

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:

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

	Thousands of U.S. dollars (Note 1)		
	Millions of yen	2006	
	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:

	Thousands of U.S. dollars (Note 1)	
	Millions of yen	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

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2006				
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)
	2006	2005	2006
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	<u>32.4 %</u>	<u>49.2 %</u>

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
	<u>9,808</u>	<u>10,096</u>	<u>83,499</u>
Valuation allowance	(1,212)	(1,876)	(10,322)
Deferred tax assets	<u>8,596</u>	<u>8,220</u>	<u>73,177</u>
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	<u>5,273</u>	<u>5,910</u>	<u>44,890</u>
Net deferred tax assets	<u>¥ 3,323</u>	<u>¥ 2,310</u>	<u>\$ 28,287</u>

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)

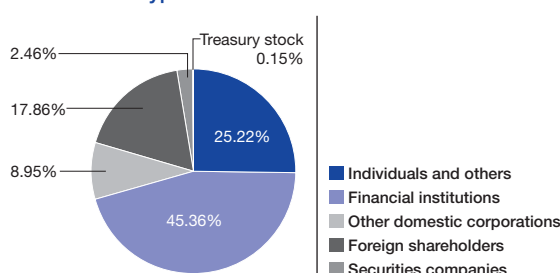
Main Offices and Factories

· 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

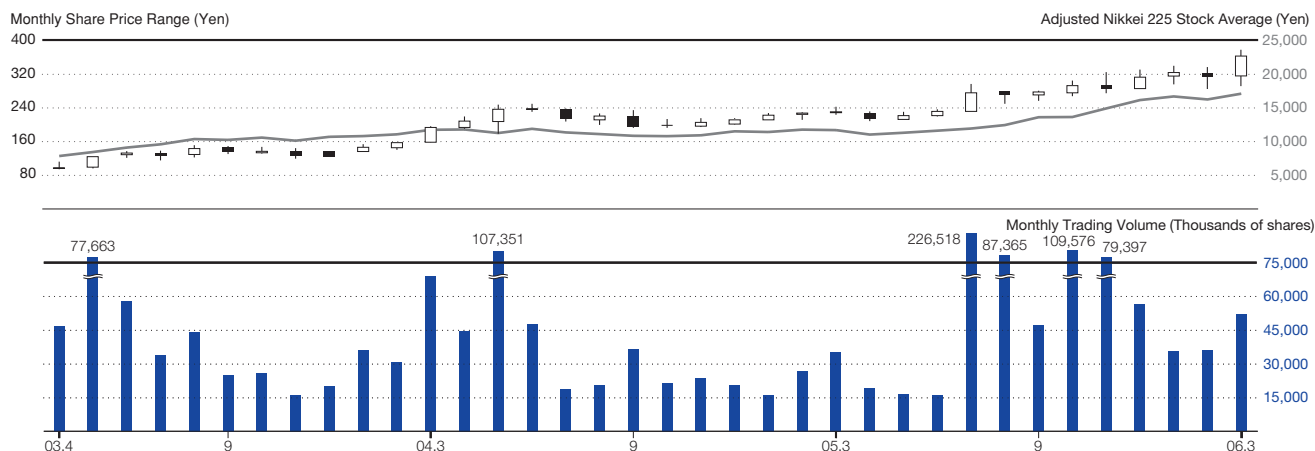
Shareholder Type



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



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