NITTO DENKO

Annual Report 2006

For the year ended March 31, 2006

The Brightest Choice

NITTO DENKO CORPORATION

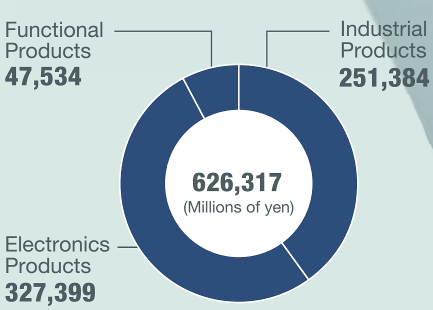
Financial Highlights

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

	Millions of yen except per-share amounts		Thousands of U.S. dollars except per-share amounts
	2006	2005	**2006**
For the year:			
Net sales	**¥ 626,317**	¥ 514,868	**$ 5,331,719**
Operating income	**89,225**	70,019	**759,556**
Net income	**55,307**	41,843	**470,818**
Capital expenditures	**61,567**	52,914	**524,108**
Depreciation and amortization	**31,471**	24,681	**267,907**
R&D expenses	**20,489**	16,739	**174,419**
At year-end:			
Current assets	**¥ 307,707**	¥ 227,206	**$ 2,619,452**
Plant and equipment, at cost	**206,907**	166,524	**1,761,360**
Total assets	**556,934**	443,264	**4,741,074**
Current liabilities	**191,464**	145,219	**1,629,897**
Long-term liabilities	**31,263**	26,686	**266,136**
Shareholders' equity	**321,465**	261,091	**2,736,571**
Per share data	Yen		U.S. dollars
Net income:			
Basic	**¥ 332.30**	¥ 252.72	**$ 2.83**
Diluted	**331.72**	252.58	**2.82**
Cash dividends	**60.00**	50.00	**0.51**
Shareholders' equity	**1,943.73**	1,583.77	**16.55**

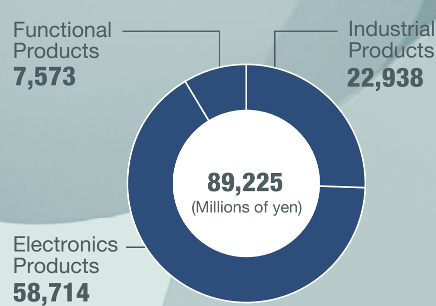
The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥117.47=U.S.$1, the approximate exchange rate on March 31, 2006.

Net Sales



FY2006

Operating Income



FY2006

Cautionary Note with Respect to Forward-looking Statements

Statements contained in this report with respect to the Nitto Denko Group's plans, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of the Nitto Denko Group, which are based on management's assumptions and beliefs in light of the information currently available to it. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Nitto Denko Group's actual results, performance or achievements to differ materially from the expectations expressed herein.

Global Niche Top™ Products

Nitto Denko continues to develop a host of new GNT products in the FPD, mobile communications, electronics, automotive and ecology sectors. GNT products in the following fields are contributing significantly to the Group's operating performance.

- Liquid crystal display televisions
- Mobile telephones
- Semiconductor
- Notebook computers
- Electronic computers
- Optical semiconductors
- Automobiles
- Hard disk drives
- Polymer separation membranes
- Medical

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Global Niche Top™ Strategy is the Answer

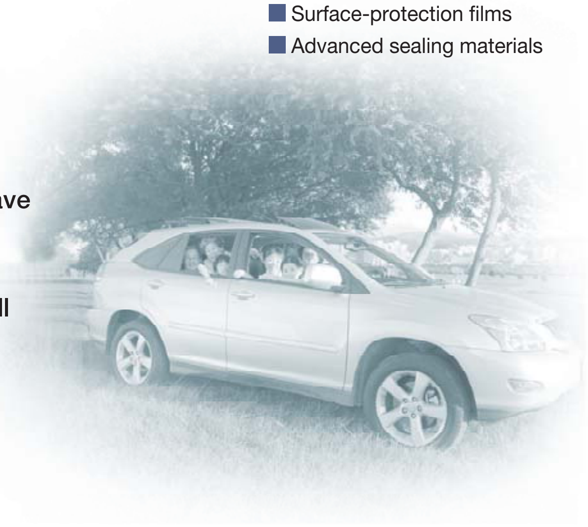
It's all about our marketing and technologies.

With market needs changing at an incredible pace, steadily introducing new products is essential, but not sufficient. We must also expand our technical and marketing expertise to ensure sustained and organic development.

Maintaining a customer focus is at the core of Nitto Denko's marketing activities. By working intimately with our customers, we can anticipate their needs and develop products to match. We will continue developing new applications and products to meet the needs of existing markets and technologies, while at the same time pursuing developments that meet emerging market needs.

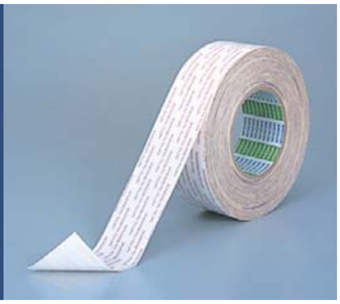
Our Core Technologies

Nitto Denko has leveraged its original varnish synthesis technology for electrical insulating materials into a number of core technologies, including high-polymer synthesis, coating, film synthesis and circuit-forming technologies. We have applied this technical process to develop a host of value-added products in numerous fields. We will continue expanding our technical base, combining and adding new technologies as we work to add products with specific functions to meet client needs.



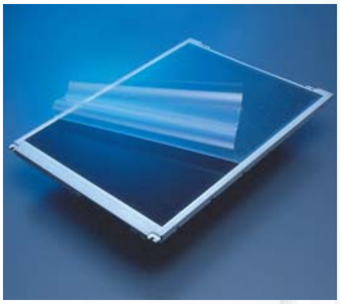
Industrial Products

- Double-coated adhesive tapes
- Surface-protection films
- Advanced sealing materials



Double-coated adhesive tapes

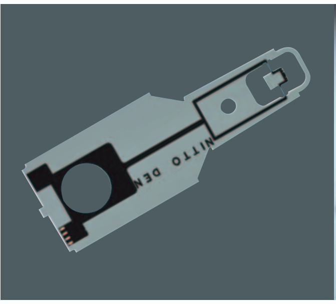
Vibration-damping matrerials



Surface-protection films

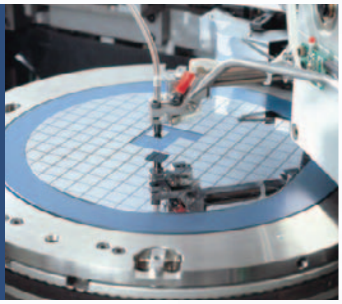

Polarizing film for LCDs

Polarization conversion film for LCDs

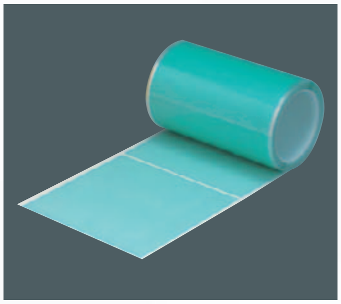

Thin metal core board for magneto resistive heads


Semiconductor sealing materials

Electronics Products


Semiconductor wafer protection and fixing tapes

- Polarizing films
- Retardation films
- Polarization conversion films
- Semiconductor encapsulating resins
- Thin metal core boards for MR heads
- Protection sheet and laminating device applicator for semiconductor wafer processing


Thermal release sheets


Transdermal therapeutic patches


Surgical tapes

Functional Products


Cultivated ginseng

- Transdermal therapeutic patches
- Surgical tapes
- Tissue-cultured ginseng
- High-polymer separation membrane modules
- Fluoroplastic porous films
- Fluoroplastic adhesive tapes


Reverse osmosis membrane


Vent filter for automobile lamps

To Our Shareholders

Masamichi Takemoto
President

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

The Year in Review

> Nitto Denko not sitting on its laurels despite record results

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

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

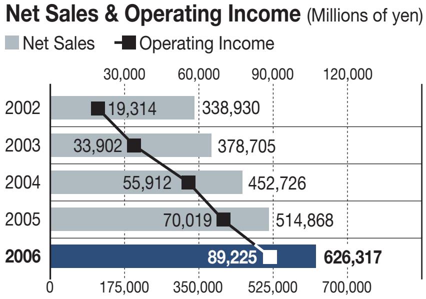
The Company believes that periods of strong performance are precisely the right times for making systematic capital investments aimed at achieving sustained growth. In fiscal 2007, we are planning capital investments to substantially expand our capacity to manufacture optical films. The Company took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

The Past Five Years

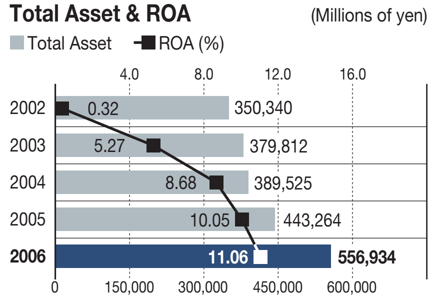
> Substantial changes over the past five years prompting the need for “quality-enhanced growth”

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

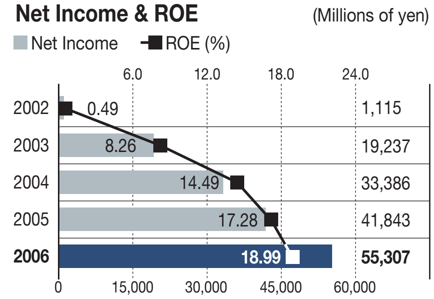
Net Sales & Operating Income (Millions of yen)



Total Asset & ROA (Millions of yen)



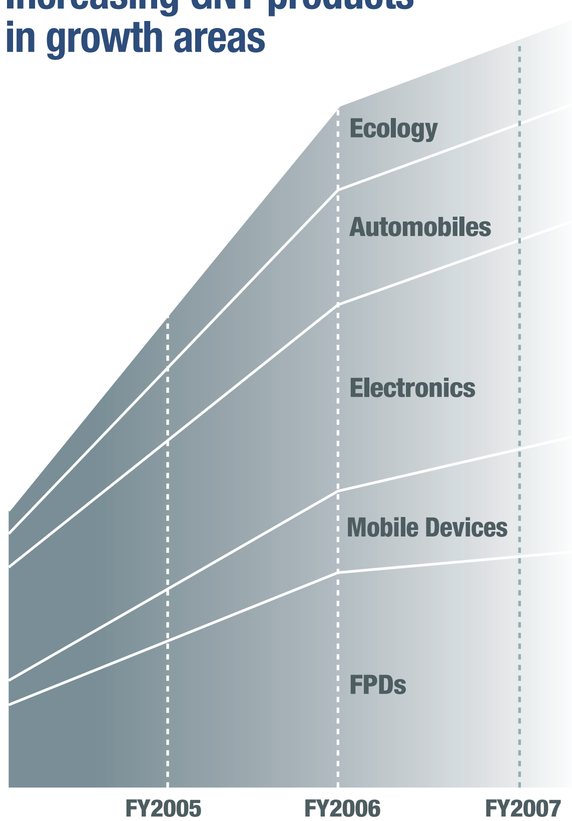
Net Income & ROE (Millions of yen)



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

Focused Areas for Global Niche Top™ Products

Increasing GNT products in growth areas



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

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

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

Future Strategies Building on Quality-Enhanced Growth

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

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

Creating New GNT Products and Exiting from Low-Profitability Areas

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

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

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

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

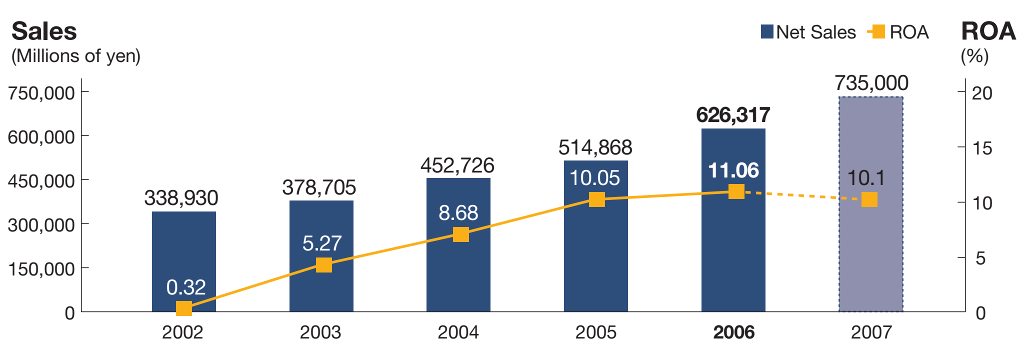
In the area of optical film products, we have accelerated our investment plan by one year while increasing the total investment amount to ¥100 billion in fiscal 2007.

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

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

Mid-Term Managemant Plan (Fiscal 2006—2008)

One-NITTO Dream Plan



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

Outlook for Fiscal 2007

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

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

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

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

Masamichi Takemoto,
President

The Brightest Choice

Nitto Denko is investing in current fields of growth, as well as the up-and-coming sectors of the future. We have a track record for doing just this sort of thing. Doing it strategically and quickly. And succeeding.

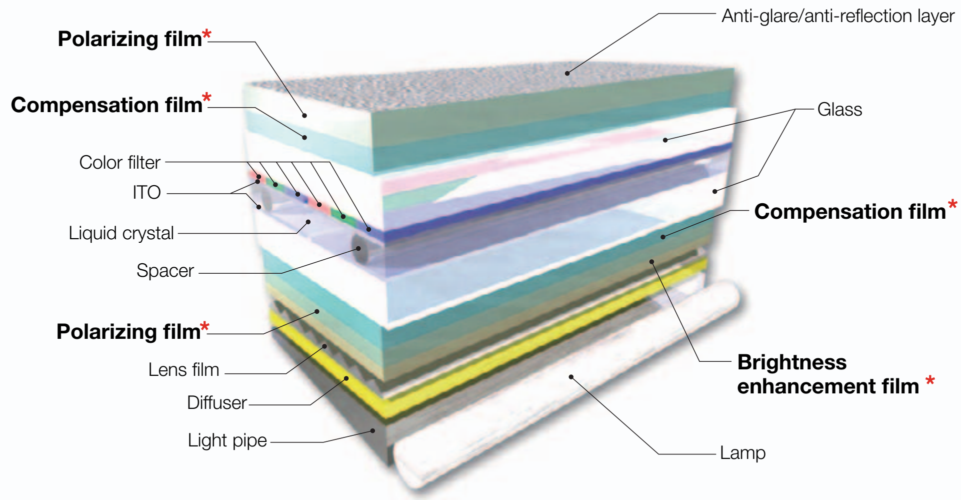
Capital Investment in Optical Films to Reach ¥100 Billion

Nitto Denko's share of global optical films market reaches 55%

Nitto Denko offers a wide-ranging variety of materials—including optical films, adhesive tapes, surface protection products, printed circuits and sealing materials—that find their way into flat-panel displays (FPDs) for personal computers (PCs), mobile telephones and slimline televisions. In recent years, sales of our optical films for liquid-crystal displays (LCDs), such as polarizing films, retardation films and brightness enhancement films, have grown dramatically. As the key parts that determine an LCD's brightness, image clarity and color definition, the production of optical films requires extremely advanced processing and manufacturing technologies.

Market demand for LCD optical films has grown steadily in recent years, in step with increased demand for slimline televisions, LCD monitors and laptop PCs. In this rapidly evolving market, our optical film business has kept pace with the requirements of the world's LCD panel manufacturers, owing to our highly advanced technical expertise, our ability to anticipate and quickly meet customer needs, and our substantial production capacity. As a result, Nitto Denko now holds a 55% share of the global market for optical films.

Basic Construction of an LCD



* Products privided by Nitto Denko

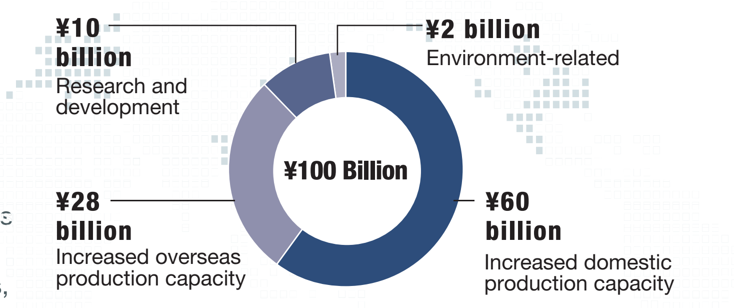
Increase in the Popularity and Size of LCD TVs Driving Expansion of Optical Product Market

Increasingly sophisticated optical film production technologies are being required as LCDs grow larger. Having established the essential technical expertise and mass-production capabilities, Nitto Denko has expanded its operations in this field, contributing to the realization of larger format LCD televisions and increasing its sales. As LCD TVs rapidly take over the market from their cathode-ray tube (CRT) predecessors, LCD prices continue to decline while LCD sizes go up. In fiscal 2007, worldwide shipments of LCD televisions are forecast to exceed 40 million units, compared with around 20 million in fiscal 2006. At the same time, their average size is expected to grow, from the 30-inch range to the 40-inch range.

The optical film market likewise faces the challenges of commoditization and expanding size, with competition escalating at the same time. While demand for optical films is expanding steadily, the market environment is becoming ever more complex.

To achieve continued growth in the optical film market under these conditions, Nitto Denko must improve in four areas: production capacity, the ability to offer larger products, price competitiveness and global supply capability. To raise our competitive strength in optical film-related products, we are planning large-scale capital investment in this area, amounting to approximately ¥100 billion in fiscal 2007.

Breakdown of ¥100 Billion in Capital Investment



New Process and Plant Expansion to Boost Capacity Significantly

Optical film manufacturing processes consist of front-end processing—the manufacture of base film—and back-end processing, which involves cutting and shipping these films. We conduct front-end processing, which requires highly sophisticated technical expertise, at our plants in Japan, while the choice of location for back-end processing depends on where the LCD panel makers are located. Depending on client location, we may conduct finishing operations at our domestic plants or at our facilities in China (Suzhou, Shanghai and Shenzhen), Taiwan or South Korea.

In fiscal 2007, Nitto Denko will start up a fifth processing wing at its Onomichi Plant, enabling the introduction of an entirely new process. The new wing features novel stretching and precision coating machines, as well as a more fully equipped processing facility, which together will drastically enhance our manufacturing efficiency. Construction on the new processing wing was completed in June 2006, and full-scale production is slated to commence in October.

We are considering applying these new processes at existing production facilities. Through such expansion, by March 2007 we expect our annual optical film production capacity to nearly triple, to 160 million square meters, compared with 53 million square meters in April 2006.

Development of Ultralow-Pressure Reverse Osmosis (PROC) Element Expanding Business Opportunities in China

Nitto Denko's PROC Membrane Leveraging Proprietary Technologies

Owing to increasing desertification due to global warming, shortage of potable water owing to pollution of stationary and moving water and the growing worldwide demand for agricultural water, requirements for clean water are expanding on a global scale. In 1973, Nitto Denko embarked on the business of creating “reverse osmosis membranes”, which are key devices for making pure water from the world’s abundant seawater by desalination. Based on the polymer synthesis technology needed for producing adhesive tapes and highly functional films, by combining our molecular design, membrane production, membrane module construction, system design, and analytical technologies, we developed a polymer separation membrane technology in the form of an “ultralow-pressure reverse osmosis (RO) membrane” technology featuring a high retention ratio and good water permeation flow rate. Nowadays, with our RO membranes finding increasing use at seawater desalination plants and sewage processing plants around the world, we have positioned RO membranes as a business with good prospects for steady profitability and decided to pursue its further expansion.

Powerful RO Compsite “PROC10”

Stable, High Profit Potential through New Strategic Product for the Chinese Market

With China’s rapid industrial development being associated with serious concerns about pollution, Nitto Denko developed and has begun selling “PROC10” (Powerful Reverse Osmosis Composite) as a strategic product to address the issue. Featuring the highest retention ratio of any ultralow-pressure RO membrane in the world, this product has a construction that is very effective against the pollution problems characteristic to China. Advances in membrane production technology have enabled us to tighten the fineness of the RO membrane surface and extend the useful life of the membrane, to improve the membrane’s durability by increasing the chemical resistance and widening the purification range. Furthermore, the membrane is less prone to soiling due to pressure loss, and damage to the membrane is prevented by the simplicity in cleaning and elimination of the air-trap problem. Redesigning the exterior surface to evoke a novel sense of high quality is a result of a collaborative initiative by the manufacturing and sales units in promoting sales of this product.

In the Chinese market, the current fragmented existence of OEM producers is expected to be consolidated into a large-scale OEM opportunity. Nitto Denko aims to expand its share in the RO membranes market by establishing a stable supply setup for PROC10 and aggressively marketing to the major OEMs. Moreover, we expect to expand this highly profitable business in the United States and Japan as well.

New film-form circuit board
for LCD driver IC mounting

Development of CARRIERFLEX™

Over the years, Nitto Denko's circuit materials business has evolved steadily. This business involves flexible printed circuits (FPCs), chiefly for mobile telephones.

Another mainstay product is the thin metal core boards for magneto resistive heads (MRHs) that are used in hard disk drives (HDDs), and we hold a leading share of the global market in this category. Strengthening our circuit materials business further, in fiscal 2006 we developed CARRIERFLEX™, a film-form circuit board for liquid crystal display (LCD) driver IC mounting.

In recent years, LCDs have moved toward higher image qualities, or pixel densities, in line with the shift in TV screens toward fully high-definition imaging. As a result, LCD driver ICs require increasingly high wiring density, circuitry adhesion strength, cumulative dimensional tolerance and insulation reliability. Meeting these stringent requirements, CARRIERFLEX™ builds on the advanced technical expertise we have cultivated through the creation of MRHs, such as polyamide resin synthesis, sputtering and the semi-additive process.

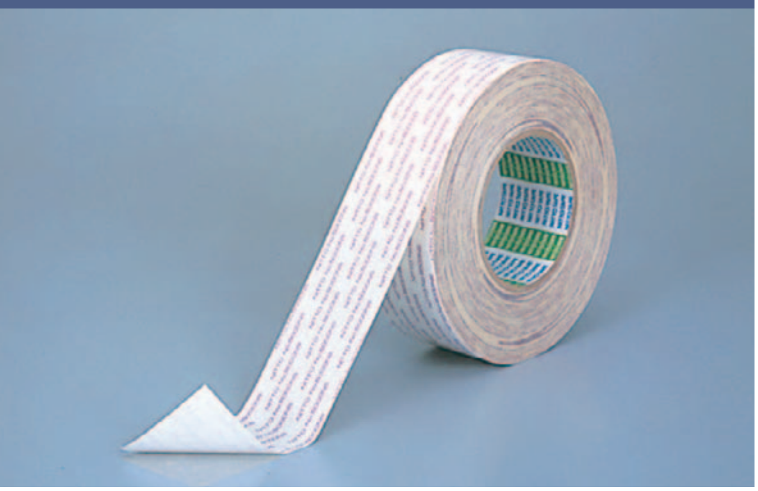
Completion of a facility in Northern China
to manufacture and process industrial materials

Nitto Denko establishes new company in Tianjin

Nitto Denko has created a stable system to supply products to meet local Chinese demand whereby it manufactures the base materials for automotive products for noise, vibration and harshness reduction (NVH materials) at its Toyohashi Plant and other locations in Japan, then processes these materials in China. With the Chinese automobile market growing at an annual rate of almost 10% in recent years, demand for automotive materials has ballooned accordingly. As Japanese automakers steadily boost local capacity and launch new local operations, demand is increasing for a more advanced system to supply NVH materials in China.

To meet such market needs, we established Nitto Denko (Tianjin) Co., Ltd., which commenced operations in October 2005. Focusing initially on the manufacture of the automotive materials for which demand is growing the fastest, this company will enhance our ability to provide a stable supply of automotive materials on a global scale, as well as to meet shorter lead times. In the long term, we expect the company to set up supply chain management in northern China, which will play an important role in the development of new markets in the fields of office automation, consumer electronics and mobile telephones.

Industrial Products

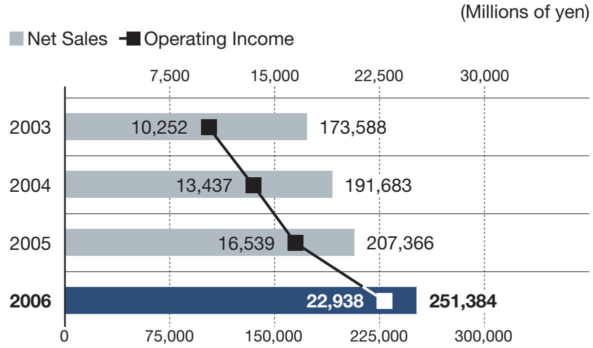


Nitto Denko's Industrial Products segment supplies bonding and joining materials, surface protection products and sealing materials to the electronics, automotive and housing & construction industries.

Amid a global economic recovery, with the flat panel display (FPD) and automotive markets performing particularly well, sales of industrial materials during fiscal 2006 expanded 21.2%, to ¥251,384 million, and operating income surged 38.7%, to ¥22,938 million. Especially robust were the sales of bonding and joining materials, peripheral components for mobile telephones and materials for small LCD modules, mainly in East Asia and Europe.

Our market share of FPD surface protection films and automobile paint-protection films increased, and in the area of sealing materials, the introduction of new materials for mobile telephone peripheral components and automotive parts generated favorable results. On the other hand, performance in the construction materials field suffered, due to the consolidation of low-profitability products.

To expand our mainstay industrial products businesses, we developed and began selling new Global Niche Top™ (GNT) products. During fiscal 2006, we established a new industrial materials production and processing plant in Tianjin, China. Nitto Denko intends to fully leverage this site in order to boost the sale of industrial materials to the rapidly expanding Chinese automotive market and promote further globalization in this field. We also will strengthen sales in the fast-growing FPD market by focusing on surface protection films. Moreover, in the coming year we plan to accelerate the consolidation of low-profitability items in this sector in order to boost profits. In fiscal 2007, sales in the industrial products segment are projected to expand 5%, to ¥264.0 billion, with operating income growing 1.4%, to ¥23.25 billion.



Featured Products **HYPER JOINT**

High-adhesion, double-coated acrylic foam tape

This is a strong adhesive double-coated tape that uses acrylic foam as its substrate. Offering excellent resistance to both heat and water, the tape follows the expansion and contraction of the adherends to which it is attached to ensure stable adhesion.

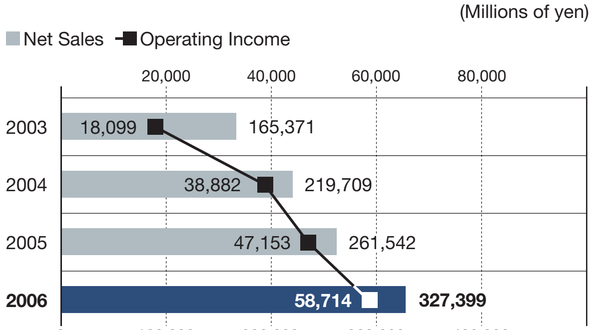
Electronics Products

The Electronics Products segment supplies optical films and other LCD-related products, flexible printed circuit (FPC) materials, electronic processing materials, semiconductor-related products and a host of other items that are vital to the production of home audiovisual equipment, mobile telephones, semiconductors and hard disk drives.

During the fiscal year, the flat panel display (FPD) and semiconductor markets experienced a substantial boost in demand. Benefiting from this situation, sales of electronics products expanded 25.2%, to ¥327,399 million, accounting for 52% of Nitto Denko's net sales. Segment operating income likewise rose by 24.5%, to ¥58,714 million.

In the FPD area, market expansion and the increasing size of LCD panels led to the favorable performance of LCD-related products. The business of optical films for LCD televisions was negatively impacted by falling TV selling prices, but we managed to expand sales of those films and films for PC monitors by raising the plant operating volume and improving efficiency. In the area of FPCs such as thin metal core boards for magneto resistive heads and hard disk materials, business was brisk in Japan and overseas, but FPCs for mobile telephones stagnated due to eroding FPC prices. In the domain of semiconductor-related materials, sales of electronic processing materials benefited from positive trend, in the semiconductor market. While semiconductor packaging resins and environmental resins performed well, overall performance of the semiconductor related field was flat from the previous year.

In the fiscal year ending in March 2007, large-scale capital investments in LCD-related product plants will be made to boost production capacity and efficiency. Also, we expect to raise production capacity for FPCs in Asia to strengthen our price competitiveness. In addition, we plan to introduce new products, such as mounting film circuit boards for LCD driver ICs, and enhance productivity as well as marketing strength. Overall, we expect fiscal 2007 sales in the Electronics Products segment to rise 28.0%, to ¥419.0 billion, with operating income growing 19.3%, to ¥70.06 billion.

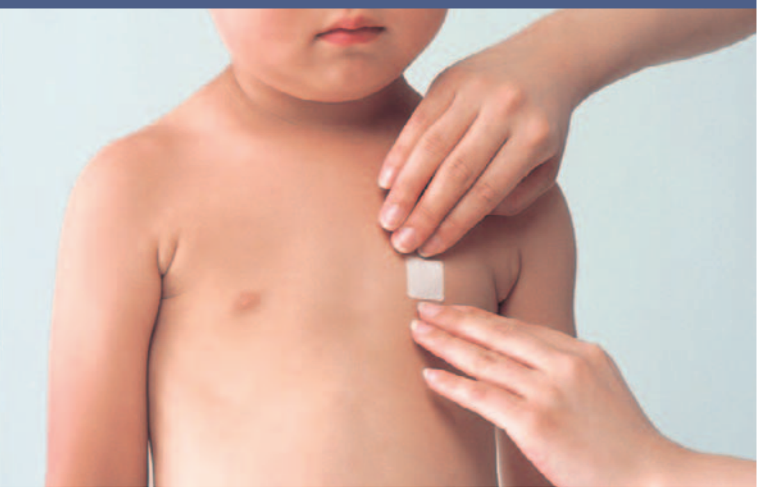


Featured Products **NEL SYSTEM**

NEL SYSTEM applies adhesive tape to protect semiconductor wafers

Consisting of an adhesive tape for protecting semiconductor wafers during polishing and dicing processes and the equipment for applying the tape to the wafers, the system has secured a top share in the global market.

Functional Products



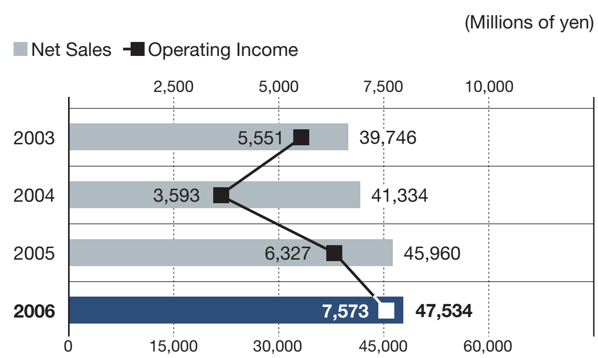
In the Functional Products segment, Nitto Denko supplies medical-related products, polymer separation membranes and engineering plastic products. During the year, sales in this segment increased 3.4%, to ¥47,534 million, while operating income rose 19.7%, to ¥7,573 million.

While sales of transdermal delivery patches for treating ischemic heart disease and asthma were firm, new transdermal therapeutic patch materials for hypertension treatment failed to receive medical product approval in the United States, so that overall sales of medical-related products were flat.

In the field of polymer separation membranes, demand showed a firm increase, owing to the semiconductor industry's replacement demand for ultrapure water generating membranes and orders relating to new plant installations in the LCD industry. The demand for reverse-osmosis modules for seawater desalination was also favorable. As for engineering plastic products, those for use in automotive components and air filters performed favorably, but sales of processing materials for the electronics industry were low, causing overall sales in this category to remain flat.

In the future, we aim to globally strengthen our sales of transdermal delivery patches, promote the development and approval of new products, and improve our sales revenue and profit margin through the creation of GNT products. Furthermore, in the polymer separation membrane regime, we are pursuing business expansion in the Chinese market for new products for seawater desalination and waste water recycling & reuse.

Although we expect sales in the Functional Products segment to grow 9.4%, to ¥52.0 billion in fiscal 2007, operating income is likely to fall by 11.7%, to ¥6.69 billion. This will be due to such factors as anticipated reduction of drug prices owing to the Japanese national health insurance program's pharmaceutical price revision, entry of the generic products after the end of our priority period on transdermal delivery patches, and the incurring of additional R&D investments in North America.



Featured Products

Xtrata (YUKI-BAN)

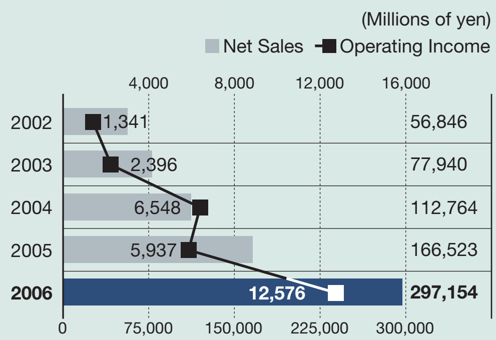
Superior skin-care tape with minimal keratin layer peel-off

Xtrata is a new type of surgical tape for skin care which is designed to keep the peeling away of the surface keratin layer to a minimum. This tape is safe for use on elderly people, infants and other people with sensitive skin.

Global Operations

Asia & Oceania

Asia remains an outstanding driver of growth for Nitto Denko, with local demand increasing and customers continuing to shift their production facilities to this region.

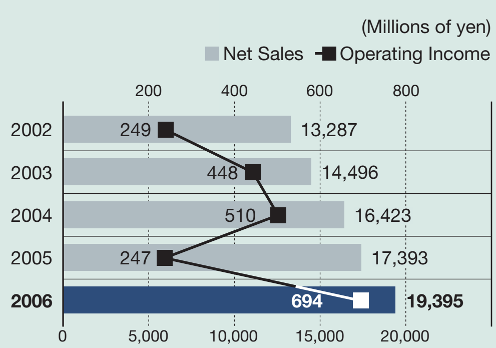


Performance in Asia and Oceania was excellent. Sales grew 78.4%, to ¥297,154 million, and operating income soared 111.8%, to ¥12,576 million. Contributing to these impressive results were solid sales of LCD materials, backed by facility expansion in South Korea and Taiwan. Although prices of optical films for LCDs decreased, we expanded sales from back-end processing significantly. To meet growing demand for HDD materials, we also commenced operations at a new facility in Shenzhen, China.

In addition to optical films, in East Asia, which includes Taiwan, South Korea, Hong Kong and China, sales of IC products and adhesive and protection tapes were firm, as were sales of products to the mobile telephone, personal computer and office automation equipment manufacturing sectors. In South Asia, sales of HDD and automotive products rose, with FPC, MRH and optical products the major contributors. We will continue to expand our operations in Asia to meet substantial increases in local demand.

Europe

Nitto Denko's performance in Europe remained strong, with an ongoing focus on mainstay products for the automotive and mobile telephone sectors.



Sales in Europe were affected by lower market prices on products for the automotive and industrial sectors. However, sales of materials for mobile telephones and electronics were robust, prompting a healthy 11.5% rise in regional sales, to ¥19,395 million. Operating income, meanwhile, surged 181.3%, to ¥694 million.

Sales of automotive materials that reduce noise, vibration and harshness (NVH materials) were favorable during the term. Sales to locally based Japanese automakers were firm, and we commenced sales to a European automaker during the term. Sales of materials used in mobile telephones were on a par with the preceding fiscal year. Although global shipments in this category are expanding, mobile telephone production—and therefore demand for our materials—is shifting largely to Asia.

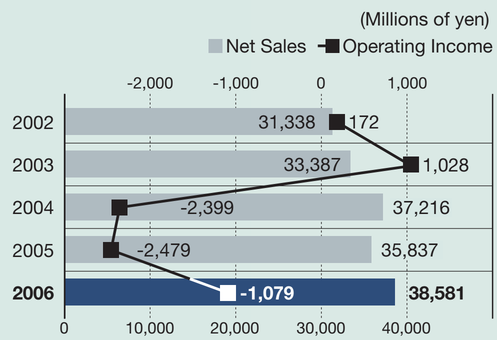
North America

Operations in North America continued to expand. We moved closer toward profitability through strategic repositioning and by remaining keenly aware of operating costs.

In fiscal 2006, robust economic expansion pushed up regional sales 7.7%, to ¥38,581 million, while our operating loss totaled ¥1,079 million, an improvement of ¥1,401 million from the preceding term.

Sales to automotive manufacturers suffered from ongoing retrenchment among U.S. automakers, although sales to Japanese automakers remained stable. Although our hypertension drug application to the U.S. Food and Drug Administration was unsuccessful in fiscal 2006, we plan to resubmit this application in fiscal 2007. We continued to do specification work for U.S. electronics customers, and we will continue to focus on high-value-added segments in growing electronics fields. In the environmental membranes business, we began strategically refocusing operations on the Company’s core businesses, a move which should contribute to future profitability.

In fiscal 2007, the Company will continue to focus on its core competencies, particularly products for the automotive, medical, environmental and electronics sectors, as well as specialty tapes for the aerospace, housing and electronics industries.

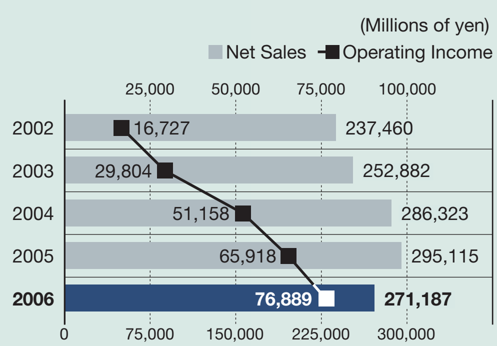


Japan

Japanese sales and profits remained robust, but for the first time Japan was the second-ranking sales region for the Nitto Denko Group.

Until fiscal 2006, Japan has been the largest market for the Nitto Denko Group, followed by Asia and Oceania. These positions reversed in fiscal 2006, as sales in Japan fell 8.1%, to ¥271,187 million, although operating income expanded 16.6%, to ¥76,889 million, whereas sales in Asia and Oceania increased significantly.

Consumer demand for ever-larger LCDs continued to grow in Japan as in the rest of the world, and sales of LCD-related materials to FPD manufacturers was robust, as were sales of industrial materials and other items. However, many of these manufacturers have shifted their production facilities to other parts of Asia, which affected sales in Japan. One of the Nitto Denko Group’s strengths is the ability to meet demand shifts in a flexible manner.

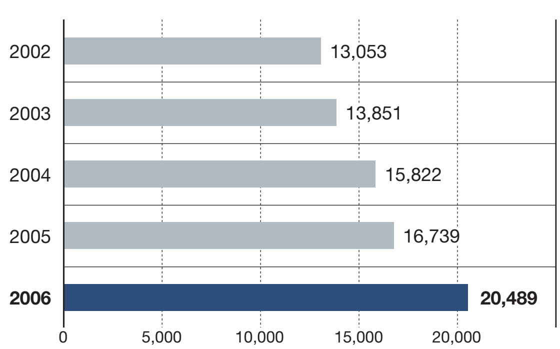


Research and Development

R&D Strategies

Based on its Global Niche Top strategy, the Nitto Denko Group maintains a global and cross-organizational research and development approach to develop optimal products quickly and at the most suitable locations. In fiscal 2006, out of our nine overseas R&D sites, the U.S. center achieved results in next-generation R&D. Our research facility in Europe gathered information for advanced R&D and dispatched researchers to various research institutions to conduct joint R&D on specific topics. Moreover, as part of our manufacturing reform initiative we worked to develop new processes that break free from the conventional wisdom that energy consumption and environmental loading increase in direct proportion to production volume. Various business units already are feeling the benefits of these reforms. In terms of infrastructure, we have established systems for sharing technical information and programs for human resources education.

R&D Expenses (Millions of yen)



New Product Developments

The Company's R&D focuses on four areas.

1. Electronics
We launched a new, highly light- and heat-resistant transparent adhesion tape for white and blue light-emitting diodes (LEDs) in optoelectronic devices. We also introduced a series of thin, flexible and easily workable foam products for electronic devices such as FPDs and mobile telephones.

2. Environmental
To meet expanding demand for seawater desalination in China, we developed and commercialized a low-pressure reverse osmosis membrane element.

3. Optical
We commercialized a polarizer laminated with an ultrathin viewing angle compensation film, to accommodate the prevailing LCD trends toward higher display qualities, wider viewing angles and slimmer shapes as LCD TVs become thinner and screen sizes increase, and as mobile telephones are fitted with video image reception capabilities. We also developed a series of peelable and static-free optical protection films.

4. Automotive
In step with the trend toward higher performance, better environmental friendliness and more lightweight automobiles, we have commercialized non-halogen adhesive tapes for anchoring wire harnesses and adhesive tapes that do not emit VOCs as well as a vibration damping material for reinforcing exterior steel plates.

Joint Development of an Integrated LCD Brightness-Enhancing Film Product

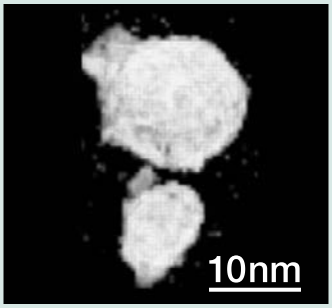
Nitto Denko entered into the joint development of a new LCD brightness enhancing film with 3M of the United States. This film has optical characteristics that are vastly superior to conventional films in terms of durability and thickness. Integrating a polarizer with a brightness-enhancing film into a single layer, this film improves the brightness of LCDs without sacrificing the viewing angle or color reproducibility by selectively reflecting and recycling the light from the LCD backlight unit, while holding down the thickness to approximately half that of conventional products. Nitto Denko and 3M will continue working together on optical design and polymer precision processing technologies, as we continue to develop products used to manufacture LCDs that offer high cost performance and low power consumption.

Joint Development of Nanoparticle YAG Phosphorous Material

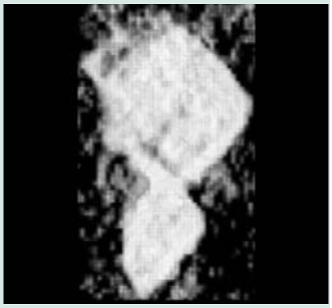
Nitto Denko Technical Corp., a U.S. R&D subsidiary of Nitto Denko, succeeded in jointly developing a nano-scale phosphor material of yttrium-aluminum-garnet (YAG)—used for white light-emitting diodes (LEDs)—by a physical vapor process that is suited to mass production. While having an average particle size of 40 nanometers, the resulting nano-material has an internal quantum efficiency of 70%, making it comparable to the bulk YAG phosphor materials currently being used widely for white LEDs. As a result, this material allows higher definition of display image quality. This technology is expected to find a broad range of applications in optoelectronic and electronic devices and within the biomedical sector.

Joint Development of High-Precision 3D Electron Microscopy

Nitto Analytical Techno-Center Co., Ltd., collaborated with the Kyoto Institute of Technology in the successful development of high-precision "3D electron microscopy," yielding completely spatially undistorted 3D images with isotropic resolution. Because it permits evaluation of materials based on 3D nano-level structures, which was not possible with conventional 2D microscopy, this latest analytical technique can be applied to the development of a host of materials based on a nanotechnology platform, such as designing thin membrane structures.



High-precision 3D electron microscopy


Conventional microscopy

Development of Photosensitive Epoxy Material for Optical Waveguides

In response to the needs of the broadband era, Nitto Denko succeeded in independently developing a new photosensitive epoxy material that can be used to create inexpensive and highly reliable optical waveguide materials that transmit optical signals efficiently. This material is highly transparent in the near-infrared range. At the same time, the material is flexible, making processing easy. We expect the new material to be used in optical circuit boards.

Corporate Social Responsibility Initiatives

To promote corporate social responsibility (CSR) awareness among its 27,000 employees throughout the world, in fiscal 2006 the Nitto Denko Group identified several Group CSR promotion items and embarked upon systematic CSR activities.

Business Conduct Guidelines

The Nitto Denko Group is striving to enhance its compliance activities. In 2006, we created uniform Group-wide business conduct guidelines to allow the sharing of "One-Nitto" values among all Nitto Denko Group employees. These guidelines prompt employees to remain constantly aware of the Group's core values of integrity, excellence and accountability in all of their business dealings. If employees are uncertain of how to respond, the guidelines remind employees to question themselves on whether their own conduct is in line with such values.

Internal Audits on Quality, Environment and Safety

In fiscal 2005, the Nitto Denko Group began working to strengthen internal governance by conducting internal audits on quality, the environment and safety. QES audits are designed to identify and reduce potential QES-related management risks.

As of March 31, 2006, the Group had completed QES audits at 47 locations in Japan and overseas. In fiscal 2007, we intend to conduct preliminary investigations to raise audit effectiveness. We will prepare check sheets, give prior notification to the entities to be audited, focus on discovery through dialog at audit locations and promote QES education. In these ways, we aim to raise internal audit effectiveness, as well as the self-cleansing ability of Group operating units and locations.

Column 1

Establishment of Safety Learning Facilities

We have installed safety learning facilities at our Kameyama and Toyohashi Plants where employees can experience simulations of a full range of production-related hazards. To help avoid accidents, these facilities also accept visitors from other Nitto Denko plants and Group companies. In fiscal 2006, we began exploring the possibility of creating similar facilities at other plants and are considering the creation of mobile safety awareness vehicles for deployment in plants where the installation of such equipment is not feasible.

Safety Initiatives

Aiming to achieve zero serious labor accidents, the Group has set the mid-term goal of reducing the number of such accidents by fiscal 2008 by 30% compared with the fiscal 2006 level. We are working to enhance plant safety measures and raise employee awareness of safety issues, in addition to promoting information-sharing and equalizing safety levels within the Group.

Environmental Protection Initiatives

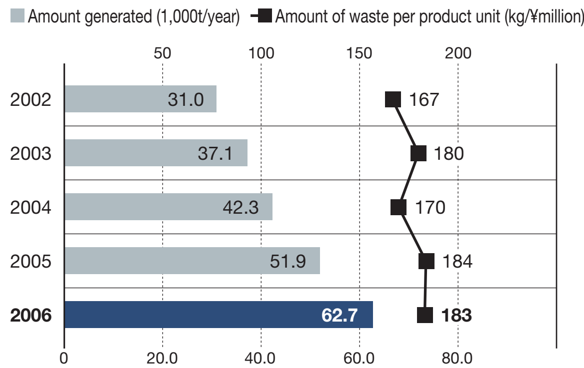
The Group places a burden on the environment through its use of energy and organic solvents in production processes and the generation of industrial waste. For that reason, we are engaged in environmental activities to conserve energy, improve production process efficiencies and treat and recycle waste.

Cutting Down on Waste of Resources and Reducing Costs

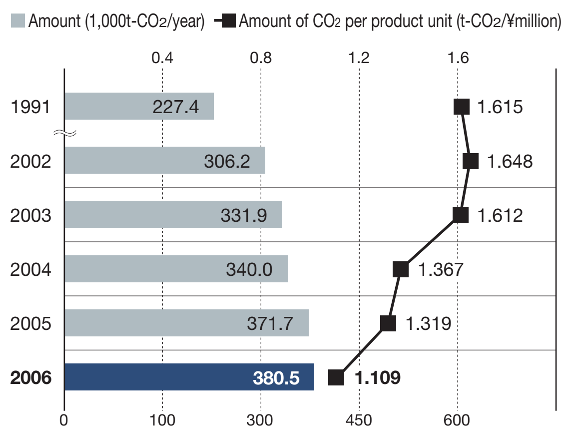
We are effectively recycling waste by reusing raw materials and through thermal recycling, which uses the heat generated from incineration. In 2005, we established a resource reclamation center at the Toyohashi Plant to reprocess as raw materials industrial plastic waste, which was previously subjected to thermal recycling. We are also exploring production methods that generate as little waste as possible as a part of our endeavors to reduce overall costs.

In fiscal 2006, Nitto Denko Corporation achieved all of the medium-term targets outlined in its Environmental Voluntary Plan. In the future, we will formulate environmental action guidelines based on standard group indices to promote environmental initiatives throughout the Nitto Denko Group.

Amount of Industrial waste (Non-consolidated)



CO_2 Emissions (Non-consolidated)



Column 2

Onomichi Plant — A State-of-the-Art and Environmentally Friendly Complex

In fiscal 2004, we introduced a regenerative deodorizing furnace and a cogeneration system at the Onomichi Plant. As a result, by fiscal 2006 the plant had improved its energy efficiency by 25%, compared with fiscal 2004, a savings that equates to reduced CO_2 emissions totaling 8,700 tons. In addition, we have installed a large-scale solar power generation system and a 1,300-ton rainwater recycling and holding reservoir. Through such initiatives, we are proceeding with plans to convert the Onomichi Plant into an environment-friendly complex that breaks free from the conventional wisdom that energy consumption and environmental loading increase in direct proportion to production volume.

Solar generation system

Water recycling plant

Fundamental Policy on Corporate Governance

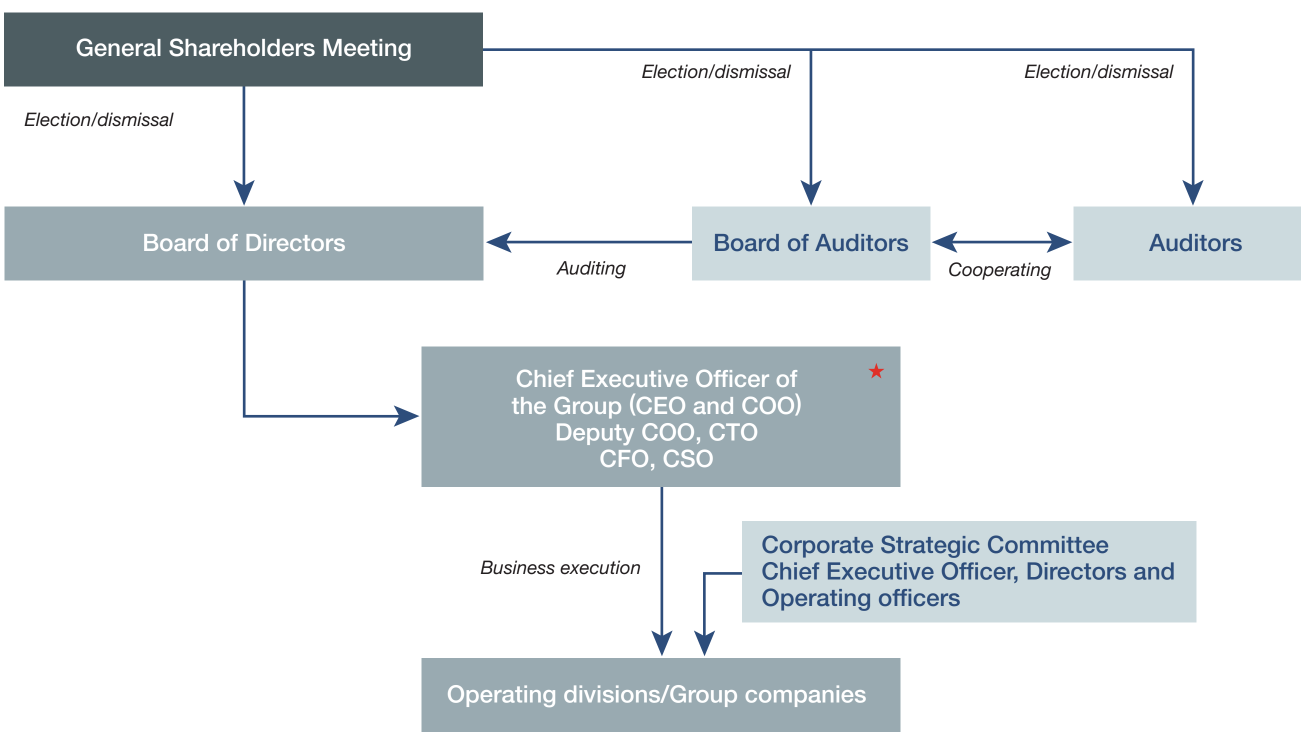
Corporate governance is an extremely important issue to Nitto Denko, as it impacts the interests of all stakeholders who support our activities and is closely related to the continuous and long-term maximization of shareholder value. The Nitto Denko Group is dedicated to sound and transparent management based on the fundamental principles of "open, fair and best": to share information openly, to judge fairly and to do our best based on what has been decided.

Board of Directors, Operating Officers

The Company's Board of Directors makes decisions on important management issues and supervises the execution of duties by directors and operating officers (corporate vice presidents). To accelerate business and management action, we have introduced a Chief Officer System, under which directors who are chief officers execute Group management functions in addition to performing their regular duties. At the same time, we introduced the Operating Officer System to clarify management roles and the operational functions.

We have reduced the number of directors to ensure that the monthly Board of Directors meeting reaches appropriate and accurate decisions following adequate discussion. The Board of Directors consisted of five directors during fiscal 2005. We have also set one year as the term of office

> Governance Structure



★ Note
CEO (Chief Executive Officer): Chief Executive Officer of the Group
COO (Chief Operating Officer): Chief Operating Officer of the Group
CTO (Chief Technology Officer): Chief Technology Officer of the Group
CFO (Chief Financial Officer): Chief Financial Officer of the Group
CSO (Chief Strategy Officer): Chief Strategy Officer of the Group

for directors and operating officers. Our Corporate Strategy Committee, a forum for sharing information between management and operating officers and making decisions, is held once every month.

Auditors, Board of Auditors

The Board of Auditors comprises five auditors, including three outside auditors and two full-time auditors consisting of persons who were previously in the Company's employ. The Auditors' activities include holding periodic Board of Auditors meetings and attending monthly Board of Directors meetings to monitor the directors' discharge of executive duties through active discussions. The auditors also execute their auditing duties by attending other important meetings, holding sessions to exchange opinions with representative directors, hearing business reports from directors and employees, viewing decision-making and other important documents, and investigating business departments, factories and research labs, as well as subsidiaries in Japan and overseas. The auditors also receive audit reports from financial auditors, attend information exchange meetings with them, and hold liaison meetings with auditors of affiliated companies in Japan. Furthermore, the auditors strive to improve audit effectiveness by coordinating with the Corporate Governance Dept. There are no special-interest relationships between the Company and its outside auditors.

Internal Audit Office

We have established an Internal Audit Office to inspect the thoroughness and appropriateness of business processes of affiliated companies in Japan and overseas. Furthermore, specialist groups conduct environmental, safety, quality and export management audits in cooperation with the Internal Audit Office.

> Executives and Their Roles (As of June 23, 2006)

President, Board Member: **Masamichi Takemoto (CEO/COO)**

Directors, Board Members:
Yukio Nagira (Deputy COO)
Yoshiyasu Kamiyama (Deputy COO)
Yasuo Ninomiya (CTO)
Tatsunosuke Fujiwara (CFO)
Wataru Kitao (CSO)

Corporate Auditors:
Nobuyuki Tanioka
Shigeru Hozan
Hisashi Hosokawa (part time)
Kazuo Kumagai (part time)
Kosuke Kimura (part time)

Exective Corporate Vice Presidents:
Katsuhiro Akamatsu
Tetsuo Horiuchi
Kaoru Aizawa
Hideo Abe

Senior Corporate Vice Presidents:
Ryoichi Ota
Setsuo Watanabe

Corporate Vice Presidents:
William J. Hayes
Yoshihiko Chikuma
Tomio Sakka
Masakazu Ozawa
Kenji Matsumoto
Hongin Kim
Koichi Nishikawa
Yoichiro Sakuma

Six-year Summary

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

	Millions of yen						Thousands of U.S. dollars
	2006	2005	2004	2003	2002	2001	**2006**
Net Sales (Note 1)	**¥ 626,317**	¥ 514,868	¥ 452,726	¥ 378,705	¥ 338,930	¥ 365,698	**$ 5,331,719**
Industrial products (Note 2)	**251,384**	207,382	191,694	173,602	184,131	197,270	**2,139,985**
Electronic products	**327,441**	261,628	219,805	165,519	120,143	133,115	**2,787,444**
Functional products	**48,006**	46,415	41,829	40,402	35,800	37,186	**408,666**
Eliminations	**(514)**	(557)	(602)	(818)	(1,144)	(1,873)	**(4,376)**
Operating income	**89,225**	70,019	55,912	33,902	19,314	34,824	**759,556**
Income before provision for income taxes	**89,614**	69,976	57,075	33,525	3,722	25,724	**762,867**
Net income	**55,307**	41,843	33,386	19,237	1,115	15,851	**470,818**
Domestic sales	**515,243**	442,770	384,486	321,407	287,543	302,754	**4,386,167**
Overseas sales	**371,319**	231,471	174,832	132,436	107,939	124,553	**3,160,969**
North America	**40,628**	37,586	38,823	35,140	32,774	39,616	**345,859**
Europe	**22,938**	20,011	18,372	16,359	14,494	19,383	**195,267**
Asia & Oceania	**307,753**	173,874	117,637	80,937	60,671	65,554	**2,619,843**
Eliminations	**(260,245)**	(159,373)	(106,592)	(75,138)	(56,552)	(61,609)	**(2,215,417)**
Depreciation & amortization	**31,471**	24,681	21,386	21,144	20,443	18,345	**267,907**
Capital expenditures	**61,567**	52,914	36,318	23,337	40,311	32,727	**524,108**
R&D expenses	**20,489**	16,739	15,822	13,851	13,053	12,423	**174,419**
Total assets	**¥ 556,934**	¥ 443,264	¥ 389,525	¥ 379,812	¥ 350,340	¥ 357,654	**$ 4,741,074**
Shareholders' equity	**321,465**	261,091	223,114	237,560	228,410	226,894	**2,736,571**
Number of employees	**27,582**	16,311	13,161	10,764	9,510	9,857	**27,582**
	Yen						U.S. dollars
Net income per share of common stock	**¥ 332.30**	¥ 252.72	¥ 197.99	¥ 108.52	¥ 6.42	¥ 93.51	**$ 2.83**
Cash dividends per share of common stock	**60.00**	50.00	40.00	24.00	22.00	21.00	**0.51**
	(Numbers)						
Shares outstanding (thousands)	**173,758**	173,758	173,758	173,758	173,758	173,758	
Shareholders	**15,742**	16,485	20,786	16,952	15,386	14,745	
	(%)						
ROE	**18.99**	17.28	14.49	8.26	0.49	7.22	
ROA	**11.06**	10.05	8.68	5.27	0.32	4.58	
Operating income ratio	**14.25**	13.60	12.35	8.95	5.70	9.52	
Equity ratio	**57.72**	58.90	57.28	62.55	65.20	63.44	
Asset turnover (times)	**1.25**	1.24	1.18	1.04	0.97	1.06	
	Thousands of yen						U.S. dollars
Net sales per employee	**¥ 22,707**	¥ 31,566	¥ 34,399	¥ 35,183	¥ 35,639	¥ 37,100	**$ 193,300**

Note 1 : The Corporation extended the scope of consolidation. Number of consolidated subsidiaries increased 52 to 107 as of the end of 2006.
Note 2 : The Corporation changed the segment category for the electronic processing products (formerly electronic component-related products) from Industrial Products to Electronic Products in 2004. The figures for 2003 have been restated to conform with 2004 presentation.

Analysis of Operating Results and Financial Condition

1. Results of Operations

1. Overview

During fiscal 2006 ended March 31, 2006, the U.S. economy remained robust despite the impacts of high energy prices and hurricanes, buoyed by firm personal consumption and capital investment levels. The European economy entered a recovery phase, as thriving overseas markets and a stable euro drove exports. Asian economies were strong, as orders for electronics and information-related products bolstered exports. The Japanese economy was also firm, as corporate earnings improved, prompting expanded capital investment, and personal consumption levels recovered.

In such an economic environment, Nitto Denko and its consolidated subsidiaries (the “Group”) continued to focus on areas of growth. The Group provided liquid-crystal display (LCD) related products and industrial materials destined for the expanding market for flat-panel displays (FPDs), industrial materials for use in the automotive sector and for cell phones, and electronics materials for a recovering market. Such focus resulted in robust operating performance during the term.

Compared with the preceding term, consolidated net sales expanded 21.6%, to ¥626,317 million, and operating income increased 27.4%, to ¥89,225 million.

To raise the Group’s level of disclosure and enhance accountability, 53 companies that were previously nonconsolidated subsidiaries - accounted for under the equity method - were converted to consolidated subsidiaries during the year. This change in the scope of consolidation added ¥26,367 million to consolidated net sales.

2. Analysis of Income Statement

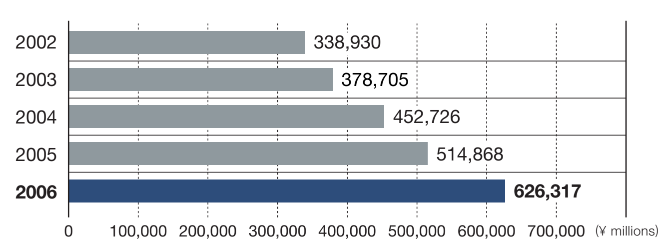
Net Sales

As indicated above, consolidated net sales expanded 21.6%, to ¥626,317 million. Discounting the effect of changes in the scope of consolidation and foreign currency translation adjustments due to yen appreciation, the real increase in net sales was 12.0%. The ratio of overseas sales to total consolidated net sales increased from 52.1% in fiscal 2005 to 59.9%, prompted by substantial rises in sales of LCD-related products in Asia and Oceania and higher sales resulting from changes in the scope of consolidation. Meanwhile, geographic shifts in customer production bases increased net sales in Japan by only 1.7%, to ¥251,019 million.

In the Industrial Products segment, sales grew 21.2%, to ¥251,384 million, and operating income increased 38.7%, to ¥22,938 million. Excluding the effect of changes in the scope of consolidation, sales in this segment rose 8.8%, and operating income was up 12.2%. In the bonding and joining materials category, expanded production of cell phones boosted demand for cell phone and small LCD module materials, with notable growth from the East Asian and European markets. Demand for materials for hard disk drive (HDD) related products was also firm. In the surface protection category, sales of our E-MASK surface protection film for the FPD industry were solid, and our market share for automobile paint protection film continued to grow. Helped by the introduction of new products, sealing materials for cell phone peripherals and auto parts exhibited strong sales, while sales of construction materials declined as a result of efforts to streamline our product portfolio.

In the Electronics Products segment, sales rose 25.2%, to ¥327,399 million—a new record. Segment operating income also expanded, by 24.5%, to ¥58,714 million. Excluding the effect of changes in the scope of consolidation, sales in this segment rose 24.9%, and operating income increased 22.8%. Sales of LCD-related products benefited from both the expansion of the FPD market and the increasing size of LCD panels within this market. Despite decreases in selling prices, sales of polarizing compensation films for LCD televisions were buoyant, as were sales of polarizing films with wide viewing angle compensation for LCD monitors. Sales of semiconductor-related products were flat overall, although demand was solid for our advanced chip packaging resins and environment -friendly resins. Sales of circuit materials were stagnant, hit by lower prices of flexible printed circuits (FPCs) for cell phones, although sales of thin metal core boards for magneto resistive heads (MRHs) and FPCs for HDDs were strong. Sales of electronic processing materials benefited from a favorable climate within the semiconductor industry, which boosted sales of protection sheet, laminating equipment and chip package adhesion sheets for semiconductor manufacturing processes. As the electronic components industry began to recover in the second half of the fiscal year, processing materials for general electronic components enjoyed firm demand.

Net Sales



Analysis of Operating Results and Financial Condition

Sales in the Functional Products segment improved 3.4% from fiscal 2005, to ¥47,534 million, and operating income grew 19.7%, to ¥7,573 million. Excluding the effect of changes in the scope of consolidation, net sales increased 3.3% and operating income rose 14.1%. In the category of medical-related products, the growing prevalence of medical treatment using transdermal patches, such as those for ischemic heart disease and asthma, expanded sales, but demand for cosmetic-related products in healthcare products was lackluster. Medical approval delays in the United States for a new product—a transdermal therapeutic patch to treat hypertension— is partly responsible for the overall flat sales growth in this category. Supporting healthy demand for polymer separation membranes was the semiconductor industry's replacement of membranes for ultrapure water production. Orders from companies in the LCD industry for use in new facilities were solid, and demand was robust for our reverse-osmosis module for seawater desalination. Within the engineering plastics parts category, sales were strong for inner pressure control membranes for automobiles, as well as for fluoroplastic porous films for use in air filters. Adversely affected by lower prices in process materials for the electronics industry, overall category sales were sluggish, however.

Cost of Sales and Selling, General and Administrative Expenses

In tandem with the rise in net sales, cost of sales increased 21.0%, to ¥430,781 million. Cost of sales as a percentage of net sales slipped 0.3 percentage point, to 68.8%. In spite of product price declines, the Corporation benefited from higher plant operating rates engendered by increased sales, reduced materials prices and favorable foreign exchange adjustments owing to yen depreciation. Selling, general and administrative expenses rose 19.5%, to ¥106,311 million, due to higher personnel, freight, and depreciation & amortization costs. The ratio of SG&A expenses to net sales was 17.0%, down 0.3 percentage point from fiscal 2005.

Operating Income

Impacted positively by changes in the scope of consolidation, operating income increased ¥5,537 million, or 27.4%. Excluding this impact the real rate of increase was 19.5%. Behind this growth was higher net sales, as well as the decrease in cost of sales and SG&A as a percentage of net sales.

The biggest contributor to expanded earnings was the Electronics Products segment, which generated a net increase in operating income of ¥11,561 million, up 24.5% from the previous year. Next was Industrial Products, which produced a net increase of ¥6,399 million, up 38.7%, followed by Functional Products. The net addition to operating income from this segment was ¥1,246 million, a 19.7% rise. Within Electronics Products, the largest increase came from LCD materials, followed by electronic processing materials, while polymer separation membranes contributed most significantly in Functional Products.

Other Income (Expenses)

Changes in the scope of consolidation brought down equity in earnings of nonconsolidated subsidiaries and affiliates ¥2,611 million, to ¥15 million. Although interest expense grew ¥605 million, to ¥928 million, the effect of yen depreciation was a ¥784 million rise in the foreign exchange gain, to ¥827 million. Special benefits on retirement fell ¥506 million, to ¥212 million. These factors worked together to generate other income of ¥389 million for the term, up from ¥43 million in other expenses in the preceding year, an improvement of ¥432 million.

Income before Provision for Income Taxes

Consequently, income before provision for income taxes rose 28.1%, to ¥89,614 million.

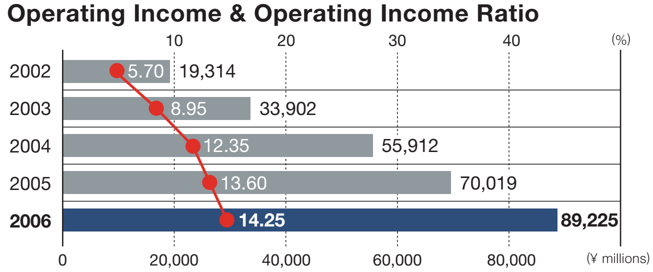
Income Taxes

The total of corporate income taxes, local income taxes, enterprise taxes and adjustments to income tax was ¥33,095 million, up from ¥26,616 million in the previous year. Increases in such factors as tax deductions for research and development expense in Japan lowered the corporate tax rate. As a result, the effective tax rate was 36.9%, down 1.1 percentage points from the 38.0% recorded in the previous year.

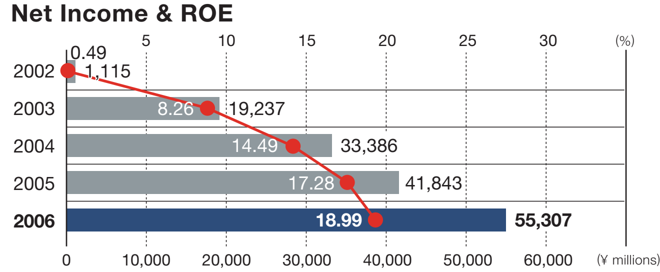
Net Income

Owing to the above factors, net income was ¥55,307 million, up 32.2% from the preceding term. Net income per share rose 31.5%, to ¥332.30 (¥331.72 after dilution).

Operating Income & Operating Income Ratio



Net Income & ROE



Results by Geographic Area

Japan

In Japan, the increasing size of LCD panels combined with rising production volume to boost FPD industry demand for LCD-related products and industrial materials. In the bonding and joining materials category, expanded production of cell phones boosted demand for cell phone peripherals and small-LCD module materials. Sales of materials for use in HDD components were also brisk. Despite the trend toward recovery in the semiconductor industry, sales of semiconductor – related materials faltered. Medical-related products fared better, helped by strong demand for transdermal patches for treating ischemic heart disease and asthma. As the newly consolidated subsidiaries resulting from the expanded scope of consolidation were mostly in Asian countries outside Japan, the effect on regional sales was a shift in external customer sales from Japan to overseas subsidiaries. As a result, sales in Japan declined 8.1%, to ¥271,187 million, although operating income grew 16.6%, to ¥76,889 million.

North America

Operating performance in North America is trending upward, owing to productivity innovations in the areas of industrial materials and polymer separation membranes. However, sales of materials to U.S. automakers were stagnant, and the Corporation has not yet received U.S. medical approval for its transdermal therapeutic patch to treat hypertension. Furthermore, in fiscal 2005 the Group sold to a U.S. entity a business that produced bar-code labels for retail store shelves, so that this business no longer contributed to sales in fiscal 2006. As a combined result of these factors, sales in North America increased 7.7%, to ¥38,581 million, but the operating loss amounted to ¥1,079 million, a ¥1,401 million improvement over fiscal 2005.

Europe

The Group's sales in Europe were affected by lower prices on industrial materials for the automotive sector, but demand was favorable for industrial materials for cell phones and materials for electronic components. Sales in this region consequently rose 11.5%, to ¥19,395 million, and operating income surged 181.3%, to ¥694 million.

Asia and Oceania

Investment-related costs increased because the Group established new facilities in South Korea and Taiwan to keep pace with the expanding LCD market, and additional capital investment for a new plant in Shenzhen, to meet the burgeoning demand in the HDD market. LCD-related product sales were affected by lower market prices on LCDs, but finishing process sales grew substantially. As a result, sales in Asia and Oceania climbed 78.4%, to ¥297,154 million, and operating income expanded 111.8%, to ¥12,576 million.

2. Analysis of Financial Condition

1. Assets, Liabilities and Shareholders' Equity

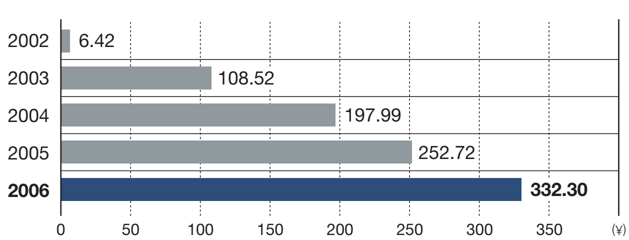
Owing partly to changes in the scope of consolidation, total consolidated assets at the end of fiscal 2006 were ¥556,934 million, up 25.6%, or ¥113,670 million, from ¥443,264 million one year earlier. Of this amount, current assets expanded ¥80,501 million (35.4%) from ¥227,206 million one year earlier, to ¥307,707 million, and tangible fixed assets rose ¥40,383 million (24.3%), from ¥166,524 million one year earlier, to ¥206,907 million.

The increase in current assets was attributable primarily to higher accounts receivable and inventories, in line with higher sales. Higher income also affected asset levels by increasing cash flows.

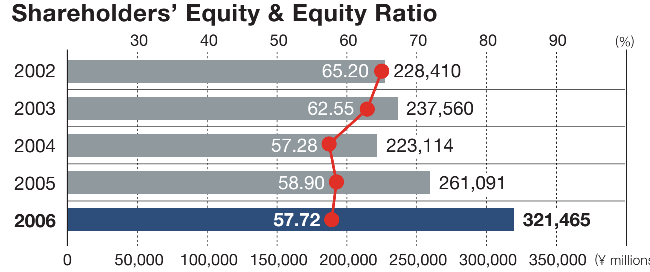
As during the previous term, the increase in tangible fixed assets was attributable largely to major capital investments in manufacturing facilities for LCD-related materials. Investments and other assets decreased ¥7,214 million (14.6%), from ¥49,534 million at the previous year-end, to ¥42,320 million. Major factors included the reduction of investments in nonconsolidated subsidiaries and affiliates, newly included in the scope of consolidation, decreasing to ¥13,795 million from ¥15,571 million at the end of the preceding term. Higher stock prices also bolstered investments in securities ¥6,071 million.

Total liabilities at the end of the fiscal year were ¥222,727 million, up ¥50,821 million from ¥171,906 million at the end of fiscal 2005. Of this amount, current liabilities expanded ¥46,245 million (31.8%), from ¥145,219 at the previous year-end, to ¥191,464 million, owing to such factors as a ¥7,910 million increase in income taxes payable, a ¥25,229 million rise in trade notes and accounts payable, and a ¥9,213 million expansion in short-term bank loans, including the current portion of long-term debt.

Net Income Per Share



Shareholders' Equity & Equity Ratio



Analysis of Operating Results and Financial Condition

Long term liabilities amounted to ¥31,263 million, up ¥4,577 million (17.2%) from ¥26,686 at the end of the previous year. Of this increase, the allowance for severance and pension benefits accounted for ¥1,840 million.

Consolidated shareholders' equity at the end of the term was ¥321,465 million, up ¥60,374 million (23.1%) from ¥261,091 million one year earlier. Prompting this increase was a ¥45,752 million rise in retained earnings owing to increased profits, a ¥3,690 million expansion in net unrealized holding gains on securities due to higher stock prices, and a ¥8,210 million increase in foreign currency translation adjustments, brought about by depreciation of the yen against other currencies.

2. Cash Flow Analysis

At the end of fiscal 2006, cash and cash equivalents was ¥86,684 million, up ¥38,406 million from the beginning of the term. Cash flow categories and factors behind these flows are described below.

Net cash provided by operating activities was ¥84,526 million. Income before provision for income taxes contributed ¥89,614 million, depreciation and amortization ¥31,471 million, and the increase in trade notes and accounts payable ¥17,836 million respectively. Meanwhile, uses of cash included a ¥18,184 million increase in trade notes and accounts receivable and ¥29,457 million in income taxes paid.

Net cash used in investing activities was ¥55,366 million. The major component in this category was acquisitions of plant and equipment, which involved a ¥58,158 million expenditure.

Net cash used in financing activities was ¥1,010 million. Primary uses of cash ¥9,059 million for dividends paid and ¥8,696 million in cash provided from increase in short-term debt.

3. Business and Other Risks

1. Exchange Rate Fluctuations

The Group manufactures and sells products in various regions of the world. As a result, its performance is affected by exchange rate fluctuations. The Group makes every effort to minimize the impact of fluctuations in value among such key currencies as the US dollar, Asian currencies and the yen, as well as of sharp rises in the price of oil. However, sudden currency shifts or substantial and prolonged upward trends in oil prices could adversely affect the Group's performance.

2. Optical Business

The Group's optical business has the leading global market share in its sector, giving this business a core role in the Group's overall operations. As forecasts for this segment indicate demand increases for large LCD TV applications in particular, the Group will work to maintain and expand its market share and profit ratios in this area through efficient, large-scale investments in production. In line with such moves to meet market demand, the Group's performance could be affected adversely by deterioration in the supply/demand balance or slumping prices among the panel manufacturers that are its customers, by price competition with rivals and by production capacity shortfalls among the manufacturers of procured materials.

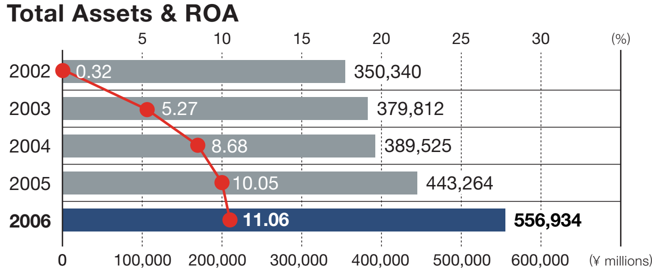
3. Worldwide Expansion of Business

The Group is advancing its operations in the United States, Europe and Asia and actively promotes global business development through marketing activities and by reducing production costs in each region. However, the Asian region involves certain inherent risks, such as sudden changes in laws, tax systems and regulations, the disruption of social infrastructures by transportation system delays or power cuts, and political shifts, wars and terrorism. Such occurrences could affect the performance of the Group.

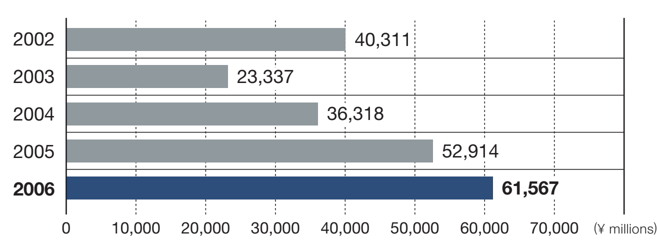
4. Operational Developments in the North American Region

The Group continues to post operating losses in the North American region despite the adoption of such proactive measures as integrating the production of local affiliates. Looking ahead, Permacel Automotive, the North American base for the Group's global automobile business, will extend its sales to Japanese manufacturers in addition to the Big Three by expanding its product line. Meanwhile, Hydranautics will focus on priority segments in its niche-topping strategy in the water treatment membrane separation module business. Aveva Drug Delivery Systems (ADS) is moving ahead with the rapid development of new products for its transdermal therapeutic patches line. While these efforts should help to increase profits, it is difficult to predict the direction in which the environment facing the business is moving. For example,

Total Assets & ROA



Capital Expenditures



the Group's performance could be adversely affected by price decreases of membrane modules or delays in obtaining FDA approval for drug patch development products.

5. New Product Development Capabilities

The Group is developing its business in fields that harbor difficult requirements in terms of technical innovation and cost competition. Under the Global Niche Top strategy, the Group is investing in research and development and equipment that is necessary for new technology, new product development and production process innovation. However, as forecasting market changes and technology innovation is inherently problematic, the possibility exists that future corporate management may be affected adversely if conditions change more than expected.

6. Intellectual Property

The Group owns, maintains and manages a large intellectual property portfolio. The possibility exists that third-party actions could reduce the value of this portfolio, and the lack of intellectual property protection in some areas could result in imitation. In the event that intellectual property protection is significantly impaired, the performance of the Group could be negatively impacted.

7. Product Defects

The Group endeavors to earn customer trust by manufacturing products in accordance with the ISO 9000 series of quality management standards. Since transactions of the goods needed for production are the backbone of its business, the Group believes it is unlikely to find itself in a position of compensating end-users or recalling its products. However, the Group and its products would lose trust and its performance could be affected adversely if the Group were obliged to compensate consumers for defective products or recall products to an extent exceeding the value of product liability insurance coverage.

8. Environmental Issues

Environmental conservation activities have always been an important element of the Group's management policy. Owing to efforts to reduce waste, minimize global warming and reduce air pollution, which are parts of our corporate social responsibility activities, we have never caused a major environmental problem. The fact that the Group uses large quantities of toluene is disclosed in its Pollutant Release and Transfer Register (PRTR) and CSR reports, and the Group is implementing a voluntary reduction plan. However, the possibility exists that the Group could incur large environment-related expenses under the provisions of environmental regulations that may be enacted in the future.

9. Laws and Regulations

The Group's business includes licensed medicines, such as transdermal therapeutic patches for asthma and ischemic heart disease, and items for medical use, such as surgical tapes. In conducting its business activities, the Group is governed by various laws and regulations. In the event of major changes in related laws and regulations, it is possible that the Group's results may be impacted by restrictions on its activities, and it could incur additional costs.

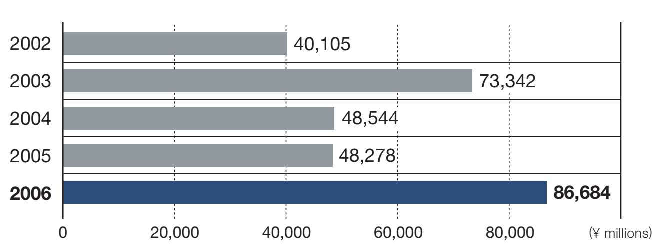
10. Impact of Accidents and Disasters

To prevent damage from accidents or disasters caused by fires, explosions and the like, the Group is committed to ensuring that facility inspections, safety equipment and fire extinguishing equipment are adequate, and the Group engages in various other kinds of safety activities, as well. To prevent direct damage and secondary disasters, Group production sites have improved their facilities by reinforcing them against earthquakes and installing automatic shutoff devices, and Group sites conduct periodic emergency drills. Accidents and disasters could still occur despite these efforts, and although earthquake insurance coverage has been extended to all plants from fiscal 2006, the scope of the compensation payable under earthquake insurance is limited and the possibility remains that Group performance could be adversely affected.

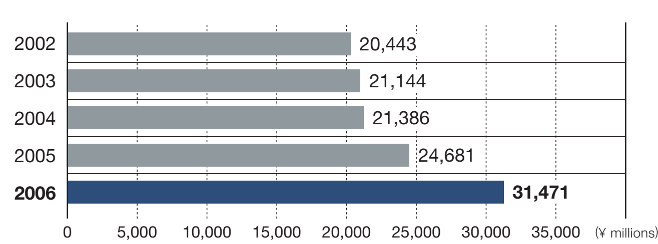
11. Retirement Benefit Obligations

Expenses and liabilities associated with Group employees' retirement benefits are calculated on the basis of assumptions established for discount ratios and other actuarial calculations and on the basis of expected returns on pension assets. Generally speaking, such calculations affect the expenses recognized and the obligations posted at some future time because in cases where actual results differ from the assumptions, or if the assumptions are altered, the cumulative impact is recognized systematically going forward. Consequently, the possibility remains that Group performance could be adversely affected.

Cash & Cash Equivalents



Depreciation & Amortization



Consolidated Balance Sheets

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

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

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

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

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

Consolidated Statements of Income

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

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

Per Share of Common Stock (Note 9):

	Yen		U.S. dollars	
Net Income	**¥ 332.30**	¥ 252.72	**$ 2.83**	$ 2.15
Net Income — Diluted	**331.72**	252.58	**2.82**	2.15
Cash Dividends, Applicable to Earnings of the Year	**60.00**	50.00	**0.51**	0.43

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

Consolidated Statements of Shareholders' Equity

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

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

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

Consolidated Statements of Cash Flows

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

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

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

Notes to Consolidated Financial Statements

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

1. Basis of Presenting Consolidated Financial Statements

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

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

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to U.S. $1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Significant accounting and reporting policies are summarized as follows:

(a) Principles of Consolidation

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

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

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

Material intercompany balances and transactions have been eliminated in consolidation.

(b) Translation of Foreign Currencies

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

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

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

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

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

(c) Leases

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

(d) Investments in Securities

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

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

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

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

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

(e) Inventories

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

Notes to Consolidated Financial Statements

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

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

(g) Impairment of Fixed Assets
The Corporation and its domestic subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).

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

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

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

(i) Research and Development Expenses
Research and development expenses are charged to income as incurred. Research and development expenses charged to income amounted to ¥20,489 million ($174,419 thousand) and ¥16,739 million ($142,496 thousand) for the years ended March 31, 2006 and 2005, respectively.

(j) Employees' Severance and Pension Benefits
The Corporation and its domestic subsidiaries have retirement plans and a contributory funded pension plan for employees, which are defined benefit plans.

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

Prior service costs of pension plans are amortized on the straight-line method over 12 years which is less than or equal to the estimated average remaining service lives of the employees from the fiscal year in which the cost is recognized.

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

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

(l) Derivative Transactions and Hedge Accounting
Derivative financial instruments are stated at fair value and recorded on the balance sheets.

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

A. Hedging instruments and hedged items
Hedging instruments:
Foreign exchange forward contracts
Hedged items:
Trade receivables associated with export of products and payables associated with purchase of certain plant and equipment
B.Hedge policy
The Corporation and its domestic subsidiaries use foreign exchange forward contracts to hedge the risk due to the effect of foreign currency exchange rates.

(m) Reclassifications
Certain prior year amounts have been reclassified to conform to the 2006 presentation.

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

2. Cash and Cash Equivalents

The reconciliations of cash and cash equivalents to the accounts on the balance sheets as of March 31, 2006 and 2005 are as follows:

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

3. Securities

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

Other securities as of March 31, 2006 and 2005

2006

	Millions of yen			Thousands of U.S. dollars		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs						
Equity securities	**¥ 3,293**	**¥ 14,954**	**¥ 11,661**	**$ 28,033**	**$ 127,301**	**$ 99,268**
Others	**172**	**259**	**87**	**1,464**	**2,204**	**740**
Total	**¥ 3,465**	**¥ 15,213**	**¥ 11,748**	**$ 29,497**	**$ 129,505**	**$ 100,008**
Securities with book values not exceeding acquisition costs						
Equity securities	**¥ 13**	**¥ 10**	**¥ (3)**	**$ 111**	**$ 85**	**$ (26)**
Total	**¥ 13**	**¥ 10**	**¥ (3)**	**$ 111**	**$ 85**	**$ (26)**

2005

	Millions of yen			Thousands of U.S. dollars		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs						
Equity securities	¥ 3,218	¥ 8,528	¥ 5,310	$ 27,394	$ 72,597	$ 45,203
Others	268	304	36	2,282	2,588	306
Total	¥ 3,486	¥ 8,832	¥ 5,346	$ 29,676	$ 75,185	$ 45,509
Securities with book values not exceeding acquisition costs						
Equity securities	¥ 16	¥ 12	¥ (4)	$ 136	$ 102	$ (34)
Total	¥ 16	¥ 12	¥ (4)	$ 136	$ 102	$ (34)

Notes to Consolidated Financial Statements

B. The following table summarizes the book values of other securities with no available fair values as of March 31, 2006 and 2005.

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

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

4. Inventories

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

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

5. Income Taxes

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

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

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

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

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

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

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

Short-term bank loans are principally notes payable to banks due in 30-365 days. The average interest rates on these loans, as of March 31, 2006 and 2005 were approximately 2.7% and 2.8%, respectively. Long-term debts as of March 31, 2006 and 2005 are summarized below:

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

Notes to Consolidated Financial Statements

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

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given upon request of the bank, and that any collateral so furnished will be applicable to all indebtedness to that bank. To date, the Corporation and its subsidiaries have not received any such requests from the banks. In addition, the agreements provide that the bank has the right to offset cash deposited against any short-term debt or long-term debt that becomes due, and, in case of default and certain other specified events, against all other debt payable to the bank.

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 3,986	$ 33,932
2009	808	6,878
2010	645	5,491
2011	235	2,001
	¥ 5,674	$ 48,302

7. Employees' Severance and Pension Benefits

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

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

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

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

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

8. Leases

Finance Leases
Information relating to finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, at March 31, 2006 and 2005 and for the fiscal years then ended , is as follows:

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

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

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

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

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

9. Shareholders' Equity and Per Share Data

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

The Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriations of retained earnings with respect to each annual period shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in-capital equals 25% of stated capital.

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

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

Notes to Consolidated Financial Statements

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

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

Net income per share is based on the weighted average number of shares of common stock outstanding during the year. Diluted net income per share is based on the assumption that all warrants were exercised at the beginning of the year or the issuance date.

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

10. Stock Option Plans

At the general meeting of shareholders held on June 20, 2003, the Corporation resolved to grant all directors, key employees and some of subsidiaries' directors the right to purchase the ordinary shares of the Corporation.

The options were granted at an exercise price of 105 percent of the higher of the average of daily closing prices on the Tokyo Stock Exchange during the month proceeding the month in which the option is issued, and the closing price of the Corporation's stock on the market on the day the options were issued. The Corporation acquired 326,200 shares of its common stock for the plan upon the resolution of the shareholders' meeting. The options are exercisable at an exercise price of ¥5,177 per share for three years from January 1, 2004 to December 31, 2006.

At the general meeting of shareholders held on June 24, 2004, the Corporation resolved to grant all directors, key employees and some of subsidiaries' directors the right to purchase the ordinary shares of the Corporation. The exercise price was calculated on the same conditions above. The Corporation acquired 350,000 shares of its common stock for the plan upon the resolution of the shareholders' meeting. The options are exercisable for three years from January 1, 2005 to December 31, 2007.

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

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

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

11. Commitments and Contingent Liabilities

Capital Expenditure Program

Under the capital expenditure program of the Corporation and its subsidiaries, it is estimated that ¥165,024 million ($1,404,818 thousand) will be expended during the two years ending March 31, 2008, of which ¥28,196 million ($240,027 thousand) represents contractual commitments.

Contingent Liabilities

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

12. Derivative Financial Instruments

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

Because the counterparties to these derivatives are limited to international financial institutions, the Corporation and its domestic subsidiaries do not anticipate any losses arising from credit risk. Derivative transactions used by the Corporation and its domestic subsidiaries have been made in accordance with internal policies which regulate the authorization and credit limit amounts. The Corporation and its domestic subsidiaries don't have any derivative transactions for which hedge accounting has not been applied as of March 31, 2006.

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

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

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

13. Loss on evaluation of Goodwill

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

14. Subsequent Events

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

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

Notes to Consolidated Financial Statements

15. Operating Segment Information

(1) Business Segments
The Corporation operates principally in three business segments: Industrial Products, Electronic Products, and Functional Products.

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

Electronic Products include LCD-related products, flexible printed circuit products, electronic processing products, and semiconductor-related products.

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

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

Millions of yen

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

Thousands of U.S. dollars

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

Millions of yen

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

Thousands of U.S. dollars

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

(2) Geographic Area

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

Millions of yen

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

Thousands of U.S. dollars

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

Millions of yen

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

Thousands of U.S. dollars

2005	Japan	North America	Europe	Asia & Oceania	Eliminations Corporate	Consolidated Total
Sales:						
Sales to outside customers	$2,512,258	$ 305,074	$ 148,063	$1,417,579	$ —	$4,382,974
Intersegment sales	1,256,959	14,889	22,287	62,578	(1,356,713)	—
Total	3,769,217	319,963	170,350	1,480,157	(1,356,713)	4,382,974
Operating expenses	3,208,070	341,066	168,247	1,429,616	(1,360,084)	3,786,915
Operating income	561,147	(21,103)	2,103	50,541	3,371	596,059
Assets	2,387,886	353,869	104,921	807,823	118,924	3,773,423

(3) Net Sales to Customers Outside Japan

Manufacturing operations of the Corporation and its subsidiaries are primarily in Japan. Net sales of the Corporation and its subsidiaries to customers outside Japan for the years ended March 31, 2006 and 2005 are as follows:

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

Independent Auditors' Report

To the Board of Directors of
NITTO DENKO CORPORATION:

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

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

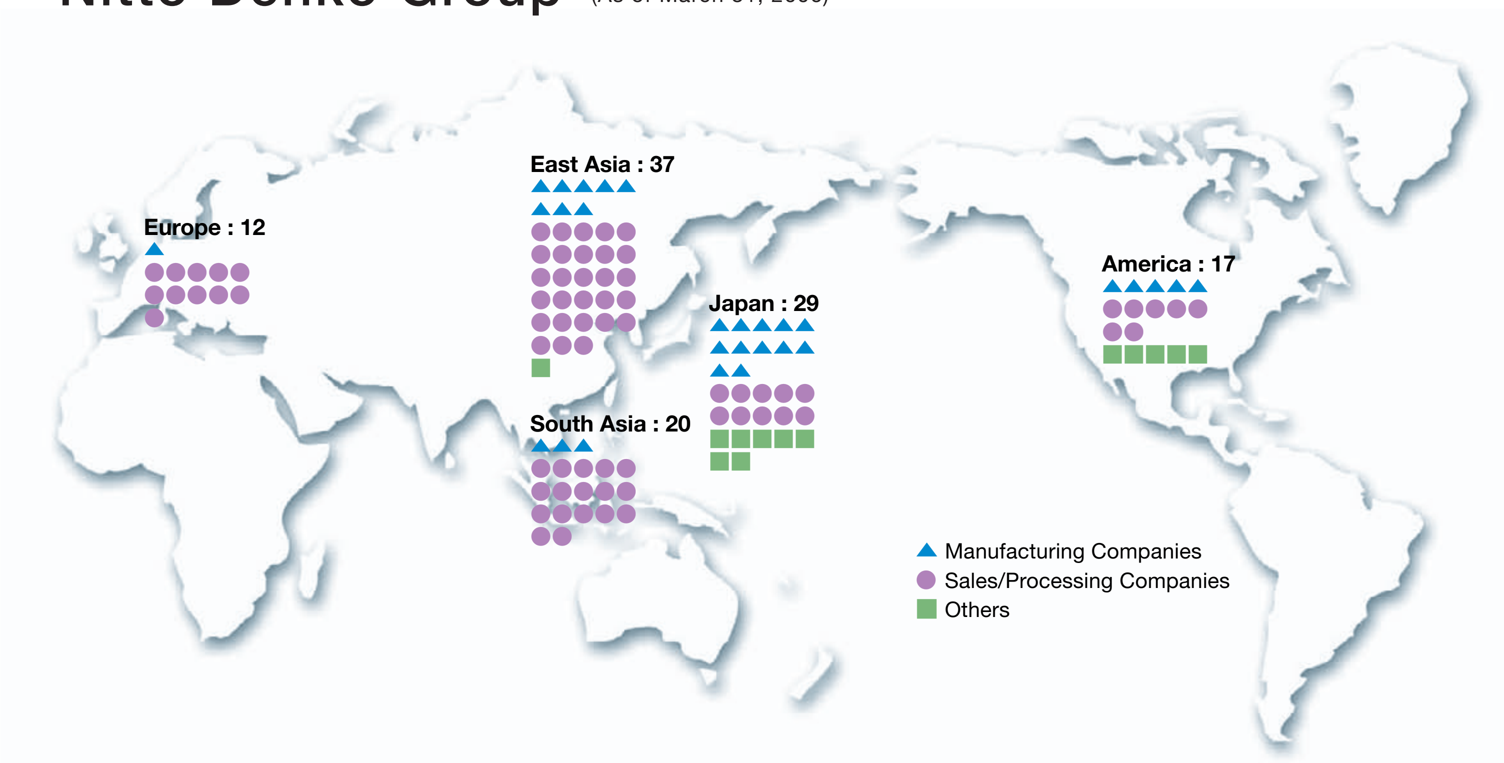
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NITTO DENKO CORPORATION and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended March 31, 2006 and 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 23, 2006

Nitto Denko Group (As of March 31, 2006)



Major Consolidated Subsidiaries and Affiliates

Japan

Head Office
NITTO DENKO CORP.

NITTO SHINKO CO., LTD.
NITTO DENKO CS SYSTEM CORP.
NITOMS INC.
KYOSHIN CO., LTD.
NISSHO CORP.
NITTO DENKO MATEX CO., LTD.

East Asia

NITTO DENKO (CHINA) INVESTMENT CO., LTD.
NITTO DENKO (SHANGHAI SONGJIANG) CO., LTD.
NITTO DENKO (SHANGHAI PU DONG NEW AREA) CO., LTD.
NITTO DENKO (SUZHOU) CO., LTD.
NITTO DENKO XIAMEN CO., LTD.
NITTO DENKO (HK) CO., LTD.
NITTO DENKO MATERIALS (SHENZHEN) CO., LTD.
SHANGHAI NITTO OPTICAL CO., LTD.
NITTO DENKO (TAIWAN) CORP.
TAIWAN NITTO OPTICAL CO., LTD.
KOREA NITTO DENKO CO., LTD.
KOREA NITTO OPTICAL CO., LTD.

South Asia

NITTO DENKO (SINGAPORE) PTE. LTD.
NITTO DENKO ELECTRONICS (MALAYSIA) SDN. BHD.
NITTO DENKO MATERIALS (MALAYSIA) SDN. BHD.
NITTO DENKO MATERIAL (THAILAND) CO., LTD.
NITTO DENKO VIETNAM CO., LTD.
NITTO DENKO TAPE MATERIALS (VIETNAM) CO., LTD.
NITTO DENKO PHILIPPINES CORP.
P.T. NITTO MATERIALS INDONESIA
NITTO DENKO (AUSTRALIA) PTY. LTD.

Europe

NITTO EUROPE N.V.
NITTO U.K. LTD.
NITTO FRANCE S.A.R.L.
NITTO DEUTSCHLAND GMBH
NITTO SCANDINAVIA AB
NITTO ITALIA S.R.L.
NITTO POLSKA SP. ZO.O.

America

NITTO AMERICAS, INC.
NITTO DENKO AMERICA, INC.
PERMACEL
PERMACEL AUTOMOTIVE, INC.
HYDRANAUTICS
AVEVA DRUG DELIVERY SYSTEMS, INC.
NITTO DENKO TECHNICAL CORP.

Corporate Data (As of March 31, 2006)

Company Name	NITTO DENKO CORPORATION
Established	October 25, 1918
Head Office	HERBIS OSAKA 2-5-25, Umeda, Kita-ku, Osaka 530-0001, Japan
Employees	27,582
Capital	US$228,007 thousand
Fiscal Year-end	March 31
Shares Issued	173,758,428
Stock Exchange Listings	Tokyo, Osaka stock exchanges
Independent Auditors	KPMG AZSA & Co.
Business Line	Manufacture and sales of the following: Bonding and joining products, surface protection products, anticorrosion and waterproofing products, sealing products, packaging products and equipment, LCD-related products, flexible printed circuit products, electronic processing products, semiconductor related products, medical-related products, polymer separation membranes, engineering plastics products
Domestic Offices	Tokyo, Sendai, Takasaki, Nagoya, Osaka, Hiroshima, Fukuoka
Overseas Offices	Genk, Belgium; Shenzhen, China
Domestic Plants	Miyagi, Saitama, Aichi, Mie, Shiga, Hiroshima Prefectures

Board of Directors (As of June 23, 2006)

President, Board Member: Masamichi Takemoto (CEO/COO)

Directors,Board Members: Yukio Nagira (Deputy COO)
Yoshiyasu Kamiyama (Deputy COO)
Yasuo Ninomiya (CTO)
Tatsunosuke Fujiwara (CFO)
Wataru Kitao (CSO)

Corporate Auditors: Nobuyuki Tanioka
Shigeru Hozan
Hisashi Hosokawa (part time)
Kazuo Kumagai (part time)
Kosuke Kimura (part time)

Exective Corporate Vice Presidents: Katsuhiro Akamatsu
Tetsuo Horiuchi
Kaoru Aizawa
Hideo Abe

Senior Corporate Vice Presidents: Ryoichi Ota
Setsuo Watanabe

Corporate Vice Presidents: William J. Hayes
Yoshihiko Chikuma
Tomio Sakka
Masakazu Ozawa
Kenji Matsumoto
Hongin Kim
Koichi Nishikawa
Yoichiro Sakuma

(Notes) CEO: Chief Executive Officer
COO: Chief Operating Officer
CTO: Chief Technology Officer
CFO: Chief Financial Officer
CSO: Chief Strategy Officer

NITTO DENKO

NITTO DENKO CORPORATION

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