

## Consolidated Six-year Summary

Nitto Boseki Co., Ltd., and Consolidated Subsidiaries

	Millions of yen						Thousands of U.S. dollars
	2005	2004	2003	2002	2001	2000	2005
Years ended March 31							
Net sales	<b>¥130,292</b>	¥127,312	¥127,950	¥125,057	¥142,624	¥136,023	<b>\$1,213,258</b>
Cost of goods sold	<b>99,528</b>	99,923	101,805	100,967	110,828	107,266	<b>926,794</b>
Selling, general and administrative expenses	<b>23,856</b>	24,138	24,502	25,494	26,259	26,470	<b>222,138</b>
Operating income (loss)	<b>6,908</b>	3,251	1,643	(1,404)	5,537	2,287	<b>64,326</b>
Income (loss) before income taxes and minority interests	<b>6,471</b>	3,165	2,316	(1,180)	3,439	2,210	<b>60,258</b>
Income taxes	<b>3,187</b>	1,177	2,003	440	1,846	1,413	<b>29,676</b>
Net income (loss)	<b>3,158</b>	1,870	219	(1,041)	2,259	1,325	<b>29,404</b>
Total assets	<b>162,904</b>	161,549	174,103	182,965	187,675	172,857	<b>1,516,940</b>
Total shareholders' equity	<b>62,128</b>	61,070	59,832	61,011	60,951	59,963	<b>578,529</b>
Capital expenditure	<b>9,994</b>	3,289	2,773	7,473	14,861	5,049	<b>93,063</b>
Depreciation expenses	<b>5,457</b>	6,225	7,496	7,864	7,061	6,690	<b>50,813</b>
Per share data:							
Net income (loss) (Yen/Dollars)	<b>¥ 12.76</b>	¥ 7.56	¥ 0.88	¥ (4.20)	¥ 9.12	¥ 5.35	<b>\$ 0.119</b>
Cash dividend (Yen/Dollars)	<b>3.00</b>	3.00	3.00	3.00	3.00	3.00	<b>0.028</b>
Shareholders' equity ratio (%)	<b>38.1</b>	37.8	34.4	33.3	32.5	34.7	
Return on equity (%)	<b>5.1</b>	3.1	0.4	(1.7)	3.7	2.2	

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥107.39=US\$1.

2. The computation of net income (loss) per share is based on the average number of issued shares (excluding treasury stock).

## Consolidated Financial Review

### SCOPE OF CONSOLIDATION

The accompanying consolidated financial statements have been prepared from accounting records maintained by Nitto Boseki Co., Ltd. ("Nittobo" or "the Company"), its 25 consolidated subsidiaries, and two affiliates accounted for by the equity method.

### NET SALES

Consolidated net sales for fiscal 2005, the fiscal year from April 1, 2004 through March 31, 2005, amounted to ¥130,292 million, an increase of 2.3% compared with the previous fiscal year. Despite a drop in segment sales in the Textiles and Real Estate Utilization Divisions, results in the Building Materials Division, particularly for thermal insulation and acoustic materials were strong. Sales in the Glass Fiber Products Division also rose significantly, buoyed by robust demand from the PC, digital home appliance, and automobile sectors.

### SEGMENT INFORMATION

#### Glass Fiber Products Division

Results in the Glass Fiber Products Division were mixed. In the first half, Nittobo experienced an upsurge in sales of high-value-added glass fiber yarn and fabrics for printed circuit boards as a result of special demand from the Athens Olympics and robust IT-related demand for PCs, digital home electronics and automobiles. In the second half, however, the Company confronted an adjustment period placing downward pressure on demand and sales.

Shipments of glass fiber for reinforced plastics were strong, particularly for principal customers in the household appliances, electrical and electronic devices, and automobile sectors. These factors coupled with a revision to sales prices, revenues from product sales climbed year on year.

While sales of industrial-use fabrics to the mainstay construction and civil engineering sectors were slow due to sluggish public sector investment, overall segment sales improved, fueled by demand for use in automobiles and architectural membranes.

Accounting for these factors, sales in the Glass Fiber Products Division rose 9.3% year on year to ¥44,958 million. Despite the impact of rising raw material and fuel costs, this segment continues to experience an upward trend.

#### Building Materials Division

Sales of thermal insulation and sound absorption materials increased compared with the previous fiscal year. Despite difficult conditions for rock wool used in facilities and plants, due to the downturn in public sector investment, sales were strong for residential use reflecting the further implementation of energy conservation requirements. In addition, sales volumes of glass wool were boosted by the increase in residential housing starts and an upswing in capital investment in the commercial sector.

In the field of interior decorating materials, exports of fireproof sound absorption ceiling panels primarily to Korea improved. This, however, was offset by weak domestic sales owing to the decline in construction starts for office buildings. As a result of these factors, sales of fireproof sound absorption ceiling panels edged up slightly on a fiscal year-on-year basis. Sales of floor materials increased attributed to vigorous marketing efforts in connection with general-purpose tiles. Sales of office automa-

tion (OA) double-deck flooring systems, on the other hand, declined, owing to the suspension of sales and marketing activities.

In external building materials, Nittobo enjoyed an upswing in overall results. Sales of flat and corrugated fiber panels rose significantly due to the impact of typhoons and the resultant surge in demand. Results were also bolstered by contributions from external thermal insulation systems owing to environmental concerns and measures to promote energy conservation.

In its push into new businesses, the Company experienced gains in environmentally conscious activities.

Incorporating varied results from each of its product lines, sales in the Building Materials Division grew 4.0% compared with the previous fiscal year to ¥52,028 million. While the Company experienced a sharp rise in the cost of coke and other raw material and fuel costs, overall results exhibited an upward trend.

#### Textiles Division

Sales of the Company's fabrics fell sharply due to continued difficult operating conditions. While the use of stretch fabrics became more common, results were impacted by the oversupply of stretch fabric Core Spun Yarn (C·S·Y®), the flood of finished product imports into the market, and the significant drop in sales prices. Conditions were exacerbated by the slump in textile exports.

Despite efforts to expand sales of new products, particularly those of high-value-added and highly functional items, sales of adhesive interlinings for apparel declined year on year. While local procurement in China continued to advance, the domestic markets suffered from an ongoing decline in demand.

Turning to China, sales volumes by Nittobo (China) were up. Sales, however, remained on par with the previous year, reflecting the drop in sales prices throughout the period.

Accounting for all these factors, sales in the Textiles Division deteriorated 12.6% year on year to ¥16,009 million with a comparable drop in earnings.

#### Real Estate Utilization Division

In the fiscal year under review, the Company continued to implement a variety of initiatives to boost customer numbers in the Sports Facilities Business. As a result, existing customers remained stable with a positive trend in new customer patronage.

In real estate operations, the rental market for office buildings remained weak. Coupled with tenant turnover, sales in this field declined.

Results were particularly impacted by the closure of the Suzuka Saty commercial rental facility. Accordingly, sales of the Real Estate Utilization Division fell 18.8% to ¥2,120 million, with a drop in operating income.

#### Other Operations

In medical operations, competition among producers of clinical diagnostic reagents intensified due to a drop in reagent prices and clinical diagnostic fees as well as streamlining of hospital management. Against this backdrop, sales in this area expanded, underpinned primarily by strong export activity.

Specialty Chemicals Operations experienced an overall increase in sales. This can be attributed to growth in sales of products for household use, which compensated for the drop in sales

of dye fixatives.

Sales declined slightly in engineering operations. While results were favorable for industrial machinery-related products owing to the completion of large-scale plants, this was offset by weak results in construction works relating to highway sound suppression products and acoustic engineering.

Sales in the PET-bottled beverage business were mixed. In the first half, results surged, buoyed by heat wave conditions. The second half, however, saw inclement weather, which contributed to a drop in overall sales.

As a result of these factors, sales in the Other Operations segment edged down 0.4% to ¥15,177 million. Operating income trended upward driven by improvements in the engineering business.

## OPERATING EXPENSES, OPERATING INCOME

Gross profit for the fiscal year under review increased 12.3% year on year to ¥30,764 million. Despite the impact of a sharp increase in raw material and fuel costs in the Building Materials and Glass Fiber Products Divisions, the cost of goods sold fell below the previous fiscal year's level totaling ¥99,528 million for the fiscal year under review. This favorable result was due to cuts in manufacturing costs in the Building Materials Division and substantial improvements in operating capacity due to increased demand for IT-related high-value-added products in the Glass Fiber Products Division.

In addition, selling, general and administrative expenses were ¥23,856 million, a light improvement year on year. As a result, operating income more than doubled compared with the previous fiscal year and amounted to ¥6,908 million, up 112.5% year on year.

## OTHER INCOME, OTHER EXPENSES, INCOME BEFORE INCOME TAXES, MINORITY INTERESTS, AND EQUITY IN EARNINGS OF AFFILIATES

Principal items in other income and expenses included interest and dividend income and interest expenses. The Company also reported extraordinary items as well as equity in earnings of affiliates. In specific terms, Nittobo enjoyed an extraordinary profit on sales of investments in securities of ¥2,982 million. On the debit side, the Company incurred an extraordinary loss of ¥2,618 million, representing land repurchase payment in connection with a long-term property development agreement executed by Nittobo with the Organization for Promoting Urban Development.

Buoyed by the return to profits by affiliated companies, the Company recorded equity in earnings of affiliates totaling ¥495 million for the period under review.

As a result of these factors, income before income taxes, minority interests, and equity in earnings of affiliates amounted to ¥6,471 million, an increase of 104.5% compared with the previous fiscal year.

## NET INCOME

Corporate, enterprise, and inhabitants' tax, together with the application of tax-effect accounting, resulted in a tax expense including deferred income taxes of ¥3,187 million, a year-on-year increase of ¥2,010 million. This represented a ratio of taxes to in-

come before income taxes, minority interests, and equity in earnings of affiliates of 49.3%, up from 37.2% in the previous fiscal year. This was attributed to improved probability of recovering losses in connection with the repurchase of land. As a result, net income for the period jumped ¥1,288 million to ¥3,158 million.

## FINANCIAL POSITION

As of March 31, 2005, total assets stood at ¥162,904 million, an increase of ¥1,355 million compared with the end of the previous fiscal year. In current assets, the year-end balance of cash and cash equivalents rose due to improved profit and the liquidation of certain receivables. As of the fiscal year-end, current assets climbed ¥3,003 million to ¥90,735 million reflecting inventory buildup from the increase in net sales. In property, plant and equipment, capital investments climbed ¥6,706 million to ¥9,994 million, which included the aforementioned repurchase of land. On the other hand, Nittobo undertook sales of investments in securities, resulting in a decrease of ¥2,757 million. As a result, the total of net property, plant and equipment and total investments and other assets declined ¥1,648 million for a year-end balance of ¥72,169 million.

Current liabilities stood at ¥55,370 million, an increase of ¥4,063 million. Principal components included a drop in short-term bank loans, and increases in both notes and accounts payable as well as current portion of long-term debt. Long-term liabilities fell ¥3,872 million to ¥43,814 million owing mainly to the repayment of ¥5,069 million of long-term debt.

Shareholders' equity as of March 31, 2005, stood at ¥62,128 million, an improvement of ¥1,058 million compared with the previous fiscal year-end. Major components were retained earnings, which climbed ¥2,415 million due to the increase in net income, and a decline of ¥1,261 million in unrealized gain on securities. As a result of these factors, the shareholders' equity ratio was 38.1%, up from 37.8% at the end of the previous fiscal year.

## CASH FLOWS

Net cash provided by operating activities during the fiscal year under review totaled ¥11,092 million, an increase of ¥7,069 million compared with fiscal 2004. The major components were income before income taxes of ¥6,471 million, which more than doubled from the previous fiscal year, increases in each of the Company's reserves and allowances, a drop in trade receivables, and an increase in trade payables.

During the fiscal year under review, Nittobo recorded proceeds from the sale of investment securities. At the same time, the Company undertook payments for the purchase of tangible fixed assets including the repurchase of land. As a result, net cash used in investing activities amounted to ¥4,487 million, a turnaround of ¥6,950 million, from net cash provided by investing activities in the previous fiscal year.

Net cash used in financing activities totaled ¥4,360 million, down ¥3,836 million year on year. In an effort to reinforce its financial standing, Nittobo continued to undertake repayments of interest-bearing liabilities including both short-term bank loans and long-term debt. The level of debt reduction, however, was less than in the previous fiscal year.

Accordingly, cash and cash equivalents at the end of the fiscal year amounted to ¥23,571 million, a net increase of ¥2,247 million.

# Consolidated Financial Data

## Consolidated Balance Sheets

Nitto Boseki Co., Ltd., and Consolidated Subsidiaries As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	¥ 23,740	¥ 21,524	\$ 221,063
Receivables—Trade and others:			
Notes and accounts	40,268	40,210	374,967
Non-consolidated subsidiaries and affiliates	963	2,018	8,974
Less: Allowance for doubtful accounts	(186)	(294)	(1,735)
Inventories (Note 3)	24,128	22,529	224,674
Deferred tax assets (Note 10)	1,437	1,329	13,381
Prepaid expenses and other current assets	385	416	3,583
Total current assets	<u>90,735</u>	<u>87,732</u>	<u>844,907</u>
Property, plant and equipment (Note 5):			
Land	17,567	15,745	163,579
Buildings and structures	53,238	53,181	495,745
Machinery and equipment	111,534	110,929	1,038,591
Construction in progress	989	478	9,215
Less: Accumulated depreciation	(128,603)	(126,784)	(1,197,536)
Net property, plant and equipment	<u>54,725</u>	<u>53,549</u>	<u>509,594</u>
Investments and other assets:			
Investments in securities (Note 6)	11,071	13,816	103,095
Investments in and advances to non-consolidated subsidiaries and affiliates	380	553	3,542
Deferred tax assets (Note 10)	1,786	1,400	16,630
Other assets	4,207	4,499	39,172
Total investments and other assets	<u>17,444</u>	<u>20,268</u>	<u>162,439</u>
Total assets	<u>¥ 162,904</u>	<u>¥ 161,549</u>	<u>\$ 1,516,940</u>

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Short-term bank loans (Note 4)	¥ 13,961	¥ 16,650	\$ 130,001
Current portion of long-term debt (Note 5)	7,425	3,279	69,140
Payables—Trade and others:			
Notes and accounts	24,869	22,795	231,574
Non-consolidated subsidiaries and affiliates	436	497	4,064
Income taxes payable (Note 10)	2,418	1,977	22,516
Deferred tax liabilities (Note 10)	27	19	254
Accrued expenses and other current liabilities	6,234	6,090	58,050
Total current liabilities	55,370	51,307	515,599
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	18,514	23,583	172,399
Accrued retirement benefits (Note 7)	12,733	11,681	118,568
Deferred tax liabilities (Note 10)	886	1,757	8,248
Other long-term liabilities	11,681	10,665	108,777
Total long-term liabilities	43,814	47,686	407,992
Minority interests in consolidated subsidiaries	1,592	1,486	14,820
Contingent liabilities (Note 8)			
Shareholders' equity (Notes 9 and 14):			
Common stock, no par value in 2005 and 2004:			
Authorized—400,000,000 shares			
Issued: 2005 and 2004—247,677,560 shares	19,699	19,699	183,437
Additional paid-in capital	23,062	23,058	214,755
Retained earnings	17,792	15,377	165,676
Unrealized gain on securities	2,695	3,956	25,092
Foreign currency translation adjustments	(1,075)	(996)	(10,012)
Less: Treasury stock, at cost			
314,362 shares in 2005 and 218,631 shares 2004	(45)	(24)	(419)
Total shareholders' equity	62,128	61,070	578,529
Total liabilities and shareholders' equity	¥162,904	¥161,549	\$1,516,940

## Consolidated Statements of Income

Nitto Boseki Co., Ltd., and Consolidated Subsidiaries For the years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales	¥130,292	¥127,312	\$1,213,258
Cost of goods sold	99,528	99,923	926,794
Gross profit	30,764	27,389	286,464
Selling, general and administrative expenses	23,856	24,138	222,138
Operating income	6,908	3,251	64,326
Other income (expenses):			
Interest and dividend income	175	112	1,629
Interest expenses	(755)	(898)	(7,036)
Gain on sale of tangible fixed assets, net	220	344	2,051
Equity in earnings of affiliates	495	(15)	4,621
Others, net	(572)	371	(5,324)
	(437)	(86)	(4,068)
Income before income taxes and minority interests	6,471	3,165	60,258
Income taxes (Note 10):			
Current	3,685	3,010	34,313
Deferred	(498)	(1,833)	(4,637)
	3,187	1,177	29,670
Income before minority interests	3,284	1,988	30,582
Minority interests	126	118	1,178
Net income	¥ 3,158	¥ 1,870	\$ 29,404
		Yen	U.S. dollars (Note 1)
Per share of common stock:			
Net income	¥ 12.76	¥ 7.56	\$ 0.119
Cash dividends applicable to earnings for the year	3.00	3.00	0.028

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Shareholders' Equity

Nitto Boseki Co., Ltd., and Consolidated Subsidiaries For the years ended March 31, 2005 and 2004

Millions of yen							
	Issued Shares of Common Stock (thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance as of March 31, 2003	247,678	¥19,699	¥23,058	¥16,495	¥ 967	¥ (369)	¥(19)
Net income	—	—	—	1,870	—	—	—
Cash dividends	—	—	—	(743)	—	—	—
Total retained earnings from companies not handled under the equity method	—	—	—	(1,793)	—	—	—
Total retained earnings accruing from additions to the number of companies handled under the equity method	—	—	—	(452)	—	—	—
Others—net	—	—	—	—	2,989	(627)	(5)
Balance as of March 31, 2004	247,678	¥19,699	¥23,058	¥15,377	¥ 3,956	¥ (996)	¥(24)
Net income	—	—	—	3,158	—	—	—
Cash dividends	—	—	—	(743)	—	—	—
Others—net	—	—	4	—	(1,261)	(79)	(21)
Balance as of March 31, 2005	247,678	¥19,699	¥23,062	¥17,792	¥ 2,695	¥(1,075)	¥(45)

Thousands of U.S. dollars (Note 1)						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance as of March 31, 2004	\$183,437	\$214,716	\$143,184	\$ 36,838	\$ (9,274)	\$(229)
Net income	—	—	29,404	—	—	—
Cash dividends	—	—	(6,912)	—	—	—
Others—net	—	39	—	(11,746)	(738)	(190)
Balance as of March 31, 2005	\$183,437	\$214,755	\$165,676	\$ 25,092	\$(10,012)	\$(419)

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

Nitto Boseki Co., Ltd., and Consolidated Subsidiaries For the years ended March 31, 2005 and 2004

Thousands of  
U.S. dollars  
(Note 1)

	Millions of yen		2005
	2005	2004	
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 6,471	¥ 3,165	\$ 60,258
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	5,457	6,224	50,813
Interest and dividend income	(175)	(112)	(1,630)
Interest expenses	755	899	7,036
Loss (gain) on sales or write-down on securities	(2,849)	(938)	(26,526)
Loss (gain) on sales and disposal of tangible and intangible assets	2,631	4,446	24,501
Decrease in trade receivables	1,032	381	9,609
(Increase) decrease in inventories	(1,657)	1,633	(15,431)
Increase (decrease) in trade payables	1,079	(557)	10,044
Increase in retirement benefits	1,052	998	9,791
Others	789	(8,176)	7,351
Interest and dividend income received	511	205	4,761
Interest expenses paid	(748)	(894)	(6,969)
Income taxes paid	(3,256)	(3,251)	(30,317)
Net cash provided by operating activities	11,092	4,023	103,291
<b>Cash flows from investing activities:</b>			
Decrease in time deposit	31	569	284
Capital expenditure	(8,642)	(2,258)	(80,471)
Proceeds from sale of properties	406	2,166	3,785
Purchase of investment securities	(52)	(520)	(490)
Proceeds from sale of investment securities	3,740	1,783	34,828
Others	30	723	275
Net cash (used in) provided by investing activities	(4,487)	2,463	(41,789)
<b>Cash flows from financing activities:</b>			
(Decrease) in short-term bank loans	(2,652)	(5,823)	(24,699)
Proceeds from long-term debt	2,450	8,000	22,814
Repayments on long-term debt	(3,374)	(9,575)	(31,416)
Cash dividends by the Company	(743)	(792)	(6,918)
Others	(41)	(6)	(382)
Net cash (used in) financing activities	(4,360)	(8,196)	(40,601)
Effect of exchange rate changes on cash and cash equivalents	2	(33)	17
Net increase (decrease) in cash equivalents	2,247	(1,743)	20,918
Cash and cash equivalents at beginning of year	21,324	23,067	198,571
Cash and cash equivalents at end of year	¥23,571	¥21,324	\$219,489

The accompanying notes are an integral part of these statements.

## Notes to Consolidated Financial Statements

### Note 1: Basis of presenting financial statements

(a) The accompanying consolidated financial statements have been prepared from accounting records maintained by Nitto Boseki Co., Ltd. (the "Company") and its consolidated subsidiaries in conformity with the Securities and Exchange Laws of Japan and accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. However, in order to facilitate the understanding of readers outside Japan, certain reclassifications are given to the consolidated financial statements prepared for domestic purposes.

(b) U.S. dollar amounts presented in the accompanying consolidated financial statements are included solely for convenience and should not be construed as representations that Japanese yen amounts have been or could in the future be converted into U.S. dollars. The rate of ¥107.39 to US\$1, prevailing on March 31, 2005, has been used for translation into U.S. dollar amounts in the accompanying consolidated financial statements.

All amounts are in millions of yen, rounded to the nearest whole unit.

### Note 2: Significant accounting policies

#### (a) Consolidation

The consolidated financial statements include the accounts of the Company and the following 25 significant subsidiaries (the "Companies"):

Nitto Glass Fiber Manufacturing Co., Ltd.	Nittobo Medical Co., Ltd.	International Immunology Corporation Japan
Paramount Glass Manufacturing Co., Ltd.	Nitto Foods Ltd.	Nippon Haskell Co., Ltd.
Nittobo Materials Co., Ltd.	NTB Technology Co., Ltd.	Nittobo Taiwan Co., Ltd.
Soyo Co., Ltd.	Sansei Kogyo Co., Ltd.	Nittobo America Inc.
Shinwa Denzai Co., Ltd.	Nittobo Ecology Co., Ltd.	International Immunology Corporation
Nittobo Acoustic Engineering Co., Ltd.	Nittobo FRP Laboratory Co., Ltd.	Midland Bio Products Corporation
Nittobo Togan Co., Ltd.	Nitto Glasstex Co., Ltd.	Nittobo (China) Co., Ltd.
Fuji Fiber Glass Co., Ltd.	Nitto Allied Service Co., Ltd.	Nittobo Macau Glass Weaving Co., Ltd.
	Nitto Beverage Co., Ltd.	

The name of Nitto Hanbaisho Co., Ltd. was changed to Nittobo Ecology Co., Ltd. as of April 1, 2004.

Nitto Beverage Co., Ltd. absorbed Sansys Bottle Co., Ltd. as of April 1, 2004.

All significant intercompany balances and transactions have been eliminated in consolidation. The excess of the Company's investment cost in domestic consolidated subsidiaries over its equity in net assets at the dates of acquisition is being amortized over a period of five years.

The equity method is being applied to two affiliate companies, namely Decolanitto Corporation and NITTOBO ASCO Glass Fiber Co., Ltd. 18 non-consolidated subsidiaries and eight affiliated companies to which the equity method does not apply have been removed from the Company's scope of consolidation because the income and retained earnings of each company has an immaterial effect on the Company's overall operations. Investments in non-consolidated subsidiaries and other affiliates are carried at moving-average cost. Cash dividends from these companies are recorded in the Company's books when cash dividends are approved at the general meetings of shareholders.

Concerning the translation of foreign currency financial statements of consolidated foreign subsidiaries, such statements are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity. The revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the annual average exchange rate. Translation differences resulting therefrom are reflected in the accompanying balance sheets as "Foreign currency translation adjustments" in the "Shareholders' equity" section and included in "Minority interests in consolidated subsidiaries" in the balance sheet.

#### (b) Sales recognition

Net sales of goods are recognized when the goods are shipped to customers.

#### (c) Foreign currency translation

All monetary assets and liabilities in foreign currencies of the Company and six consolidated subsidiaries are translated into Japanese yen at the current rates except for those hedged by forward exchange contracts.

#### (d) Cash and cash equivalents

Cash and cash equivalents comprise mainly short-term investments, primarily those liquid investments with a maturity of three months or less from purchase which are readily convertible into cash. In addition, there is only an insignificant risk, as any fluctuations in value are minor.

For purposes of the consolidated statements of cash flows, cash and cash equivalents comprise the following balance-sheet accounts.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash and cash equivalents	¥23,740	¥21,524	\$221,063
Less—time deposits with maturities over three months	(169)	(200)	(1,574)
Add—short-term investments with original maturities within three months	—	—	—
Total	¥23,571	¥21,324	\$219,489

(e) Marketable securities and investments in securities

Investments in subsidiaries and affiliates are carried at moving-average cost. Other securities with market prices are carried at market value based on market price on the settlement date, while other securities without market price are carried at cost by the moving-average method.

(f) Derivatives

Derivatives are carried at market value method.

(g) Inventories

Finished goods, work in process, raw materials, and supplies are carried principally at moving-average cost.

(h) Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation is computed principally on the declining-balance method at rates based on the estimated useful lives of assets except for the following buildings. Depreciation of the buildings purchased from April 1, 1998, is computed on the straight-line method based on the estimated useful lives of the buildings.

Representative useful lives are as follows:

Property, plant and equipment	3–50 years
Machinery and equipment	3–22 years

(i) Accrued retirement benefits and pension plan

To facilitate the payment of retirement benefits to employees, the Company makes provisions to the allowance for retirement benefits based on the estimated total benefit payments and pension plan assets at the end of the current fiscal year. The prior service cost is amortized over a 15-year period, which is within the average remaining service period of employees. A transitional obligation is amortized by the Company in equal installments over 15 years. Recognized actuarial gain/loss is amortized from the next fiscal year, over the average employee's remaining service period when the actuarial difference was incurred (15–17 years).

The Company and some subsidiaries adopted the reserve for retirement payment for directors and corporate auditors based on the Companies' regulations.

(j) Interperiod tax allocation

Interperiod tax allocation is recorded for timing differences between taxable income and income recorded in the books.

(k) Net income and dividends per share of common stock

The computation of net income per share of common stock has been based on the average number of issued shares (excluding treasury stock) during each fiscal year. Cash dividends per share of common stock represent dividends per share applicable to earnings for the year.

### Note 3: Inventories

Inventories as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Finished goods	¥10,816	¥ 9,907	\$100,718
Work in process	3,466	3,185	91,678
Raw materials and supplies	9,846	9,437	32,278
	¥24,128	¥22,529	\$224,674

#### Note 4: Short-term bank loans

The weighted average interest rates on these loans were 1.38% and 1.51% as of March 31, 2005 and 2004, respectively.

To provide for effective and speedy short-term financing arrangements, the Company made credit line commitments with three banks.

The outstanding balances as of March 31, 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Total amount of credit lines	¥5,000		\$46,559
Total outstanding balance of the loans	—		—
Total unused lines amount	¥5,000		\$46,559

#### Note 5: Long-term debt and pledged assets

(a) Long-term debt

Long-term debt as of March 31, 2005 and 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Loans principally from banks due 2005–2010, partially secured	¥25,939	¥26,862	\$241,539
Total	25,939	26,862	241,539
Less: Amount due within one year	7,425	3,279	69,140
Total	¥18,514	¥23,583	\$172,399

The annual maturities of long-term debt outstanding as of March 31, 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
2006	¥7,425		\$69,140
2007	5,290		49,258
2008	8,655		80,595
2009	3,918		36,485
2010 and thereafter	651		6,061

(b) Pledged assets

A summary of assets pledged as collateral for long-term debt as of March 31, 2005 and 2004, is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Property, plant and equipment (net book value)	¥7,609	¥8,007	\$70,854

#### Note 6: Marketable securities and investments in securities

Marketable and investment securities as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Current:			
Marketable equity securities	¥ —	¥ —	\$ —
Total	¥ —	¥ —	\$ —
Non-current:			
Marketable equity securities	¥6,655	¥9,548	\$61,977
Total	¥6,655	¥9,548	\$61,977

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Sales of available-for-sale securities	¥3,740	¥1,783	\$34,828
Gross realized gains	2,982	1,388	27,772
Gross realized losses	49	0	456

### Note 7: Pension plan

The Company and its domestic consolidated subsidiaries have contributory funded defined benefit pension plans, such as contributory pension plans, qualified pension plans, and lump-sum severance indemnity plans. As of March 31, 2005, the lump-sum severance indemnity plans are applied by the Company and 10 subsidiaries, and the qualified pension plans are applied by the Company and eight subsidiaries. Only the Company applies contributory funded defined benefit pension plans.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2005	2005
Projected benefit obligation	¥28,787	\$268,068
Fair value of plan assets	(6,258)	(58,281)
Unrecognized transitional obligation	(5,629)	(52,418)
Unrecognized actuarial loss	(5,046)	(46,986)
Unrecognized prior service cost	879	8,185
Prepaid pension cost	—	—
Net liability for retirement benefits	¥12,733	\$118,568

The components of net periodic benefit costs for the year ended March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2005	2005
Service cost	¥1,193	\$11,113
Interest cost	593	5,524
Expected return on plan assets	(148)	(1,378)
Amortization of prior cost (credit)	(72)	(675)
Recognized actuarial loss	751	6,990
Amortization of transitional obligation	569	5,300
Net periodic benefit costs	¥2,886	\$26,874

Assumptions used for the year ended March 31, 2005 are set forth as follows:

Discount rate	2.5%
Expected rate of return on plan assets	3.0%
Recognition period of actuarial gain/loss	15–17 years
Amortization period of transitional obligation	15 years

### Note 8: Contingent liabilities

As of March 31, 2005 and 2004, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Notes discounted with banks	¥—	¥545	\$—
Guarantees of loans:			
Non-consolidated subsidiaries	—	—	—
Other companies	3	4	33
Employees' housing loans	32	42	298

## Note 9: Shareholders' equity

The Company is subject to the Japanese Commercial Code (the "Code"). The Code requires that the issue price of shares issued and outstanding be designated as stated capital. The Code also requires at least 50% of the issue price of new shares to be apportioned to stated capital.

The Code also provides that an amount at least equal to 10% of the aggregate amount of payments, which are made as an appropriation of retained earnings applicable to each fiscal period, shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital.

Moreover, the Code allows companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors. Requests from shareholders to purchase the Company's treasury stock may be accepted without a resolution of shareholders at the general shareholders' meeting, according to stipulations in the Code.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥16,677 million (\$155,301 thousand) as of March 31, 2005, based on the amount recorded in the Company's general books of account.

Year-end dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable.

## Note 10: Income taxes

Income taxes applicable to the Companies comprise (1) corporate tax (2) enterprise tax, and (3) inhabitants' tax and were 40.5% in the fiscal years ended March 31, 2004 and 2005, respectively.

The effective income tax rate of the Companies differs from the statutory tax rate for the following reasons:

	2005
Statutory income tax rate	40.5%
Reconciliation:	
Permanent differences of entertainment expenses not deductible, etc.	2.0%
Inhabitant tax equalization	1.0%
Dividend excluded from income	(2.4)%
Unrecognized net operating loss of consolidated subsidiary	1.1%
Loss on repurchase of land	16.1%
Tax loss carryforwards	(4.6)%
Other	(4.5)%
Effective income tax rate	49.2%

The significant components of deferred tax assets and deferred tax liabilities recorded on the consolidated balance sheets as of March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2005	2005
Gross deferred tax assets:		
Accrued bonuses	¥ 920	\$ 8,563
Accrued retirement benefits	5,011	46,662
Special repair reserve	1,338	12,461
Loss on evaluation of securities	421	3,923
Tax loss carryforward	696	6,481
Other	1,710	15,925
	10,096	94,015
Valuation allowance for deferred tax assets	(1,876)	(17,471)
Deferred tax assets	8,220	76,544
Gross deferred tax liabilities:		
Reserve for property, plant and equipment to use taxable merits by Japanese tax law	4,040	37,616
Unrealized gain on securities	1,834	17,081
Other	36	338
Deferred tax liabilities	5,910	55,035
Net deferred tax assets	¥ 2,310	\$ 21,509

## Note 11: Segment information

Information by industry segment

The Company and its subsidiaries operate principally in five industry segments: textiles, building materials, glass fiber products, real estate utilization, and other operations.

Operations in the textiles segment involve the production and sale of cotton yarn and textile products. Operations in the building materials segment involve the production and sale of floor materials, noncombustible acoustic ceiling panels, rock wool insulation, and FRP lighting panels. Operations in the glass fiber products segment involve the production and sale of glass fiber and fiberglass fabric. Operations in the real estate utilization segment involve a rental building operation and a fitness center operation. Operations in the other segments involve the production and sale of engineering, medical, and specialty chemicals.

Millions of yen							
Year ended March 31, 2004	Textiles	Building Materials	Glass Fiber Products	Real Estate Utilization	Other Operations	Corporate Expenses or Assets or Eliminations	Consolidated
Net sales							
Unaffiliated customers	¥18,320	¥50,031	¥41,117	¥ 2,610	¥15,234	¥ —	¥127,312
Intersegment	73	289	911	—	420	1,693	—
Total	18,393	50,320	42,028	2,610	15,654	1,693	127,312
Operating cost and expenses	18,336	49,627	40,877	1,747	14,538	1,064	124,061
Operating income (loss)	57	693	1,151	863	1,116	629	3,251
Identifiable assets	19,133	42,948	47,970	10,305	10,679	30,514	161,549
Depreciation expenses	463	1,533	2,846	611	355	417	6,225
Capital expenditure	126	1,442	1,299	16	207	199	3,289

Year ended March 31, 2005

Net sales							
Unaffiliated customers	¥16,009	¥52,028	¥44,958	¥ 2,120	¥15,177	¥ —	¥130,292
Intersegment	64	363	999	—	467	1,893	—
Total	16,073	52,391	45,957	2,120	15,644	1,893	130,292
Operating cost and expenses	16,250	50,937	41,667	1,523	14,349	1,342	123,384
Operating income (loss)	(177)	1,454	4,290	597	1,295	551	6,908
Identifiable assets	18,095	43,940	48,244	12,530	11,794	28,300	162,903
Depreciation expenses	431	1,476	2,520	375	269	386	5,457
Capital expenditure	110	1,355	2,792	3,982	1,063	692	9,994

Thousands of U.S. dollars (Note 1)

Year ended March 31, 2005	Textiles	Building Materials	Glass Fiber Products	Real Estate Utilization	Other Operations	Corporate Expenses or Assets or Eliminations	Consolidated
Net sales							
Unaffiliated customers	\$149,072	\$484,473	\$418,641	\$ 19,744	\$141,328	\$ —	\$1,213,258
Intersegment	593	3,377	9,300	—	4,347	17,617	—
Total	149,665	487,850	427,941	19,744	145,675	17,617	1,213,258
Operating cost and expenses	151,320	474,314	388,000	14,185	133,614	12,501	1,148,932
Operating income (loss)	(1,655)	13,536	39,941	5,559	12,061	5,116	64,326
Identifiable assets	168,501	409,168	449,245	116,676	109,822	263,528	1,516,940
Depreciation expenses	4,010	13,744	23,463	3,492	2,511	3,593	50,813
Capital expenditure	1,019	12,619	25,999	37,083	9,898	6,445	93,063

## Note 12: Research and development costs

Research and development costs charged to income for the years ended March 31, 2005 and 2004 were as follows:

Millions of yen		Thousands of U.S. dollars (Note 1)
2005	2004	2005
¥1,032	¥969	\$9,611

## Note 13: Leases

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance lease, depreciation expense, interest expense, and the information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2005 and 2004 was as follows:

### (a) Acquisition cost and accumulated depreciation of finance leases

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2005			2004			2005		
	Machinery and Equipment	Other Assets	Total	Machinery and Equipment	Other Assets	Total	Machinery and Equipment	Other Assets	Total
Acquisition cost	¥343	¥2,065	¥2,408	¥399	¥1,545	¥1,944	\$3,192	\$19,235	\$22,427
Accumulated depreciation	241	841	1,082	229	767	996	2,240	7,835	10,075
Net leased property	¥102	¥1,224	¥1,326	¥170	¥778	¥948	\$952	\$11,400	\$12,352

### (b) Obligations under finance leases

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
	Due within one year	¥459	¥344
Due after one year	917	643	8,537
Total	¥1,376	¥987	\$12,814

### (c) Depreciation expense, interest expense, and other information under finance leases

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
	Depreciation expense	¥408	¥399
Interest expense	32	25	299
Total	¥440	¥424	\$4,099
Lease payments	¥442	¥429	\$4,116

Depreciation expense and interest expense, which are not reflected in the accompanying statements of income, are computed by the straight-line method and the interest method, respectively.

## Note 14: Subsequent event

At the annual shareholders' meeting, which was held by the Company on June 29, 2005, the following appropriation of retained earnings existing as of March 31, 2005 was duly approved.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2005	2005
Appropriations:		
Cash dividends	¥742	\$6,910
Total	¥742	\$6,910

## Report of Independent Public Accountants

The Board of Directors of  
Nitto Boseki Co., Ltd.

We have audited the accompanying consolidated balance sheets of Nitto Boseki Co., Ltd. and its 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 all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial position of Nitto Boseki Co., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles in Japan.

Amounts expressed in U.S. dollars have been translated on the basis stated in Note 1 to the consolidated financial statements.

Tokyo, Japan  
June 29, 2005

*Shin Nihon & Co.*  
Shin Nihon & Co.

# Corporate Data / Investor Information

(As of March 31, 2005)

<b>Corporate Name</b>	Nittobo (Registered as Nitto Boseki Co., Ltd.)	<b>Date of Establishment</b>	April 22, 1918 Fukushima Seiren Seishi K.K. April 1, 1923 Company name changed to Nitto Boseki Co., Ltd.
<b>Main Branch</b>	Aza Higashi 1, Gonome, Fukushima 960-8161, Japan	<b>Paid-In Capital</b>	¥19.6 billion
<b>Headquarters</b>	4-1-28, Kudankita, Chiyoda-Ku, Tokyo 102-0073, Japan Tel : +81-3-3238-4535 Fax : +81-3-3238-4588 URL : <a href="http://www.nittobo.co.jp/">http://www.nittobo.co.jp/</a>	<b>Employees</b>	1,927 (Nonconsolidated) 3,908 (Consolidated)

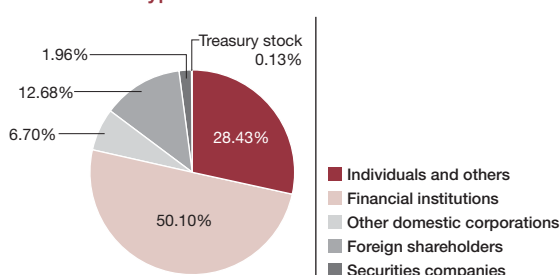
## Main Offices and Factories

· Osaka Branch	4-3-10, Koraihashi, Chuo-ku, Osaka 541-0043, Japan (Nissei Fushimicho Building New Building)	<b>Consolidated Subsidiaries</b> · Nittobo Materials Co., Ltd. · Paramount Glass Manufacturing Co., Ltd. · Soyo Co., Ltd. · Nitto Glass Fiber Manufacturing Co., Ltd. · Nittobo Acoustic Engineering Co., Ltd. · Nittobo Togan Co., Ltd. · Fuji Fiber Glass Co., Ltd. · Nittobo Medical Co., Ltd. · NTB TECHNOLOGY CO., LTD. · Nittobo (China) Co., Ltd. · Nitto Beverage Co., Ltd. · Nittobo Macau Glass Weaving Co., Ltd. · Nippon Haskell Co., Ltd. and 12 other companies
· Nagoya Branch	1-17-13, Nishiki, Naka-ku, Nagoya, Aichi 460-0003, Japan (Meiko Building)	
· Fukushima Plant	Aza Higashi 1, Gonome, Fukushima 960-8161, Japan	
· Fukuyama Enterprise Center	Aza Shiojima 1, Fukuhara, Fukuyamacho, Koriyama-shi, Fukushima 903-8061, Japan	
· Niigata Plant	6-50, Higashi Shinmachi, Niigata 950-0065, Japan	
· Tomari Enterprise Center	Hirayanagi 500, Asahi-cho, Shimoniikawa-gun, Toyama 939-0744, Japan	
· Itami Production Center	1-6-1, Kuwazu, Itami-shi, Hyogo 664-0834, Japan	
· Chiba Plant	Roppo-cho 210, Inage-ku, Chiba 263-0004, Japan	
· Wakayama Plant	Oaza Hiro 898, Hirokawa-cho, Arida-gun, Wakayama 643-0071, Japan	
· Glassfiber Developing Research Center (located in Fukushima Plant)		
· Biochemical Research Center (located in Fukuyama Enterprise Center)		

## Share Information

Total Number of Shares Issued	247,677,560
Number of Shareholders	25,830

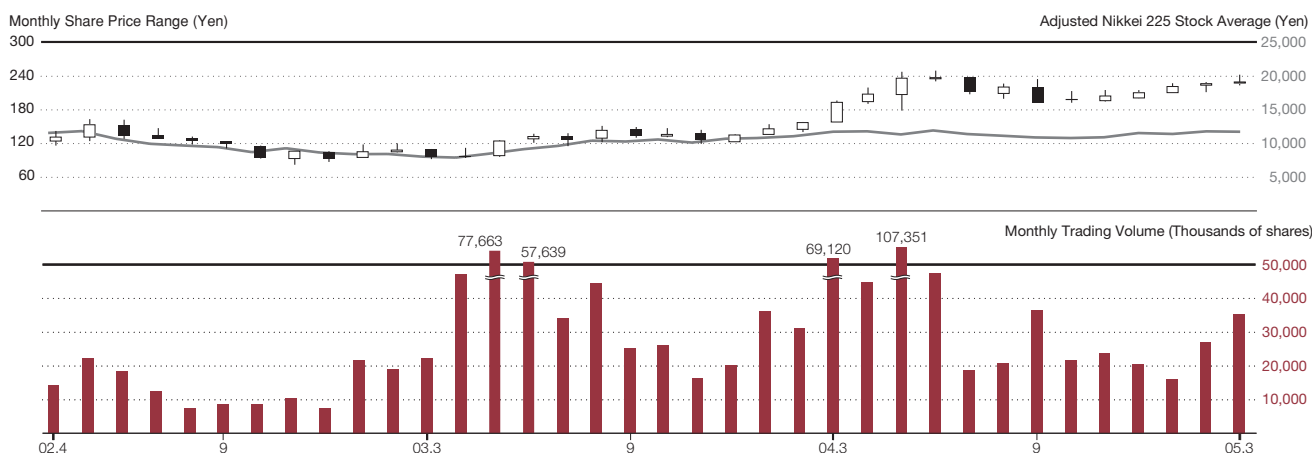
## Shareholder Type



## Major Shareholders

Name	Number of Shares Held (Thousands of shares)	Percentage of Shares Held (%)
Japan Trustee Services Bank, Ltd. (Trust accounts)	26,613	10.75
The Master Trust Bank of Japan, Ltd. (Trust accounts)	19,042	7.69
Mizuho Corporate Bank, Ltd.	11,958	4.83
Nippon Life Insurance Company	8,970	3.62
The Dai-ichi Mutual Life Insurance Company	6,580	2.66
The Chuo Mitsui Trust and Banking Co., Ltd.	6,163	2.49
Sumitomo Life Insurance Company	5,412	2.19
Aioi Insurance Co., Ltd.	4,799	1.94
Trust & Custody Service Bank, Ltd. (Trust A account)	4,653	1.88
Japan Trustee Service Bank, Ltd. (Trust accounts 4)	4,458	1.80

## Share Price Range and Trading Volume





# Nitto

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