	207,366 (up 8.2%)	191,682
Electronic products	261,541 (up 19.0%)	219,709
Functional products	45,959 (up 11.2%)	41,333
Total	514,867 (up 13.7%)	452,726

### [Industrial products]

Bonding and joining products benefited from solid sales for mobile phones and small liquid crystal modules as well as robust sales for digital consumer electronics and notebook personal computers in Southeast Asia. Sales of surface protection products for machinery facilities and residential construction materials remained flat, while those for the FPD industry were favorable thanks to increase in panel production. Sealing products for mobile phone and automobile manufacturers sold well. Construction material sales were strong in curing materials for residential construction and waterproofing materials.

As a result, sales from the industrial product segment rose 8.2% to 207,366 million yen, and operating income increased 23.1% to 16,539 million yen.

### [Electronic products]

Demand for LCD materials was strong with the ongoing expansion of the market and transition to large size LCD panels. Sales of optical compensation films for LCD TVs fared well, despite a drop in prices. Sales of polarizing films with viewing angle expansion film for LCD monitors also remained brisk. In addition, sales of advanced optical films, including polarizing films with brightness enhancing films, were generally robust, as production of notebook PCs remained steady. Sales of semiconductor-related materials continued to be firm in the first half of the year, due chiefly to strong demand for encapsulating resin for advanced semiconductor packaging, but remained sluggish for the entire year, affected by market inventory adjustments during the latter half of the year. As for circuit materials, although sales of those for use in small and medium liquid crystal modules mainly for mobile phones were poor, overall sales remained steady mainly thanks to strong sales of thin-film metal circuit boards for the magneto-resistance heads used in hard disk drives. With respect to electronic processing materials, sales were steady throughout the fiscal year due to sales of wafer-protection adhesive tape and taping systems for semiconductor manufacturing processes, despite the adverse effect of adjustments in production by electronic component manufacturers in the second half of the period.

As a result, sales for the electronic products segment rose 19.0% to 261,541 million yen, and operating income gained 21.3% to reach 47,152 million yen.

**[Functional products]**

In healthcare products, sales of mainstay transdermal therapeutic patches for bronchial asthma fared well, despite the contracting pharmaceutical market caused by the Japanese government's policy for cutting national medical spending. In medical/sanitary materials, sales of cosmetics-related products were strong. Overall healthcare material operations were favorable, though R&D and other costs of Aveva Drug Delivery Systems, Inc.—a U.S. affiliate specialized in producing transdermal therapeutic patches—were increased. Sales of high-polymer separation membranes were steady in general, as demand for small-scale desalination projects was high and sales of the membrane for industrial water in East Asia were strong, despite a decrease in large desalination projects and declining prices of the membranes used in ultra pure water equipment in semiconductor manufacturing. Regarding engineering plastic material, sales of functional materials such as fluorine porous membranes used for inner pressure regulation in automobiles and OA equipment remained robust. Sales of porous process materials for the electronics industry were also favorable.

As a result, sales from the functional products segment increased 11.2% to 45,959 million yen, and operating income soared 76.1% to 6,326 million yen.

### (3) Trends in operating results and assets of the Company and the Nitto Denko Group

#### a. Trends in operating results and assets of the Nitto Denko Group

Item	FY2000 (136th term)	FY2001 (137th term)	FY2002 (138th term)	FY2003 (139th term)	FY2004 (under review)
Net sales (million yen)	365,697	338,930	378,705	452,726	514,867
Operating income (million yen)	34,824	19,314	33,901	55,912	70,018
Ordinary income (million yen)	35,330	19,748	35,832	58,045	71,828
Net income (million yen)	15,850	1,115	19,237	33,386	41,842
Net income per share (yen)	93.51	6.42	108.52	197.99	252.72
Total assets (million yen)	357,653	350,340	379,811	389,525	443,264
Net assets (million yen)	226,893	228,409	237,560	223,114	261,090
Net assets per share (yen)	1,305.80	1,314.53	1,367.38	1,360.71	1,583.77

Notes:

1. Net income sharply declined in fiscal 2001, when the Company booked an extraordinary loss due to its restructuring efforts, including the implementation of an early retirement program. The decline is also attributable to a fall in profits, affected by declined capacity utilization and dropping product prices.
2. In calculating net income per share and net assets per share, the Company has adopted "Accounting standards for net income per share" (Corporate Accounting Standards No. 2) and "Practical guidelines for accounting standards for net income per share" (Practical Guidelines for Corporate Accounting Standards No. 4) since fiscal 2002.

#### b. Trends in operating results and assets of the Company

Item	FY2000 (136th term)	FY2001 (137th term)	FY2002 (138th term)	FY2003 (139th term)	FY2004 (under review)
Net sales (million yen)	222,406	195,456	225,450	278,024	322,250
Operating income (million yen)	23,154	12,753	22,416	40,482	54,474
Ordinary income (million yen)	25,912	16,281	25,097	44,712	58,530
Net income (million yen)	12,973	758	15,099	27,671	36,780
Net income per share (yen)	74.66	4.37	85.74	164.82	223.25
Total assets (million yen)	279,484	267,939	290,068	290,970	336,631
Net assets (million yen)	198,785	195,988	205,779	191,647	223,022
Net assets per share (yen)	1,144.04	1,127.94	1,185.20	1,169.63	1,353.89

Notes:

1. Net income sharply declined in fiscal 2001, when the Company booked an extraordinary loss due to its restructuring efforts, including the implementation of an early retirement program. The decline is also attributable to a fall in profits, affected by declined capacity utilization and dropping product prices.
2. Until fiscal 2000, the Company had calculated both net income per share and net assets per share respectively based on the number of outstanding shares at the end of the respective years, but, since fiscal 2001 it calculated each by subtracting the number of its own shares from the total of outstanding shares at the end of the individual years.
3. In calculating net income per share and net assets per share, the Company has adopted "Accounting standards for net income per share" (Corporate Accounting Standards No. 2) and "Practical guidelines for accounting standards for net income per share" (Practical Guidelines for Corporate Accounting Standards No. 4) since fiscal 2002.

#### **(4) Plant and equipment investment of the Nitto Denko Group**

The Group made a total of 40,101 million yen in plant and equipment investment during the fiscal year under review. Of the total, 27,322 million yen was invested on a non-consolidated basis in the LCD-related material segment (including construction of Plant No. 4 as well as production facilities in Onomichi Plant, and related facilities at Kameyama Plant), industrial products (including construction of Plant No.14 and production facilities at Plant No.13 in Toyohashi Plant), and circuit materials (including facilities at Kameyama Plant). On group companies, a total of 12,779 million yen was invested in plant and equipment, including new plants for LCD materials in Taiwan and South Korea.

Above-mentioned capital investments were made mainly using the Group's own funds.

#### **(5) Fund procurement of the Nitto Denko Group**

It is the fundamental policy of the Group to allocate cash reserves for capital investments and other purposes, and in Japan it manages funds efficiently through financing within the group.

#### **(6) Outlook for the Nitto Denko Group and issues it faces**

Japan's economic adjustment phase, which became evident in the previous year, is likely to continue in the current fiscal year, but IT-related demand is forecasted to improve in Europe and the U.S. in the latter half of the year, resulting in a revitalization of Japan's industrial production, centering on electronic devices. Meanwhile, recovery in the U.S. economy is not expected to be so strong. Therefore, the overall recovery in the Japanese economy will only be moderate.

Under these circumstances, the Group formulated its medium-term business plan "One-NITTO Dream Plan Step 2" for fiscal 2005 to 2007. With this plan, the Group will pursue higher business growth and a better corporate quality, towards its goal of being a "global excellent company", as envisioned in the previous "One-NITTO Dream Plan" of fiscal 2003.

With regard to "business growth", the Group will focus on products for the FPD industry, which is expected to further expand, particularly LCD materials, including optical compensation and polarizing films for large LCD TV panels, and surface protection materials. The Group will also put an emphasis on: circuit materials for HDD manufacturers where it can leverage its technological prowess in miniaturization and adding advanced functions; industrial products for the automobile industry; and healthcare products such as transdermal therapeutic patches which the Group plans to further market in North America and Asia.

As for "corporate quality", there has been an increasingly high level of interest in corporate social responsibility (CSR) in recent years. In response, companies are required not only to achieve favorable business performance, but also to fulfill their overall responsibility as good corporate citizens in terms of the environment and society as a whole. The Group, which has made vigorous efforts on protecting the environment, raising levels of safety and improving corporate ethics, will strive to further enhance these activities, by establishing a CSR Promotion

Division in fiscal 2005.

Furthermore, the Group has been proactively engaging in its “Corporate Brand Value Enhancement” activities since fiscal 2004, aiming to be an entity which our shareholders, customers, the public, and employees have both confidence in and high hopes for. In order to cultivate human resources, the Group operates its “Nitto University” where the next generation’s leaders are trained.

## 2. Corporate profile

### (1) Main business of the Group (as of March 31, 2005)

Business segment	Main products
Industrial products	Bonding and joining materials, surface protection materials, corrosion and water proofing materials, sealing materials, packaging material and equipment
Electronic products	Semiconductor-related materials, LCD materials, printed circuit materials, electronic process materials
Functional products	Healthcare products, high-polymer separation membranes, fluororesin products

### (2) Status of consolidation (as of March 31, 2005)

#### a. Major subsidiaries, etc.

Corporate name	Capital	The Company's stake	Main business
Kyoshin Corp.	in million yen 767	% 51.0	Sales of industrial products, electronic products, functional products.
Nissho Corp.	in million yen 500	100.0	Sales of industrial products, electronic products, functional products.
Nitto Shinko Co., Ltd.	in million yen 482	91.9	Production and sales of industrial products.
Nitto Denko Matex Corp.	in million yen 350	100.0	Sales of industrial products, electronic products, functional products.
Nitoms Inc.	in million yen 160	88.0	Production and sales of industrial products (applied home products).
Nitto Europe N.V.	in thousand euro 6,198	100.0	Production and sales of industrial products, electronic products.
Nitto Americas, Inc.	in thousand dollars 1,024	100.0	Administration of the Group companies in the U.S.
Permacel	In thousand dollars 970	100.0 (100.0)	Production and sales of industrial products.
Nitto Denko (China) Investment Co., Ltd.	in thousand RMB 248,304	100.0	Administration of the Group companies in China
Nitto Denko (Suzhou) Co., Ltd.	in thousand RMB 370,902	100.0 (65.8)	Production and sales of electronic products.
Nitto Denko (Taiwan) Corporation	in thousand NT\$ 404,997	100.0 (12.0)	Production and sales of industrial products.
Taiwan Nitto Optical Co., Ltd.	in thousand NT\$ 367,503	100.0 (5.5)	Production and sales of electronic products.
Korea Nitto Optical Co., Ltd.	in million won 29,768	71.1 (5.3)	Production and sales of electronic products.

#### Notes:

1. The figures in the parenthesis of the column "The Company's stake" represent the percentage of indirect investment.
2. The Company, which held a 65% stake in Nissho Corp. at the end of fiscal 2003, made Nissho into a wholly owned subsidiary, through a stock swap agreement under which the Company's 900,900 shares were allocated to Nissho's shareholders other than the Company (100 Nissho shares were exchanged for 39 Nitto Denko shares) on December 1, 2004.

b. Results of consolidation

The Group has 52 consolidated subsidiaries, as well as 61 non-consolidated subsidiaries and one affiliated company accounted for with the equity method. Results of consolidation were described in “1. Overview of operations (1) Operating progress and results of the Nitto Denko Group.”

**(3) Principal offices of the Group (as of March 31, 2005)**

Nitto Denko Corporation	Head office	1-1-2 Shimohozumi, Ibaraki, Osaka
	Offices (Plants)	Tohoku Plant (Iwadeyama, Miyagi Pref.), Kanto Plant (Fukaya, Saitama Pref.), Toyohashi Plant (Toyohashi, Aichi Pref.), Kameyama Plant (Kameyama, Mie Pref.), Shiga Plant (Kusatsu, Shiga Pref.), Onomichi (Onomichi, Hiroshima Pref.)
	Branches	Tokyo Sales Branch (Shinagawa-ku, Tokyo), Nagoya Sales Branch (Naka-ku, Nagoya, Aichi Pref.), Osaka Sales Branch (Kita-ku, Osaka), Kyushu Sales Branch (Hakata-ku, Fukuoka)
	Laboratory	Core Technology Center (Ibaraki, Osaka Pref.)
Kyoshin Corp.	Head office: Suita, Osaka Pref.	
Nissho Corp.	Head office: Kita-ku, Osaka	
Nitto Shinko Co., Ltd.	Head office & plant: Maruoka, Fukui Pref.	
Nitto Denko Matex Corp.	Head office: Chiyoda-ku, Tokyo	
Nitoms Inc.	Head office: Chuo-ku, Tokyo; Plant: Toyohashi, Aichi Pref.	
Nitto Europe N.V.	Head office & plant: Genk, Belgium	
Permacel	Head office & plant: New Jersey, U.S.; Plant: Wisconsin, U.S.	
Nitto Denko (Suzhou) Co., Ltd.	Head office & plant: Suzhou, China	
Nitto Denko (Taiwan) Corporation	Head office & plant: Kaohsiung, Taiwan	
Taiwan Nitto Optical Co., Ltd.	Head office & plant: Taichung, Taiwan	
Korea Nitto Optical Co., Ltd.	Head office & plant: Pyeongtaek, South Korea	

**(4) Employees of the entire Group and the Company (as of March 31, 2005)**

	Number of employees	(Changes from the end of the previous year)
Group	13,871	(+2,253)
Company	2,958	(+66)

Note:

The number of employees does not include directors (classified as employees) and temporary workers.

**(5) Shareholders' equity (as of March 31, 2005)**

- a. Number of shares authorized to be issued: 400,000,000 shares  
b. Number of shares outstanding 173,758,428 shares  
c. Number of shares to constitute one unit 100 shares  
d. Number of shareholders 16,725  
e. Major shareholders (Top 10)

Name of shareholding party	The stake in the Company		The Company's stake in the shareholding party	
	Number of shares held	Ownership percentage	Number of shares held	Ownership percentage
The Master Trust Bank of Japan, Ltd. (Trust Account)	Thousands of shares 15,634	% 9.00	Thousands of shares -	% -
The Chase Manhattan Bank, N.A. London	15,202	8.75	-	-
Japan Trustee Services Bank, Ltd. (Trust Account)	12,859	7.40	-	-
State Street Bank and Trust Company	9,270	5.34	-	-
State Street Bank and Trust Company 505103	4,138	2.38	-	-
The Chase Manhattan Bank 385036	3,664	2.11	-	-
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	3,108	1.79	-	-
The Dai-ichi Mutual Life Insurance Company	3,017	1.74	-	-
JPMCB USA Residents Pension Jasdec Lend 385051	2,934	1.69	-	-
Sompo Japan Insurance Inc.	2,566	1.48	-	-

Notes:

1. The Company holds treasury stock totaling 9,164,140 shares, but is not included in the above major shareholding parties.
2. Although the following three companies (groups) have submitted reports on large scale shareholdings, the Company lists major shareholders above according to the shareholder register as of March 31, 2005.
  - 1) Group of five companies, including Capital Research and Management Company and its joint holders:  
21,599,300 shares (as of February 17, 2005)
  - 2) Fidelity Investments Japan:  
19,179,889 shares (as of November 22, 2004)
  - 3) Group of 15 companies, including UBS AG (Bank) and its joint holders:  
10,021,136 shares (as of November 30, 2004)

f. Acquisition, disposal and holdings of treasury stock

[Shares acquired]

Common stock: 4,596 shares

Total acquisition amount: 25,464,940 yen

[Shares disposed of]

Common stock: 1,009,960 shares

Total disposal amount: 3,990,330,866 yen

[Shares eliminated] None

[Shares held at year-end]

Common stock: 9,164,140 shares

**(6) Directors and corporate auditors (as of March 31, 2005)**

Position	Name	Responsibility or main job
President	Masamichi Takemoto	CEO & COO (Group Chief Executive Officer and Chief Operating Officer)
Director	Yukio Nagira	Deputy COO (Group Deputy Chief Operating Officer)
Director	Yasuo Ninomiya	CTO (Group Chief Technology Officer)
Director	Tatsunosuke Fujiwara	CFO (Group Chief Financial Officer)
Director	Wataru Kitao	CSO (Group Chief Strategy Officer)
Corporate Auditor (full-time service)	Nobuyuki Tanioka	
Corporate Auditor (full-time service)	Shigeru Hozan	
Corporate Auditor (part-time service)	Hisashi Hosokawa	Executive Partner of Strategy Design Institute, MSK Research Institute Co., Ltd.
Corporate Auditor (part-time service)	Shiko Saikawa	Adviser of ShinMaywa Industries, Ltd.
Corporate Auditor (part-time service)	Kazuo Kumagai	Special Adviser of Hitachi, Ltd.

Notes:

- Changes among directors and corporate auditors in the fiscal year under review:  
At the 139<sup>th</sup> Ordinary General Meeting of Shareholders held on June 24, 2004, Yasuo Ninomiya was elected director, and Nobuyuki Tanioka, Shigeru Hozan and Kazuo Kumagai were elected corporate auditor, and assumed office. And directors Hideki Yamamoto, Koichi Takatsuka, Mikio Aizawa, Yasuki Nishizaka and Yoshiyasu Kamiyama, as well as corporate auditors Tsuneo Asada and Makoto Yoshida ended their tenure as of the end of the Meeting.
- Corporate auditors Hisashi Hosokawa, Shiko Saikawa and Kazuo Kumagai are external auditors under the provision of Article 18 Paragraph 1 of the Law for Special Exceptions to the Commercial Code Concerning Audits, etc. of Corporations.
- The Company adopts the executive officer system and the following 15 persons take on the duties as indicated.

Position	Name	Responsibility or main job
Executive Corporate Vice President	Yoshiyasu Kamiyama	Global optical business management
Senior Corporate Vice President	Yasuki Nishizaka	Global tape business management
Senior Corporate Vice President	Katsuhiko Akamatsu	Globalization of the Group Management
Corporate Vice President	Ryoichi Ota	Procurement
Corporate Vice President	Tetsuo Horiuchi	Environmental protection, comprehensive safety, and quality assurance
Corporate Vice President	Kaoru Aizawa	Research and development (R&D)
Corporate Vice President	Hideo Abe	Optical business management
Corporate Vice President	Setsuo Watanabe	Marketing
Corporate Vice President	William Joseph Hayes	Management of operations in American area
Corporate Vice President	Yoshihiko Chikuma	Management of operations in East Asia
Corporate Vice President	Tomio Sakka	Development of manufacturing technology
Corporate Vice President	Masakazu Ozawa	Personnel affairs, general affairs, promotion of CSR, and management of domestic offices
Corporate Vice President	Kenji Matsumoto	Technical planning and intellectual property
Corporate Vice President	Takeshi Igarashi	Accounting/finance and IR
Corporate Vice President	Hongin Kim	Management of operations in South Korea area

**(7) Compensation, etc. paid to directors and corporate auditors**

Category	Director		Corporate Auditor		Total	
	Number of payees	Amount of payment	Number of payees	Amount of payment	Number of payees	Amount of payment
Compensation approved by the general shareholders meeting	10	171	7	82	17	254
Bonus paid to directors based on the appropriation of retained earnings	9	310	-	-	9	310
Retirement bonuses approved by the general shareholders meeting	3	548	2	28	5	576
Total		1,029		110		1,140

Notes:

1. The amount of employee's salary (including bonus) for a director who also holds an employee's post is paid apart from the above-mentioned compensation approved by the general shareholders meeting. Hence, the amount of such salary totaling 21 million yen is not included in the above table.
2. The numbers of directors and corporate auditors were five each as of the end of the fiscal year. The difference between these numbers and those of payees in the above table is a result of the reelection of directors and auditors following the expiration of their tenures.
3. The limit of compensation for directors is 20 million yen per month (approved by the 130th general shareholders meeting) and that for corporate auditors is 12 million yen per month (approved by the 139th general shareholders meeting).

**(8) Stock Purchase/Subscription Warrant (as of March 31, 2005)**

a. Number of the Warrant issued

- 1) Total number of the Warrant issued      7,616 units (100 shares of common stock per unit)
- 2) Class and number of underlying shares that are subject to the Warrant:  
    Company's common stock:              761,600 shares
- 3) Issuing value of the Warrant:              Gratis

b. Warrant issued to non-shareholders on advantageous terms during the year

[No. 3 Warrant]

- 1) Warrant issued:                              3,410 units (100 shares of common stock per unit)
- 2) Class and number of underlying shares that are subject to the Warrant:  
    Company's common stock:              341,000 shares
- 3) Issuing value of the Warrant:              Gratis
- 4) Payment per share on the exercise of the Warrant:      5,410 yen
- 5) Conditions for exercise of the Warrant
  - A holder of the Warrant must be either one of a position of directors, corporate vice presidents, corporate fellows, corporate auditors, advisors, etc. or employees of the Company or its subsidiaries, when the Warrant is exercised. In the event that such a holder of the Warrant no longer has the qualifying position (due to retirement; resignation at the conclusion of their term of office; or for other reasons of expediency), they shall be able to exercise the Warrant for only one year after retiring from their position.
  - Heirs of holders of the Warrant shall not be allowed to exercise the Warrant.
  - Details of the above-mentioned and other conditions for the exercise of the Warrant are determined by the Warrant allocation contract signed between the Company and holders of the Warrant.
  - Exercise period of the Warrant: January 1, 2005 through December 31, 2007.
- 6) Causes and conditions for canceling the Warrant
  - In the event that a proposal for a merger contract in which the Company is to be absorbed by another, or a stock swap contract or share transfer agreement under which the Company becomes a wholly owned subsidiary of another is approved at the general shareholders meeting, the Company shall be permitted to cancel the Warrant without any compensation.
  - In the event that holders of the Warrant lose their qualification necessary to exercise the right by the reasons described in 5) above, the Company shall be permitted to cancel the Warrant without any compensation.
- 7) Details of advantageous terms

The Warrant was granted free of charge to directors, corporate vice presidents, fellows and employees of the Company and directors of its subsidiaries.

8) Name of the person to whom the Warrant was allotted and the number of the Warrant allotted

(1) Directors of the Company

Name	Number of the Warrant (unit)	Name	Number of the Warrant (unit)
Masamichi Takemoto	130	Tatsunosuke Fujiwara	65
Yukio Nagira	78	Wataru Kitao	57
Yasuo Ninomiya	65	5 in total	Total 395

(2) Corporate vice presidents, fellows and employees of the Company, and directors of its affiliates (top 10)

Name	Number of the Warrant (unit)	Name	Number of the Warrant (unit)
Yoshiyasu Kamiyama	78	Kaoru Aizawa	57
Yasuki Nishizaka	65	Hideo Abe	57
Katsuhiro Akamatsu	65	Setsuo Watanabe	57
Ryoichi Ota	57	Yoshihiko Chikuma	52
Tetsuo Horiuchi	57	Tomio Sakka	52
			Total 597

(3) Breakdown of the total of the Warrant granted to corporate vice presidents, fellows and employees of the Company, and directors of its affiliate companies

Classification	Number of the Warrant (unit)	Classification and number of underlying shares that are subject to the Warrant	Number of recipients
Corporate vice presidents, fellows and employees of the Company	2,807	Common stock 280,700 shares	105
Directors of affiliate companies	208	Common stock 20,800 shares	8

[Warrant issued in June 2004 (Stock options of equity-based compensation)]

- 1) Total number of Warrant issued: 405 units (100 shares of common stock per unit)
- 2) Class and number of underlying shares that are subject to the Warrant:  
Common stock: 40,500 shares
- 3) Issuing value of the Warrant: Gratis
- 4) Amount to be paid upon the exercise of the Warrant:  
1 yen per share for the underlying shares subject to the Warrant
- 5) Conditions for the exercise of the Warrant
  - Holders of the Warrant shall be able to exercise the Warrant only for six years from the day after they relinquish their positions as directors, corporate vice presidents, corporate auditors, advisers, contract workers, etc. of the Company.
  - Regardless of the provision described above, Warrant holders shall be able to exercise their right in the case of a) or b) below, within the respectively specified periods.
- a) In the event that holders of the Warrant fail to meet the requirement for exercising the right by June 30, 2021: July 1, 2021 through June 24, 2024
- b) In the event that a proposal for a merger contract in which the Company is to be absorbed by another, or stock swap contract or share transfer agreement under which the Company becomes a wholly owned subsidiary of another is approved at the general shareholders meeting: For 15 days from the day after approval was granted
  - Details of the above-mentioned and other conditions for the exercise of the Warrant shall be determined by the Warrant allocation contract signed between the Company and the Warrant holders.
  - Exercise period of the Warrant: June 25, 2004 through June 24, 2024
- 6) Causes and conditions for canceling the Warrant  
In the event that holders of the Warrant lose their qualification necessary for the exercise of the Warrant, the Company shall be able to cancel it without any compensation.
- 7) Details of advantageous terms  
The Warrant was granted free of charge to directors and corporate vice presidents of the Company.
- 8) Name of the person to whom the Warrant was allotted and the number of the Warrant allotted.

(1) Directors of the Company

Name	Number of the Warrant (unit)	Name	Number of the Warrant (unit)
Masamichi Takemoto	64	Tatsunosuke Fujiwara	29
Yukio Nagira	33	Wataru Kitao	18
Yasuo Ninomiya	29	5 in total	Total 173

(2) Corporate vice presidents of the Company (top 10)

Name	Number of the Warrant (unit)	Name	Number of the Warrant (unit)
Yoshiyasu Kamiyama	30	Kaoru Aizawa	16
Yasuki Nishizaka	26	Hideo Abe	16
Katsuhiko Akamatsu	26	Setsuo Watanabe	16
Ryoichi Ota	16	Yoshihiko Chikuma	14
Tetsuo Horiuchi	16	Tomio Sakka	14
			Total 190

(3) Total quantity of Warrants granted to corporate vice presidents of the Company

Title	Number of the Warrant (unit)	Classification and number of underlying shares that are subject to the Warrant	Number of recipients
Corporate vice presidents	232	Common stock 23,200	13

(9) Compensation, etc. to be paid to accounting auditors

(Unit: millions of yen)

a.	Total amount of compensation, etc. to be paid by the Company and its subsidiaries	86
b.	Of the sum in a. above, total amount of compensation to be paid to accounting auditors for services concerning section 2 article 1 of the certified audit law (including audit certificate of the financial statements, etc.) by the Company and its subsidiaries	85
c.	Of the sum in b. above, the amount of compensation to be paid by the Company to accounting auditors	38

Note:

In the audit contract concluded between the Company and the accounting auditor, there is no classification distinction between compensation for audit services pursuant to “the Law for Special Exceptions to the Commercial Code Concerning Audits, etc. of Corporations” and that in accordance with the Securities and Exchange Law. In fact, the two also cannot be separately classified. Accordingly, the amount of c. above represents the total of the two.

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As for the amounts of money and the number of shares in the Business Report, fractions below the shown figures are omitted. Percentages (%) are rounded to the nearest decimal point.

## Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2005	As of March 31, 2004
(Assets)		
<b>Current assets:</b>	<b>227,206</b>	<b>211,294</b>
Cash on hand and in banks	50,354	49,144
Trade notes and accounts receivable	117,357	105,369
Inventories	44,170	40,670
Deferred tax assets	6,315	6,411
Other current assets	10,605	10,866
Allowance for doubtful accounts	(1,597)	(1,169)
<b>Fixed assets:</b>		
<b>Tangible fixed assets:</b>	<b>166,523</b>	<b>139,329</b>
Buildings and other structures	63,193	55,114
Machinery and delivery equipment	56,789	50,627
Tools, furniture and fixtures	5,312	4,549
Land	19,000	18,823
Construction in process	22,228	10,214
<b>Intangible fixed assets:</b>	<b>6,619</b>	<b>6,753</b>
Goodwill	80	620
Other intangible fixed assets	6,539	6,132
<b>Investments and other assets:</b>	<b>42,914</b>	<b>32,148</b>
Investment in securities	27,038	25,141
Deferred tax assets	1,090	2,669
Pre-paid annual pension costs	10,524	-
Others	4,809	4,874
Allowance for doubtful accounts	(548)	(537)
<b>Total fixed assets</b>	<b>216,057</b>	<b>178,231</b>
<b>Total assets</b>	<b>443,264</b>	<b>389,525</b>

## Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2005	As of March 31, 2004
<b>(Liabilities)</b>		
<b>Current liabilities:</b>	<b>145,218</b>	<b>138,274</b>
Trade notes and accounts payable	71,958	70,927
Short-term loan payable	8,508	12,115
Bonds and debentures due within one year	300	-
Accrued expenses	15,634	15,202
Income tax payable, etc.	16,089	12,573
Other current liabilities	32,727	27,455
<b>Long-term liabilities:</b>	<b>26,686</b>	<b>16,153</b>
Bonds	-	300
Long-term loans payable	6,503	3,448
Provision for retirement benefits	14,030	8,641
Reserve for retirement bonuses to directors and corporate auditors	594	1,339
Deferred tax liabilities	428	-
Consolidation adjustments account	2,011	-
Other long-term liabilities	3,118	2,424
<b>Total liabilities</b>	<b>171,905</b>	<b>154,427</b>
<b>(Minority interests)</b>		
<b>Minority interests</b>	<b>10,267</b>	<b>11,983</b>
<b>(Shareholders' equity)</b>		
<b>Common stock</b>	<b>26,783</b>	<b>26,783</b>
<b>Capital surplus</b>	<b>50,482</b>	<b>50,482</b>
<b>Earned surplus</b>	<b>228,927</b>	<b>196,596</b>
<b>Net unrealized gains on securities etc.</b>	<b>3,022</b>	<b>3,057</b>
<b>Foreign currency translation adjustments</b>	<b>(11,913)</b>	<b>(13,629)</b>
<b>Cost of treasury stock</b>	<b>(36,210)</b>	<b>(40,175)</b>
<b>Total shareholders' equity</b>	<b>261,090</b>	<b>223,114</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>443,264</b>	<b>389,525</b>

## Consolidated Statements of Income

(Unit: millions of yen)

	Amount	
	April 1, 2004 - March 31, 2005	April 1, 2003 - March 31, 2004
<b>(Ordinary income and loss)</b>		
<b>Operating income and loss</b>		
Net sales	514,867	452,726
Cost of sales	355,880	314,785
Selling, general and administrative expenses	88,968	82,028
<b>Operating income</b>	<b>70,018</b>	<b>55,912</b>
<b>Non-operating income and loss</b>		
<b>Non-operating revenue:</b>	<b>5,104</b>	<b>5,775</b>
Interest and dividend income	305	526
Revenue from equity method investment	2,626	2,533
Miscellaneous revenue	2,173	2,715
<b>Non-operating expenses:</b>	<b>3,295</b>	<b>3,642</b>
Interest expenses	322	245
Miscellaneous expenses	2,972	3,396
<b>Ordinary income</b>	<b>71,828</b>	<b>58,045</b>
<b>(Extraordinary gains and losses)</b>		
<b>Extraordinary gains:</b>	<b>394</b>	<b>2,192</b>
Gains on sales of fixed assets	109	93
Reversal of provision for retirement benefits by system changes	-	1,957
Gains on business transfer/selling	253	-
Other extraordinary gains	32	141
<b>Extraordinary losses:</b>	<b>2,246</b>	<b>3,162</b>
Losses on sales and disposal of fixed assets	1,261	1,071
Losses from revaluation of goodwill	257	682
Special retirement benefits	717	428
Losses on revaluation of fixed assets	-	682
Post retirement benefits for overseas subsidiaries	-	281
Other extraordinary losses	10	16
<b>Net income before taxes</b>	<b>69,976</b>	<b>57,074</b>
<b>Corporate, inhabitants' and enterprise taxes</b>	<b>24,464</b>	<b>18,954</b>
<b>Corporate tax adjustments</b>	<b>2,152</b>	<b>2,946</b>
<b>Minority shareholder's interest</b>	<b>1,517</b>	<b>1,787</b>
<b>Net income</b>	<b>41,842</b>	<b>33,386</b>

## Consolidated Statements of Retained Earnings

(Unit: millions of yen)

	<b>April 1, 2004 - March 31, 2005</b>	<b>April 1, 2003 - March 31, 2004</b>
<b>(Capital surplus)</b>		
Balance at the beginning of the period	50,482	50,482
Balance at the end of the period	50,482	50,482
<b>(Earned surplus)</b>		
Balance at the beginning of the period	196,596	168,632
Increase in earned surplus	41,842	33,386
Net income for the period	41,842	33,386
Decrease in earned surplus	9,511	5,422
Dividends	7,853	5,034
Bonuses to directors	552	385
Loss on disposal of treasury stock	1,105	2
Balance at the end of the period	228,927	196,596

## Consolidated Statements of Cash Flows

(Unit: millions of yen)

	<b>April 1, 2004 - March 31, 2005</b>	<b>April 1, 2003 - March 31, 2004</b>
Cash flows from operating activities	56,067	46,268
Cash flows from investing activities	(49,171)	(31,312)
Cash flows from financing activities	(9,154)	(39,169)
Effect of exchange-rate changes on cash and cash equivalents	742	(947)
Net increase in cash and cash equivalents	(1,515)	(25,161)
Cash and cash equivalents at the beginning of the period	48,544	73,341
Cash and cash equivalents of a newly consolidated company	1,249	364
Cash and cash equivalents at the end of the period	48,278	48,544

## 1. Significant accounting policies regarding the preparation of the consolidated financial statements

### (1) Scope of consolidation

a. Number of consolidated subsidiaries: 52

• Major companies:

Kyoshin Corp., Nissho Corp., Nitto Shinko Co., Ltd., Nitto Denko Matex Corp. and Nitto Europe N.V.

Newly consolidated subsidiaries, etc.

• Established: Nitto Denko (Tianjin) Co., Ltd. and Nitto Precision (Shenzhen) Co., Ltd.

• Became consolidated subsidiaries due to their increased importance:

L Nissho Corporation, Nitto U.K. Limited, Nitto Italia S.R.L., Nitto Polska Sp.zo.o., Nitto Denko Material (Thailand) Co., Ltd., Nitto Denko (Philippines) Corp.

• Two companies other than those above

b. Number of non-consolidated subsidiaries: 61

Major company: Nistem Corporation

New non-consolidated subsidiaries, etc.:

• Established: Nitto Matex (Shenzhen) Co., Ltd., Nissho Precision Wuxi Co., Ltd. and Optmate Corporation

• Status changed from an affiliate subject to the equity method  
Nissho (Thailand) Co., Ltd.

Status as non-consolidated subsidiaries, etc. ceased:

• As a result of merger:

Nissho (Malaysia) Sdn. Bhd. and one other company

All of the non-consolidated subsidiaries, etc. are small, and their total net assets, net sales, net profit or loss, and retained earnings (whose amount corresponds to holdings under the equity method), etc. have little effect on the consolidated financial statements. Hence, these companies are excluded from the scope of consolidation.

### (2) Application of equity method

a. Number of non-consolidated subsidiaries subject to equity method: 61

Major company: Nistem Corporation

b. Number of affiliates subject to equity method: 1

### (3) Fiscal year of the consolidated subsidiaries

Number of companies whose fiscal year is the same as that of the company which submits the

consolidated financial statement: 45

Number of companies whose fiscal year is different from that of the company which submits the consolidated financial statement: 7

\* For the seven companies above, provisional settlement accounts on the consolidated date was used.

(4) Accounting policies

a. Valuation basis and methods for principal assets

1) Securities

Other securities:

Securities with market value:

Carried at the market value for the consolidated balance sheet date.

(Valuation adjustments are reported in the Equity section, and selling cost is calculated using the moving average method.)

Securities without market value:

Stated at cost based on the moving average method

2) Derivatives: Stated at market value

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

b. Depreciation method of major depreciable assets

1) Tangible fixed assets:

Mainly according to the declining-balance method

2) Intangible fixed assets:

Straight-line method (Software for in-house use is depreciated using the straight-line method over its useful life [5 years])

c. Accounting criteria for major allowances

1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover probable losses on collection. It is sum up the probable uncorrectable amount which is estimated using the rate of actual collection losses for normal receivables and reviewing of the individual collectivity for the specific receivables such as probable doubtful receivables etc.

2) Provision for retirement benefits

The Company makes provisions for the necessary amount of allowance for employees' severance and retirement benefits deemed to accrue during the term, based on the Company's estimated payment obligation and the balance of pension fund at the term-end.

Prior service cost of pension plans is amortized, from the year following the year in which the gain or loss is recognized, by the straight-line method for a given number of years (12 years)

within employees' average remaining years of service.

Actuarial gain or loss is amortized, from the year following the year in which the gain or loss is recognized, by the straight-line method for a given number of years (12 years) within employees' average remaining years of service.

3) Reserve for retirement bonuses to directors and corporate auditors

The consolidated subsidiaries in Japan calculate the required amount, based on internal regulations, in preparation for payment of retirements allowance for directors and corporate auditors.

Following the review of directors' retirement bonuses as part of corporate management revision efforts, the Company abolished the director's retirement bonus system of the parent company at the Ordinary General Meeting of Shareholders held on June 24, 2004. Such amount of directors' retirement bonuses until the above mentioned general meeting is included in the Other long-term liabilities.

d. Conversion criteria of major assets or liabilities in foreign currencies into Japanese yen  
Monetary credits and debts in foreign currencies are converted into Japanese yen by using the spot exchange rates on the day of consolidated account settlement, and the difference arising from such conversion is stated as gain or loss. Assets and liabilities of overseas consolidated subsidiaries are converted into the yen based on the spot exchange rates on the day of consolidated settlement of accounts, and the revenue and expenses are converted into the yen by using the average exchange rate during the fiscal year, while the difference arising from the conversion is shown as Minority interest and Foreign currency translation adjustments in Shareholders' equity.

e. Methods of major leases

Finance leases other than those which transfer ownership of the leased property to the lessee are accounted for in the manner as followed in ordinary lease transactions.

f. Methods of hedge accounting

1) Hedge accounting

Deferred hedging is used for forward exchange contracts applied for forecasted transactions.

2) Hedge instrument and targets

The following are hedge instrument the Company utilized and hedge targets in the fiscal year under review.

Hedge instrument: Forward exchange contracts

Hedge targets: Trade receivables in foreign currencies arising from export sales  
Trade payables in foreign currencies related to imports of equipment, etc.



(3) Guarantee on liabilities and contracts for future guarantee on liabilities (including notes on management guidance, etc.)

Guarantee on liabilities: 1,812 million yen

(4) Discounted and endorsed amounts for notes receivable

Discounted amount of notes receivable: 90 million yen

Endorsed amount of notes receivable: 744 million yen

(5) Number of outstanding shares at the end of the period and number of treasury shares held at the end of the period

Number of outstanding shares at the end of the period

Ordinary shares 173,758,428 shares

Number of treasury shares held at the end of the period

Ordinary shares 9,164,140 shares

### **3. Notes to Consolidated Statements of Income**

Net income per share 252.72 yen

In Consolidated Balance Sheets and Consolidated Statements of Income, figures of less than one million yen are omitted.

## Non-Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2005	As of March 31, 2004
(Assets)		
<b>Current assets:</b>	<b>142,558</b>	<b>123,978</b>
Cash on hand and in banks	21,502	25,885
Notes receivable	769	815
Accounts receivable	85,052	66,009
Products and merchandise	3,117	2,797
Materials and stored goods	4,746	2,308
Goods in process	11,993	13,399
Short-term loans	1,443	1,217
Deferred tax assets	3,866	4,032
Other current assets	10,367	7,811
Allowance for doubtful accounts	(300)	(300)
<b>Fixed assets:</b>		
<b>Tangible fixed assets:</b>	<b>107,560</b>	<b>98,552</b>
Buildings	39,308	36,218
Other structures	2,695	2,389
Machinery	39,214	35,597
Delivery equipment	105	101
Tools, furniture and fixtures	3,299	3,147
Land	13,925	13,901
Construction in process	9,011	7,196
<b>Intangible fixed assets:</b>	<b>3,736</b>	<b>3,649</b>
Software	2,606	2,607
Utility rights	41	46
Other intangible fixed assets	1,087	994
<b>Investments and other assets:</b>	<b>82,775</b>	<b>64,790</b>
Investment securities	8,975	9,065
Stocks of subsidiaries	62,710	53,390
Long-term loans	2,275	332
Deferred tax assets	2,134	2,623
Prepaid pension costs	7,507	-
Others	880	1,142
Allowance for doubtful accounts	(92)	(149)
Allowance for loss on investment	(1,614)	(1,614)
<b>Total fixed assets</b>	<b>194,072</b>	<b>166,992</b>
<b>Total assets</b>	<b>336,631</b>	<b>290,970</b>

## Non-Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2005	As of March 31, 2004
<b>(Liabilities)</b>		
<b>Current liabilities:</b>	<b>101,231</b>	<b>92,241</b>
Trade Accounts payable	46,680	47,337
Accounts payable	25,358	22,986
Accrued expenses	5,849	6,632
Income tax payable, etc.	13,045	9,413
Deposits received	9,741	5,793
Other current liabilities	555	78
<b>Long-term liabilities:</b>	<b>12,377</b>	<b>7,080</b>
Provision for retirement benefits	11,751	6,066
Reserve for retirement bonuses to directors and corporate auditors	-	771
Guarantee deposits received	249	243
Other long-term liabilities	376	-
<b>Total liabilities</b>	<b>113,609</b>	<b>99,322</b>
<b>(Shareholders' equity)</b>		
<b>Common stock</b>	<b>26,783</b>	<b>26,783</b>
<b>Capital surplus</b>	<b>50,482</b>	<b>50,482</b>
Capital reserve	50,482	50,482
<b>Earned surplus:</b>	<b>179,372</b>	<b>151,861</b>
Earned reserve	4,095	4,095
Voluntary reserve	135,354	117,400
Special depreciation reserve	1,354	400
Special reserve	134,000	117,000
Unappropriated retained earnings	39,922	30,366
<b>Net unrealized gain on stocks, etc.</b>	<b>2,594</b>	<b>2,695</b>
Others incl. amount difference of assessed valuable securities	2,594	2,695
<b>Cost of treasury stock</b>	<b>(36,210)</b>	<b>(40,175)</b>
<b>Total shareholders' equity</b>	<b>223,022</b>	<b>191,647</b>
<b>Total liabilities, minority interest and shareholders' equity</b>	<b>336,631</b>	<b>290,970</b>

## Non-Consolidated Statements of Income

(Unit: millions of yen)

	Amount	
	April 1, 2004 - March 31, 2005	April 1, 2003 - March 31, 2004
<b>(Ordinary income and loss)</b>		
<b>Operating income and loss</b>		
Net sales	322,250	278,024
Cost of sales	223,224	197,003
Selling, general and administrative expenses	44,551	40,539
<b>Operating income</b>	<b>54,474</b>	<b>40,482</b>
<b>Non-operating income and loss</b>		
<b>Non-operating revenue:</b>	<b>5,039</b>	<b>5,544</b>
Interest and dividend income	2,625	2,468
Miscellaneous revenue	2,414	3,076
<b>Non-operating expenses:</b>	<b>982</b>	<b>1,314</b>
Interest expense	34	27
Miscellaneous expense	948	1,287
<b>Ordinary income</b>	<b>58,530</b>	<b>44,712</b>
<b>(Extraordinary gains and losses)</b>		
<b>Extraordinary gains:</b>	<b>100</b>	<b>1,831</b>
Gains on sales of fixed assets	99	62
Reversal of provision for retirement benefits by system changes	-	1,637
Other extraordinary gains	1	130
<b>Extraordinary losses:</b>	<b>1,421</b>	<b>2,771</b>
Losses on sales and disposal of fixed assets	1,112	836
Provision for allowance for loss on investments	-	1,614
Special retirement benefits	309	318
Losses from revaluation of investment securities	-	2
<b>Net income before taxes</b>	<b>57,210</b>	<b>43,771</b>
Corporate, inhabitants' and enterprise taxes	19,705	14,673
Corporate tax adjustments	724	1,426
<b>Net income</b>	<b>36,780</b>	<b>27,671</b>
Profit carried over	8,339	5,476
Losses on disposal of treasury stock	1,105	2
Interim dividends	4,091	2,779
<b>Unappropriated retained earnings</b>	<b>39,922</b>	<b>30,366</b>

## **1 Significant Accounting policies**

### (1) Valuation basis and method for securities

Other securities:

Securities with market value:

Carried at the market value at the end of the period (Valuation adjustments are reported in the Equity section, and the selling cost is calculated using the moving average method.)

Securities without market value:

Stated at cost based on the moving average method

Stocks issued by subsidiaries and affiliate companies:

Stated at cost based on the moving average method

### (2) Valuation basis and method for derivatives:

Stated at market value

### (3) Inventory valuation basis and method

Products, merchandise, materials, and goods in process:

Stated at the lower of average cost or market price

Stored goods: Stated at cost using the most recent purchasing price

### (4) Depreciation method of major depreciable assets

Tangible fixed assets:

Declining-balance method

Intangible fixed assets:

Straight-line method

Software for in-house use is depreciated using the straight-line method over its useful life (5 years).

### (5) Accounting criteria for allowance

Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover probable losses on collection. It is sum up the probable uncorrectable amount which is estimated using the rate of actual collection losses for normal receivables and reviewing of the individual collectivity for the specific receivables such as probable doubtful receivables etc.

Allowance for loss on investment

Potential amount of loss is stated by taking into account the corporate financial condition, etc., in accordance with the Company's criteria, in

preparation for losses related to investments in subsidiaries.

#### Provision for retirement benefits

The Company makes provisions for the necessary amount of allowance for employees' severance and retirement benefits deemed to accrue during the term, based on the Company's estimated payment obligation and the balance of pension fund at the term-end.

Prior service cost of pension plans is amortized, from the year following the year in which the gain or loss is recognized, by the straight-line method for a given number of years (12 years) within employees' average remaining years of service.

Actuarial gain or loss is amortized, from the year following the year in which the gain or loss is recognized, by the straight-line method for a given number of years (12 years) within employees' average remaining years of service.

#### Reserve for retirement bonuses to directors and corporate auditors

In the previous fiscal year, the Company calculated the required amount, based on internal regulations, in preparation for payment of retirement allowances for directors and corporate auditors as allowances prescribed in Article 43 of the Enforcement Regulation of Japan's Commercial Code.

Following the review of directors' retirement bonuses as part of corporate management revision efforts, the Company abolished the director's retirement bonus system at the Ordinary General Meeting of Shareholders held on June 24, 2004.

The amount of directors' retirement bonuses until the above mentioned general meeting is included in the Other long-term liabilities.

#### (6) Method of hedge accounting

##### Hedge accounting

Deferred hedging is used for forward exchange contracts applied for forecasted transactions.

##### Hedge instrument and targets

The following are hedge instrument the Company utilized and hedge targets in the fiscal year under review.

Hedge instrument: Forward exchange contracts

Hedge targets: Trade receivables in foreign currencies arising from export sales  
Trade payables in foreign currencies related to imports of equipment, etc.



Ordinary shares                      9,164,140 shares

3. Notes to Non-Consolidated Statements of Income

(1) Sales to subsidiaries	271,260 million yen
Purchases from subsidiaries	21,668 million yen
Transactions other than business deals with subsidiaries	5,264 million yen
(2) Net income per share	223.25 yen

In Non-Consolidated Balance Sheets and Non-Consolidated Statements of Income, figures of less than one million yen are omitted.

## Proposal of profit appropriation

(In yen)

Unappropriated retained earnings at the end of the term	39,922,760,832
Reversal of reserve for special depreciation	476,403,382
Total	40,399,164,214
Proposed appropriations:	
Cash dividends (¥25 per share)	4,114,857,200
Directors' bonuses	180,000,000
Reserve for special depreciation	447,130,331
Special reserve	17,000,000,000
Retained earnings carried forward to the next term	18,657,176,683

Notes:

1. Interim dividend totaling ¥4,091,072,150 (¥25 per share) were paid on December 6, 2004.
2. Reserve for special depreciation is in accordance with the Special Taxation Measures Law.

**Independent Auditors' Report**

May 9, 2005

The Board of Directors  
Nitto Denko Corporation

KPMG AZSA & Co.

Masataka Nakao (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

Hiroshi Miura (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the consolidated statutory report, that is the Consolidated Balance sheets and the Consolidated Statements of Income, of Nitto Denko Corporation for the 140th term from April 1, 2004 to March 31, 2005 in accordance with Article 19 Paragraph 2 Item 3 of the “ Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Corporation ” . The consolidated statutory report is the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated statutory report based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the consolidated statutory report is free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the consolidated statutory report. We believe that our audit provides a reasonable basis for our opinion. Our audit procedures also include those considered necessary for the Company's majority-owned subsidiaries.

As a result of the audit, in our opinion, the consolidated statutory report referred to above presents fairly the consolidated financial position of Nitto Denko Corporation and consolidated subsidiaries , and the consolidated results of their operations in conformity with related laws and regulations and the Articles of Incorporation of the Company.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

[English Translation of the Auditors' Report Originally Issued in the Japanese Language]

### **Corporate Auditor's Report on Consolidated Financial Statements**

The Board of Corporate Auditors discussed with each Corporate Auditor concerning the consolidated financial statements (the consolidated balance sheets and the consolidated statements of income) of Nitto Denko Corporation for the 140th term from April 1, 2004 to March 31, 2005. Upon discussion, the board prepared this audit report as follows.

1. Outline of Corporate Auditors' audit methods

In accordance with an audit policy and plan prescribed by the Board of Corporate Auditors, each Corporate Auditor received reports and explanation on the consolidated financial statements from the Directors, etc. and Account Auditors to audit them.

2. Audit results

We regard that the audit methods and results by KPMG AZSA & Co. are appropriate.

May 11, 2005

The Board of Corporate Auditors, Nitto Denko Corporation

Full-time Corporate Auditor: Nobuyuki Tanioka (Seal)

Full-time Corporate Auditor: Shigeru Hozan (Seal)

Corporate Auditor: Hisashi Hosokawa (Seal)

Corporate Auditor: Shiko Saikawa (Seal)

Corporate Auditor: Kazuo Kumagai (Seal)

Note: Corporate Auditors Hiroshi Hosakawa, Shiko Saikawa and Kazuo Kumagai are external auditors in accordance with Article 18 Paragraph 1 of the Law for Special Exceptions to the Commercial Code Concerning Audits, etc., of Corporation.

**Independent Auditors' Report**

May 9, 2005

The Board of Directors  
Nitto Denko Corporation

KPMG AZSA & Co.

Masataka Nakao (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

Hiroshi Miura (Seal)  
Designated and Engagement Partner  
Certified Public Accountant

We have audited the statutory report, that is the Non-Consolidated Balance Sheets, the Non-Consolidated Statements of Income, the Business Report (limited to accounting matters) and the Proposal of profit appropriation, and its supporting schedules (limited to accounting matters) of Nitto Denko Corporation for the 140th term from April 1, 2004 to March 31, 2005 in accordance with Article 2 Paragraph 1 of the "Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Corporation". With respect to the aforementioned Business Report and supporting schedules, our audit was limited to those matters derived from the accounting books and records. The statutory report and supporting schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the statutory report and supporting schedules based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the statutory report and supporting schedules are free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the statutory report and supporting schedules. We believe that our audit provides a reasonable basis for our opinion. Our audit procedures also include those considered necessary for the Company's subsidiaries.

As a result of the audit, our opinion is as follows:

- (1) The Non-Consolidated Balance Sheets and the Non-Consolidated Statements of Income present fairly the financial position and the results of operations of the Company in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- (2) The Business Report (limited to accounting matters) presents fairly the status of the Company in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- (3) The Proposal of profit appropriation has been prepared in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- (4) With respect to the supporting schedules (limited to accounting matters) there are no items to be noted that are not in conformity with the provisions of the Commercial Code.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

## Corporate Auditor's Report

The Board of Corporate Auditors discussed with each Corporate Auditor concerning the execution of duties of Directors for the 140th term from April 1, 2004 to March 31, 2005. Upon discussion, the board prepared this audit report as follows.

### 1. Outline of Corporate Auditors' audit methods

Each Corporate Auditor performed in accordance with an audit policy and plan prescribed by the Board of Corporate Auditors as follows.

- (1) Each Corporate Auditor attended the meetings of the Board of Directors and other important meetings of Nitto Denko, received reports on business operations from the Directors and the internal personnel, inspected important written approvals, etc., and inquired into the status of business operations and assets of its head office and other important offices, and where necessary had the consolidated subsidiaries of Nitto Denko submit reports on their business operations.
- (2) Each Corporate Auditor received reports and briefings from the account auditors as well as monitored their independency, and examined the financial statements and supporting schedules of Nitto Denko.
- (3) With respect to any transactions by the Directors, as indicated in Article 133 Item 1 of Enforcement Regulation of Japan's Commercial Code, those between the Directors and Nitto Denko involving possible conflicts of interest, any gratuitous provision of benefits by Nitto Denko or those not customary in nature between Nitto Denko and its subsidiaries or shareholders, as well as the acquisition and disposal of treasury stock; each Corporate Auditor (in addition to the above mentioned auditing) asked the Directors to confirm their integrity, whenever necessary, and examined these transactions in detail.

### 2. Audit results

- (1) We hereby state that there were no significant facts indicating any unfair act, or violation of the law or the Articles of Incorporation, with respect to the execution of Directors' duties. Also, we found no violations in the context of the Directors' duties indicated in Article 133 Item 1 of Enforcement Regulation of Japan's Commercial Code. There were no matters to be specially indicated in respect to the Duties of Directors in respect to the subsidiaries either.
- (2) We hereby state that the audit method and results of KPMG AZSA & Co., independent auditors, are appropriate.
- (3) We hereby state that the business report fairly presents Nitto Denko's situation in accordance with the law and the Articles of Incorporation.
- (4) There is no matter that should be specifically indicated for the proposed appropriation of retained earnings, considering the state of Nitto Denko's assets or other circumstances.
- (5) Supporting schedules fairly present matters to be disclosed, and there is no item that should be indicated.

May 11, 2005

The Board of Corporate Auditors, Nitto Denko Corporation  
Full-time Corporate Auditor: Nobuyuki Tanioka (Seal)  
Full-time Corporate Auditor: Shigeru Hozan (Seal)  
Corporate Auditor: Hisashi Hosokawa (Seal)  
Corporate Auditor: Shiko Saikawa (Seal)  
Corporate Auditor: Kazuo Kumagai (Seal)

Note: Corporate Auditors Hisashi Hosakawa, Shiko Saikawa and Kazuo Kumagai are external auditors in accordance with Article 18 Paragraph 1 of the Law for Special Exceptions to the Commercial Code Concerning Audits, etc., of Corporation.