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## **Report of the 141st Ordinary General Meeting of Shareholders**

### **Business Report**

—For Fiscal 2005 (April 1, 2005 to March 31, 2006)—

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

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

The economy remained steady in the fiscal year under review due to brisk consumption and corporate capital spending, although the U.S. economy was affected by the rising costs of energy and hurricanes. The European economy showed a trend of export-led recovery due to the steady foreign economy and stable Euro exchange rate. The Asian economy remained steady, led by export orders for electronic and information products, and the Japanese economy itself also remained steady due to increases in capital spending as a result of the corporate earnings recovery and a pickup in personal consumption.

Under these circumstances, the Nitto Denko Group has continued to concentrate its corporate resources on fields with strong growth potential. For the FPD (flat panel display) market which is expanding, the Group focused on LCD related materials and industrial materials, and for automotive and mobile phone manufactures, it focused on industrial materials as well as electronic related materials which display the trend toward economic recovery. Consequently, the performance of the Company was favorable.

As a result, consolidated net sales increased 21.6% from the previous year (changes in percentage hereafter are in comparison to the previous year) to 626,316 million yen. Operating income rose 27.4% to 89,224 million yen thanks to increased capacity utilization in line with sales increases, lowered unit prices of materials, exchange rate effects and better production yields, which offset such unfavorable factors as falling product prices and increased depreciation costs. Ordinary income also gained 25.6% to 90,196 million yen, with net income climbing 32.2% to 55,306 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	FY2005 (under review)	FY2004 (140th term)
	Sales (year-on-year change)	Sales
Industrial products	251,384 (up 21.2%)	207,366
Electronic products	327,398 (up 25.2%)	261,541
Functional products	47,533 (up 3.4%)	45,959
Total	626,316 (up 21.6%)	514,867

### [Industrial products]

Bonding and joining products benefited from solid sales for use in mobile phone components and small liquid crystal modules due to growth of mobile phone production, with sales expanding mainly in Southeast Asia and Europe. Sales for components used in HDD (hard disk drives) were also brisk. With regard to surface protection products, sales of surface protection film (E-MASK) for the FPD industry were favorable, and sales of automobile paint protection film were also favorable due to increased market share. Sealing products sold well as a result of the release of new products for use in mobile phone components and automobile parts, but construction materials sales were weak due to the elimination and consolidation of products.

As a result, sales from the industrial product segment rose 21.2% to 251,384 million yen, and operating income increased 38.7% to 22,938 million yen.

### [Electronic products]

Demand for LCD related materials was strong with the ongoing expansion of the FPD market and transition to large size LCD panels. Sales of optical films for LCD televisions (polarizing films with compensation film) fared well, despite a drop in prices. Sales of optical films for LCD monitors (polarizing films with viewing angle expansion film) also remained brisk. Sales of semiconductor-related materials remained flat in general, in spite of steady sales of resin for advanced packaging and environmental resin. As for circuit materials, sales of MRH (thin-film metal circuit boards for magneto-resistance heads) and FPC for HDD (hard disk drives) were strong, but the sales of FPC for use in mobile phones were poor due to a drop in prices. With regard to electronic processing materials, due to a favorable semiconductor industry climate, sales of wafer-protection adhesive tape, taping systems for semiconductor manufacturing processes and adhesive tape for semiconductor packaging kept steady. Sales of processing materials for use in general electronic parts remained steady, due to a recovery of the electronic parts industry beginning from the second half of the year.

As a result, sales for the electronic products segment rose 25.2% to 327,398 million yen, and operating income gained 24.5% to reach 58,713 million yen.

**[Functional products]**

In healthcare products, sales of transdermal therapeutic patches for the treatment of ischemic heart disease (angina) and bronchiectasis (asthma) were strong due to increasing use in medical institutions, but in medical/sanitary materials, sales of cosmetics-related products were weak. In addition, new products of transdermal therapeutic patches (for hypertension) in the U.S. have not been approved as drugs yet, and therefore sales of health products remained flat in general. Sales of high-polymer separation membranes were steady, due to replacement demand for membranes used in ultrapure water equipment in semiconductor manufacturing and the orders of new facility projects for the liquid crystal industry, while sales of reverse osmosis membrane modules for sea water desalination were also steady. Sales of engineering plastic materials remained flat in general, as sales of membranes used for inner pressure regulation in automobiles, etc. and fluorine porous membranes including materials for air filters remained steady, but the sales of process materials for the electronics industry were weak partly due to lowered prices.

As a result, sales in the functional products segment increased 3.4% to 47,533 million yen, and operating income rose 19.7% to 7,573 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	FY2001 (137th term)	FY2002 (138th term)	FY2003 (139th term)	FY2004 (140th term)	FY2005 (under review)
Net sales (million yen)	338,930	378,705	452,726	514,867	626,316
Operating income (million yen)	19,314	33,901	55,912	70,018	89,224
Ordinary income (million yen)	19,748	35,832	58,045	71,828	90,196
Net income (million yen)	1,115	19,237	33,386	41,842	55,306
Net income per share (yen)	6.42	108.52	197.99	252.72	332.30
Total assets (million yen)	350,340	379,811	389,525	443,264	556,934
Net assets (million yen)	228,409	237,560	223,114	261,090	321,464
Net assets per share (yen)	1,314.53	1,367.38	1,360.71	1,583.77	1,943.73

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	FY2001 (137th term)	FY2002 (138th term)	FY2003 (139th term)	FY2004 (140th term)	FY2005 (under review)
Net sales (million yen)	195,456	225,450	278,024	322,250	378,922
Operating income (million yen)	12,753	22,416	40,482	54,474	63,710
Ordinary income (million yen)	16,281	25,097	44,712	58,530	69,193
Net income (million yen)	758	15,099	27,671	36,780	34,392
Net income per share (yen)	4.37	85.74	164.82	223.25	207.49
Total assets (million yen)	267,939	290,068	290,970	336,631	396,513
Net assets (million yen)	195,988	205,779	191,647	223,022	254,103
Net assets per share (yen)	1,127.94	1,185.20	1,169.63	1,353.89	1,537.82

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.

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

The Group made a total of 60,889 million yen in plant and equipment investment during the fiscal year under review. Of the total, 35,519 million yen was invested in a non-consolidated basis in production facilities for LCD related materials at the Onomichi Plant, construction of a technical center and Plant No. 10 for circuit materials and related facilities at the Kameyama Plant, and environment and resource conservation related facilities and construction of Plant No.14 for industrial materials at the Toyohashi Plant. A total of 25,370 million yen was invested in factories and equipment for group companies, including new factories for LCD related materials in Taiwan and South Korea and new factories for circuit materials and industrial materials in China.

The abovementioned 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**

The Japanese economy is expected to continue to be steady in the first half of the year as in the last fiscal year, while the effect of austerity measures in the U.S. and the cycle of IT-related demand are assumed to enter a downward phase in the second half of the year. In addition, the outlook is still uncertain because of the further increasing price of crude oil caused by the expansion of demand in emerging countries and exchange rate trends.

In the Company's related markets, the FPD market is expected to expand especially the production of large televisions, but adjustments are also expected in customers' production due to decreasing demand, and a further decline in product prices is also assumed.

Under these circumstances, to realize the medium-term business plan "One-NITTO Dream Plan Step 2 (from fiscal 2005 to 2007)" formulated in the previous fiscal year, the Group will enhance products for the FPD industry, which will continue to grow in the future, such as LCD related materials and surface protection materials, including optical compensation and polarizing films for large LCD panels, while pursuing increased production capacity based on more thorough productivity reform. To improve business performance, the Group will also put an emphasis on "Global Niche Top Products" which are competitively strong and can be differentiated. These will include circuit materials where its technological prowess in miniaturization and adding advanced functions can be leveraged, and industrial products for the automobile industry which is expanding globally.

Furthermore, in order to not only achieve favorable business performance but also fulfill its overall responsibility as a good corporate citizen in terms of the environment and society as a whole, the Company will actively promote corporate social responsibility (CSR) activities including the development of an internal control system. In addition, the Company will engage in “Corporate Brand Value Enhancement” activities, aiming to be an entity which shareholders, customers, the public, and employees have confidence and high expectations, and cultivate the human resources on which such activities are founded. The Company will also strive to achieve “qualitative growth” through such activities.

## 2. Corporate profile

### (1) Main business of the Group (as of March 31, 2006)

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	LCD related materials, printed circuit materials, electronic process materials, semiconductor-related materials
Functional products	Healthcare products, high-polymer separation membranes, fluoro-resin products

### (2) Status of consolidation (as of March 31, 2006)

#### 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 Denko Matex Corp.	in million yen 350	100.0	Sales of industrial products, electronic products, functional 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.
Nitto Denko (China) Investment Co., Ltd.	in thousand RMB 253,435	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.
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	75.2 (5.3)	Production and sales of electronic products.

Note: The figures in the parenthesis of the column "The Company's stake" represent the percentage of indirect investment.

#### b. Results of consolidation

The Group has 107 consolidated subsidiaries, as well as 6 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, 2006)**

Nitto Denko Corporation	Head office	2-5-25 Umeda, Kita-ku, Osaka
	Offices (Plants)	Tohoku Plant (Osaki (former 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 Denko Matex Corp.	Head office: Chiyoda-ku, Tokyo	
Nitto Europe N.V.	Head office & plant: Genk, Belgium	
Nitto Denko (Suzhou) Co., Ltd.	Head office & plant: Suzhou, China	
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, 2006)**

	Number of employees	(Changes from the end of the previous year)
Group	21,527	(+7,656)
Company	3,187	(+229)

Note:

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

**(5) Shareholders' equity (as of March 31, 2006)**

- 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 constituting one voting unit 100 shares
- d. Number of shareholders 16,057
- 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 Chase Manhattan Bank, N.A. London	Thousands of shares 14,263	% 8.21	Thousands of shares -	% -
Japan Trustee Services Bank, Ltd. (Trust Account)	11,360	6.54	-	-
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,646	6.13	-	-
State Street Bank and Trust Company	7,537	4.34	-	-
State Street Bank and Trust Company 505103	5,508	3.17	-	-
The Chase Manhattan Bank 385036	5,407	3.11	-	-
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	3,941	2.27	-	-
JPMCB USA Residents Pension Jasdec Lend 385051	3,600	2.07	-	-
The Dai-ichi Mutual Life Insurance Company	3,017	1.74	-	-
JPMCB Omnibus US Pension Treaty Jasdec 380052	2,783	1.60	-	-

## Notes:

1. The Company holds treasury stock totaling 8,645,982 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, 2006.
  - 1) Group of five companies, including Capital Research and Management Company and its joint holders:  
26,845,100 shares (as of January 18, 2006)
  - 2) Fidelity Investments Japan:  
17,441,089 shares (as of January 5, 2006)
  - 3) Group of 15 companies, including UBS AG (Bank) and its joint holders:  
11,520,947 shares (as of December 7, 2005)

f. Acquisition, disposal and holdings of treasury stock

[Shares acquired]

Common stock: 3,426 shares

Total acquisition amount: 24,137,310 yen

[Shares disposed of]

Common stock: 521,584 shares

Total disposal amount: 2,061,411,309 yen

[Shares eliminated] None

[Shares held at year-end]

Common stock: 8,645,982 shares

**(6) Directors and corporate auditors (as of March 31, 2006)**

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)	Kazuo Kumagai	Special Adviser of Hitachi, Ltd.
Corporate Auditor (part-time service)	Kosuke Kimura	Professor emeritus, Kyoto Institute of Technology

Notes:

1. At the 140th Ordinary General Meeting of Shareholders held on June 24, 2005, Kosuke Kimura was elected corporate auditor, and assumed office. Corporate auditor Shiko Saikawa retired as of the end of the Meeting.
2. Corporate auditors Hisashi Hosokawa, Kazuo Kumagai and Kosuke Kimura 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.
3. 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	Katsuhiro 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 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	5	163	6	89	11	253
Bonus paid to directors based on the appropriation of retained earnings	5	180	-	-	5	180
Retirement bonuses approved by the general shareholders meeting	-	-	1	4	1	4
Total		343		93		437

## Notes:

1. The amount of employee's salary (including bonus) for a director who also holds an employee post is paid apart from the above-mentioned compensation approved by the general shareholders meeting. The amount of employee's salary (including bonus) was not paid for the current term.
2. 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).
3. The retirement bonuses are paid to the officers who retired in the current term. The Company abolished the director's retirement benefit system as of the 139th general shareholders meeting held on June 24, 2004; however, the payment of the amount of retirement benefit, which shall be adjusted in accordance with the tenure of office of each incumbent officer, was approved by a resolution of the said Meeting, and the payment shall be made upon retirement of each officer.

**(8) Stock Purchase/Subscription Warrant (as of March 31, 2006)**

a. Number of the Warrant issued

- 1) Total number of the Warrant issued      6,572 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:              657,200 shares
- 3) Issuing value of the Warrant:              Gratis

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

[No. 4 Warrant]

- 1) Warrant issued:                              3,870 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:              387,000 shares
- 3) Issuing value of the Warrant:              Gratis
- 4) Payment per share on the exercise of the Warrant:      6,634 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, 2006 through December 31, 2008.
- 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	120	Tatsunosuke Fujiwara	60
Yukio Nagira	70	Wataru Kitao	55
Yasuo Ninomiya	60	5 in total	Total 365

(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	70	Kaoru Aizawa	55
Yasuki Nishizaka	60	Hideo Abe	55
Katsuhiro Akamatsu	60	Setsuo Watanabe	55
Ryoichi Ota	55	Yoshihiko Chikuma	50
Tetsuo Horiuchi	55	Tomio Sakka	50
			Total 565

(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	2,678	Common stock 267,800 shares	108
Directors of affiliate companies	827	Common stock 82,700 shares	44

[Warrant issued in June 2005 (Stock options of equity-based compensation)]

- 1) Total number of Warrant issued: 371 units (100 shares of common stock per unit)
- 2) Class and number of underlying shares that are subject to the Warrant:  
Common stock: 37,100 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 rights 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, 2022: July 1, 2022 through June 24, 2025
  - 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, 2005 through June 24, 2025
- 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	58	Tatsunosuke Fujiwara	26
Yukio Nagira	30	Wataru Kitao	16
Yasuo Ninomiya	26	5 in total	Total 156

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

Name	Number of the Warrant (unit)	Name	Number of the Warrant (unit)
Yoshiyasu Kamiyama	27	Kaoru Aizawa	15
Yasuki Nishizaka	24	Hideo Abe	15
Katsuhiko Akamatsu	24	Setsuo Watanabe	15
Ryoichi Ota	15	Yoshihiko Chikuma	13
Tetsuo Horiuchi	15	Tomio Sakka	13
		Total	176

(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	215	Common stock 21,500	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	103
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	86
c.	Of the sum in b. above, the amount of compensation to be paid by the Company to accounting auditors	41

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, 2006	As of March 31, 2005
<b>(Assets)</b>		
<b>Current assets:</b>	<b>307,707</b>	<b>227,206</b>
Cash on hand and in banks	87,658	50,354
Trade notes and accounts receivable	142,697	117,357
Inventories	59,528	44,170
Deferred tax assets	9,310	6,315
Other current assets	10,040	10,605
Allowance for doubtful accounts	(1,526)	(1,597)
<b>Fixed assets:</b>		
<b>Tangible fixed assets:</b>	<b>206,906</b>	<b>166,523</b>
Buildings and other structures	81,649	63,193
Machinery and delivery equipment	74,624	56,789
Tools, furniture and fixtures	8,454	5,312
Land	19,749	19,000
Construction in process	22,428	22,228
<b>Intangible fixed assets:</b>	<b>7,326</b>	<b>6,619</b>
Goodwill	70	80
Other intangible fixed assets	7,255	6,539
<b>Investments and other assets:</b>	<b>34,993</b>	<b>42,914</b>
Investment in securities	19,314	27,038
Deferred tax assets	617	1,090
Pre-paid annual pension costs	10,521	10,524
Others	5,058	4,809
Allowance for doubtful accounts	(518)	(548)
<b>Total fixed assets</b>	<b>249,226</b>	<b>216,057</b>
<b>Total assets</b>	<b>556,934</b>	<b>443,264</b>

## Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2006	As of March 31, 2005
<b>(Liabilities)</b>		
<b>Current liabilities:</b>	<b>191,463</b>	<b>145,218</b>
Trade notes and accounts payable	92,636	71,958
Short-term loan payable	18,021	8,508
Bonds and debentures due within one year	-	300
Accrued expenses	18,428	15,634
Income tax payable, etc.	23,999	16,089
Other current liabilities	38,377	32,727
<b>Long-term liabilities:</b>	<b>31,263</b>	<b>26,686</b>
Long-term loans payable	5,673	6,503
Provision for retirement benefits	15,870	14,030
Reserve for retirement bonuses to directors and corporate auditors	864	594
Deferred tax liabilities	1,589	428
Consolidation adjustments account	1,010	2,011
Other long-term liabilities	6,254	3,118
<b>Total liabilities</b>	<b>222,727</b>	<b>171,905</b>
<b>(Minority interests)</b>		
<b>Minority interests</b>	<b>12,742</b>	<b>10,267</b>
<b>(Shareholders' equity)</b>		
<b>Common stock</b>	<b>26,783</b>	<b>26,783</b>
<b>Capital surplus</b>	<b>51,166</b>	<b>50,482</b>
<b>Earned surplus</b>	<b>274,678</b>	<b>228,927</b>
<b>Net unrealized gains on securities etc.</b>	<b>6,712</b>	<b>3,022</b>
<b>Foreign currency translation adjustments</b>	<b>(3,702)</b>	<b>(11,913)</b>
<b>Cost of treasury stock</b>	<b>(34,173)</b>	<b>(36,210)</b>
<b>Total shareholders' equity</b>	<b>321,464</b>	<b>261,090</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>556,934</b>	<b>443,264</b>

## Consolidated Statements of Income

(Unit: millions of yen)

	Amount	
	April 1, 2005 - March 31, 2006	April 1, 2004 - March 31, 2005
<b>(Ordinary income and loss)</b>		
<b>Operating income and loss</b>		
<b>Operating revenue:</b>	<b>626,316</b>	<b>514,867</b>
Net sales	626,316	514,867
<b>Operating expenses:</b>	<b>537,091</b>	<b>444,848</b>
Cost of sales	430,781	355,880
Selling, general and administrative expenses	106,310	88,968
<b>Operating income</b>	<b>89,224</b>	<b>70,018</b>
<b>Non-operating income and loss</b>		
<b>Non-operating revenue:</b>	<b>4,514</b>	<b>5,104</b>
Interest and dividend income	457	305
Revenue from equity method investment	14	2,626
Miscellaneous revenue	4,042	2,173
<b>Non-operating expenses:</b>	<b>3,542</b>	<b>3,295</b>
Interest expenses	927	322
Miscellaneous expenses	2,614	2,972
<b>Ordinary income</b>	<b>90,196</b>	<b>71,828</b>
<b>(Extraordinary gains and losses)</b>		
<b>Extraordinary gains:</b>	<b>1,070</b>	<b>394</b>
Gains on sales of fixed assets	753	109
Gain on sale of investments in securities	317	-
Gains on business transfer/selling	-	253
Other extraordinary gains	-	32
<b>Extraordinary losses:</b>	<b>1,653</b>	<b>2,246</b>
Losses on sales and disposal of fixed assets	837	1,261
Losses from revaluation of goodwill	-	257
Loss due to impairment	115	-
Expense for adjustment of pension plans for overseas subsidiaries	472	-
Special retirement benefits	211	717
Other extraordinary losses	15	10
<b>Net income before taxes</b>	<b>89,614</b>	<b>69,976</b>
Corporate, inhabitants' and enterprise taxes	35,988	24,464
Corporate tax adjustments	(2,893)	2,152
Minority shareholder's interest	1,212	1,517
<b>Net income</b>	<b>55,306</b>	<b>41,842</b>

### Consolidated Statements of Retained Earnings

(Unit: millions of yen)

	<b>April 1, 2005 - March 31, 2006</b>	<b>April 1, 2004 - March 31, 2005</b>
<b>(Capital surplus)</b>		
Balance at the beginning of the period	50,482	50,482
Increase in capital surplus	684	-
Gain on disposal of treasury stock	684	-
Balance at the end of the period	51,166	50,482
<b>(Earned surplus)</b>		
Balance at the beginning of the period	228,927	196,596
Increase in earned surplus	55,306	41,842
Net income for the period	55,306	41,842
Decrease in earned surplus	9,554	9,511
Dividends	9,059	7,853
Bonuses to directors	495	552
Loss on disposal of treasury stock	-	1,105
Balance at the end of the period	274,678	228,927

## Consolidated Statements of Cash Flows

(Unit: millions of yen)

	<b>April 1, 2005 - March 31, 2006</b>	<b>April 1, 2004 - March 31, 2005</b>
Cash flows from operating activities	84,525	56,067
Cash flows from investing activities	(55,365)	(49,171)
Cash flows from financing activities	(1,010)	(9,154)
Effect of exchange-rate changes on cash and cash equivalents	2,476	742
Net increase (decrease) in cash and cash equivalents	30,625	(1,515)
Cash and cash equivalents at the beginning of the period	48,278	48,544
Cash and cash equivalents of a newly consolidated company	7,780	1,249
Cash and cash equivalents at the end of the period	86,684	48,278

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

### (1) Scope of consolidation

a. Number of consolidated subsidiaries: 107

Major companies:

Kyoshin Corp., Nissho Corp., Nitto Shinko Co., Ltd., Nitto Denko Matex Corp., Korea Nitto Optical Co., Ltd. and Taiwan Nitto Optical Co., Ltd.

Newly consolidated subsidiaries, etc.

Established: Shanghai Nitto Optical Co., Ltd. and other 2 companies

Became consolidated subsidiaries from the aspect of improving the contents of disclosure of the consolidated account settlement:

Nistem Corporation and 52 other companies

Status as non-consolidated subsidiaries, etc. ceased:

As a result of corporate integration between affiliates:

Yuko Seisakusho K.K.

b. Number of non-consolidated subsidiaries: 6

Major company: Korea Nitto Denko Co., Ltd.

Status as non-consolidated subsidiaries, etc. ceased:

As a result of sale of companies:

Kasahara Seisakusho K.K. and one other company

Became consolidated subsidiaries from the aspect of improving the contents of disclosure of the consolidated account settlement:

Nistem Corporation and 52 other companies

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: 6

Major company: Korean Nitto Denko Co., Ltd.

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: 86

Number of companies whose fiscal year is different from that of the company which submits the consolidated financial statement: 21

\* For the twenty-one 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.

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

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) Hedge policies

Forward exchange contracts are used to hedge the risk of fluctuation of trade receivables and payables denominated in foreign currencies.

### g. Other important items for compiling consolidated financial statements

Consumption tax and similar taxes are excluded from the transaction amount.

### (5) Evaluation of assets and liabilities of consolidated subsidiaries

Partial market value method is used to evaluate all assets and liabilities of consolidated subsidiaries.

### (6) Depreciation of consolidation adjustment account

The consolidation adjustment account is amortized by the average cost method over a five-year period. In case the account is less significant, it is fully depreciated when accrued.

## **2. Change in significant accounting policies regarding the preparation of consolidated financial statements**

(Accounting standards for the impairment of fixed assets)

Accounting standards for the impairment of fixed assets (“Opinion concerning the establishment of accounting standards for the impairment of fixed assets” (Business Accounting Council; August 9, 2002)) and “Guideline for the application of business accounting standards for the impairment of fixed assets” (Business Accounting Standards Application Guideline No.6; October 31, 2003) have been applied since the current consolidated fiscal year. Consequently, the net income before taxes etc. decreased by 115 million yen.

(Accounting standards for retirement benefits)

“Partial amendment to the ‘accounting standards for retirement benefits’” (Business Accounting Standards No.3; March 16, 2005) and “Application guideline regarding the partial amendment to the ‘accounting standards for retirement benefits’ (Business Accounting Standards Application Guideline No.7; March 16, 2005) have been applied since the current consolidated fiscal year.

Income and loss were not affected as a result thereof.

## **3. Change in classification**

(Consolidated statements of income)

“Gain on sale of investments in securities” was included in “Other extraordinary gains” in the extraordinary gains section until the previous consolidated fiscal year, but it is separately shown

for the fiscal year under review due to its increased importance.

The amount of “gain on sale of investments in securities” for the previous consolidated fiscal year was 32 million yen.

#### **4. Notes to Consolidated Balance Sheets**

(1) Accumulated depreciation of tangible fixed assets	257,253 million yen
(2) Pledged assets and secured liabilities	
Pledged assets:	77 million yen
Secured liabilities:	46 million yen
(3) Guarantee on liabilities and contracts for future guarantee on liabilities (including notes on management guidance, etc.)	
Guarantee on liabilities:	39 million yen
(4) Discounted and endorsed amounts for notes receivable	
Discounted amount of notes receivable:	90 million yen
Endorsed amount of notes receivable:	735 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	8,645,982 shares

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

Net income per share	332.30 yen
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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, 2006	As of March 31, 2005
(Assets)		
<b>Current assets:</b>	<b>186,811</b>	<b>142,558</b>
Cash on hand and in banks	44,705	21,502
Notes receivable	796	769
Accounts receivable	104,544	85,052
Products and merchandise	2,883	3,117
Materials and stored goods	5,664	4,746
Goods in process	12,347	11,993
Short-term loans	882	1,443
Deferred tax assets	5,013	3,866
Other current assets	10,274	10,367
Allowance for doubtful accounts	(300)	(300)
<b>Fixed assets:</b>		
<b>Tangible fixed assets:</b>	<b>124,792</b>	<b>107,560</b>
Buildings	44,925	39,308
Other structures	2,611	2,695
Machinery	46,082	39,214
Delivery equipment	133	105
Tools, furniture and fixtures	4,221	3,299
Land	14,071	13,925
Construction in process	12,746	9,011
<b>Intangible fixed assets:</b>	<b>3,925</b>	<b>3,736</b>
Software	2,751	2,606
Utility rights	131	41
Other intangible fixed assets	1,043	1,087
<b>Investments and other assets:</b>	<b>80,983</b>	<b>82,775</b>
Investment in securities	14,012	8,975
Stocks of subsidiaries	49,345	62,710
Long-term loans	3,739	2,275
Deferred tax assets	7,723	2,134
Prepaid pension costs	6,743	7,507
Others	1,125	880
Allowance for doubtful accounts	(92)	(92)
Allowance for loss on investment	(1,614)	(1,614)
<b>Total fixed assets</b>	<b>209,701</b>	<b>194,072</b>
<b>Total assets</b>	<b>396,513</b>	<b>336,631</b>

## Non-Consolidated Balance Sheets

(Unit: millions of yen)

	Amount	
	As of March 31, 2006	As of March 31, 2005
<b>(Liabilities)</b>		
<b>Current liabilities:</b>	<b>129,663</b>	<b>101,231</b>
Trade Accounts payable	62,242	46,680
Accounts payable	31,580	25,358
Accrued expenses	7,261	5,849
Income tax payable, etc.	17,289	13,045
Deposits received	10,684	9,741
Other current liabilities	604	555
<b>Long-term liabilities:</b>	<b>12,746</b>	<b>12,377</b>
Provision for retirement benefits	12,098	11,751
Guarantee deposits received	263	249
Other long-term liabilities	384	376
<b>Total liabilities</b>	<b>142,409</b>	<b>113,609</b>
<b>(Shareholders' equity)</b>		
<b>Common stock</b>	<b>26,783</b>	<b>26,783</b>
<b>Capital surplus</b>	<b>51,166</b>	<b>50,482</b>
Capital reserve	50,482	50,482
Other capital surplus	684	-
Gain on disposal of treasury stock	684	-
<b>Earned surplus:</b>	<b>204,525</b>	<b>179,372</b>
Earned reserve	4,095	4,095
Voluntary reserve	152,325	135,354
Special depreciation reserve	1,325	1,354
Special reserve	151,000	134,000
Unappropriated retained earnings	48,105	39,922
<b>Net unrealized gain on stocks, etc.</b>	<b>5,800</b>	<b>2,594</b>
Others incl. amount difference of assessed valuable securities	5,800	2,594
<b>Cost of treasury stock</b>	<b>(34,173)</b>	<b>(36,210)</b>
<b>Total shareholders' equity</b>	<b>254,103</b>	<b>223,022</b>
<b>Total liabilities, minority interest and shareholders' equity</b>	<b>396,513</b>	<b>336,631</b>

## Non-Consolidated Statements of Income

(Unit: millions of yen)

	<b>Amount</b>	
	<b>April 1, 2005 - March 31, 2006</b>	<b>April 1, 2004 - March 31, 2005</b>
<b>(Ordinary income and loss)</b>		
<b>Operating income and loss</b>		
<b>Operating revenue</b>	<b>378,922</b>	<b>322,250</b>
Net sales	378,922	322,250
<b>Operating expenses</b>	<b>315,212</b>	<b>267,775</b>
Cost of sales	261,856	223,224
Selling, general and administrative expenses	53,355	44,551
<b>Operating income</b>	<b>63,710</b>	<b>54,474</b>
<b>Non-operating income and loss</b>		
<b>Non-operating revenue:</b>	<b>7,671</b>	<b>5,039</b>
Interest and dividend income	3,858	2,625
Miscellaneous revenue	3,813	2,414
<b>Non-operating expenses:</b>	<b>2,188</b>	<b>982</b>
Interest expense	45	34
Miscellaneous expense	2,142	948
<b>Ordinary income</b>	<b>69,193</b>	<b>58,530</b>
<b>(Extraordinary gains and losses)</b>		
<b>Extraordinary gains:</b>	<b>727</b>	<b>100</b>
Gains on sales of fixed assets	410	99
Gain on sale of investments in securities	316	-
Other extraordinary gains	-	1
<b>Extraordinary losses:</b>	<b>17,827</b>	<b>1,421</b>
Loss from revaluation of stock of subsidiaries	17,017	-
Losses on sales and disposal of fixed assets	642	1,112
Special retirement benefits	167	309
<b>Net income before taxes</b>	<b>52,092</b>	<b>57,210</b>
Corporate, inhabitants' and enterprise taxes	26,570	19,705
Corporate tax adjustments	(8,870)	724
<b>Net income</b>	<b>34,392</b>	<b>36,780</b>
Profit carried over	18,657	8,339
Losses on disposal of treasury stock	-	1,105
Interim dividends	4,944	4,091
<b>Unappropriated retained earnings</b>	<b>48,105</b>	<b>39,922</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.

#### (6) Method of hedge accounting

##### Hedge accounting

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

##### Hedge instrument and targets

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.

##### Hedge policies

Forward exchange contracts are used to hedge the risk of fluctuation of trade receivables and payables denominated in foreign currencies.

(7) The consumption tax and similar taxes are excluded from the transaction amount.

## **2. Changes in Accounting Policies**

(Accounting standards for the impairment of fixed assets)

Accounting standards for the impairment of fixed assets ("Opinion concerning the establishment of accounting standards for the impairment of fixed assets" (Business Accounting Council; August 9, 2002)) and "Guideline for the application of business accounting standards for the impairment of fixed assets" (Business Accounting Standards Application Guideline No.6; October 31, 2003) have been applied since the current fiscal year.

Income and loss were not affected as a result thereof.

(Accounting standards for retirement benefits)

“Partial amendment to the ‘accounting standards for retirement benefits’” (Business Accounting Standards No.3; March 16, 2005) and “Application guideline regarding the partial amendment to the ‘accounting standards for retirement benefits’ (Business Accounting Standards Application Guideline No.7; March 16, 2005) have been applied since the current fiscal year.

Income and loss were not affected as a result thereof.

### 3. Changes in Classification

(Non-consolidated statements of income)

“Gain on sale of investments in securities” was included in “Other extraordinary gains” in the extraordinary gains section until the previous fiscal year, but it is separately shown for the fiscal year under review due to its increased importance.

The amount of “gain on sale of investments in securities” for the previous fiscal year was 1 million yen.

### 4. Notes to Non-Consolidated Balance Sheets

(1) Accumulated depreciation of tangible fixed assets	187,331 million yen
(2) Short-term receivables from subsidiaries	95,194 million yen
Long-term receivables from subsidiaries	3,721 million yen
Short-term payables to subsidiaries	16,226 million yen
(3) Guarantee on liabilities	25,632 million yen
(4) Net assets prescribed in Article 124 Item 3 of the Enforcement Regulation of Commercial Code are 5,800 million yen.	
(5) 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	8,645,982 shares

### 5. Notes to Non-Consolidated Statements of Income

(1) Sales to subsidiaries	328,217 million yen
Purchases from subsidiaries	22,258 million yen
Transactions other than business deals with subsidiaries	6,970 million yen

(2) Net income per share

207.49 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)

<b>Unappropriated retained earnings at the end of the term</b>	<b>48,105,598,756</b>
Reversal of reserve for special depreciation	356,449,278
Total	48,462,048,034
Proposed appropriations:	
Cash dividends (¥30 per share)	4,953,373,380
Directors' bonuses	190,000,000
Reserve for special depreciation	544,432,198
Fixed asset reduction reserve	280,888,307
Special reserve	17,000,000,000
Retained earnings carried forward to the next term	25,493,354,149

Notes:

1. Interim dividend totaling ¥4,944,374,490 (¥30 per share) were paid on November 29, 2005.
2. Reserve for special depreciation and fixed asset reduction reserve are in accordance with the Special Taxation Measures Law.

**Independent Auditors' Report**

May 8, 2006

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

Toshiro Miyabayashi (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 141st term from April 1, 2005 to March 31, 2006 in accordance with Article 19 Paragraph 2 Item 3 of former "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 141st term from April 1, 2005 to March 31, 2006. 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 10, 2006

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: Kazuo Kumagai (Seal)

Corporate Auditor: Kosuke Kimura (Seal)

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

**Independent Auditors' Report**

May 8, 2006

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

Toshiro Miyabayashi (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 141st term from April 1, 2005 to March 31, 2006 in accordance with Article 2 Paragraph 1 of former "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.

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

### Corporate Auditor's Report

The Board of Corporate Auditors discussed with each Corporate Auditor concerning the execution of duties of Directors for the 141st term from April 1, 2005 to March 31, 2006. 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 former 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 former 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 10, 2006

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: Kazuo Kumagai (Seal)  
Corporate Auditor: Kosuke Kimura (Seal)

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