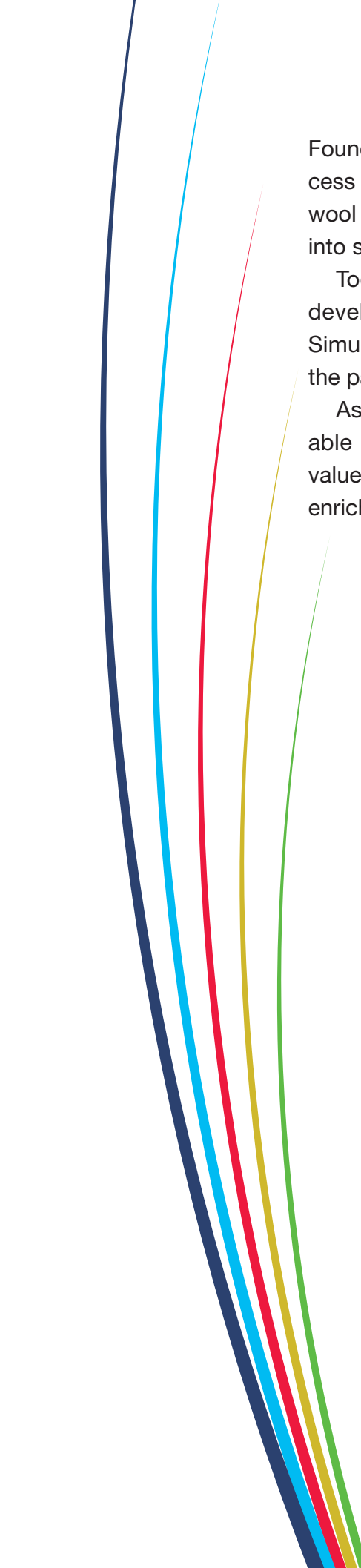




Nittobo

Annual Report 2006
Year ended March 31, 2006



Founded in April 1918 as a manufacturer of textiles, Nittobo achieved success as the first Japanese company to manufacture glass fiber and rock wool in 1938. The Company subsequently prospered with diversification into such business areas as the medical and specialty chemical fields.

Today, Nittobo is leveraging its cumulative strengths in technological development with the aim of further expanding its business domains. Simultaneously, Nittobo is promoting new business development to set the pace for future growth.

As an enterprise dedicated to building a healthier and more comfortable living environment, we continually endeavor to increase corporate value while enhancing the fabric of our business and contributing to the enrichment of society.

Note:
Apr. 22, 1918 Established Fukushima Seiren Seishi K.K.
Apr. 1, 1923 Company name changed to Nitto Boseki Co., Ltd.
July 1, 1998 Official unification of corporate name to "Nittobo"

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Forward-Looking Statements

This annual report contains forward-looking statements concerning the Company's business plans, strategies, and performance based on information available to management at the time of disclosure. Accordingly, readers are advised that actual results may differ from forward-looking statements for a variety of factors.

Consolidated Financial Highlights

Years ended March 31

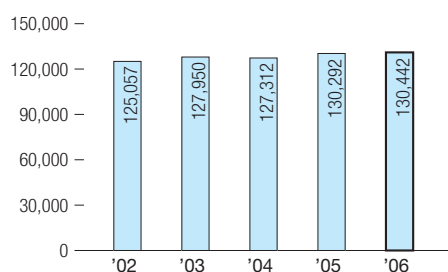
	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net sales	¥ 130,442	¥ 130,292	\$ 1,110,428
Operating income	7,484	6,908	63,708
Income before income taxes and minority interests	5,390	6,471	45,886
Net income	3,471	3,158	29,544
Total assets	159,311	162,904	1,356,183
Total shareholders' equity	67,200	62,128	572,070
Per share data:			
Net income (Yen/Dollars)	¥ 14.03	¥ 12.76	\$ 0.119
Cash dividend (Yen/Dollars)	3.00	3.00	0.026
Shareholders' equity ratio (%)	42.2	38.1	
Return on equity (%)	5.4	5.1	

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥117.47=US\$1 (March 31, 2006).

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

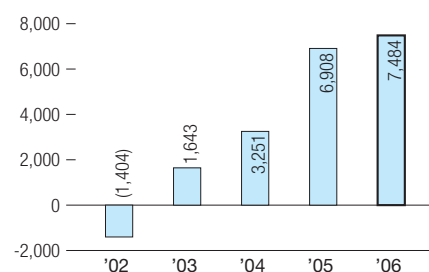
Net Sales

(Millions of yen)



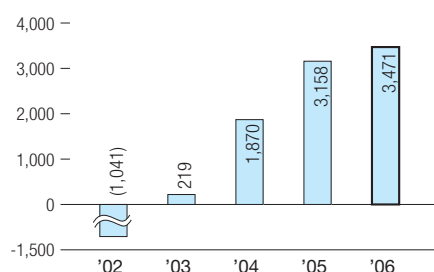
Operating Income (Loss)

(Millions of yen)



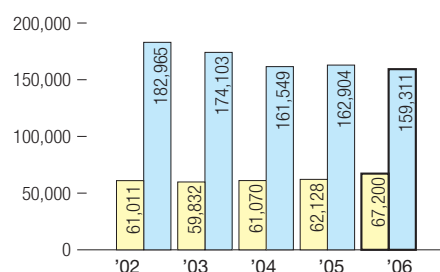
Net Income (Loss)

(Millions of yen)



Total Assets/ Total Shareholders' Equity

(Millions of yen)



To Our Shareholders

In fiscal 2006, the year ended March 31, 2006, the Japanese economy displayed signs of a gradual recovery including an increase in private sector capital expenditure, improved employment conditions and higher personal consumption, despite the impact of high crude oil prices. Amid this operating environment, favorable performance in Nitto's Glass Fiber Products Division contributed to the Company's second consecutive year of growth in sales and earnings.

Consolidated Business Results

The Glass Fiber Products Division achieved an increase in both sales and profits in fiscal 2006. This performance, particularly perceivable in the field of electronic-use glass fiber, was stimulated by a recovery in IT-related demand in the second half of the fiscal year and strong demand for glass fiber for fiber reinforced plastic (FRP) and fiber reinforced thermoplastic (FRTP) used in home appliances, automobiles and industrial materials.

Performance in the Building Materials Division was mixed with a rise in sales offset by high crude oil prices, resulting in a decrease in operating income. Other factors included a turbulent environment for the interior materials business, which faced intensified competition with overseas products and a decline in the number of office building construction starts in Japan. On a positive note, upward momentum in the nonresidential construction field, owing to a strong recovery in private sector capital investment, contributed to a favorable performance in the thermal insulation and sound absorption materials business. Sales in the environmental business for asbestos removal services also expanded.

The Textiles Division was challenged by severe business conditions in which competition with overseas imports became more intense while domestic demand for yarn and stretch fabric waned. On the other hand, sales of the interlining business expanded on account of new product development in Japan and stable growth in the Chinese market. Overall, however, sales and earnings in the Textiles Division contracted.

As a result of these and other factors, consolidated net sales edged up 0.1% compared with the previous fiscal year to



Katsumi Minamizono
President and Representative Director
June 2006

¥130,442 million. Operating income increased 8.3% year on year to ¥7,484 million. Net income rose 9.9% to ¥3,471 million.

New Medium-Term Management Plan: Relay 101

Under Nittobo's last three-year medium-term management plan, the Company pursued business structural reforms focusing on the textiles and building materials businesses, and based on business strengthening measures withdrew from certain unprofitable businesses. In 2004, the Textiles Division streamlined operations at the Itami Production Center interlining manufacturing base. Through effective production structure revisions, Itami now concentrates on finishing processes while dye processing was transferred to a subsidiary. In 2005, the Niigata Factory, which manufactures yarn, was converted to a subsidiary, and also underwent manufacturing-scale downsizing measures. Moreover, in the Building Materials Division we worked to optimize manufacturing volumes and, at the end of July 2006, fully integrated ceiling material manufacturing at the Chiba Factory. On a Group-wide scale, Nittobo implemented business activity cost reforms and earnings platform enhance-

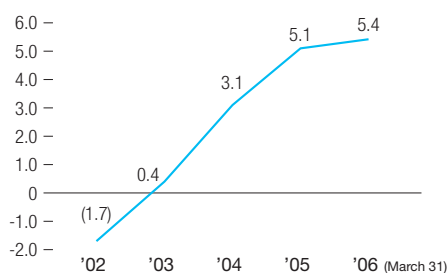
ments. We also took steps to strengthen our financial standing including measures to alleviate pressure from interest-bearing debt. Through these efforts, Nittobo achieved defined medium-term management plan targets, but recognized shortcomings related to increasing product value in its mainstay businesses and advancing into new business domains.

Under our new medium-term management plan Relay 101, which commences in fiscal 2007, we will continue with the previous plan's aims for an improved earnings structure through business structure reforms. In addition, we will achieve greater breadth and depth throughout our business domains as we work to create new value. We will tackle these challenges in two specific ways:

1. Vigorous capital investment, particularly in the Glass Fiber Products Division, for the promotion of high-value-added product development, amounting to approximately ¥20 billion over a three-year period, which is a ¥5 billion increase over our previous plan.
2. New business generation through Company-wide sharing of research and development efforts undertaken by the New Business Promotion Office, centered on the NEXT Committee in cooperation with Technical Headquarters and

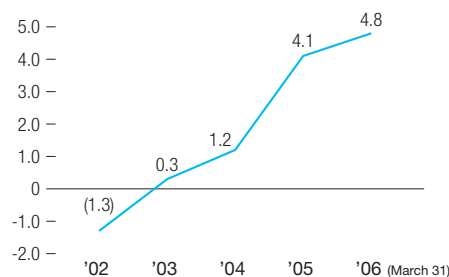
Consolidated ROE

(%)



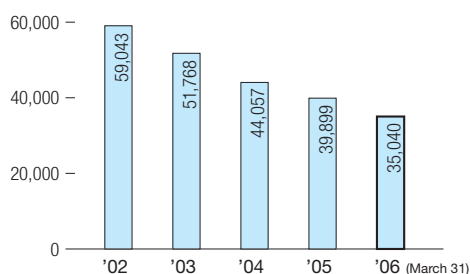
Consolidated ROA

(%)



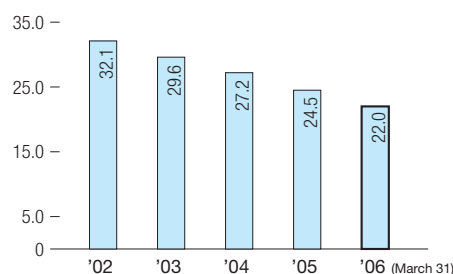
Interest-Bearing Debt

(Millions of yen)



Interest-Bearing Debt Ratio

(%)



business divisions across Nittobo. Accordingly, research and development expenditures have been increased twofold in comparison to the previous medium-term management plan, amounting to an average of ¥2 billion more per year.

While implementing the foregoing measures, Nittobo is aiming to strengthen its business capabilities as well as enhance its corporate value.

The Nittobo Declaration

In conjunction with the establishment of Relay 101 we have newly compiled the Nittobo Group's shared management philosophies and values into what we call the "Nittobo Declaration."

This set of ideals will henceforth stand as a basis for the actions and spirit of the Nittobo Group and each of the people who comprise it, as we go beyond mere fulfillment of management plan targets. Particularly in connection to societal affairs, we will put forward our Nittobo Best Partner (BP) Declaration as we aim to become a business group that shareholders, clients, employees, local communities and all stakeholders alike will consistently affirm by saying, "I'm so glad it was Nittobo."

Pursuing Relay 101 Goals

Looking ahead at the first year of Relay 101 in fiscal 2007, business environment forecasts leave little room for optimism, even with economic conditions moving basically toward recovery, spurred by steady capital investment and personal consumption. This apprehension largely stems from uncertainty about the direction of both the Chinese and U.S. economies, hovering high crude oil prices, interest rate inflation and a host of other concerns that place pressure on earnings.

Responding to this environment, Nittobo will work to accelerate a product shift to high-value-added merchandise in the Glass Fiber Products Division with the goal of creating a business structure able to withstand fluctuations in the business environment. In the Building Materials Division, we will steadily implement measures to retreat from unprofitable products and further integrate ceiling material manufacturing bases. We will also dedicate efforts to expanding the range of our environment business, and accordingly bolster our business capabilities by adding to our waste removal services, particularly focusing on asbestos, a growing cause of public concern. In the Textiles Division, we are aiming to enhance performance by rapidly realizing results from structural reforms continuing from the previous fiscal year. We are particularly optimistic about expanding

earnings through the effects of establishing Nittobo Interlinings Co., Ltd, aiming for interlining sales operation integration.

We ask for the continued support and understanding of all stakeholders as we pursue these efforts.



Katsumi Minamizono

President and Representative Director

June 2006

Our Commitment: The Nittobo Declaration

Mission Statement

As a corporate citizen contributing to healthy and comfortable lifestyles, the Nittobo Group endeavors to raise its value within society through consistent effort to realize a more affluent society for everyone.

The Nittobo Declaration

- Under the Nittobo BP Declaration, we aspire to be society's best partner.
- We take pleasure in continuously pursuing customer satisfaction, while faithfully delivering safety and trust. We also believe in the importance of creating and sharing in the delight of our shareholders, investors, local communities and all stakeholders alike through our corporate activities.
- We respect the individual potential of each of our employees. Facilitated by teamwork, we aim to become a more powerful corporate entity, based on freedom of expression and the robust exchange of ideas.
- We believe in the interdependent development of our employees and the Group, and thus offer our employees opportunities to realize their potential and grow. Nittobo employees are first and foremost good citizens, reflective, open-minded and assured. In addition, we tenaciously achieve whatever we set out to do.

We recognize the far-ranging impact of our actions as a Group, and approach each decision in a determined and enlightened manner.

New Medium-Term Management Plan: Relay 101



Fiscal 2007 marks the start of the Nittobo Group's new three-year medium-term management plan. Identified as Relay 101, this newly formulated plan commences in April 2006.

Relay 101 builds on the basic goal of the previous medium-term management plan: to establish a robust management structure able to withstand a fluctuating business environment. Extending this endeavor under the new plan, Nittobo will strive to bolster its business capabilities by steadily implementing business structure reforms and simultaneously promoting a shift to higher value-added products in mainstay businesses and increasing product value through advancement into new business domains.

Relay 101: Three Basic Policies

Achieving Greater Breadth and Depth in Our Business Domains

Aiming to build new corporate value, Nittobo will concentrate resources toward expanding into new business domains and developing new high-function, high-value-added products.

Business Structure Reforms

Nittobo endeavors to establish a business structure capable of flexible response to changing market and competitive conditions by continuing to steadily implement structural reform policies set forth during the three-year period spanning the last medium-term management plan.

Continuous Development of Corporate Governance Structure

While implementing definitive internal control system improvements, Nittobo aims to institute a highly transparent corporate climate with full consideration for its social responsibilities.

Basic Management Strategy: Build an Optimal Foundation for the Development of Highly Functional, High-Value-Added Products

Research and Development

- Promote Group-wide collaboration for the improvement of creative strengths rooted in technology (NEXT Committee, Technical Headquarters and divisional R&D).
- Double the research and development expenditure provided in the last three-year medium-term management period.

Capital Investment

- Promote a shift toward higher value-added products and invest in energy-saving measures centered on the Glass Fiber Products Division.

Business Division Strategies: Establish a Business Structure that Exhibits the Strengths of Each Business through Diversified Division Strategies

Glass Fiber Products Division

- Electronic-use glass fiber field: Promote a transition toward the creation of higher value-added products with greater functionality.
- Glass fiber for FRP, FRTP and industrial material-use fabric field: Enhance profitability through the cultivation of and expansion of only-one products.

Building Materials Division

- Boost earning power with a keen focus on business activities in the environment and thermal insulation and sound absorption material fields.

Textiles Division

- Enhance profitability through sales operation restructuring and domestic manufacturing-base downsizing measures.

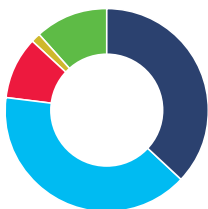
Medical Division

- Expand business domains by tapping existing market potential and establishing gene technology.

Overview by Segment

Consolidated Net Sales by Segment

Year ended March 31, 2006



● Glass Fiber Products	37.0%
● Building Materials	40.0%
● Textiles	9.9%
● Real Estate Utilization	1.5%
● Other Operations	11.6%

● Glass Fiber Products Division



- Glass fiber for FRP* and FRTP**
- Glass yarn
- Glass fabric
- High tensile strength glass fiber
- Acid-resistant glass fiber
- Glass fiber products for industrial applications

* Fiber reinforced plastic
** Fiber reinforced thermoplastic

● Building Materials Division



- Fireproof, acoustic rock wool ceiling panels
- Floor panels
- Thermal insulation, acoustic and fireproof materials
- FRP panels
- External thermal insulation systems
- Asbestos and dioxin removal work

● Textiles Division



- Yarn (C-S-Y®)
- Textiles
- Interlining and other garments accessories
- Functional Materials
- Nittobo dishcloth

● Real Estate Utilization Division

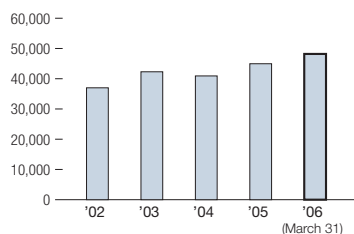


- Real estate operations
- Sports facilities business

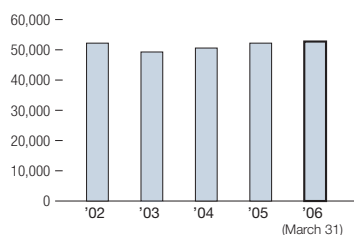
● Other Operations



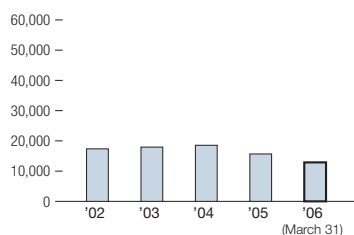
- Medical Division
Clinical diagnostic reagents in biochemistry, hematology and immunology
- Specialty Chemicals Operations
Dye fixative, papermaking additives, metal surface agents, additives for inkjet paper
- Engineering Operations
Sound and noise abatement systems
- Beverage Operations
Soft drinks and PET bottles

Net Sales (Millions of yen)

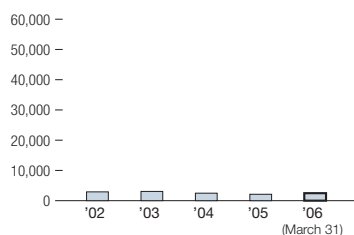
Nittobo succeeded in the commercial production of glass fiber in 1938 by drawing on its proprietary technology, which continues to play a pivotal role in the Company's diversification strategy. Possessing unrivalled expertise in the production of fine glass fiber yarn (continuous glass fiber-type yarn), our technological superiority has come to be expected in this cutting-edge technology field. From the manufacture of the yarn, through textile treatment to the development of composite materials in one cohesive organization, there are few companies in the world that match Nittobo.

Net Sales (Millions of yen)

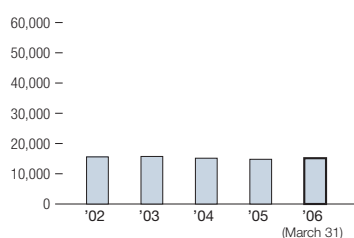
Nittobo was Japan's first industrial producer of rock wool, commencing commercial activities in 1938. Glass wool products that are manufactured and sold at Group subsidiaries are characterized by superior properties, such as thermal insulation and sound absorption, and widely used as building construction materials. Nittobo also undertakes the development of a variety of other products including fireproof acoustic ceiling panels using rock wool and non-vinyl type tile as flooring materials. Nittobo's Building Materials Division contributes to the creation of comfortable building interiors and exteriors, while also contributing to lifestyle enhancement and the environment.

Net Sales (Millions of yen)

The Textiles Division has occupied a key position in Nittobo's business activities since the Company's founding. Using its consistently high level of product development and technical expertise from spinning to sewing, the Company continues to supply quality designs and develop high-value-added, functional and innovative materials. We are committed to developing products that match the needs of the market and currently boast a core product lineup that includes stretch fabric Core Spun Yarn (C-S-Y®) and woven fusible interlinings for apparel makers.

Net Sales (Millions of yen)

The Real Estate Utilization Division strives for the efficient application of its land and property holdings by leasing office space in the Nittobo Building located in Tokyo's Yaesu business district, and managing the Atago Golf Garden driving range in Shizuoka City and Renaissance Fukushima, a comprehensive sports club in Fukushima City.

Net Sales (Millions of yen)

In the Medical Division, Nittobo develops clinical diagnostic reagents for biochemistry, hematology and immunology with the aim of contributing to modern medicine. Our Specialty Chemicals Operations have developed numerous original polymer materials using specialist expertise including the Company's dye fixative "DANFIX" that enjoys a top market share. Based on know-how accumulated over many years, Nittobo's Engineering Operations are geared to expand into new business fields. Moreover, the Company is further developing its Beverage Operations including pet bottles at the Tomari Enterprise Center.

Glass Fiber Products Division

Overview

The Glass Fiber Products Division is one of Nittobo's core business divisions, and in the fiscal year ended March 31, 2006, accounted for 37.0% of sales. Of its mainstay products, the Company boasts a leading share in Japan of glass fiber yarn and fabric for use in electronics; glass fiber for fiber reinforced plastic (FRP) and fiber reinforced thermoplastic (FRTP) used in home appliances and electronics, electronic-related components, and automobiles; and industrial-use fabric for construction and civil engineering.



Operating Results

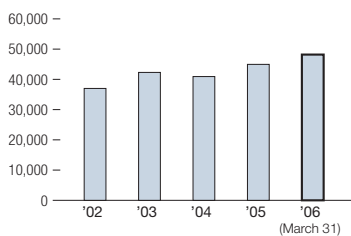
The business environment in the fiscal year ended March 31, 2006 was sluggish through the first half of the fiscal year, following on IT-related industry inventory adjustments from the latter half of 2004 that continued well into 2005. The second half of the fiscal year under review, however, witnessed a complete turnaround, with a recovery in market conditions on the back of increased demand for flat-screen TVs and mobile phones.

In the electronic-use glass fiber field, consisting of mainstay products such as glass fiber yarn and fabric for printed circuit board substrates, effects of worsening worldwide market conditions in the first half of the fiscal year were minor on account of the steady flow of high-value-added fine yarn, ultrathin fabric and smart surface cloth (SS) products. In the second half of the fiscal year, sales of general-use products recovered, resulting in steady sales overall.

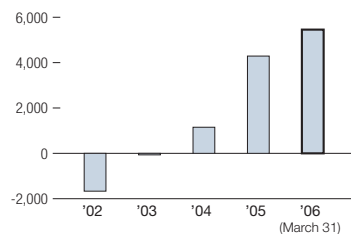
Glass fiber for FRP and FRTP targeting core home appliance application performed well, stimulated by the number of housing starts in Japan that exceeded 1.20 million. Results, therefore, improved dramatically compared to the previous fiscal year, owing also to the steady movement of automobile- and home electronic-use glass fiber products.

Performance of industrial-use fabrics, particularly those targeting core construction and civil engineering application was slowed in the wake of restrained public sector investment, continuing from the previous fiscal year. Significant growth was recorded, however, owing to a favorable performance from fabrics for building interiors and automobiles, along with the acquisition of Kanebo, Ltd.'s Textoglass business in March 2005.

Net Sales (Millions of yen)



Operating Income (Loss) (Millions of yen)



As a result of the foregoing, sales of the Glass Fiber Products Division increased 7.2% year on year to ¥48,194 million. Despite the effects of high crude oil prices and increased raw materials costs, earnings improved with the switch to high-value-added products in the electronic-use glass fiber field. As a result, operating income swelled 27.2 % to ¥5,455 million.

Business Strategy

Under the new medium-term management plan, Relay 101, Nittobo is aiming to expand its profits in the Glass Fiber Products Division by strengthening its responsiveness to market fluctuations and establishing a secure earnings foundation.

With growth stagnation in the domestic market and increased product imports into Japan, the severity of the business environment is growing. In the field of electronic-use glass fiber, low price imports account for 40–50% of domestic demand, with the proportion of imported glass fiber for FRP and FRTP growing annually. Major challenges are likewise presented by the increasing range of fluctuation in business conditions along with worldwide appreciation in raw material and fuel costs due to high crude oil prices. Against these conditions, Nittobo is implementing the promotion of sophisticated, high-value-added products in the electronic-use glass fiber field and measures in the field of FRP, FRTP and industrial-use glass fiber to develop and increase its range of unique products. By undertaking these initiatives, the Company is looking to improve its responsiveness to market fluctuations and increase earnings.

With advancing trends for smaller and thinner flat-screen TVs, mobile phones and other IT equipment, demand for increasingly thinner printed circuit board substrates is expected to grow. Accordingly, Nittobo is working to further boost sales of SS cloth with added fabric processing in addition to ultrafine yarn for electronic materials with a fabric diameter of five or less microns and ultrathin fabric with thickness of 50 microns or less.

In the field of industrial-use fabric and glass fiber for FRP and FRTP, the Company is accelerating enhancements to Nittobo's unique "only one" products by, for example, marketing differenti-

ated roving in the FRP field for its excellent productivity and liquidity. In the FRTP field, the Company is endeavoring to expand sales of cocoon- and flat-shaped cross-sectional glass fiber.

In the field of industrial-use glass fiber, the Company is promoting new market and product development.

Fully leveraging these measures, Nittobo is looking to raise the sales ratio of high-value-added and only-one products from 15% in fiscal 2006 to 30% in fiscal 2009. Furthermore, we will work to establish business operations capable of responding to volatility in the market for general-use electronic glass fiber products. At the same time, Nittobo will strive to fortify its earnings foundation through additional measures such as, promoting rationalization measures for the integration of the Textoglass business manufacturing bases, as well as by curbing raw material and fuel costs through the shift to liquefied natural gas.



Tadanori Kitamura
Head of Glass Fiber Products Division
Managing Executive Officer

Building Materials Division

Overview

Nittobo's Building Materials Division is composed of thermal insulation and sound absorption materials, interior and exterior materials, and the environmental business. Mainstay thermal insulation and sound absorption products include rock wool, glass wool and exterior thermal insulation systems. The interior materials business offers fireproof acoustic ceiling panels made of rock wool and various types of flooring, while exterior materials includes flat and corrugated FRP panels. Nittobo's environmental business is primarily engaged in the removal of asbestos and dioxins.

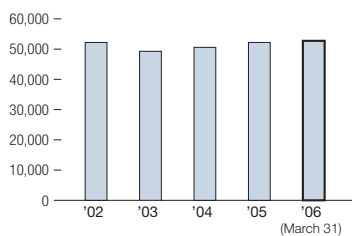


Operating Results

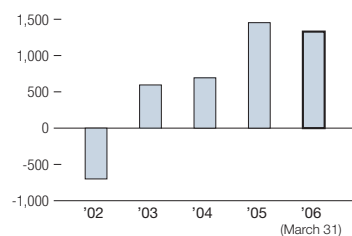
In the fiscal year ended March 31, 2006, total construction starts measured by floor area rose 1.6% compared to the previous fiscal year to 185,623,000 square meters while nonresidential construction starts rose 2.2% to 72,237,000 square meters, realizing the third consecutive year of increases in both areas. In contrast, the total floor area of office building construction starts, the principal market for interior materials, fell 4.0% to 7,755,000 square meters. Although an increase in private capital investment supported by a recovery in economic conditions temporarily stalled the decline in demand for building materials, construction starts are again expected to taper off over the medium to long term, as public works projects and the population decline.

In the thermal insulation and sound absorption materials business, growth in sales quantities of rock wool and glass wool in the nonresidential construction field on the back of a recovery in private capital investment brought about an increase in revenues. In interior materials, exports of mainstay fireproof acoustic ceiling panels to other parts of Asia increased. Yet, sales of major application products for domestic office buildings decreased with a decline in the number of construction starts, intensified price competition with lower-priced foreign products, and a decline in demand due to a shift to other products. Although demand for general-purpose tile declined, overall sales of flooring materials stayed on par with those in the previous fiscal year owing to sales expansion efforts for non-vinyl type tile and other flooring materials. In the environmental business, increasing awareness of the dangers of asbestos and

Net Sales (Millions of yen)



Operating Income (Loss) (Millions of yen)



growing concern for asbestos removal contributed to an increase in sales.

Within this environment, sales in the Building Materials Business edged up 0.3% compared to the previous fiscal year to ¥52,198 million. Earnings, however, were impacted by high raw material costs, and operating income dropped 7.0% to ¥1,352 million.

Business Strategy

Against the backdrop of expected demand decreases in the domestic market, Nittobo is aiming to enhance profitability under its medium-term management plan Relay 101 by focusing management resources on thermal insulation and sound absorption materials and environmental business operations.

This emphasis is due to the natural ascendancy of the thermal insulation and sound absorption materials business, given growing concerns about reducing the volume of harmful greenhouse gases, as well as the great potential this field holds for the Company. By developing unique products with materials such as rock wool and glass wool, Nittobo is taking aim to create other business areas to supplement building materials.

As the only domestic maker and sole holder of proprietary technology in rock and glass wool thermal insulation materials, Nittobo has begun development of export channels for its technology throughout the Asian region, including China. In addition, using its core technologies in thermal insulation, fireproofing, sound suppression and sound absorption, Nittobo is positioning itself as Japan's top maker of thermal insulation and sound absorption materials, ranging from manufacturing to sales.

In interior materials, Nittobo aimed to boost its competitive strength in the market for ceiling materials by ceasing production at its Wakayama Factory in July 2006 and integrating manufacturing at its Chiba Factory. Also, while promoting the development of new product uses, we are also working to increase sales of our "Commercetron" ceiling panels for large-

scale retail complexes. In the business of flooring materials, Nittobo is upgrading its marketing structure to include sales as well as the provision of construction method consulting and aftercare solutions. Nittobo has also undertaken business reorganization measures by reexamining the functions of its marketing development department and sales subsidiary Nittobo Materials Co., Ltd., in order to fortify its marketing, product planning, product development and sales capabilities, with the aim of thereby creating a framework that better responds to market needs.

In the environmental business, Nittobo anticipates a growth in demand for asbestos removal services. Since 1988, the year Nittobo began its operations, the Group has maintained a consistent management system based on strict safety standards for the elimination and disposal of hazardous waste. Using its accumulated know-how in this field, the Nittobo Group is endeavoring to position itself within Japan as a top class enterprise in disposal management. Accordingly, we are striving for business expansion by fortifying our sales and construction management structure to respond to this rise in demand.



Toshiaki Ohuchi
Head of Building Materials Division
Managing Executive Officer

Textiles Division

Overview

Nittobo's Textiles Division comprises the businesses of yarn and stretch fabric Core Spun Yarn (C·S·Y®) and garment interlinings. Developed over many years and based on Nittobo's spinning technology, C·S·Y® is a product with broad applications, often used in stretch fabric garments. Nittobo's woven fusible interlining products developed through original textile finishing technologies are offered worldwide, and meet the varying and rapidly changing needs of the women's garment industry for application in every possible type of garment fabric.



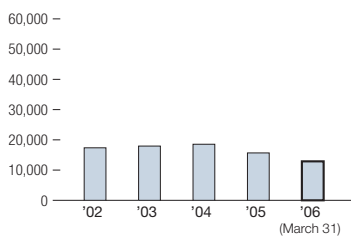
Operating Results

In the fiscal year ended March 31, 2006, conditions in the apparel industry thrived owing to the “cool biz” boom and favorable demand for winter apparel due to a particularly severe winter that began at the end of 2005. Despite these conditions however, the overall environment continues to be unsparing with intensified international price competition among raw material manufacturers. Furthermore, conditions in the textile industry still show no sign of recovery. As part of our export promotion effort, we are working to revitalize the industry by participating in a variety of events including Japan Fashion Week in Tokyo and in the Japan Pavilion at the Inter Textile Shanghai exhibition in China, where expectations for new market growth are centered.

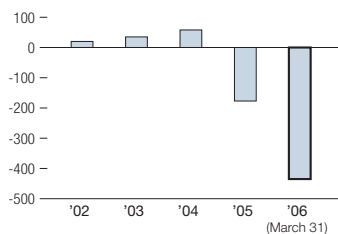
Against this backdrop, Nittobo's success with boosting profitability through ongoing structural sales and manufacturing reforms in the interlining business was hampered by severe business conditions that continue to challenge the Textiles Division. Yarn and stretch fabric C·S·Y® were particularly affected by this environment. Sales quantities have fallen off and earnings have weakened on account of the increasing drift of fashion trends toward non-stretch materials and international price competition.

Furthermore, in regard to the yarn and stretch fabric business, the degree of deficit and the decline in domestic demand for C·S·Y® has significantly grown as competitors have assumed full-scale manufacturing in China. In the garment interlining business, sales to existing wholesale agents were strong,

Net Sales (Millions of yen)



Operating Income (Loss) (Millions of yen)



and contributed to a slight year-on-year increase in sales. Production line rationalization measures conducted at our manufacturing base, the Itami Production Center, allowed us to reduce costs in the second half of fiscal 2006 and enhance profitability. On another positive note, Nittobo (China) Co., Ltd.'s sales within China in the second half of the fiscal year under review increased.

As a result of the foregoing factors, sales in the Textiles Division fell 19.5% year on year, to ¥12,887 million. In earnings, the operating loss expanded by ¥258 million from the previous fiscal year, to ¥435 million. In this setting, while working to improve the maneuverability and efficiency of our yarn and stretch fabric production, Nittobo converted the Niigata Factory to a subsidiary in October 2005.

Business Strategy

Against the increasing influx of overseas products into the Japanese market, Nittobo has identified maintaining sales levels at current levels and restructuring the earnings foundation as primary objectives for a return to profitability. In the yarn and stretch fabric business, we are working to expand sales of mixed yarn, a blend of animal hair and other threads following C·S·Y® for knit materials. In woven materials, through the development of mixed filament and spun fabrics using Perfect C·S·Y®, Nittobo is aiming for new application development. In terms of regional operations, the Company is aiming to increase exports of high-value-added textiles to Europe and regain commercial rights through its sales base in Hong Kong. In Japan, we are targeting an increase in product orders by leveraging the appeal of our differentiated materials. Furthermore, we are promoting the development of material marketing channels outside of the apparel industry in, for example, sports medicine products such as bandages made of stretch yarn. Nittobo also restructured its production operations with the spin off of its Niigata Factory in October 2005, and this contributed to a

reduction in staff and production volume adjustments. Owing to these measures, cost reductions, productivity improvements and other steadying effects have begun to emerge. Nittobo will advance toward further efficiency aimed at a return to profitability.

In the garment interlining business, Nittobo integrated Nippon Haskell and the Textiles Division's marketing departments in April 2006 to establish the interlinings sales subsidiary Nittobo Interlinings Co., Ltd. Furthermore, by continuing with structural enhancement measures at the production base established last year, as well as by continuing to streamline and bolster sales service to customers, Nittobo aims to expand its profitability in the gradually shrinking Japanese market. In addition, Nittobo plans to increase the production capacity of Nittobo (China) to 2,500,000 meters per month in fiscal 2008. Accordingly, through cooperation between Nittobo Interlinings and the Textiles Division, Nittobo (China) is aiming to raise its composition of sales, targeting China-based Japanese apparel companies and European and U.S. garment makers with sewing factories based in China, while simultaneously reducing costs and securing earnings.



Hideo Ishimoto

Senior General Manager of Textiles Division
Executive Officer

Real Estate Utilization Division

Overview

In the Real Estate Utilization Division, Nittobo strives for the efficient application of its land and property holdings. The Division engages in the leasing of office buildings and management of sports facilities. In sports facilities, Nittobo manages the Atago Golf Garden, a driving range located on the former Shizuoka Plant site, and the Renaissance Fukushima comprehensive sports club on the site of our Fukushima Plant. In building leasing operations, we mainly lease space in the Nittobo Building, an “intelligent” office building located in Yaesu, Tokyo.



Operating Results

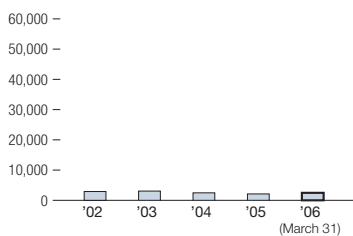
Results in the sports facilities business were strong on account of various customer strategies that increased the number of visitors to facilities. In office building leasing, despite maintaining full tenancy of our office buildings, revenues declined due to the sale of our commercial leasing facility (Koriyama, Fukushima) in December 2005.

As a result of these factors, sales in the Real Estate Utilization Division decreased 5.1% to ¥2,011 million. However, supported by contributions from full office building tenancy, operating income rose 11.4% year on year to ¥665 million.

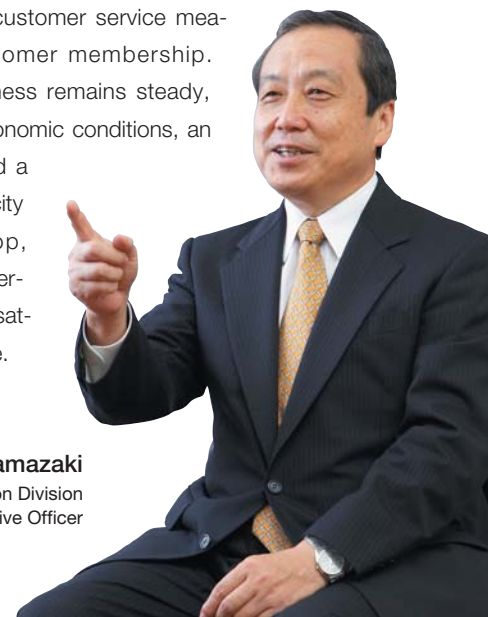
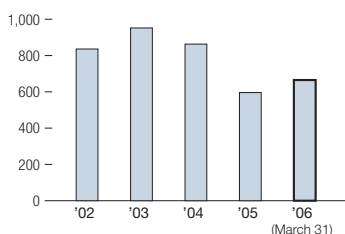
Business Strategy

Nittobo secures a sound revenue base through the stable performance of its Real Estate Utilization Division. In its sports facility business, the Company is working to strengthen performance through ongoing customer service measures that aim to boost customer membership. Nittobo’s building leasing business remains steady, benefiting from a recovery in economic conditions, an upward trend in rental rates and a decline in vacancy rates in the city center. Against this backdrop, Nittobo is working to upgrade service quality, enhance customer satisfaction and bolster performance.

Net Sales (Millions of yen)



Operating Income (Millions of yen)



Sakae Yamazaki

Head of New Business Operation & Promotion Division
Managing Executive Officer

Other Operations

Overview

In the Medical Division, Nittobo develops clinical diagnostic reagents in the fields of biochemistry, hematology, and immunology products that contribute to modern medicine. In Specialty Chemicals Operations, the Company is expanding its top share with the dye fixative "DANFIX," by focusing on the development of applications for new polymer materials through specialist technologies. In Engineering Operations, the Company maximizes proprietary know-how in the development of its plant engineering and acoustic engineering businesses. This segment also includes Beverage Operations.



Operating Results

In the Medical Division, Nittobo faced increased downward pressure on unit prices and intensified competition amongst makers caused by the promotion of hospital and hospital administration efficiency measures. Furthermore, against the backdrop of sluggish growth in consumption reagents due to increasingly sensitive automated analyzers that require only minute amounts of reagents for analysis, Nittobo worked to expand domestic sales of products related to nutrition assessment protein and its mainstay Latex Series products, while striving to increase exports. As a result of these efforts, revenues in the Medical Division grew.

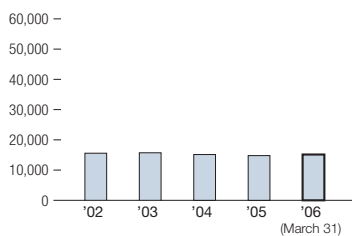
In Specialty Chemicals Operations, although sales of dye fixatives in Japan decreased due to an increasing shift overseas by domestic manufacturers, exports to Asia, particularly to China, increased. In addition, owing to the steady sales of raw materials for household products, revenues increased.

In Engineering Operations, the plant and acoustic related businesses experienced increased orders despite the privatization of highway construction businesses and the contraction of public works projects that caused a decrease in results related to highway sound barriers. This was brought about by a recovery in corporate capital investment and resulted in overall revenue growth for engineering operations.

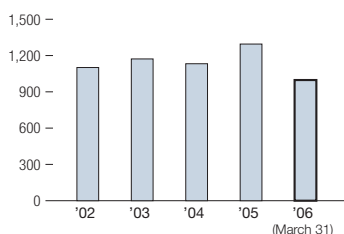
Revenues in Beverage Operations increased owing to sales activity efforts to offer products better suited to meet customer needs as well as to product lineup enhancements made possible by the expansion of Nittobo's No. 2 production line.

As a result of the above factors together with the completion of liquidation of Nittobo's food subsidiary in June 2005, sales in the Other Operations segment slipped 0.2% to ¥15,152 million. Operating income dropped 20.3% year on year to ¥1,032 million, reflecting the added burden of capital investment in Beverage Operations.

Net Sales (Millions of yen)



Operating Income (Millions of yen)



Business Strategy

Nittobo integrated the Real Estate Utilization Division and the Other Operations segment, through the establishment of the New Business Operation & Promotion Division, aiming to position these businesses together as an additional earnings pillar. Also, with a focus on new business generation, the Company simultaneously established the New Business Promotion Office, which will take charge of new business development outside of our existing business divisions, as we aim for the creation of new businesses based on the Company's core technologies.

In addition, making the most of Nittobo's unique technologies, we are progressing with expansion in each of these business domains.

Medical Division

In the Medical Division, Nittobo is promoting intensified exploration of existing businesses while cultivating and fortifying related businesses. In diagnostic products, the Company developed a new product that realizes improved analytical precision in the Latex and EIA (enzyme immunoassay) Series that are used to detect tumor markers. Furthermore, we are aiming to commercialize diagnostically efficient bone markers for osteoporosis during fiscal 2007. In surrounding business fields, Nittobo plans to introduce clinical laboratory test related products such as Tube21[®] for blood testing, and Veintector[®], an instrument that determines the position of veins, within the current fiscal period. Moreover, on April 1, 2006, Nittobo established a proteomics analysis center through an academic-business alliance with Chiba University. Made possible by this collaborative effort, the Company is pursuing the development of new diagnostic products and drug discoveries through the detection of disease-specific proteins. With our success in securing the development of an antibody formation technology through genetically modified silkworms, we envisage significant decline in manufacturing costs. Looking ahead, we are endeavoring to fulfill the prospect of human antibody formation over the next three years.

Specialty Chemicals Operations

In this business, although the Company has until now offered a range of water-soluble polymer products, with polyallylamine (PAA) and polyarylsulfone (PAS) as its business pillars, we are now working to branch out into other product areas as part of Relay 101, while aiming to expand business in the field. On account of healthy exports, sales of mainstay dye fixatives in this business grew. Meanwhile the Company is working to strengthen application development and proposal-based marketing for high-value-added products in fields such as detergents and electronic material additives. Also, with capital

investment into experimental equipment for new synthesis and high-purity PPA manufacturing, Nittobo will diversify its business with new materials. We are also promoting product development through cooperation with the New Business Promotion Office and other inter-division collaborative efforts.

Engineering Operations

In regard to acoustic related businesses, the Company is positioning Nittobo Acoustic Engineering Co., Ltd. as a comprehensive acoustics solutions company, while looking to grow in this business field.

Nittobo Acoustic Engineering Co., Ltd.

Founded 31 years ago, Nittobo Acoustic Engineering has continuously engaged in activities related to architecture, acoustic design and construction. Leveraging its accumulated technologies, Nittobo Acoustic Engineering is expanding its consulting operations in acoustic measurement and simulation, as well as providing a variety of acoustic solutions that range from acoustic design for music halls and studios to noise reduction for apartment-type complex housing.



TV Asahi Corporation studio

Beverage Operations

In Beverage Operations, Nittobo expanded its No. 2 production line, adding 280ml- and 350ml-size pet bottle beverages to its production of 500ml sizes. Moving forward, we are looking to broaden our new product range with the addition of 100% fruit juice beverages to our lineup, thereby expanding earnings in this business.

Corporate Governance and Compliance

Corporate Governance

Basic Policy

Nittobo strives to build an open and transparent management structure with the aim of securing the trust of its stakeholders, including shareholders and investors.

Corporate Governance Structure

Nittobo has established an Audit Office as an independent internal audit structure comprising a total of seven personnel: three full-time employees and four concurrently employed personnel. The mandate of the internal audit structure is to audit and monitor the execution of Company-wide business operations. Nittobo has also adopted a Board of Auditors comprising four corporate auditors, of whom two are external appointments.

The Board of Directors is composed of six members, including three executive officers, whose primary functions include management decision-making and business execution supervision. Together with the audit function of corporate auditors, they work to enhance and reinforce the corporate governance structure. Nittobo also maintains an executive officer system that was introduced in June 2003.

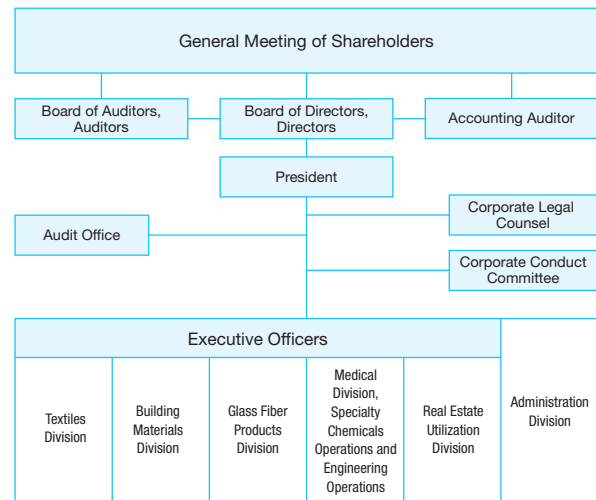
Compliance

As part of the Group's efforts to ensure strict internal management, Nittobo formulated its "Mission Statement," "Code of Behavior" and "Rules for Crisis Management." In efforts to expand our follow up structure, a Corporate Conduct Committee was established to strengthen implementation of measures and promote increased compliance awareness.

In addition, we also receive guidance from our corporate legal counsel regarding compliance related matters.



Helping to build a healthier and more comfortable living environment



Supervision of the executive function and internal control systems

Directors, Corporate Auditors and Executive Officers



Katsumi Minamizono
President

Yoshitada Shiratori
Vice President

Directors	<i>President</i> <i>Vice President</i> <i>Managing Director</i> <i>Directors</i>	Katsumi Minamizono* Yoshitada Shiratori* Sakae Yamazaki** Manabu Kitahara Seikou Kotani Koji Otsuka
<hr/>		
Corporate Auditors	<i>Full-Time Auditors</i> <i>Auditors</i>	Hideo Kanatani Takahisa Morita Hiroshi Nakamura*** Keisuke Sasahara***
<hr/>		
Executive Officers	<i>Managing Executive Officers</i> <i>Executive Officers</i>	Toshiaki Ohuchi Tadanori Kitamura Masanori Koyama Fumio Nagamine Hideo Ishimoto Tsutomu Mitsufuji Hiroaki Wada

* Representative Director also holding post of Executive Officer

** Managing Executive Officer

*** External Corporate Auditor

Consolidated Six-Year Summary

Nitto Boseki Co., Ltd. and Consolidated Subsidiaries

	Millions of yen						Thousands of U.S. dollars
	2006	2005	2004	2003	2002	2001	2006
Years ended March 31							
Net sales	¥130,442	¥130,292	¥127,312	¥127,950	¥125,057	¥142,624	\$1,110,428
Cost of sales	98,552	99,528	99,923	101,805	100,967	110,828	838,952
Selling, general and administrative expenses	24,406	23,856	24,138	24,502	25,494	26,259	207,768
Operating income (loss)	7,484	6,908	3,251	1,643	(1,404)	5,537	63,708
Income (loss) before income taxes and minority interests	5,390	6,471	3,165	2,316	(1,180)	3,439	45,886
Income taxes	1,747	3,187	1,177	2,003	440	1,846	14,877
Net income (loss)	3,471	3,158	1,870	219	(1,041)	2,259	29,544
Total assets	159,311	162,904	161,549	174,103	182,965	187,675	1,356,183
Total shareholders' equity	67,200	62,128	61,070	59,832	61,011	60,951	572,070
Capital expenditures	7,629	9,994	3,289	2,773	7,473	14,861	64,948
Depreciation expenses	5,359	5,457	6,225	7,496	7,864	7,061	45,616
Per share data:							
Net income (loss) (Yen/Dollars)	¥ 14.03	¥ 12.76	¥ 7.56	¥ 0.88	¥ (4.20)	¥ 9.12	\$ 0.119
Cash dividend (Yen/Dollars)	3.00	3.00	3.00	3.00	3.00	3.00	0.026
Shareholders' equity ratio (%)	42.2	38.1	37.8	34.4	33.3	32.5	
Return on equity (%)	5.4	5.1	3.1	0.4	(1.7)	3.7	

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥117.47=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 27 consolidated subsidiaries, and two affiliates accounted for by the equity method.

NET SALES

Consolidated net sales for fiscal 2006, the fiscal year from April 1, 2005 through March 31, 2006, amounted to ¥130,442 million, an increase of ¥150 million compared with the previous fiscal year. Factors contributing to this increase included rising sales in the nonresidential construction field of the Building Materials Division, partially offset by a drop in revenues of the Textiles Division. Also, although inventory adjustments in the glass fiber industry slowed first-half performance, in the second half of the fiscal year, sales of high-value-added products grew in addition to sales of IT-related products boosted by sudden recovery in domestic and overseas conditions.

SEGMENT INFORMATION

Glass Fiber Products Division

Sales of glass fiber yarn and fabric for printed circuit board substrates were weak in the first half of fiscal 2006 due to adjustments in IT-related demand. Conditions improved in the second half, however, on account of a sudden economic recovery that raised sales of high-value-added products both in Japan and overseas.

Performance of glass fiber for fiber reinforced plastics used in home appliances, automobiles and home electronics was strong.

Steady performance from industrial-use fabrics for building interiors and automobiles was bolstered with the acquisition from Kanebo, Ltd. of the Textoglass business in March 2005, which contributed to business expansion and significant growth in earnings.

As a result, sales in this business division increased 7.2% to ¥48,194 million, despite the effects of high raw material and fuel costs.

Building Materials Division

Spurred by revived private sector investment activity, performance in the thermal insulation and sound absorption materials business was healthy, while sales quantities of rock wool and glass wool in the nonresidential construction field increased.

In interior materials, exports of mainstay fireproof acoustic ceiling panels to other parts of Asia increased, while sales of major application products for domestic office buildings decreased. This was linked to a decline in construction starts and intensified price competition with lower-priced foreign products, and resulted in a drop in earnings. Overall sales of flooring materials stayed on par, year on year, owing to sales expansion efforts for non-vinyl type tile and other flooring materials, and despite a decline in demand for general-purpose tile.

In the environmental business, increasing awareness of the dangers of asbestos and growing concern for asbestos removal contributed to a significant increase in sales.

As a result of the abovementioned, sales in the Building Materials Division edged up 0.3% to ¥52,198 million, despite significant impact from increased raw material and fuel costs.

In anticipation of a decrease in demand for ceiling materials, Nittobo ceased production in July 2006 at its Wakayama Factory in order to enhance efficiency and integrate manufacturing at its Chiba Factory.

Textiles Division

Domestic demand for core yarn and stretch fabric C-S-Y® was weakened by the increasing drift of fashion trends toward non-stretch materials. Meanwhile, sales decreased with the increasing commoditization of stretch fabric overseas and growing domestic price competition spurred by an increase in imports.

In contrast, the garment interlining sales remained on par with the previous year due to product development efforts to expand sales. This effort offset a drop in demand for fusible interlining caused by an overseas shift in sewing operations. In addition, sales within China for Nittobo (China) remained strong and resulted in increased earnings.

Sales in the Textiles Division were negatively affected by these factors, especially the significant decrease in earnings for yarn and stretch fabric, with sales declining 19.5% year on year to ¥12,887 million.

Under these circumstances, Nittobo spun off of its Niigata Factory to establish Nittobo Niigata Co., Ltd. in October 2005, with the aim of enhancing the flexibility and efficiency of its yarn and stretch fabric manufacturing and business activities.

Real Estate Utilization Division

In the lease business, office building leases were stable, maintaining full occupancy throughout the fiscal year. Yet, earnings decreased due to the December 2005 sale of a commercial lease facility in Koriyama City, Fukushima Prefecture.

The sports facility business performed well on account of various customer strategies that increased the number of visitors to facilities.

Accordingly, sales of the Real Estate Utilization Division fell 5.2% to ¥2,011 million. In spite of this, operating income improved on account of effective office building tenancy.

Other Operations

In the Medical Division earnings for clinical diagnostic agents significantly increased, stimulated by domestic sales expansion efforts and an increase in exports. This increase came amidst an environment characterized by decreasing portions of reagents for analysis, promotion of hospital efficiency measures and intensified competition amongst makers.

In functional-polymer products of our Specialty Chemicals Operations, although sales of dye fixatives in Japan decreased, exports to Asia increased. In addition, owing to the steady sales of raw materials for household products, revenues increased.

Increased orders in the plant and acoustic related businesses resulted in overall growth, offsetting a decline in revenues for engineering operations that was caused by the contraction of public works projects.

Production line enhancements made in the previous fiscal year contributed to increased production capacity and an increase in revenues related to Beverage Operations.

However, due to the liquidation of Nittobo's food subsidiary in June 2005, sales in the Other Operations segment edged down 0.2% to ¥15,152 million. Furthermore, increased burden on account of capital investment in Beverage Operations caused operating income to slip.

OPERATING EXPENSES, OPERATING INCOME

Gross profit for the fiscal year under review increased 3.7% year on year to ¥31,890 million. The cost of sales totaled ¥98,552 million, a ¥976 million improvement over the previous fiscal year.

In addition, selling, general and administrative expenses were ¥24,406 million, a 2.3% increase year on year. As a result, operating income grew 8.3% compared to the previous fiscal year and amounted to ¥7,484 million.

OTHER INCOME (EXPENSES), INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS

Principal items in other income and expenses included interest and dividend income, interest expenses, and nonrecurring other income and expenses (extraordinary income and loss) such as equity in earnings of affiliates. In specific terms, a ¥1,962 million gain on sale of property, plant and equipment and ¥963 million gain on sale of investments in securities contributed to ¥3,139 million in extraordinary income. Extraordinary loss totaled ¥5,480 million, and included extraordinary loss of ¥2,247 million for restructuring cost and ¥1,376 million for loss on impairment of long-lived assets.

As a result of the foregoing, income before income taxes and minority interests, fell 16.7% year on year to ¥5,390 million.

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 ¥1,747 million, a ¥1,440 million decrease compared to the previous fiscal year. This represented a ratio of taxes to income before income taxes and minority interests of 32.4% down from 49.2% in fiscal 2005. As a result, net income for the period increased ¥313 million to ¥3,471 million.

FINANCIAL POSITION

As of March 31, 2006, total assets stood at ¥159,311 million, a decline of ¥3,593 million compared with the end of the previous fiscal year. In current assets, notes and accounts receivable from trade rose ¥3,006 million, while the year-end balance of cash on hands and in banks fell ¥7,188 million. The result was a ¥2,683 million decline in current assets to ¥88,052 million as of the fiscal year-end. Net property, plant and equipment and total investments and other assets as of the fiscal year-end amounted to ¥71,259 million, down ¥910 million year-on-year, due mainly to a ¥2,964 million increase in investment securities and a ¥4,250 million decrease in buildings and structures.

Current liabilities stood at ¥48,515 million, a ¥6,855 million decline compared to the previous fiscal year-end, and included a ¥7,446 million drop in short-term bank loans. Long-term liabilities declined ¥1,960 million year on year to ¥41,854 million owing to an increase in long-term debt of ¥4,002 million.

Shareholders' equity as of March 31, 2006 stood at ¥67,200 million, a ¥5,072 million increase from the previous fiscal year-end, due to an increase in retained earnings of ¥2,663 million. As a result of these factors, the shareholders' equity ratio was 42.2%, up 4.1 percentage points from the end of the previous fiscal year.

CASH FLOWS

Net cash used in operating activities during the fiscal year under review totaled ¥1,596 million, a decrease of ¥12,688 million compared with fiscal 2005. The major components were income before income taxes and minority interests of ¥5,390 million, which decreased ¥1,081 million year on year, a loss of ¥1,556 million on sale and disposal of tangible and intangible assets, a decrease in capital due to an increase in trade receivables of ¥2,749 million, and ¥1,080 million in payments for restructuring.

Net cash provided by investing activities amounted to ¥444 million, a ¥4,931 million increase over the previous fiscal year. This was the result of a ¥729 million decrease in capital due to purchases of investment securities, as well as proceeds from sale of property, plant and equipment of ¥6,728 million, a ¥6,322 million increase year on year.

Net cash used in financing activities totaled ¥6,149 million, an increase of ¥1,789 million year on year. The primary components of this were increased proceeds from long-term debt of ¥10,060 million, a ¥7,684 million decrease in short-term bank loans, and a ¥7,741 million decrease in capital due to repayments of long-term debt.

These factors accounted for a net decrease of ¥7,213 million in cash and cash equivalents, which amounted to ¥16,399 million at the end of the fiscal year.

Consolidated Financial Data

Consolidated Balance Sheets

Nitto Boseki Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
ASSETS			
Current assets:			
Cash on hands and in banks	¥ 16,552	¥ 23,740	\$ 140,906
Receivables:			
Notes and accounts—trade	42,180	39,174	359,073
Non-consolidated subsidiaries and affiliates	1,001	963	8,522
Other	598	1,094	5,086
Less: Allowance for doubtful accounts	(156)	(186)	(1,335)
Inventories (Note 3)	24,975	24,128	212,609
Deferred tax assets (Note 11)	1,821	1,437	15,500
Prepaid expenses and other current assets	1,081	385	9,206
Total current assets	88,052	90,735	749,567
Property, plant and equipment (Notes 4 and 6):			
Land	17,570	17,567	149,573
Buildings and structures	48,988	53,238	417,025
Machinery and equipment	110,182	111,534	937,961
Construction in progress	1,215	989	10,342
Less: Accumulated depreciation	(127,275)	(128,603)	(1,083,472)
Net property, plant and equipment	50,680	54,725	431,429
Investments and other assets:			
Investment securities (Note 7)	11,031	8,067	93,905
Investments in and advances to unconsolidated subsidiaries and affiliates	3,595	3,384	30,605
Deferred tax assets (Note 11)	1,612	1,786	13,722
Consolidation goodwill	17	77	146
Other assets	4,324	4,130	36,809
Total investments and other assets	20,579	17,444	175,187
Total	¥ 159,311	¥ 162,904	\$ 1,356,183

The accompanying notes are an integral part of these consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 6,515	¥ 13,961	\$ 55,464
Current portion of long-term debt (Note 6)	6,009	7,425	51,154
Payables:	870	463	7,407
Notes and accounts—trade	23,486	24,869	199,929
Unconsolidated subsidiaries and affiliates	380	436	3,228
Other			
Income taxes payable (Note 11)	2,340	2,418	19,918
Deferred tax liabilities (Note 11)	30	27	256
Accrued expenses and other current liabilities	8,885	5,771	75,640
Total current liabilities	48,515	55,370	412,996
Long-term liabilities:			
Long-term debt (Note 6)	22,516	18,514	191,677
Liability for retirement benefits (Note 8)	12,494	12,733	106,358
Retirement allowances for directors and corporate auditors	297	438	2,530
Deferred tax liabilities (Note 11)	80	886	679
Other long-term liabilities	6,467	11,243	55,047
Total long-term liabilities	41,854	43,814	356,291
Minority interests	1,742	1,592	14,826
Commitments and contingent liabilities (Notes 9, 14 and 15)			
Shareholders' equity (Notes 10 and 16):			
Common stock,			
authorized, 400,000,000 shares; issued,			
247,677,560 shares in 2006 and 2005	19,699	19,699	167,696
Capital surplus	23,062	23,062	196,328
Retained earnings	20,455	17,792	174,132
Unrealized gain on available-for-sale securities	4,181	2,695	35,591
Foreign currency translation adjustments	(133)	(1,075)	(1,132)
Treasury stock, at cost			
383,455 shares in 2006 and 314,362 shares in 2005	(64)	(45)	(545)
Total shareholders' equity	67,200	62,128	572,070
Total	¥159,311	¥162,904	\$1,356,183

Consolidated Statements of Shareholders' Equity

Nitto Boseki Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen						
	Outstanding Number of Shares of Common Stock (thousands)	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance as of April 1, 2004	247,678	¥19,699	¥23,058	¥15,377	¥ 3,956	¥ (996)	¥(24)
Net income				3,158			
Cash dividends, ¥3.00 per share				(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)
Adjustment of retained earnings for newly consolidated subsidiaries				(66)			
Net income				3,471			
Cash dividends, ¥3.00 per share				(742)			
Others—net					1,486	942	(19)
Balance as of March 31, 2006	247,678	¥19,699	¥23,062	¥20,455	¥ 4,181	¥ (133)	¥(64)

	Thousands of U.S. dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
Balance as of March 31, 2005	\$167,696	\$196,328	\$151,459	\$ 22,939	\$ (9,152)	\$(383)	
Net income			29,544				
Cash dividends, \$0.026 per share			(6,317)				
Others—net			(554)	12,652	8,020	(162)	
Balance as of March 31, 2006	\$167,696	\$196,328	\$174,132	\$ 35,591	\$ (1,132)	\$(545)	

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Nitto Boseki Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 5,390	¥ 6,471	\$ 45,886
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Income taxes paid	(3,857)	(3,256)	(32,833)
Depreciation and amortization	5,359	5,457	45,616
Loss on impairment of long-lived assets	1,376		11,712
Loss on sale and devaluation of securities	(772)	(2,849)	(6,576)
Loss (gain) on sale and disposal of tangible and intangible assets	(1,556)	2,631	(13,244)
Restructuring cost	2,247		19,131
Equity in earnings of affiliates	(454)	(495)	(3,861)
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
(Increase) decrease in account trade receivables	(2,749)	1,032	(23,398)
Increase in inventories	(617)	(1,657)	(5,254)
Increase in trade payables	18	1,079	157
Increase (decrease) in long-term deposits payable	(4,289)	19	(36,509)
Increase (decrease) in liability for retirement benefits	(246)	1,052	(2,097)
Payments for restructuring	(1,080)		(9,195)
Other—net	(366)	1,608	(3,118)
Net cash provided by (used in) operating activities	(1,596)	11,092	(13,583)
Cash flows from investing activities:			
Decrease in time deposits	16	31	139
Purchase of property, plant and equipment	(6,754)	(8,642)	(57,497)
Proceeds from sale of property, plant and equipment	6,728	406	57,272
Purchases of investment securities	(729)	(52)	(6,204)
Proceeds from sale of investment securities	1,083	3,740	9,215
Others	100	30	852
Net cash provided by (used in) investing activities	444	(4,487)	3,777
Cash flows from financing activities:			
Decrease in short-term bank loans—net	(7,684)	(2,652)	(65,413)
Proceeds from long-term debt	10,060	2,450	85,639
Repayments of long-term debt	(7,741)	(3,374)	(65,897)
Dividends paid	(742)	(743)	(6,317)
Others	(42)	(41)	(355)
Net cash used in financing activities	(6,149)	(4,360)	(52,343)
Foreign currency translation adjustments on cash and cash equivalents	88	2	745
Net increase (decrease) in cash and cash equivalents	(7,213)	2,247	(61,404)
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	41		350
Cash and cash equivalents, beginning of year	23,571	21,324	200,654
Cash and cash equivalents, end of year	¥16,399	¥23,571	\$139,600

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1: Basis of presenting consolidated 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 Financial Reporting 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. In addition, certain reclassification have been made in the 2005 financial statements to conform to the classifications used in 2006.

(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 ¥117.47 to US\$1, prevailing on March 31, 2006, 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 as of March 31, 2006 include the accounts of the Company and its 27 significant (25 in 2005) subsidiaries (the "Companies").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 5 years. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

The equity method is being applied to two affiliates, namely Decolanitto Corporation and NITTOBO ASCO Glass Fiber Co., Ltd. 16 unconsolidated subsidiaries and eight affiliates 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 unconsolidated 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, which is translated at the historical rate. 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 the balance sheet.

(b) Sales recognition

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

(c) Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement.

(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)
	2006	2005	2006
Cash on hands and in banks	¥16,552	¥23,740	\$ 140,906
Less: time deposits with maturities over three months	(153)	(169)	(1,306)
Add: short-term investments with original maturities within three months			
Total: cash and cash equivalents	¥16,399	¥23,571	\$ 139,600

(e) Marketable and investment securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

All securities are classified as available-for-sale securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

(f) Inventories

Finished goods, work in process, raw materials, and supplies are stated principally at cost determined by the moving average method.

(g) Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets, while depreciation of the buildings purchased from April 1, 1998 is computed on the straight-line method based on the estimated useful lives of the assets.

Depreciation of all property, plant and equipment of consolidated foreign subsidiaries is computed on the straight-line method based on the estimated useful lives of the assets.

Representative useful lives are as follows:

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

(h) Long-lived assets

In August 2002, the Business Accounting Council (BAC) issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No. 6, *Guidance for Accounting Standard for Impairment of Fixed Assets*. These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Companies adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Companies reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥1,279 million (\$10,887 thousand).

(i) Liability for 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).

(j) Retirement allowances for directors and corporate auditors

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

(k) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(l) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. 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 and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(m) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

(n) Derivatives and hedging activities

The Companies uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

The foreign currency forward contracts employed to hedge foreign exchange exposures for export sales are measured at the fair value and the unrealized gains / losses are recognized in income.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

(o) Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because the Companies have nothing which might dilute the per share information for the year ended March 31, 2006 and 2005.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

(p) New accounting pronouncements*Business Combination and Business Separation*

In October 2003, the BAC issued a Statement of Opinion, *Accounting for Business Combinations*, and on December 27, 2005 the ASBJ issued *Accounting Standard for Business Separations* and ASBJ Guidance No. 10, *Guidance for Accounting Standard for Business Combinations and Business Separations*. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

- (1) the consideration for the business combination consists solely of common shares with voting rights,
- (2) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
- (3) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, *Accounting Treatment for Bonuses to Directors and Corporate Auditors*, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

Note 3: Inventories

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Finished goods	¥11,691	¥10,816	\$ 99,524
Work in process	3,368	3,466	28,672
Raw materials and supplies	9,916	9,846	84,413
	¥24,975	¥24,128	\$ 212,609

Note 4: Long-lived assets

The Companies recognized an impairment loss on the following fixed assets as of the end of the fiscal year under review.

Concerning the Companies' calculation of impairment loss, assets will be divided into business-use assets, lease assets, idle assets and common-use assets, with business-use assets being further grouped by individual property as lease assets or idle assets for accounting management purposes.

In regard to business-use assets, the Company anticipates difficulty in quickly turning a profit on certain building material manufacturing equipment, having continually incurred losses from related sales activities. In addition, the Company decided to cease manufacturing at the Wakayama Plant as of the end of July 2006 (planned) and to consolidate manufacturing at the Chiba Plant. As a result of these factors, the book value of these assets was reduced to recoverable value. In addition, although recoverable value is measured through use value, discount calculations are not conducted on account of future cash flows being negative.

In regard to idle assets, because we are not able to forecast future use, their book value has been reduced to recoverable value. Recoverable value is primarily measured through net sale value based on land assessments.

The Companies recorded impairment losses of ¥1,376 million (\$11,712 thousand).

Note 5: Short-term bank loans

The weighted average interest rates on these loans were 1.54% and 1.38% as of March 31, 2006 and 2005, respectively.

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

The outstanding balance as of March 31, 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2006	2006
Total amount of credit lines	¥10,000		\$85,128
Total outstanding balance of the loans	500		4,256
Total unused lines amount	¥ 9,500		\$80,872

Note 6: Long-term debt and pledged assets

(a) Long-term debt

Long-term debt as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Loans from banks and other financial institutions, due serially to 2011 with interest rates ranging from 1.19% to 2.73% (2006) and from 1.19% to 2.72% (2005)			
Collateralized	¥ 4,576	¥ 4,311	\$ 38,955
Unsecured	23,949	21,628	203,876
Total	28,525	25,939	242,831
Less current portion: Amount due within one year	6,009	7,425	51,154
Total	¥22,516	¥18,514	\$ 191,677

The annual maturities of long-term debt outstanding as of March 31, 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2006	2006
2006	¥ 6,009		\$ 51,154
2007	9,718		82,726
2008	6,222		52,972
2009	3,390		28,859
2010 and thereafter	3,186		27,120
Total	¥28,525		\$242,831

(b) Pledged assets

A summary of assets pledged as collateral for long-term debt as of March 31, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Property, plant and equipment (net of accumulated depreciation)	¥4,680	¥7,609	\$39,840

Note 7: Marketable and investment securities

Marketable and investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Non-current:			
Marketable equity securities	¥ 9,763	¥6,655	\$ 83,111
Other	1,268	1,412	10,794
Total	¥11,031	¥8,067	\$ 93,905

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2006 and 2005 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2006				
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,736	¥7,029	¥2	¥9,763
March 31, 2005				
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,126	¥4,558	¥29	¥6,655
March 31, 2006				
	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 23,291	\$59,837	\$17	\$83,111

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		Thousands of U.S. dollars (Note 1)
	Millions of yen		2006
	2006	2005	
Available-for-sale:			
Equity securities	¥1,268	¥1,412	\$10,794

Note 8: 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, 2006, 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)
	2006	2006	2006
Projected benefit obligation	¥27,489		\$234,013
Fair value of plan assets	(7,998)		(68,094)
Unrecognized transitional obligation	(5,145)		(43,804)
Unrecognized actuarial loss	(2,866)		(24,398)
Unrecognized prior service cost	832		7,088
Prepaid pension cost	182		1,553
Net liability for retirement benefits	¥12,494		\$106,358

The components of net periodic benefit costs for the year ended March 31, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2006	2006
Service cost	¥ 704		\$ 5,998
Interest cost	598		5,092
Expected return on plan assets	(139)		(1,191)
Amortization of prior service cost	(46)		(395)
Recognized actuarial loss	718		6,116
Amortization of transitional obligation	569		4,844
Net periodic benefit costs	¥2,404		\$20,464

Assumptions used for the year ended March 31, 2006 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
Amortization period of prior service cost	15 years

Note 9: Contingent liabilities

As of March 31, 2006 and 2005, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Notes discounted with banks			
Notes endorsed for payment	¥ 5		\$ 41
Guarantees of loans:			
Other companies	4	¥ 3	31
Employees' housing loans	16	32	133
Total	¥20	¥35	\$ 164

Note 10: Shareholders' equity

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥17,154 million (\$146,030 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

Note 11: 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, 2006 and 2005, respectively.

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

	2006	2005
Statutory income tax rate	40.5 %	40.5 %
Reconciliation:		
Expenses not deductible for income tax purposes	2.6 %	2.0 %
Inhabitants taxes	1.3 %	1.0 %
Non-taxable dividend income	(1.4)%	(2.4)%
Lower income tax rates applicable to income in certain foreign countries	(2.2)%	
Valuation allowance	(11.8)%	12.6 %
Other	3.4 %	(4.5)%
Effective income tax rate	32.4 %	49.2 %

The significant components of deferred tax assets and deferred tax liabilities recorded on the consolidated balance sheets as of March 31, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Gross deferred tax assets:			
Accrued bonuses	¥ 836	¥ 919	\$ 7,120
Liability for retirement benefits	5,009	4,832	42,641
Special repair reserve	1,188	1,338	10,115
Loss on evaluation of securities	594	422	5,054
Tax loss carryforwards	468	695	3,987
Other	1,713	1,890	14,582
	9,808	10,096	83,499
Valuation allowance	(1,212)	(1,876)	(10,322)
Deferred tax assets	8,596	8,220	73,177
Gross deferred tax liabilities:			
Reserve for reduction of value in property, plant and equipment including amortization and other reserves	2,316	4,040	19,715
Unrealized gain on securities	2,846	1,834	24,225
Other	111	36	950
Deferred tax liabilities	5,273	5,910	44,890
Net deferred tax assets	¥ 3,323	¥ 2,310	\$ 28,287

Note 12: Segment information

(a) Information about 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, 2006	Textiles	Building Materials	Glass Fiber Products	Real Estate Utilization	Other Operations	Eliminations/ Corporation	Consolidated
Net sales							
Unaffiliated customers	¥12,887	¥52,198	¥48,194	¥ 2,011	¥15,152	¥	¥130,442
Intersegment	62	246	857		622	1,787	
Total	12,949	52,444	49,051	2,011	15,774	1,787	130,442
Operating expenses	13,384	51,092	43,596	1,346	14,742	1,202	122,958
Operating income (loss)	(435)	1,352	5,455	665	1,032	585	7,484
Total assets	17,552	41,430	54,536	8,038	14,000	23,755	159,311
Depreciation expenses	410	1,371	2,522	293	463	300	5,359
Loss on impairment of long-lived assets	120	1,021	120			115	1,376
Capital expenditures	202	1,989	3,196	1,536	391	315	7,629
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 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
Total assets	18,095	43,940	48,244	12,530	11,794	28,301	162,904
Depreciation expenses	431	1,476	2,520	375	269	386	5,457
Capital expenditures	110	1,355	2,792	3,982	1,063	692	9,994

Thousands of U.S. dollars (Note 1)							
Year ended March 31, 2006	Textiles	Building Materials	Glass Fiber Products	Real Estate Utilization	Other Operations	Eliminations/ Corporation	Consolidated
Net sales							
Unaffiliated customers	\$109,706	\$444,349	\$410,269	\$ 17,117	\$128,987	\$	\$1,110,428
Intersegment	524	2,091	7,298		5,292	15,205	
Total	110,230	446,440	417,567	17,117	134,279	15,205	1,110,428
Operating expenses	113,934	434,934	371,122	11,459	125,483	10,212	1,046,720
Operating income (loss)	(3,704)	11,506	46,445	5,658	8,796	4,993	63,708
Total assets	149,415	352,683	464,252	68,423	119,177	202,233	1,356,183
Depreciation expenses	3,495	11,675	21,467	2,495	3,939	2,545	45,616
Loss on impairment of long-lived assets	1,018	8,695	1,024			975	11,712
Capital expenditures	1,721	16,933	27,207	13,075	3,325	2,687	64,948

Sales to foreign customers for the years ended March 31, 2006 and 2005 amounted to ¥18,994 million (\$161,692 thousand) and ¥19,201 million, respectively.

Note 13: Research and development costs

Research and development costs charged to income for the years ended March 31, 2006 and 2005 were as follows:

Millions of yen		Thousands of U.S. dollars (Note 1)
2006	2005	2006
¥1,120	¥1,032	\$9,537

Note 14: Leases

The Companies lease certain machinery, equipment and other assets.

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, 2006 and 2005 was as follows:

(a) Acquisition cost and accumulated depreciation of finance leases

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2006			2005			2006		
	Machinery and Equipment	Other Assets	Total	Machinery and Equipment	Other Assets	Total	Machinery and Equipment	Other Assets	Total
Acquisition cost	¥399	¥2,130	¥2,529	¥343	¥2,065	¥2,408	\$3,399	\$18,131	\$21,530
Accumulated depreciation	316	1,055	1,371	241	841	1,082	2,693	8,977	11,670
Net leased property	¥83	¥1,075	¥1,158	¥102	¥1,224	¥1,326	\$706	\$9,154	\$9,860

(b) Obligations under finance leases

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
	Due within one year	¥441	¥459
Due after one year	733	917	6,240
Total	¥1,174	¥1,376	\$9,991

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
	Depreciation expense	¥491	¥408
Interest expense	26	32	221
Total	¥517	¥440	\$4,400
Lease payments	¥521	¥442	\$4,437

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.

The minimum rental commitments under noncancellable operating leases at March 31, 2006 were as follows:

	Millions of yen
Due within one year	¥2
Due after one year	4
Total	¥6

Note 15: Derivatives

The Companies enter into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets denominated in foreign currencies. The Companies also enter into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Companies have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The Companies had the following derivatives contracts outstanding at March 31, 2006 and 2005:

	Millions of yen					
	2006			2005		
	Contract Amount	Fair Value	Unrealized Gain / Loss	Contract Amount	Fair Value	Unrealized Gain / Loss
Foreign currency forward contracts:						
Selling U.S.\$	¥722	¥729	¥7	¥611	¥630	¥19

	Thousands of U.S. dollars		
	2006		
	Contract Amount	Fair Value	Unrealized Gain / Loss
Foreign currency forward contracts:			
Selling U.S.\$	\$6,143	\$6,203	\$60

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria for the years ended March 31, 2006 and 2005 are excluded from the disclosure of market value information.

The contract amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Companies's exposure to credit or market risk.

Note 16: Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen	Thousands of Shares Weighted Average Shares	Yen	Dollars
For the year ended March 31, 2006:	Net Income			EPS
Basic EPS				
Net income available to common shareholders	¥3,470	247,326	¥14.03	\$119.4
For the year ended March 31, 2005:				
Basic EPS				
Net income available to common shareholders	¥3,157	247,412	¥12.76	

Note 17: Subsequent event

At the annual shareholders' meeting, which was held by the Company on June 29, 2006, the following appropriation of retained earnings existing as of March 31, 2006 was duly approved.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2006	2006
Appropriations of retained earnings:		
Cash dividends	¥742	\$6,317
Total	¥742	\$6,317



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Nitto Boseki Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Nitto Boseki Co., Ltd. and consolidated subsidiaries as of March 31, 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Nitto Boseki Co., Ltd. and consolidated subsidiaries for the year ended March 31, 2005 were audited by other auditors whose report, dated June 29, 2005, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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 Boseki Co., Ltd. and consolidated subsidiaries as of March 31, 2006, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2(h) to the consolidated financial statements, the Company adopted the new accounting standard for impairment of fixed assets from the year ended March 31, 2006.

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2006

Corporate Data / Investor Information

(As of March 31, 2006)

Corporate Name	Nittobo (Registered as Nitto Boseki Co., Ltd.)	Date of Establishment	April 22, 1918 Fukushima Seiren Seishi K.K. April 1, 1923 Company name changed to Nitto Boseki Co., Ltd.
Main Branch	Aza Higashi 1, Gonome, Fukushima 960-8161, Japan	Paid-in Capital	¥19.6 billion
Headquarters	4-1-28, Kudankita, Chiyoda-Ku, Tokyo 102-8489, Japan Tel: +81-3-3514-3810 Fax: +81-3-3238-4588 URL: http://www.nittobo.co.jp/	Employees	1,717 (Nonconsolidated) 3,804 (Consolidated)

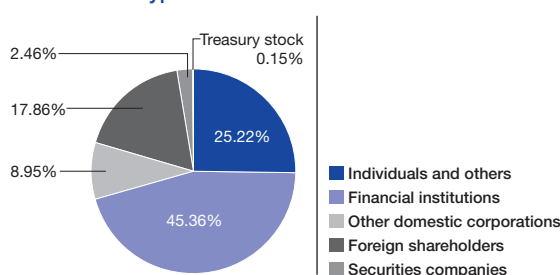
Main Offices and Factories

· Osaka Branch	4-3-10, Koraibashi, Chuo-ku, Osaka 541-0043, Japan (Nissei Fushimicho Building New Building)	Consolidated Subsidiaries
· Nagoya Branch	1-17-13, Nishiki, Naka-ku, Nagoya, Aichi 460-0003, Japan (Meiko Building)	
· Fukushima Factory	Aza Higashi 1, Gonome, Fukushima 960-8161, Japan	
· Fukuyama Enterprise Center	Aza Shiojima 1, Fukuhara, Fukuyamacho, Koriyama-shi, Fukushima 963-8061, Japan	
· Niigata Enterprise Center	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 664-8501, Japan	
· Chiba Factory	Roppo-cho 210, Inage-ku, Chiba 263-0004, Japan	
· Wakayama Factory	Oaza Hiro 898, Hirokawa-cho, Arida-gun, Wakayama 643-0071, Japan	
· Glass Fiber Developing Research Center (located in Fukushima Factory)		
· Biochemical Research Center (located in Fukuyama Enterprise Center)		and 12 other companies

Share Information

Total Number of Shares Issued	247,677,560
Number of Shareholders	26,275

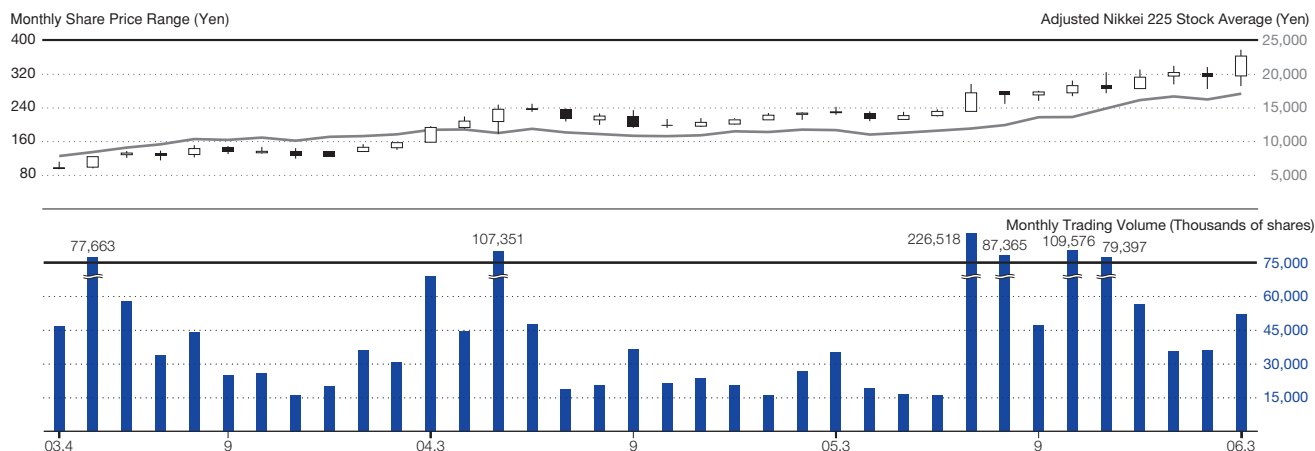
Shareholder Type



Major Shareholders

Name	Number of Shares Held (Thousands of shares)	Percentage of Shares Held (%)
Japan Trustee Services Bank, Ltd. (Trust accounts)	23,143	9.34
The Master Trust Bank of Japan, Ltd. (Trust accounts)	15,318	6.18
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
Goldman Sachs International	6,292	2.54
The Chuo Mitsui Trust and Banking Co., Ltd.	6,163	2.49
Sumitomo Life Insurance Company	5,412	2.19
Japan Trustee Service Bank, Ltd. (Trust accounts 4)	4,301	1.74
Aioi Insurance Co., Ltd.	4,000	1.62

Share Price Range and Trading Volume



Nitto

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