



Annual Report **2004**

For the year ended March 31, 2004

Flexibility, Strength and Speed — A Winning Combination

The essence of Nitto Denko's approach to business is flexibility.
Combined with our strengths and speed in meeting market needs,
this flexibility is the engine for future growth and success.

But you won't find us resting on our laurels?

Every day, we renew our commitment to provide value to our stakeholders and customers.



Corporate Profile

Close to Customers, Close to Leading-edge Technology

Nitto Denko Corporation was founded in 1918 to be a domestic manufacturer of electrical insulation materials. In postwar days, our mainstay products were industrial tape, adhesive tape, and related products. By applying the lamination, coating, and polymer-synthesizing technologies that we cultivated in the course of developing and manufacturing these products, we have been providing essential products to client companies in a wide range of industries, including automotive, housing and electronics. We have grown into a manufacturer of intermediate materials characterized by a diverse product lineup. Many of our products, such as LCD polarizing films, lead the world in market share.

As we maintain a tight-knit relationship with our customers, our growth has been driven by the "Three-New Activities" unique to Nitto Denko: (1) developing new applications in the process of solving customers' problems, thereby (2) creating new products, which lead to (3) generating new demand (markets). We have expanded our products and markets by repeating such activities.

For example, we developed masking tapes for deep drawing in the stainless steel, and even led to the development of sheets to protect the paint finish of automobiles during transport and wafer-tacking tapes in the semiconductor manufacturing process. Thus, through the "Three-New Activities" - the development new applications, new products, and new demand - we have made breakthroughs that expand the scope of our business. We have also won customers' confidence by building upon the "Three-New Activities," made timely investments by identifying the market trends ahead of the competition, and expanded our business domain as a result. The "Three-New Activities," which translate changes into opportunities, are the source of our Global-Niche Top Products.

Close to customers, close to leading-edge technology. We will continue to take on challenges to create Global-Niche Top Products by always identifying with our customers and moving forward with pioneer spirit.

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Cautionary with Respect to Forward-looking Statements

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

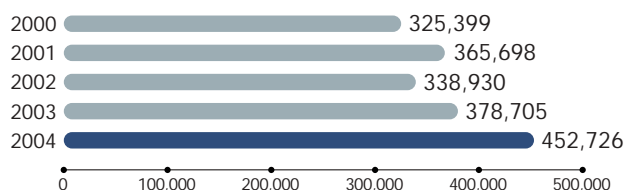
Financial Highlights

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2004 and 2003

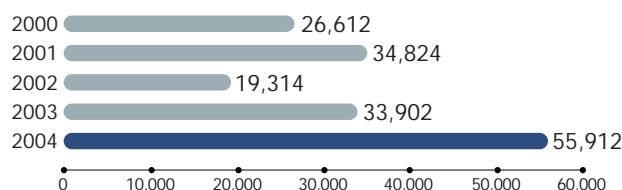
	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
For the year:			
Net sales	¥ 452,726	¥ 378,705	\$ 4,285,555
Operating income	55,912	33,902	529,269
Net income	33,386	19,237	316,036
Capital expenditures	36,318	23,337	343,790
Depreciation and amortization	21,386	21,144	202,442
R&D expenses	15,822	13,851	149,773
At year-end:			
Current assets	¥ 211,294	¥ 216,441	\$ 2,000,133
Plant and equipment, at cost	139,330	127,446	1,318,913
Total assets	389,525	379,812	3,687,287
Current liabilities	138,274	109,205	1,308,917
Long-term liabilities	16,154	22,801	152,916
Shareholders' equity	223,114	237,560	2,112,022
Per share data			
	Yen		U.S. dollars
Net income:			
Basic	¥ 197.99	¥ 108.52	\$ 1.87
Diluted	197.93	108.52	1.87
Cash dividends	40.00	24.00	0.38
Shareholders' equity	1,360.71	1367.38	12.88

The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥105.64=U.S.\$1, the approximate exchange rate on March 31, 2004.

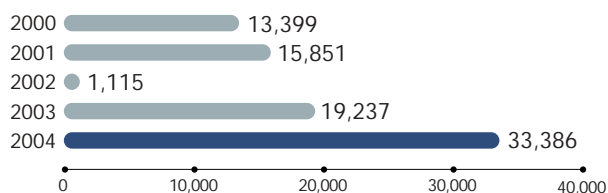
Net Sales (Millions of yen)



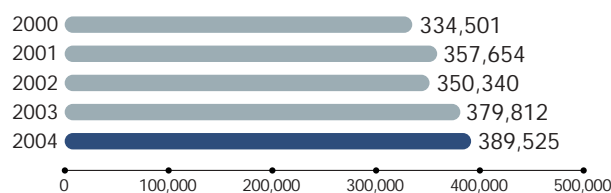
Operating Income (Millions of yen)



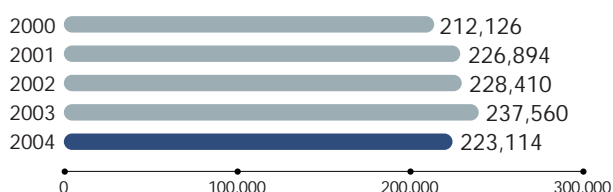
Net Income (Millions of yen)



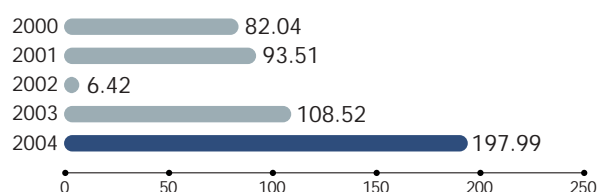
Total Assets (Millions of yen)



Shareholders' Equity (Millions of yen)



Net Income Per Share (Yen)



Operational Highlights

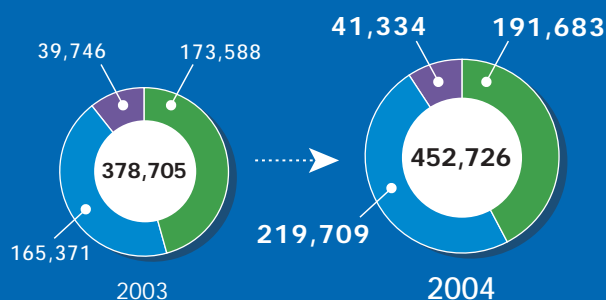
Nitto Denko supplies industries worldwide with an extensive line of high-performance products that combine our expertise in polymers and other advanced fields. These products feature sophisticated technologies for sealing, bonding, separation, permeation and diffusion, and many have captured a top share in global niche markets.

In fiscal 2004, the Nitto Denko Group concentrated its energies on sales to the flat-panel-display (FPD) industry, which continued to enjoy strong growth, as well as the cellular phones and personal-computer industries. Thanks to this focused effort, our Group achieved its best-ever results, with consolidated Net Sales of ¥452,726 million and Operating Income of ¥55,912 million.

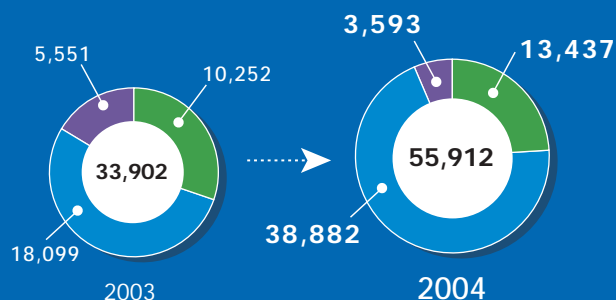
- Double-coated adhesive tapes
- Surface protection films
- Thermal release sheets
- Advanced sealing materials
- Barcode labels

Industrial Products

Net Sales (Millions of Yen)



Operating Income (Millions of Yen)



Industrial Products Electronic Products Functional Products

Note) Nitto Denko changed the segment category for the electronic processing products (formerly electronic component-related products) from Industrial Products to Electronic Products in 2004. The figures for 2003 have been restated to conform with 2004 presentation.

Advanced Automotive Products



Reinforcing & vibration damping material

A wide range of products made by Nitto Denko can be found under the hood and throughout your vehicle: advanced sealing materials to shut out heat, water, noise and vibration, and electrical insulation materials for wire harnesses and systems. Our products also protect and secure vital devices, components and coatings, including exterior vehicle body parts, instrument panels, air conditioners, sensors, and electronic control units (ECUs).

In recent years, vehicles have had to meet a variety of challenging safety, comfort, fuel- efficiency and environmental requirements. For example, while high rigidity is required in order to improve safety of the vehicle chassis, weight reduction also needs to be pursued to improve mileage. We believe Nitto Denko's mission in its automotive business is to develop products that help solve the difficult paradox of making vehicles stronger and lighter at the same time.

A Leading Supplier to the Electrical & Electronics Industry



Retardation film

Nitto Denko's products include component materials for cellular phones, semiconductors, audiovisual equipment, computers, and a variety of other electrical and electronic equipment. In addition, we produce materials and devices that are indispensable to the manufacturing process of such products. These include transparent epoxy encapsulating resin for optical semiconductor devices, wafer-protection tapes, transparent seals for semiconductors, and thin metal core boards for magnetoresistive heads.

Our product lines in liquid crystal display (LCD)-related materials have continued to grow rapidly. We launched our LCD-related business in 1974, and have since gained the largest share of the global market for polarizing film, which is the key material of LCD panels. We have also expanded our production capacity ahead of the competition, anticipating the growth of the LCD TV market. Our positioning as a Global Niche Top in electronics is solid.



Electronic Products

- Polarizing films (NPF)
- Retardation films (NRF)
- Polarization conversion system
- Semiconductor encapsulating resins
- Thin metal core boards for MR heads
- Flexible printed circuits (FPCs)

Functional Products

- High-polymer separation membrane modules
- Transdermal therapeutic patches
- Fluoroplastic tapes
- Tissue-cultured ginseng
- Pest control products



Revolutionary Healthcare Products

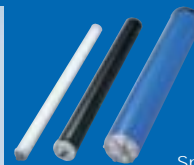


Transdermal patch of isosorbide dinitrate

Nitto Denko Corporation, a dedicated maker of surgical tapes since its establishment, has developed a diverse line of products for healthcare and sports with lamination technology at its core. Leveraging advanced lamination technology acquired in the course of healthcare product development, Nitto Denko created a new product that has revolutionized the traditional concept of medicine: the transdermal therapeutic patch. The transdermal patch provides an innovative “stick-on-and-cure” drug administration system. Starting in the late 1970s, Nitto Denko became one of the first companies in the world to develop transdermal therapeutic patches. As a result, our Company had established technologies to design extremely safe and stable preparations, including synthesis of an optimal adhesive for dosage control.

The medical world has great expectations for the innovative transdermal treatment method, because it allows the drug to slowly penetrate the skin simply by applying a patch, alleviates side effects, is not taxing to internal organs unlike oral medicine, and is pain-free unlike injections. Nitto Denko is developing transdermal-patch technology for ischemic heart disease and for asthma, both of which have been highly rated by medical practitioners. We will continue to work on development of new products, especially for transdermal therapeutic patches with the aim of expanding their market, as demand is expected to increase greatly in the future.

Meeting Public Service Needs



Spiral wound type module

It is often said that the 21st Century will be the era of water. Demand for fresh water is increasing rapidly worldwide because of desertification resulting from global warming, shortages of drinking water attributable to river pollution, and rising demand for agricultural water. Under these circumstances, a technology that is attracting a great deal of attention is membrane seawater desalination, which involves removing salt from seawater and turning it into fresh water.

Nitto Denko has been developing reverse osmosis membranes, which are essential devices for seawater desalination, since as early as 1973. Based on polymer synthesizing technology used to produce adhesive tapes and advanced films, we have refined our high-polymer separation membrane technology for manufacturing reverse osmosis membranes. To do so, we combined technologies for molecular design, membrane production, membrane modules, systems design, and evaluation and analysis. In 1995, we developed an ultra-low-pressure reverse osmosis membrane, which realizes a high permeate flow and a high blocking rate at pressures less than half of conventional membranes. Our reverse-osmosis membrane modules, which are now regarded as de-facto international standards, have been chosen for seawater desalination plants and sewage treatment plants worldwide, from Tampa, Florida to Shanghai, China.

Global Niche



Polarizing film for LCDs



Retardation film for LCDs



Polarization conversion system for LCDs



Transparent epoxy encapsulating resin



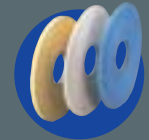
Reverse osmosis membrane for semiconductor cleaning wafer



Semiconductor wafer protection and fixing tapes



Thin metal core board for magnetro resistive heads



Electronic component carrier tapes

To Our Shareholders



Hideki Yamamoto
Chairman

Masamichi Takemoto
President

Global Recovery Propels Sales & Income to New Highs

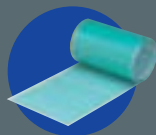
In fiscal 2004, ended March 31, 2004, the world economy entered a recovery phase centering on Asia and the United States. The U.S. economy was particularly robust amid large-scale tax reductions and a low interest rate policy. With the resurgence of the U.S. economy and strong exports to Asia, the Japanese economy also revived quickly, and by the end of the fiscal year, rising capital investment was accompanied by a broad-based recovery.

In these economic conditions, the Nitto Denko Group enjoyed firm sales of liquid-crystal display (LCD)-related materials and surface protection materials for the flat-panel display (FPD) industry, and of bonding and joining materials, circuit materials and -related items for the cellular phone and personal computer industries. As a result, we achieved all-time record Net Sales of ¥452,726 million, representing a 19.5% increase over the previous year, and also the highest-ever Net Income of ¥33,386 million, a 73.6% annual increase.

For our company, fiscal 2004 was the first step in the "One-NITTO Dream Plan," a mid-term management plan running through March 2008 (See page 6). The aim of the plan is to make Nitto Denko a "Global Excellent Company" (See page 7), comparable to the world's best. We have already achieved the targets set in this plan to achieve net sales of ¥450 billion and Operating Income of ¥55 billion.

However, this excellent result was not entirely due to our capabilities; we were also fortunate to experience an economic recovery and favorable markets for our products

TopTM products



Thermal release sheets



Surface protection film for automobiles



Ceramic barcode labels



Transdermal therapeutic patches



-conditions we may not always enjoy. Therefore, we should always look for areas of improvement within our company, not to see them as faults but as opportunities. I see these as mere milestones on the path to becoming a Global Excellent Company. From now on, instead of being satisfied with favorable results, we will be tackling ways to strengthen our company, including development of our human resources and management systems.

▶ LCD Market Drives Demand for Nitto's Advanced Electronics Materials

Favorable performance in LCD-related materials supported sales growth in the fiscal 2004. As the markets for LCD monitors, laptop PCs, cellular phones and LCD televisions expanded, sales of our company's optical films for LCDs increased greatly. These optical film products include advanced compensation films for high-definition LCDs, viewing angle compensation films, and polarization conversion films.

Overall sales of Electronic Products, which include LCD-related optical films, increased dramatically by 32.9% over the previous year to reach ¥219,709 million. Operating Income in Electronic Products increased 114.8% to ¥38,882 million.

In order to respond to the expected continuing expansion of the digital-imaging market, Nitto Denko will be investing a total of ¥59 billion, the largest amount in our history, during the fiscal 2005, ending March 2005. The primary target will be for LCD-related materials, including

construction of new production facilities in South Korea and Taiwan. In Japan, starting in spring 2004, we are starting up new production facilities at our Onomichi and Kameyama plants (See page 8).

The LCD-related products business has developed into our company's mainstay business, but competition in this area is expected to intensify in the future. While it is almost certain that overall market demand will increase, there is no guarantee that our company can maintain its current position. Newcomers from among the materials manufacturers are entering into this market, which already can no longer be termed a niche. Although we have obtained various patents for manufacturing, we cannot be complacent.

The world economy could slow down following the Athens Olympics or the U.S. presidential election in the second half of fiscal 2005. Also, as more resources are consumed in China, which has seen remarkable economic growth, changes in raw material prices could become more severe.

In order to avoid being pulled around by such "tides of change," and to ensure that we do not miss the next wave, for the next several years we must develop enough strength to compete in the world market and maintain our current position. The investment needed for this should be made now, while our results are strong. - It was based on this judgment that we undertook this large-scale investment program.

Nitto Denko attributes its recent success to a basic marketing strategy we call "Global Niche Top." First, we choose a promising market in the early stages of growth and find a niche where our unique technologies can work effectively; then, we develop and promote a new product capable of gaining the leading market share in that field.

By gaining the leading share, we have three advantages. First, we have timely information from the market and customers. Second, customers will come to us first with their problems as well as ideas. These are seeds of future products. Third, we will anticipate market trends, allowing us to make appropriate investment ahead of competitors. By the time this market has grown, our once 'niche' product will have become the industry standard. This is the basis of our strategy.

Currently, we have 12 Global Niche Top products and are trying to establish more in the electrical, automotive, medical and environmental fields.

We follow market trends in precise detail, enabling us to develop, invest and market effectively. But more important, our best "consultants" are our customers. The Global Niche Top strategy is the driving force of our success, and we expect it will continue to power our future growth.

What is Global Niche Top™ ? >>> One-NI

Developing the Potential of our Medical and Separation-Membrane Products

How will we achieve the targets set in our mid-term strategic plan for fiscal 2008? We can already start to envision the scenario. The FPD business that is so strong now will probably continue to be a growth engine for some time. For the duration, our tape-related industrial products sector and other non-LCD-related electronics products will continue to earn us cash income, and we will nurture businesses with the potential to become the next growth engine from among these segments. Then, with those earnings, we will expand our medical and membrane-related businesses, which are also expected to become growth engines in the future.

In Industrial Products, bonding and sealing materials for cellular phones, PC peripherals and home electronics have sold well, and we have also increased sales of sealing materials for the auto industry.

In Electronic Products for non-FPD industries, sales of circuit materials for cellular phones, hard disk drives and related devices have increased greatly, while sales of protection sheets and laminating applicators for the semiconductor manufacturers as well as thermal release sheets for component fabrication processes have been firm. From among these, we hope to develop products that will become the new growth engines to succeed LCD-related materials.

In the Functional Products, we spent approximately ¥5.6 billion in fiscal 2004 to acquire the American pharmaceutical company, Aveva Drug Delivery Systems

(ADS). In order to conduct a medical-products business in the U.S., approval of the U.S. Food and Drug Administration (FDA) is required. Starting with the U.S., we would like to enter the world medical-drug market, primarily with our transdermal therapeutic medical products, supported by Nitto's expertise in tape technologies. The range of applications in this field is wide, and there are a variety of products, including local and whole-body treatments.

Besides transdermal therapeutic medical products, Nitto Denko is currently studying the area of genetic treatments. Our research and development subsidiary in the U.S., Nitto Denko Technical Corporation, is working on transport devices for genetic treatments. We expect genetic treatments to form a large market in the future.

We believe our high-polymer separation membrane business has a very strong future potential for growth due to the increasingly severe shortage of water in many locations around the world. We currently have the No. 2 share worldwide. However, as in LCD-related products, we cannot necessarily keep our current market share in the future. One reason is that the form of this business is changing from one of selling modules to the construction of gigantic desalination plants. If this change continues, it will be necessary to make a fundamental change in our approach to the business, such as by finding a good partner that possesses know-how for plant construction. Including production facilities, we are re-evaluating our membrane business.

Nitto Denko launched a mid-term management plan called "One-NITTO Dream Plan" for the year ending March 2006, as a 3-year action plan that views our business from the standpoint of five years ahead. The plan focuses on two chief measures; enhancing business growth based on our basic strategy, and sharing the same corporate culture globally.

In fiscal 2004, the initial year of this plan, we already achieved a business results that exceeded the mid-term management targets of ¥450,000 million in sales and ¥55,000 million in operating income that were initially announced. However, the statistical figure is just one measure. We will keep working to be a "Global Excellent Company."

Although the development of top global-niche products is a fundamental strategy for our company's operations, the ideal that Nitto Denko and its Group are aiming for is to become a truly excellent, global corporation.

A "Global Excellent Company" is one that is able to maintain world-class performance comparable with other companies acknowledged as global leaders of industry. But beyond its market and financial results, such a company strives to be an organization whose corporate values themselves are admired and honored by the public. Our company has targeted fiscal 2008 as the year we will submit ourselves for appraisal and recognition as a Global Excellent Company. As quantitative targets to satisfy the conditions for that honor, we have set as our goals a Return on Assets of 20% and Operating Income ratio of 17%.

TTO Dream Plan >>> GLOBAL EXCELLENT COMPANY

Leveraging our Human and Technological Resources to Develop Global Niche Top Products

Our company's fundamental product strategy is to supply Global Niche Top products. In order to make that a reality, it is essential that we keep close to our customers, anticipating their needs as quickly as possible, and also to maintain the technological strength to meet those needs. Until now, our company has grown by maintaining close relationships primarily with customers in Japan and generating new products to meet their needs. However, for Nitto Denko to evolve into a Global Excellent Company with world-class capabilities, I believe we will have to maintain close contact with growing sectors, growing regions, and growing companies worldwide, and form new core businesses in rapid succession in which we develop Global Niche Top products.

The decisive requirement for our company in pursuit of this strategy will be how skillfully we leverage our human resources in each location around the world. Not only in management and sales, but also in R&D and production, we will need to develop a corporate system for maintaining close interaction with customers in each region of the globe.

Starting in about 2000, we have already begun to relocate our R&D functions to various overseas locations. In the U.S., we have hired outstanding and highly motivated people who are undertaking research in leading-edge fields such as biotechnology and applied optical science. Our subsidiary in Malaysia is gradually taking on work in development of semiconductor packaging materials that

was being conducted in Japan. In July 2003, we introduced a 24-hour system of development, which allows speedy response time and has led to cost reductions.

Also, while our R&D had previously been done essentially in-house, in some cases this approach is unable to keep up with the timing of market "ripeness." The ability to obtain up-to-date information on which organizations possess the technology we need now, and to foresee with clarity whether those technologies will be truly useful, is important. We intend to nurture personnel with this clarity of foresight and pursue collaborations with universities and related companies as well as mergers and acquisitions.

At the same time, we need to re-evaluate our entire production system. Within Japan, Nitto Denko has achieved a structure in which we can manufacture products in optimal



Nitto Denko launched operations at its Kameyama facility in 1969 for the purpose of concentrating production of electrical insulation materials. Since then, this facility has expanded its business domain into the development and production of electronics-related products, such as materials for circuit components and semiconductor encapsulation, while adapting and improving on Nitto Denko's proprietary technologies. In 2003, Nitto Denko constructed a new global-scale production facility inside the premises of the Kameyama Plant in order to meet growing demand for LCD panels. The plant started production in January, 2004. In order to prevent technology leakage, our domestic plants including the new Kameyama Plant specialize in high-value-added pre-processing, while overseas plants in Asia are responsible for labor-intensive post-processing. We plan to enhance overseas plants in charge of post-processes in Asia in response to the strong need to expand production among customers.

In April 2004, Nitto Denko launched production of Optical Products at its new Onomichi Plant No. 4. In the same way that Kameyama leads in LCD-related materials, the Onomichi Plant is expected to serve as a model producer and innovator of Optical Products, and a resource for Nitto Denko Group companies worldwide.



Kameyama Plant, Mie



Onomichi Plant, Hiroshima

▶▶ New Plants Lead the Way

locations, but from our customers' standpoint, there may be items that would better be made overseas. From now on, we must see the market from a global point of view and optimize our production on a worldwide basis.

Also, concerning distribution, currently each channel conducts its own logistics, meaning there is room for improving our efficiency. Therefore, we will be initiating a reform program for distribution with a policy of slimming by fiscal 2006.

So that we can train future group leaders capable of implementing and developing these strategies, our company has established two internal corporate education institutions, Nitto University and Nitto Denko Management School. Designed for employees who form the backbone of our company, these schools provide a forum for the company management including the Chairman and President to speak face-to-face with employees on business and management. We expect these institutions to serve as an effective means of directly training tomorrow's top company leaders and managers.

▶ Investing in Corporate Brand Value and Focusing on Global Niche Top Products to Secure Continued Growth

In fiscal 2004, our company achieved the fiscal 2006 targets established in the "One-NITTO Dream Plan" two years ahead of schedule: ¥450 billion in net sales and ¥55 billion in operating income. However, the operating environment may well become more difficult, and the

economy will eventually slow down. The business environment in fiscal 2006 through 2008 is expected to be difficult for our company. Therefore, we have determined that the year ending March 2005 will be one of storing up strength for the future and reinforcing our corporate structure.

In order for Nitto Denko to become a Global Excellent Company both in name and fact, it is essential that we not only strengthen our operations for growth but also enhance our corporate brand value in terms of the trust placed in our corporation (See. page 9), in our products, and in our employees. Starting with fiscal 2005, we are launching a full-scale effort to enhance the corporate brand value of the Nitto Denko Group. We intend to increase the trust and expectations of our shareholders, our customers, the public, as well as our employees in a well-balanced manner, and by linking each group's satisfaction create a synergy that in total will lift our corporate value even higher.

Fiscal 2005 represents the second year of the three-year "One-NITTO Dream Plan," in which we planned to double the number of top global-niche products from 12 to 24. We have advanced the target date by one year, and are now investing aggressively to reach this goal by March 2005.

Specifically, focusing our energies on industries that can be expected to continue growing, we are strengthening our lines of LCD-related products, surface protection materials, and circuit materials for cellular phones, and meanwhile expanding sales of process materials for the semiconductor and electronic component industries,



Flexible Technology Company

“At Moments of Change with Brilliant Technology and Flexible Attitude”

The Nitto Denko Group pledges to all our stakeholders:

Moments of Change: are opportunities, the very time to initiate growth. We foresee the changes in the world before anyone else, and present precise solutions timely to their specific needs, in close collaboration with our customers. We create future values and make dreams come true by continuously changing ourselves.

Brilliant Technology: is our confidence. Our gleaming technology, sparkling solutions and bright ideas are all backed by radiant people. As our various sources of light gather to highlight the future, we create wonder and excitement for tomorrow.

Flexibility: is our attitude. We provide the greatest satisfaction at every turn through our flexible and persistent stance. We shape that 'eureka!' moment into reality by skillfully combining various possibilities.

We continue to advance globally in harmony with the social environment as we integrate each and everyone's capabilities into a single solid power.

We are your "Flexible Technology Company" The Nitto Denko Group.



whose markets continue to recover. As for our future growth businesses, medical-related products and high-polymer separation membranes, we intend to steadily develop markets and work to improve results. For fiscal 2005 we are forecasting net sales of ¥530 billion (a 17.1% increase) and net income of ¥41 billion (a 22.8% increase).

▶ A Trustworthy Company of Global Excellence

In fiscal 2004, Nitto Denko implemented organizational reforms to separate operations and management. In fiscal 2005, we plan to begin to reduce the number of directors, transfer the authority of the reduced directorships to the operational divisions, and increase the number of auditors. With the elimination of cross-shareholding, it is even more important to maintain an organization in which every shareholder can have full confidence. As a step toward strengthening our corporate structure, we intend to continue organizational reviews in the future.

Our company's core business is tape, which has evolved into a variety of products in sheet and film form, ranging from LCD materials to medical products. These products have many different shapes and uses, but it is not our intention to make products that deviate completely from our core business. However, by adding various functions to these sheets and films, and by innovating variations to meet customer needs, we believe we can find unlimited business opportunities.

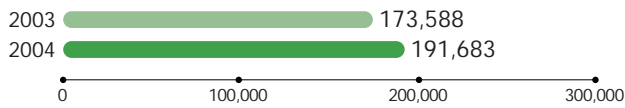
It is precisely now, when our results are favorable, that we must not become too optimistic about our situation. It is also now that we must take special care not to make mistakes that could interrupt our progress as we take on new challenges and manage our business. Our intention is to develop Nitto Denko's corporate structure so that we will not miss out on business opportunities, and to move at full speed ahead toward becoming the Global Excellent Company.

It is my sincere hope and request that Nitto Denko continues to enjoy the valuable guidance and encouragement of all our shareholders and stakeholders, now and in the future.

Masamichi Takemoto
President

Review of Operations (1) By Business Segments

Net Sales (Millions of yen)



Note) Nitto Denko changed the segment category for the electronic processing products (formerly electronic component-related products) from Industrial Products to Electronic Products in 2004. The figures for 2003 have been restated to conform with 2004 presentation.

Industrial Products

The Industrial Products segment provides the electrical, electronics, automobile, housing, construction and many other businesses with various base materials, including plastics and metals, as well as adhesive tapes in a variety of configurations.

In fiscal 2004, ended March 31, 2004, Permacel Automotive (PCA), a US manufacturer of automotive materials became a consolidated subsidiary.

With the exception of some electrical insulation material and other segments, overall performance in fiscal 2004 was good as the domestic and overseas economies enjoyed a recovery trend. As a result, the company posted sales and profit gains. Consolidated sales rose by 10.4% to ¥191,683 million and consolidated operating income rose by 31.1% to ¥13,437 million.

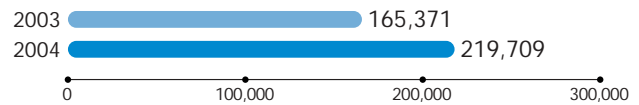
Strong performers in fiscal 2004 included surface protection materials and cleaning materials for the FPD (flat panel display) business, and bonding and joining materials and sealing materials for cellular phones, personal computer peripherals and home electronics. These segments all benefited from the boom in digital consumer electronics. Sealing materials for the automobile industry also did well. Also, PCA's inclusion as a consolidated subsidiary added ¥6,948 million to sales. In contrast, sales of electrical insulation materials for the electric power industry, packaging materials and consumable materials were all sluggish.

In fiscal 2004, the expansion of the mainstay Toyohashi Plant's production line increased the sector's production capacity. Preparations for a more proactive approach to

the FPD market were completed. In the area of automobile components, further progress was made in establishing the company's production and supply structure in Japan, the United States, Europe and Asia, providing a model for the company's overall global strategy. During the fiscal year ending March 2005, the company aims to move ahead of other companies in building strong relationships of trust with customers. To this end, it is strengthening its supply chain management, speeding up responses to customer inquiries and working to reduce the time it takes to develop new products and put them into trial production.

It should be noted that while electronic component materials have traditionally been included in the Industrial Products segment, from fiscal 2004 they will be shown separately under the Electronic Products segment as a result of changes in market applications.

Net Sales (Millions of yen)



Note) Nitto Denko changed the segment category for the electronic processing products (formerly electronic component-related products) from Industrial Products to Electronic Products in 2004. The figures for 2003 have been restated to conform with 2004 presentation.

Electronic Products

The Electronic Products segment is responsible for supplying a diverse range of key materials, such as special films and circuit materials that are essential for the manufacture of information equipment, state-of-the-art electronic devices and electronic components.

In fiscal 2004, this segment posted substantial overall growth on the back of the rapid expansion of the market for FPD displays used in LCD televisions and the like. Helped by the fact that our local subsidiary in China started full-scale operations, consolidated sales increased by 32.9% to ¥219,709 million, and consolidated operating income by 114.8% to ¥38,882 million.

In fiscal 2004, we posted sharp increases in sales of

Industrial Products

For Automobiles

Our sealing material is recognized worldwide for its superior performance in the automotive industry.



Electronic Products

For LCD Displays

Without polarizing films, an LCD display appears merely as a bright screen, with neither text nor images discernible.

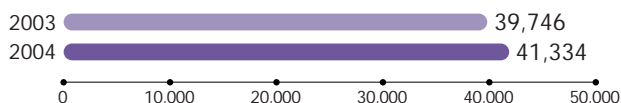


LCD-related materials, especially advanced compensation films for LCD TVs, wide-angle polarizing films for LCD monitors, and polarization conversion films (brightness enhancing films) for various applications including cellular phones, laptop PCs and LCD TVs. In comparison with fiscal 2003, supply and demand gap affecting LCD panels helped moderate the downturn in unit product prices. In order to satisfy continuing growth in demand in this sector, we initiated work on expanding our LCD optical film production capacity at our Onomichi and Kameyama Plants with a view to completion by the beginning of the fiscal year ending March 2005.

Circuit materials for cellular phone color LCDs, compact cameras and hard disks performed well, and sales of protection tapes and laminating device applicators for semiconductor manufacturing increased.

In response to rapid expansion in demand for LCD-related materials, we reviewed our mid-term management plan and made substantial upward revisions. The fiscal year ending March 2005 will be of the utmost importance from the viewpoint of achieving our new targets. For this reason, we will make proactive investments in building a production and processing structure to respond to efforts by large-panel manufacturers to reinforce their production lines, introduce new products and tackle the issue of securing and training the human resources to support business expansion.

Net Sales (Millions of yen)



Functional Products

The Functional Products segment deals with transdermal therapeutic patches and the membranes used in seawater desalination, among other things.

In fiscal 2004, we acquired Aveva Drug Delivery Systems (ADS), a U.S. manufacturer of transdermal therapeutic

patches with a view to expanding our future healthcare business.

Although revenues increased in this sector, the one-time depreciation charge and R&D costs incurred through this acquisition caused a profit decline. Consolidated sales increased by 4.0% to ¥41,334 million but operating income fell by 35.3% to ¥3,593 million.

The market for healthcare-related materials was stagnant as a whole due to the effects of government policies to control healthcare costs. Although sales of surgical tape and medical hygiene materials were flat, transdermal therapeutic patches for the treatment of bronchial asthma sold well. In high-polymer separation membranes, sales of membranes used for rinsing by the semiconductor industry and LCD panel industries were firm, as were sales of membranes for industrial water in Asia. However, sales were weak overall due to a decline in sales of large-scale desalination membranes. Engineering plastics sold well overall, as shipments of inner pressure control membranes for automotive electronics were firm, and sales of process materials for the electronics industry also increased.

In the area of healthcare materials, ADS is expected to go into the black in the fiscal year ending March 2005, and our policy is to use this company as a vehicle for engaging in joint development of new products together with top pharmaceutical manufacturers in the US and Europe. We will also commence global sales of our "Yukiban" series of surgical tapes, which use gel adhesives.

As for high-polymer separation membranes, the seawater desalination business is entering a temporary lull in demand for large-scale projects, but we shall tackle issues such as accelerating the production process and reducing defective product rates to ensure that we secure a leading position in the business worldwide. In the engineering plastic materials sector, we will specialize in the technologies and products necessary to win the number one position worldwide, and work proactively to develop the market.

Functional Products

For Healthcare Products

Transdermal therapeutic patches release the drug through our proprietary crystal-reservoir system, thereby contributing to stable improvement of cardiac functioning.

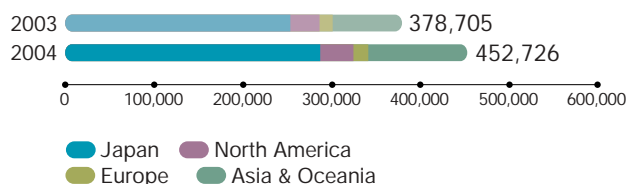
For Cellular Phones

Our polarizing films offer superior transparency, an indispensable feature for cellular phone displays.



Review of Operations (2) By Geographic Areas

Net Sales (Millions of yen)



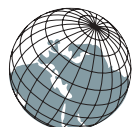
Japan

In the fiscal year ended March 2004, demand in Japan's domestic market — our largest and most important — expanded on the back of the recovery in the US economy and rising exports to Asia. As capital investment increased, the recovery in the domestic economy became more broadly-based towards the end of fiscal 2004.

The economic recovery stimulated personal spending, leading to rapid expansion in the market for LCD TVs and other FPD products. As a result, sales of advanced compensation films for LCD TVs and similar products rose sharply, while circuit materials for cellular phones and related products performed well.

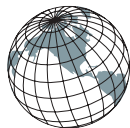
Meanwhile, our transdermal therapeutic patches for the treatment of bronchial asthma sold well even though the market for healthcare-related materials stagnated as a result of government policies to curb healthcare costs. As a result, we were able to post sales and profit gains for fiscal 2004. Sales increased by 13.2% year-on-year to ¥286,323 million and operating income by 71.7% to ¥51,158 million.

In fiscal 2005, full-scale production of optical films for LCDs will start at our Onomichi and Kameyama Plants, where capacity has been expanded to meet rapidly growing demand for LCD-related materials. In the belief that the FPD market will continue to grow, we will not only build a production and processing structure in response to efforts by large panel manufacturers to reinforce their production lines but also maintain a proactive stance towards investments and introducing new products.



Europe

During fiscal 2004, the economies of Europe also headed towards recovery. In Europe, we supplied automotive materials such as reinforcing and vibration-damping materials for high tensile steel plate and rubber sponge materials for water- and wind-resistant seals, as well as circuit materials for cellular phones to Japanese firms with operations in Europe and local companies. Sales increased by 13.3% year-on-year to ¥16,423 million and operating income by 13.9% to ¥510 million. Also during the current term, our local subsidiary Nitto Europe NV acquired ISO 14001 certification.



North America

In fiscal 2004, the US economy remained strong as large-scale tax cuts spurred personal spending and low interest rate policies bolstered housing investment. Benefiting from the strong performance of the automobile industry, we expanded our sales, mostly to Japanese-affiliated firms, of automotive materials such as reinforcing and vibration-damping materials for high tensile steel plate, rubber sponge materials for water- and wind-resistant seals, and internal inner pressure control membranes for headlight. In fiscal 2004, Permacel Automotive (PCA), a local US manufacturer of automotive materials became a consolidated subsidiary. Our objective is to use PCA's strong connections with America's Big Three auto manufacturers to strengthen our automotive materials business in North America.

At the same time, we acquired the U.S. pharmaceuticals company Aveva Drug Delivery Systems (ADS) with a view to strengthening our healthcare business in the region. ADS is currently aiming to expand its transdermal therapeutic patch business and we intend to use it as a beachhead for the development of our North American market. In fiscal 2005, we will launch new products developed by ADS on the North American market.

Performance in fiscal 2004, however, was stagnant owing to the expenses and R&D costs incurred through the acquisition of ADS, delays in the consolidation of production at Permacel's new plant, and the decline in sales of large-scale desalination membranes (high-polymer separation membranes) produced by Hydranautics. Consequently, while our North American sales in the fiscal year ended March 2004 increased by 11.5% year-on-year to ¥37,216 million, our operating loss came to ¥2,399 million.

In fiscal 2005, we shall work on improving profitability by moving ahead with the consolidation of production at Permacel's new plant. We also aim to expand our healthcare business and secure a niche share through higher sales.



Asia & Oceania

The markets for LCD TVs and electronics-related products in Asia and Oceania expanded rapidly during fiscal 2004, leading to robust local production centered on Japanese, Korean and Taiwanese companies in China and elsewhere.

Sales were strong to electronics manufacturers' plants in Asia, in particular bonding and joining materials for industrial use as well as optical films and circuit materials for LCD and cellular phones. In fiscal 2004, sales in Asia and Oceania increased by 44.7% year-on-year to ¥112,764 million, and operating income by 173.3% to ¥6,548 million.

In light of forecasts that the LCD market may overheat in fiscal 2005, we cannot deny the possibility that profitability may deteriorate. We aim to enhance our competitiveness by moving further towards higher value-added products such as high-precision items that can only be manufactured in clean rooms.

Customer-oriented R&D



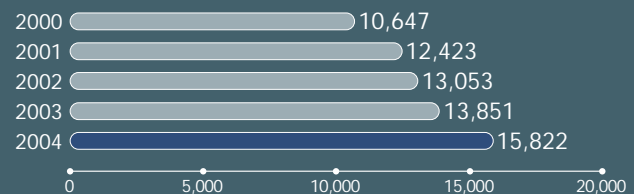
Management of Technology (MOT) in Practice

Each of our business divisions has its own R&D department which engages in R&D associated with its operations. At the same time, head office has established an organization consisting of Core Technology Center, Adhesive Tape Research Center, Production Engineering Development Center and Reliability Evaluation Center to take responsibility for R&D on company-wide themes. The entity responsible for bringing together and managing these in-company R&D resources is called the Integrated Technology Strategy Meeting. The Chief Technology Officer (CTO) who chairs this meeting is selected by the directors in charge. As of the end of May 2004, our President served in this position concurrently, strengthening the direct link between the meeting's decisions and managerial judgments. More specifically, this facilitates decisions on whether to launch new products on the market and allows the necessary management resources to be channeled

accordingly. Quintessential "technomarketing" of this sort is one of the strengths of Nitto Denko's MOT.

In line with the globalization of the R&D sector, we have extended the purview of the Integrated Technology Strategy Meeting globally to establish a framework that will facilitate quick decisions and actions concerning the development of technologies sought by the world's markets.

R&D Expenses (Millions of yen)



Basic R&D Policies

Close relationships with our customers are the basis of our R&D, which means we engage in needs-oriented R&D driven by listening carefully to our customers. Our Marketing, Technology and Planning divisions come together in a product development process that considers issues from all angles and engages in repeated trial manufacture. However, customers' needs are not always obvious. There are many cases where issues that have not yet developed into needs require breakthroughs to resolve problems or involve investigations into the vaguely perceived possibilities of new products. To respond to these potential needs, we sometimes use concepts derived from seed technologies in tackling the development of new products. Since this often leads to development work where neither the market nor the target customers are clearly defined, we use a process of repeated trial and error to create actual test pieces which we then propose to customers. Based on their responses, we work towards perfecting new products by following a process of progressive improvements. Whether we work on needs-oriented R&D or seeds-oriented R&D, the fact remains that our ultimate goal is to satisfy our customers and our markets.

Globalization of R&D

The Nitto Denko Group is committed to establishing a "One-NITTO" culture through a full-scale globalization strategy designed to enable the entire group to function as a single company that is capable of consistent business judgments anywhere and at any time. In doing so, we are well aware of the importance of internationalizing our R&D as well as our production activities. In July 2003, we established an R&D center in the Malaysian capital Kuala Lumpur. We are also working on the development of R&D bases in the North American, European, East and South Asia blocs with a view to making the most of the characteristics and resources of each region. By shrinking the distance between production and development in this way, we are ensuring the global propagation of our "Three-New Activities". At the same time, we are proactively networking and concluding tie-ups with companies, universities and research institutions around the world to create synergies and develop and produce products that offer powerful global competitiveness, thereby realizing globalization in the true sense of the word.

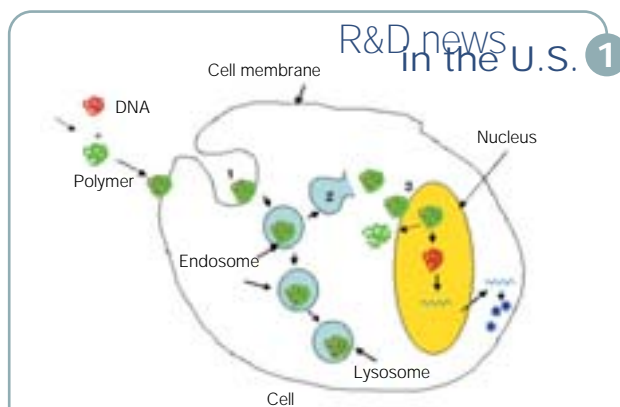
**Close to Customers,
Close to the Future.**

in the U.S.

In the United States, we are engaged in sales and marketing activities in all business domains centered on composite and sealing materials for automobiles. We are putting special effort into the biomembrane business, and in 2003, became the monopoly suppliers of reverse osmosis membranes to America's largest seawater desalination plant, which realized the lowest distillation costs in history. We also secured a strong foothold in the healthcare sector through our acquisition of a transdermal therapeutic patch manufacturer. In R&D, Nitto Denko Technical Corporation is working at the forefront of optical and bio- (genetic-) related materials with a view to creating new products and new businesses originating in the United States.



Nitto Denko Technical's new headquarter building
(Planning to be completed during fiscal 2005)



Developed the World's First Biodegradable Gene Carrier — an Essential Element of Gene Therapy

Gene carriers work by delivering genes into cells and are essential for gene therapy and clarifying genetic functions. Nitto Denko has drawn on its technological expertise in the area of advanced polymer materials to develop the world's first biodegradable gene carrier. In addition to offering greater efficiency than traditional methods in delivering genes into cells, this carrier is also safer because it does not use viruses for transporting the genes and, being biodegradable, exhibits extremely low toxicity. Nitto Denko will continue utilizing its biopolymer technologies to develop new technologies and bio-materials and put them to use in new product applications.

R&D news in the U.S. 2

Developed a Photosensitive Polyimide Material for Optical Waveguide in Cooperation with the University of Arizona

The advent of the age of broadband and the spread of optical communications have led to rising demand for low-cost, highly reliable optical waveguide materials that will transmit optical signals efficiently. In a joint program with a research team from the University of Arizona, we recently succeeded in developing a photosensitive polyimide material that can be used in waveguides. The new photosensitive polyimide material offers a number of superior characteristics, including high transparency at optical communications wavelengths, world-beating low propagation loss, and excellent solder heat resistance. We have high expectations that it will find wide applications in the next generation of communications devices and optical circuit materials.

in Europe

The Nitto Denko Group's European operations range widely from the west to the north and east, and cover production and sales activities aimed at various markets, centered on bonding and joining materials for automobiles and FPCs (flexible printed circuits) for cellular phones. While we pursue our own product development activities in the area of automobile- and adhesive tape-related products, we are also searching for partners in R&D. Looking ahead, we shall continue to put more effort into creating technologies and products that originate in Europe by streamlining our R&D bases there and focusing on sectors where Europe is traditionally strong, such as synthetic chemicals and pharmaceuticals.

in China & East Asia

In rapidly-growing China and other countries and regions of East Asia, the Nitto Denko Group provides support for various sectors of the manufacturing industry. In addition to adhesive tape, it supplies related parts for cellular phones, electronics and automobiles, supporting customer demands for the promotion of local procurement. For example, it supplies optical films for LCDs in Korea, and offers a line-up of key products such as membranes for drinking water, tapes and optical films for LCDs in China. We have started construction work on a new plant in Gumi City, Korea, which will strengthen our production capacity when it is completed in 2005. We have also established a base for the production of reverse osmosis membranes in Shanghai to cope with growth in China's membrane market, which is expanding at 20-30% per annum. In addition to engaging in product development close to our markets, we are actively promoting personnel exchanges in the R&D sector by among other things inviting top class technical workers from China to Japan.

in South Asia & Oceania

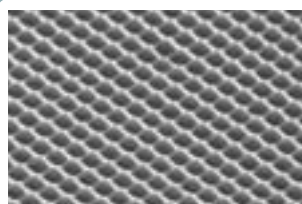
The Nitto Denko Group has established manufacturing and sales bases throughout South Asia and Oceania, in countries like Thailand, Indonesia, Malaysia, Singapore, the Philippines, Vietnam and Australia. Initially, our initial objective was to support Japanese companies that were advancing into the area, but we are now active in production and sales activities aimed at local Asian as well as Japanese and global companies and markets. Our main focus is on R&D that will provide a base for these endeavors. The inauguration of our R&D Center in Malaysia is evidence of our commitment.

R&D news in South Asia

R&D Center in Malaysia Operates Around-the-clock

In July 2003, we set up our R&D center in the Malaysian capital Kuala Lumpur. R&D work on semiconductor encapsulation materials that was originally handled by research centers in Japan was transferred to the new center, which operates around-the-clock. The localization of the R&D sector had lagged behind that of the Production sector, but the recent transfer will do much to further accelerate development work.

in Japan



R&D news in Japan

Contributes to Smaller Digital Cameras and Brighter LCD Devices through Development of High Refractive Index Optical Polymer

The 21st century is sometimes referred to as the "Century of Light." As large-size LCDs and plasma displays compete to improve luminous efficiency, the focus turns towards light control technology that promotes higher luminance and lower power consumption. This in turn means that the optical polymers used in important components such as light emitting and light receiving elements require higher refractive indices. At the end of 2003, Nitto Denko developed a thermosetting polymer that raises the refractive index by 15% compared with conventional products. In fact, the refractive index of 1.76 is the highest in the world. In addition to increasing the luminance of LCD devices, the new product has made it easier to increase the sensitivity or definition of the CCDs used in digital cameras, thus facilitating the design of more compact models.

Environmental Activities

An Environmentally Responsible Global Corporation

As a global corporation providing products with leading world-market shares, Nitto Denko constantly endeavors to act upon its motto, "Open, Fair and Best." Our environmental policy is no exception. In 1993, Nitto Denko declared as a management policy, "We seek to achieve harmony with both nature and society," and as a standard for corporate conduct, "We will work to protect the environment and conserve resources." Nitto Denko also established a Voluntary Environmental Plan for environmental conservation activities and programs, with concrete goals that are communicated internally and publicized externally. Currently we are working toward the achievement of our targets for fiscal 2005. In 1996, the company also established a Fundamental Environmental Policy. In line with this policy we have been tackling a variety of problems to reduce our environment impact.



Voluntary Plan Aims at Reducing Environmental Impact

The Nitto Denko Group is pursuing the five goals listed below in our Voluntary Environmental Plan for environmental conservation activities and programs:

1. Reducing Waste —

This coincides with activities for reducing material loss in the manufacture of tape, our group's mainstay product. On this basis, in fiscal 2000 we introduced a unique environmental accounting statement in which we calculate and publicize the annual Value of Industrial Waste Ratio*. (See below)

2. Preventing Global Warming —

This involves activities to save energy and install power cogeneration equipment at each processing facility.

3. Preventing Air Pollution —

To deal with emissions from the large volumes of organic solvents used in the manufacture of adhesive tape, we have installed deodorizing furnaces and solvent recovery unit, and are also developing non-solvent type products. (See facing page.)

4. International Standards for Environmental Conservation —

Nitto Denko Co., Ltd. and its domestic Group companies completed their ISO 14001 Environmental Management System certifications by January 2001. Five of our overseas Group companies have already obtained ISO 14001 certification.

5. Aiming for Global Activities —

For several years, we have been conducting a regular "G&G Global Conference" with managers from each Group Company. Starting in fiscal 2003, Nitto Denko has held "International Environment and Safety Conferences" with responsible officers from each company. In addition, we are taking measures to promote sharing of information and to upgrade of standards throughout the Group.

*Value of Industrial Waste Ratio = Material Cost and Treatment Costs of Industrial Waste ÷ Product Amount

Non-consolidated Environmental Costs

	Millions of yen	
	2004	2003
Net sales.....	¥ 278,024	¥ 225,450
Environmental conservation costs:		
General expenses.....	874	913
Waste disposal.....	1,162	1,039
Outsourcing.....	223	181
Salary and compensation.....	462	466
Depreciation and amortization.....	1,054	1,218
Technology development.....	883	972
Total.....	4,658	4,789
Environmental impact costs:		
Waste costs.....	36,058	33,554
Energy.....	4,084	4,085
Solvent supply.....	2,164	1,692
Industrial water supply.....	292	304
Total.....	42,598	39,635
Environmental impact cost ratio to net sales.....	15.3 %	17.6 %

Reference Chart: Nitto Denko Co., Ltd. "Environmental Accounting Statement"



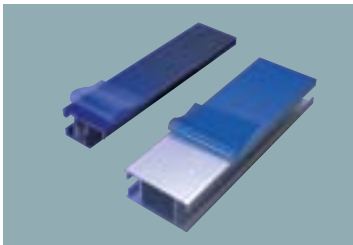
Developing Low-environmental-impact Products and Products that Support Green Procurement

An essential element in environmentally conscientious management is “green” procurement: giving priority to suppliers that conduct operations with consideration for the environment, and purchasing environmentally friendly components and materials for manufacturing. As the movement to prevent depletion of the earth’s limited resources and to create an environmentally responsible society based on recycles spreads around the world, the number of industries and companies that practice green procurement is steadily increasing. In this sense, green procurement is not only an effort to reduce environmental impact; it has also become important from the standpoint of expanding business opportunities. As we minimize the risk to the environment by using environmentally friendly materials and developing manufacturing processes for them, Nitto Denko is also putting its strengths into the development of products that support green procurement.



Tape Utilizing Water-based Adhesives

Chemicals in construction materials and paints that can damage human health cause the “sick house” syndrome. As a countermeasure, people are looking for ways to reduce volatile organic compounds (VOCs). These compounds, which evaporate or gasify at room temperature, include organic solvents. Nitto Denko has eliminated the use of organic solvents and converted over to water-based adhesive materials in the manufacture of adhesives for surface-protection tapes used on metal plates and related items. At the same time, we have improved the compounding of adhesives so that even with variations in metal material characteristics and surface hardness, tapes can be applied securely and accurately. As a result, while responding to our customers’ programs for green procurement, we simultaneously helped them reduce their inventory of protection tape, developing a product with extremely high customer satisfaction.

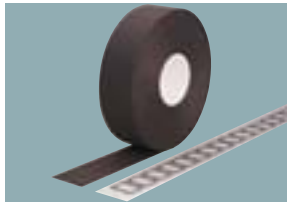


Adhesive Tape for Non-halogen Wire Harnesses

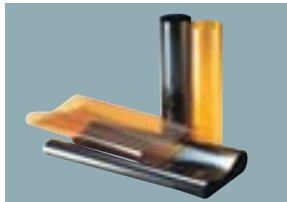
Dependable insulation treatment is an absolute requirement for wire harnesses that conduct electricity to a variety of electrical devices in automobiles. Traditionally, polyvinyl chlorides were used for this insulation, but there are concerns about their ill effects on the environment due to the emission of dioxins when PVCs are burned, the decay of plasticizers into environmental “hormones,” and other problems. Nitto Denko has therefore developed and marketed a non-halogen type of adhesive for wire harnesses with reduced PVC content. In addition, we have achieved lead-free tapes that also have reduced VOCs through the use of water-based adhesives. These new products have been well received since they compare favorably with PVC-based materials, and several automotive parts makers have ordered them in large quantities.



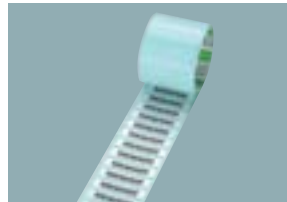
Other “Green” Products



Super clean foam
The world’s first halogen-free sealing material



Polyimide seamless belt
Energy-saving material for printers and copiers



DURATACK C40H
The first lead-free heat resistant label



No. 395 (pink) curing tape
Tape that minimizes soil contamination by toxic substances during disposal

Corporate Governance

Starting with the fiscal year ended March 2004, our company launched major reforms of corporate governance. By introducing an operating officer system, we have clearly distinguished directors, who are responsible for making important management decisions, from operating officers, who are in charge of overseeing business operations. Another major development in fiscal 2004 was the establishment of a Management Advisory Committee, a consultative group of well-informed individuals outside the company.

It is our desire to create a corporation that provides meaningful value for all of its supporting stakeholders, from society at large to shareholders and employees. In order to achieve that, the proper form of corporate governance is an essential factor.

The model of governance we are aiming for is "wholesome and transparent management." As one step toward this goal, in April 2003 we established Legal and Ethical Compliance Guidelines that define our corporate ethical standards. At the same time we also opened a Corporate Ethics Help-Line to respond to queries from employees and others regarding actions that could conflict

with legal principles or public welfare.

In addition, in fiscal 2005 we are reducing memberships in the Board of Directors to five and increasing the number of auditors to five. By equalizing the number of directors and auditors, we intend to strengthen our corporate governance. Moreover, we have adopted a policy that three of the five auditors will be from outside the company.

After reviewing the compensation system for directors, we have decided to eliminate the director retirement bonus system and instead introduce a new share-paying stock option plan. The purpose is to increase the transparency of compensation and increase its linkage to business performance.

The Nitto Denko company motto is "Open, Fair and Best." Our corporate culture is to be open in sharing information, to make fair decisions, and to do our best as a team based on those decisions.

In this spirit, it is the intention of Nitto Denko Corporation, now and in the future, to be a company in harmony with and trusted by society, and to strengthen and broaden our corporate governance.

Financial Section

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28	Consolidated Statements of Income
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Six-year Summary

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

	Millions of yen						Thousands of U.S. dollars
	2004	2003	2002	2001	2000	1999	2004
Net sales	¥ 452,726	¥ 378,705	¥ 338,930	¥ 365,698	¥ 325,399	¥ 297,104	\$ 4,285,555
Industrial products (Note A)	191,694	173,602	184,131	197,270	187,676	186,407	1,814,597
Electronic products	219,805	165,519	120,143	133,115	107,798	82,442	2,080,699
Functional products (Note B)	41,829	40,402	35,800	37,186	32,894	30,143	395,958
Eliminations	(602)	(818)	(1,144)	(1,873)	(2,969)	(1,888)	(5,699)
Operating income	55,912	33,902	19,314	34,824	26,612	18,262	529,269
Income before provision for income taxes	57,075	33,525	3,722	25,724	21,583	12,709	540,278
Net income	33,386	19,237	1,115	15,851	13,399	6,739	316,036
Domestic sales	384,486	321,407	287,543	302,754	276,137	246,050	3,639,587
Overseas sales	174,832	132,436	107,939	124,553	98,029	91,935	1,654,979
North America	38,823	35,140	32,774	39,616	38,366	38,765	367,503
Europe	18,372	16,359	14,494	19,383	15,156	16,078	173,911
Asia & Oceania	117,637	80,937	60,671	65,554	44,507	37,092	1,113,565
Eliminations	(106,592)	(75,138)	(56,552)	(61,609)	(48,767)	(40,881)	(1,009,011)
Depreciation & amortization	21,386	21,144	20,443	18,345	16,464	14,845	202,442
Capital expenditures	36,318	23,337	40,311	32,727	24,014	22,717	343,790
R&D expenses	15,822	13,851	13,053	12,423	10,647	10,227	149,773
Total assets	¥ 389,525	¥ 379,812	¥ 350,340	¥ 357,654	¥ 334,501	¥ 317,135	\$ 3,687,287
Shareholders' equity	223,114	237,560	228,410	226,894	212,126	190,622	2,112,022
Number of employees	13,161	10,764	9,510	9,857	9,092	9,257	13,161
	Yen						U.S. dollars
Net income per share of common stock	¥ 197.99	¥ 108.52	¥ 6.42	¥ 93.51	¥ 82.04	¥ 43.51	\$ 1.87
Cash dividends per share of common stock	40.00	24.00	22.00	21.00	18.00	14.00	0.38
Number of shares outstanding (thousands)	173,758	173,758	173,758	173,758	166,512	158,319	173,358
Number of shareholders	20,786	16,952	15,386	14,745	5,943	5,382	20,786
	(%)						(%)
ROE	14.49	8.26	0.49	7.22	6.65	3.65	14.49
ROA	8.68	5.27	0.32	4.58	4.11	2.12	8.68
Operating income ratio	12.35	8.95	5.70	9.52	8.18	6.15	12.35
Equity ratio	57.28	62.55	65.20	63.44	63.42	60.11	57.28
Asset turnover (times)	1.18	1.04	0.97	1.06	1.00	0.93	1.18
	Thousands of yen						U.S. dollars
Net sales per employee	¥ 34,399	¥ 35,183	¥ 35,639	¥ 37,100	¥ 35,790	¥ 32,095	\$ 325,625

Note A: The Corporation changed the segment category for the electronic processing products (formerly electronic component-related products) from Industrial Products to Electronic Products in 2004. The figures for 2003 have been restated to conform with 2004 presentation.

Note B: The Corporation split industrial products into Industrial Products and Functional Products in 2000.

Analysis of Results of Operations and Financial Condition

1. Results of Consolidated Operations

1. Overview

Fiscal 2004 started with the world economy showing signs of stagnation from the effects of the new SARS virus and the Iraq war, but later entering a recovery centered on Asia and the United States. The U.S. economy was especially vigorous, as personal spending was spurred by a large-scale tax cut and strong housing investment amidst a low-interest policy. The Japanese economy also recovered quickly in the second half of the fiscal year, pulled up by the resurgence of the U.S. economy and exports to Asia. Accompanied by a rise in capital investment, the recovery of the domestic economy became broad-based by fiscal year-end.

In this economic environment, the Nitto Denko Group (the "Group") continued to supply the fast-growing Flat-Panel Display (FPD) industry with materials for Liquid-Crystal Displays (LCD) and surface protection. The Group also shipped electronic circuit and bonding and jointing materials to makers of cellular phones and personal computers. Both product sectors grew strongly, resulting in a 19.5% year-on-year increase in net sales, to a record ¥452,726 million. We also achieved record-high results in earnings, as operating income increased by 64.9% to ¥55,912 million and net income increased by 73.6% to ¥33,386 million.

2. Analysis of Income Statement

Sales

Net sales were ¥452,726 million, an increase of 19.5% over the previous fiscal year. Excluding the impact of foreign exchange conversion due to the appreciation of the yen, the real growth rate in sales was 21.8%. Domestic sales rose by 8.3% to ¥243,200 million, thanks to brisk sales of LCD-related materials, bonding and jointing materials for cellular phones and home electronics, and sealing materials. With increased exports of LCD-related materials to Asia and Oceania, and due to a rise in U.S. sales following merger-acquisition activities, overseas sales increased by 35.9% to ¥209,526 million. The ratio of overseas sales to total consolidated sales went up from 40.7% to 46.3%.

Sales in the Industrial Products segment increased by 10.4% over the previous year to ¥191,694 million. The Group posted strong sales of bonding and jointing materials and sealing materials for use in cellular phone-related products, personal computer peripheral devices exported to East Asia, and home electronics. In addition, shipments of surface protection materials and cleaning materials for the FPD industry contributed significantly to growth in this segment. Although sales of automotive sealing materials also grew, electronic insulating materials for the electric-

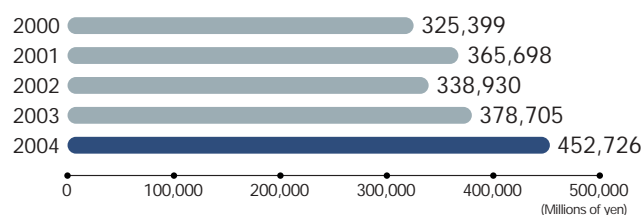
power industry were sluggish, as were sales of packaging materials and consumer products. Starting with fiscal 2004, Permacel Automotive (PCA), a manufacturer of automotive materials in the U.S., became a consolidated subsidiary and contributed ¥6,948 million to sales.

Sales in the Electronic Products segment increased by 32.8% to ¥219,805 million. LCD-related materials contributed the most to the increase as advanced compensation films for high-definition LCDs soared amid solid growth in the LCD television market. Sales of wide-angle polarizing films and polarization conversion films for cellular phones, laptop PCs, and LCD TVs also expanded greatly. Another factor in the sales increase was a moderating decline in unit prices compared to fiscal 2003 due to a tight supply-demand balance. In circuit materials, a vigorous cellular phone market spurred favorable sales growth as we concentrated on the color LCD and compact camera markets. Sales of circuit materials for hard disk drives were brisk. The start of regular production at our new Suzhou Plant in China, near Shanghai, also contributed to revenue growth. In electronic processing materials, sales of protection sheets and laminating devices for semiconductor manufacturing were favorable thanks to a recovery in the semiconductor and electronic components industries. Although shipments of semiconductor-related materials for optical semiconductors were firm, sales were flat overall.

Sales in the Functional Products segment increased by 3.5% to ¥41,829 million. The market for medical-related materials was stagnant as a whole due to the effects of government policies to control healthcare costs. Although sales of surgical tape and medical sanitary materials were flat, transdermal therapeutic patches for asthma sold well. In high-polymer separation membranes, sales of membranes used for rinsing in the semiconductor industry and LCD panel industries were firm, but due to a decline in sales of large-scale desalination membranes, sales were weak overall. Engineering plastics sold well overall, as shipments of inner pressure-regulating membranes for office automation equipment and automotive electronics were firm, and sales of process materials and related items for the electronics industry also increased.

Note) The figures in sales by segment are presented in total (no eliminations considered).

Net Sales



Cost of Sales and Selling, General and Administrative Expenses

Along with the rise in net sales, cost of sales (COS) increased by 17.0% to ¥314,786 million. Despite the decrease in product prices, the ratio of COS to sales declined by 1.5 percentage points to 69.5%. Contributing to this improvement were operating merits of scale from the expansion of sales volume, as well as efforts to rationalize operations and lower material unit costs.

Selling, general and administrative expenses (SG&A) increased by 8.3% over the previous year to ¥82,028 million. The primary factors were rises in personnel costs, freight, advertising, and selling fees. The ratio of SG&A to net sales decreased 1.9 percentage points to 18.1%.

Operating Income

In addition to the rise in sales, the declines in ratios of COS and SG&A led to a major increase in operating income, which rose by 64.9% to ¥55,912 million.

As a segment, Electronic Products contributed the most to this increase in income, with a net operating income rise of ¥20,783 million or 114.8% year-on-year. Industrial Products was second, for a net increase of ¥3,185 million or 31.1% over the previous year. Operating income in Functional Products declined by ¥1,958 million, or 35.3%. Besides LCD-related materials, the major contributor to the increase in Electronic Products income was circuit materials. The main factors for the decreased income in Functional Products were the full depreciation of the acquisition cost and increase in research & development costs incurred due to the acquisition of Aveva Drug Delivery Systems (ADS), a U.S. manufacturer of transdermal therapeutic patches, aimed at the expansion of our future medical business. This acquisition impacted earnings in fiscal 2004.

Other Income (Expenses)

The net amount of other income and expenses increased from a net expense of ¥377 million in fiscal 2003 to a net income of ¥1,163 million in fiscal 2004. The main factors in the increase were an investment gain of ¥672 million or 36.1% to ¥2,534 million for equity in earnings of non-consolidated

subsidiaries and affiliates, and a decrease of ¥301 million or 38.3% in foreign exchange losses to ¥1,088 million.

In addition, while the one-time fiscal 2003 item, ¥3,732 million for gains on the return of the substitutional portion of employee pension fund, did not occur in fiscal 2004, a gain of ¥1,958 million was recorded for reversal of allowance for severance and pension benefits due to changes in the plan. A restructuring charge of ¥1,821 million and loss on evaluation of marketable securities and investments of ¥1,658 million were incurred in the previous year, while in fiscal 2004 ¥683 million was written off for loss on evaluation of fixed assets by our U.S. subsidiary, Graphic Technology, Inc. (GTI).

Income before Provision for Income Taxes

As a result of the above items, income before provision for income taxes increased by 70.2% over the previous year to ¥57,075 million.

Income Taxes

The total of corporate income taxes, local income taxes, enterprise taxes and adjustments to income tax increased from ¥13,352 million the previous year to ¥21,901 million.

Although tax reductions for research and development expense in Japan lowered the corporate tax rate, due to the losses of our subsidiaries in the U.S. and other factors the Group was unable to recognize a significant tax benefit. As a result, the effective tax rate for accounting purposes was 38.4%, a 1.4 percentage-point decrease compared to 39.8% the previous year.

Net Income

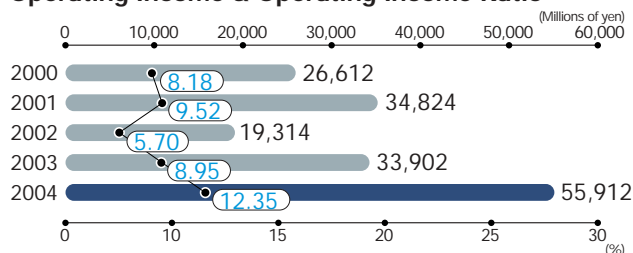
Net income for fiscal 2004 increased 73.6% to ¥33,386 million. Net income per share rose 82.4% to ¥197.99 (¥197.93 after dilution).

2. Analysis of Financial Condition

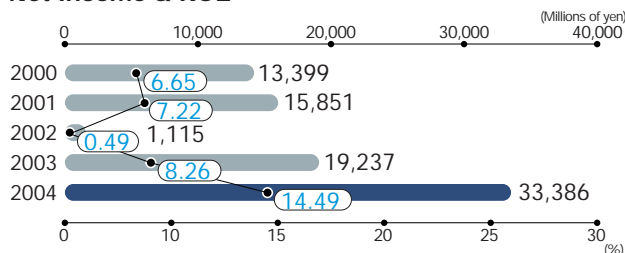
1. Assets and Liabilities & Shareholders' Equity

Total consolidated assets at the end of fiscal 2004 were ¥389,525 million, ¥9,714 million or 2.6% higher than at the

Operating Income & Operating Income Ratio



Net Income & ROE



end of the previous year (hereafter "previous year-end"). Of this amount, current assets decreased by ¥5,146 million or 2.4% to ¥211,294 million, tangible fixed assets (Plant and Equipment) increased by ¥11,884 million or 9.3% to ¥139,330 million, and investments and other assets increased by ¥2,976 million or 8.3% to ¥38,901 million.

The major factor in the decrease in current assets was the sale of all marketable securities, valued at ¥19,027 million at previous year-end, to meet demand for funds to acquire treasury stock. However, accounts receivable, accrued receivables and inventories all increased due to the increase in sales.

The increase in tangible fixed assets (Plant and Equipment) was primarily due to capital investment in manufacturing equipment to supply the FPD industry, which is expected to continue growing. Regarding the increase in investment assets (Investment and Other Assets), although long-term deferred tax assets decreased by ¥5,028 million, investment securities increased by ¥5,168 million due to the change in current market value, which was mainly the result of a recovery in the stock market.

Total consolidated liabilities at the end of fiscal 2004 were ¥154,428 million, an increase of ¥22,423 million or 17.0% compared to the previous year-end. Current liabilities were ¥138,274 million at year-end, an increase of ¥29,070 million or 26.6% over the previous year-end. Trade notes and accounts payable increased by ¥25,481 million over the previous year-end as a result of the increase in sales.

Due to changes in the pension plan, reduction in severance allowances decreased long-term liabilities by ¥6,647 million or 29.2% to ¥16,154 million.

Consolidated shareholders' equity at the end of fiscal 2004 decreased by ¥14,446 million or 6.1% compared to the previous year-end to ¥223,114 million. Retained earnings increased by ¥27,964 million or 16.6% to ¥196,596 million with the increase in net income. As a result of acquisition of treasury stock, the cost of treasury stock increased by ¥39,109 million or 3665.2% to ¥40,176 million.

As a result, the shareholder equity ratio decreased from 62.5% at previous year-end to 57.3% at the end of fiscal 2004.

2. Cash Flow Analysis

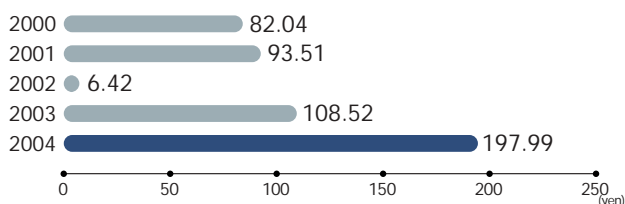
The change in consolidated cash and cash equivalents (hereafter "cash") was a net decrease in cash of ¥25,162 million compared to an increase of ¥32,409 million in the previous year. The main factors of the decrease were outflows of cash to acquire treasury stock and increase in trade notes and accounts receivables. The resulting cash balance decreased by ¥24,797 million or 33.8% to ¥48,544 million. Also, there was a cash balance increase of ¥364 million due to changes in scope of consolidation in fiscal 2004.

Net cash provided by operating activities decreased by ¥12,957 million or 21.9% compared to the previous year to ¥46,268 million. Net income before provision for taxes increased dramatically by 70.2% compared to the previous year. In non-cash items, depreciation and amortization increased by 1.1% to ¥21,386 million, and the increase in trade notes and accounts payable grew by 114.7% to ¥15,566 million. However, due to the sales increase and other factors, the increase in trade notes and other receivables grew by a large 500.4% to ¥18,458 million, and due to higher income, income taxes paid also rose dramatically to ¥19,858 million.

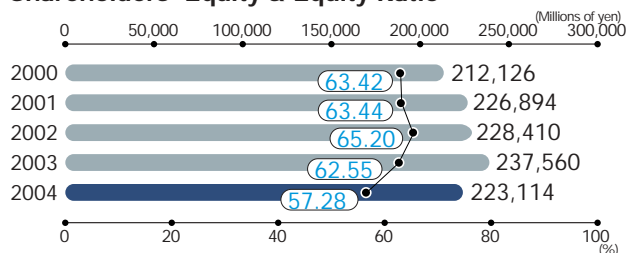
Net cash flow used in investing activities increased by ¥6,704 million or 27.2% to ¥31,312 million. This was primarily due to a 10.8% rise in acquisitions of plant and equipment to ¥27,085 million and investment of ¥7,660 million for the acquisition of subsidiary equities.

Net cash flow used in financing activities increased significantly by ¥37,532 million to ¥39,170 million. The main factors in this rise were payments for the acquisition of treasury stock, representing a major increase of 3,632.2% or ¥39,709 million. In addition, payments of dividends increased by 31.8% to ¥5,034 million.

Net Income Per Share



Shareholders' Equity & Equity Ratio



3. Business and Other Risks

The risks that could affect the Group's performance, stock price and financial position include the following. The forward-looking statements within the text are based on the Group judgments as of the end of fiscal 2004.

1. Exchange Rate Fluctuations

Overseas sales account for 46% of group sales and overseas production for 17% of group production. As a result, the Group's performance is affected by exchange rate fluctuations — yen appreciations have an unfavorable impact and yen depreciations have a favorable impact. Although the Group makes every effort to minimize the impact of exchange rate fluctuations between key currencies such as the US dollar, the euro and the yen, they may have an adverse effect on the Group's performance over the long term.

2. Optical Business

The cumulative build-up of transactions with the world's key LCD panel manufacturers has enabled the Group's optical business to take the number one global market share in the sector, giving it a core role in our overall operations. We are working to expand our market share and maintain and enhance our profitability by continually launching new products and expanding our production capacity in a timely fashion. However, the intensified competition and sharply lower prices that result from the continuing influx of new competitors could affect the Group's performance adversely.

3. Business Development in the Asian Area

The Group is proactively engaged in expanding its business at the global level through area-specific marketing activities and cost-cutting efforts as it advances into North America, Europe and Asia. Asia is especially vulnerable to various unavoidable risks, including unexpected changes in the legislative, taxation and regulatory frameworks, transportation delays, power cuts and other social disruptions arising from inadequate infrastructures, political changes, war and terrorism, and SARS epidemics. Should

any of these risks actually arise, the Group's performance could be adversely affected.

4. Deficits in North America

The Group has been making forward-looking investments in the North American market, purchasing Aveva Drug Delivery Systems (ADS) with a view to expanding its healthcare business in the region, and consolidating production at the Pleasant Prairie Plant of Permacel (PC) to establish a more efficient production system and deal more effectively with the need for clean product handling systems. As a result of the expenses arising from these efforts, the Group's North American operations posted an operating loss in fiscal 2004. This means the Group's performance could be affected adversely if the environment facing its businesses followed an unexpected course that caused these investments to lose their viability.

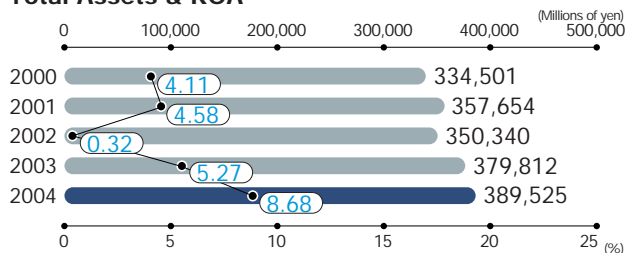
5. Product Defects

The Group is endeavoring to earn customer trust by manufacturing products in accordance with the ISO 9000 series of quality management standards. Since producer goods transactions are the basis of our business, we believe we are unlikely to find ourselves in a position of compensating end-users or recalling our products. However, the Group and its products would lose trust and its performance could be affected adversely should we find ourselves in the position of having to compensate final consumers for defective products or make product recalls that result in compensation exceeding product liability insurance coverage.

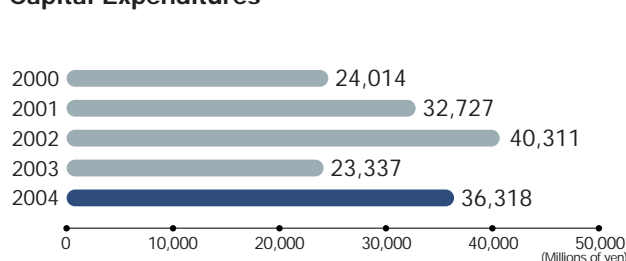
6. Environmental Issues

Environmental conservation activities have always been an important element of our Group's management policy and as a result of our efforts to reduce waste, prevent global warming and atmospheric pollution, and engage in ISO 14000 activities, we have never caused a major environmental problem. The Group uses large quantities of toluene, disclosing this fact in the PRTR (Pollutant Release and Transfer Register) and environmental reports, and is

Total Assets & ROA



Capital Expenditures



implementing a reduction plan that it drew up voluntarily. However, there is a possibility that it would incur large environment-related expenses under the provisions of newly-enacted legislation.

7. Laws and Regulations

The Group's pharmaceutical-related business requires the approval of the Ministry of Health, Labour and Welfare (MHLW) for the manufacture and sales in Japan of transdermal therapeutic patches (for asthma and ischemic heart disease) and "Yukiban" surgical tapes. In fiscal 2004, as part of its program to develop its pharmaceuticals business at the global level, the Group also acquired ADS, which has received approval to manufacture and sell pharmaceuticals in the United States. Pharmaceutical-related products are therefore subject to certain regulations, and since there is a possibility that these regulations may change in Japan and the United States in the future, this could affect the Group's performance.

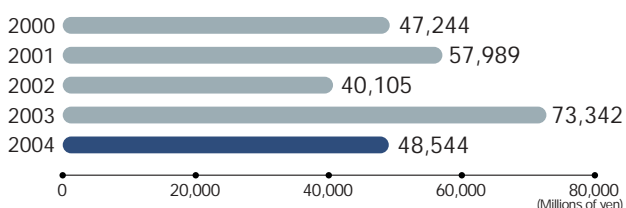
8. Impact of Accidents and Disasters

In order to prevent damages arising from accidents or disasters caused by fires, explosions and the like, we are committed to ensuring that facilities inspections, safety equipment and fire extinguishing equipment are adequate, and to engaging in various kinds of safety activities. One of our most important production centers, the Toyohashi Plant, is located in an "Area under Intensified Measures against Earthquake Disasters." To prevent direct damage and secondary disasters, the plant has improved its facilities by reinforcing them against earthquakes and installing automatic shutoff devices, and carries out periodic emergency drills. Yet there is still a possibility that the Group's performance could be adversely affected. Accidents and disasters could still occur despite these efforts, while the scope of the compensation payable under the earthquake insurance taken out for the Toyohashi Plant in the earthquake-prone Tokai region is limited.

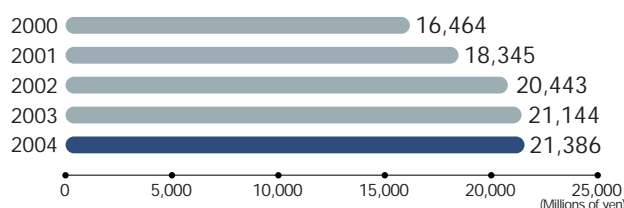
9. Retirement Benefit Obligations

Expenses for the Group employees' retirement benefits are calculated on the basis of assumptions established for discount ratios and other actuarial calculations or on the basis of expected returns on pension assets. Generally speaking, this affects the expenses recognized and the obligations posted at some future time because in cases where actual results differ from the preconditions, or the preconditions are altered, the cumulative impact is recognized systematically going forward. The Group's performance could therefore be adversely affected by such factors as weaker pension asset investment performance or further reductions in discount rates.

Cash & Cash Equivalents



Depreciation & Amortization



Consolidated Balance Sheets

Nitto Denko Corporation and Consolidated Subsidiaries
As of March 31, 2004 and 2003

Assets	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Current Assets:				
Cash on hand and in banks (Note 2)	¥ 49,145	¥ 52,710	\$ 465,212	\$ 498,959
Marketable securities (Notes 2 and 3).....	—	19,027	—	180,112
Trade notes and accounts receivable	108,583	91,362	1,027,859	864,843
Allowance for doubtful receivables	(1,169)	(1,212)	(11,066)	(11,473)
Inventories (Note 4)	40,671	37,674	384,996	356,626
Deferred tax assets and other (Note 5)	14,064	16,880	133,132	159,788
	211,294	216,441	2,000,133	2,048,855
Plant and Equipment, at Cost (Note 6):				
Land	18,824	19,116	178,190	180,955
Buildings	111,061	104,511	1,051,316	989,313
Machinery and equipment	217,898	205,497	2,062,647	1,945,257
Construction in progress	10,215	6,381	96,696	60,403
	357,998	335,505	3,388,849	3,175,928
Accumulated depreciation	(218,668)	(208,059)	(2,069,936)	(1,969,510)
	139,330	127,446	1,318,913	1,206,418
Investments and Other Assets:				
Investments in nonconsolidated subsidiaries and affiliates	13,538	11,835	128,152	112,031
Investments in securities (Notes 3 and 6)	11,603	6,435	109,835	60,914
Goodwill	621	1,396	5,878	13,215
Deferred tax assets and other (Note 5)	13,139	16,259	124,376	153,910
	38,901	35,925	368,241	340,070
	¥ 389,525	¥ 379,812	\$ 3,687,287	\$ 3,595,343

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

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Current Liabilities:				
Short-term bank loans, including current portion of long-term debts (Note 6)	¥ 12,116	¥ 9,468	\$ 114,691	\$ 89,625
Trade notes and accounts payable	97,776	72,294	925,559	684,343
Accrued expenses	15,202	13,647	143,904	129,184
Income taxes (Note 5)	12,573	13,276	119,017	125,672
Other current liabilities	607	520	5,746	4,923
	138,274	109,205	1,308,917	1,033,747
Long-term Liabilities:				
Long-term debts (Note 6)	3,748	2,649	35,479	25,076
Allowance for severance and pension benefits (Notes 1(i) and 7)	8,642	16,616	81,806	157,289
Retirement allowances for directors and corporate auditors	1,339	1,232	12,675	11,662
Other long-term liabilities	2,425	2,304	22,956	21,810
	16,154	22,801	152,916	215,837
Minority Interests	11,983	10,246	113,432	96,990
Commitments and Contingent Liabilities (Note 11)				
Shareholders' Equity (Note 9):				
Common stock	26,784	26,784	253,540	253,540
Authorized — 400,000,000 shares				
Issued — 173,758,428 shares in 2004 and 2003				
Capital surplus	50,482	50,482	477,868	477,868
Retained earnings	196,596	168,632	1,861,000	1,596,289
Net unrealized holding gains on securities	3,057	243	28,938	2,300
Foreign currency translation adjustments	(13,629)	(7,514)	(129,014)	(71,128)
Cost of treasury stock (10,169,504 shares)	(40,176)	(1,067)	(380,310)	(10,100)
	223,114	237,560	2,112,022	2,248,769
	¥ 389,525	¥ 379,812	\$ 3,687,287	\$ 3,595,343

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

Consolidated Statements of Income

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Net Sales	¥ 452,726	¥ 378,705	\$ 4,285,555	\$ 3,584,864
Cost of Sales	314,786	269,085	2,979,800	2,547,189
Gross profit	137,940	109,620	1,305,755	1,037,675
Selling, General and Administrative Expenses	82,028	75,718	776,486	716,755
Operating income	55,912	33,902	529,269	320,920
Other Income (Expenses):				
Interest and dividend income	526	517	4,979	4,894
Interest expense	(246)	(202)	(2,329)	(1,912)
Gain (loss) on sales of marketable securities and investments in securities, net	26	(10)	246	(95)
Foreign exchange gain (loss)	1,088	787	10,299	7,450
Equity in earnings of nonconsolidated subsidiaries and affiliates	2,534	1,862	23,987	17,626
Loss on evaluation of marketable securities and investments in securities (Note 1 (d))	(2)	(1,658)	(19)	(15,695)
Loss on evaluation of fixed assets.....	(683)	(485)	(6,465)	(4,591)
Loss on evaluation of goodwill	(683)	—	(6,465)	—
Restructuring expense (Note 13)	—	(1,821)	—	(17,238)
Gains on return of substitutional portion of employee pension fund (Notes 1(i) and 7)	—	3,732	—	35,328
Reversal of allowance for severance and pension benefits (Note 1 (i))	1,958	—	18,535	—
Other, net	(3,355)	(3,099)	(31,759)	(29,336)
	1,163	(377)	11,009	(3,569)
Income before Provision for Income Taxes	57,075	33,525	540,278	317,351
Provision for Income Taxes (Note 5):				
Current	18,954	13,593	179,421	128,673
Deferred, net	2,947	(241)	27,896	(2,281)
	21,901	13,352	207,317	126,392
Minority Interests in Net Income of Consolidated Subsidiaries ..	(1,788)	(936)	(16,925)	(8,859)
Net Income	¥ 33,386	¥ 19,237	\$ 316,036	\$ 182,100
Per Share of Common Stock (Note 9):				
		Yen		U.S. dollars
Net Income	¥ 197.99	¥ 108.52	\$ 1.87	\$ 1.03
Net Income — Diluted	197.93	108.52	1.87	1.03
Cash Dividends, Applicable to Earnings of the Year	40.00	24.00	0.38	0.23

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

Consolidated Statements of Shareholders' Equity

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2004 and 2003

	Number of Shares (thousands)		Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003	2004	2003
Common Stock (Note 9):						
Authorized shares	400,000	400,000				
Outstanding shares						
Beginning balance	173,758	173,758	¥ 26,784	¥ 26,784	\$ 253,540	\$ 253,540
Net increase	—	—	—	—	—	—
Ending balance	173,758	173,758	¥ 26,784	¥ 26,784	\$ 253,540	\$ 253,540
Capital Surplus (Note 9):						
Beginning balance			¥ 50,482	¥ 50,482	\$ 477,868	\$ 477,868
Net increase			—	—	—	—
Ending balance			¥ 50,482	¥ 50,482	\$ 477,868	\$ 477,868
Retained Earnings (Note 9):						
Beginning balance			¥ 168,632	¥ 153,518	\$ 1,596,289	\$ 1,453,218
Net income			33,386	19,237	316,036	182,100
Cash dividends paid			(5,034)	(3,819)	(47,652)	(36,151)
Directors' bonuses			(386)	(304)	(3,654)	(2,878)
Loss on treasury stock			(2)	—	(19)	—
Ending balance			¥ 196,596	¥ 168,632	\$ 1,861,000	\$ 1,596,289
Net Unrealized Holding Gains on Securities:						
Beginning balance			¥ 243	¥ 663	\$ 2,300	\$ 6,276
Net increase (decrease)			2,814	(420)	26,638	(3,976)
Ending balance			¥ 3,057	¥ 243	\$ 28,938	\$ 2,300
Foreign Currency Translation Adjustments:						
Beginning balance			¥ (7,514)	¥ (3,034)	\$ (71,128)	\$ (28,720)
Net increase (decrease)			(6,115)	(4,480)	(57,886)	(42,408)
Ending balance			¥ (13,629)	¥ (7,514)	\$ (129,014)	\$ (71,128)
Cost of Treasury Stock (Note 10):						
Beginning balance			¥ (1,067)	¥ (3)	\$ (10,100)	\$ (28)
Net decrease (increase)			(39,109)	(1,064)	(370,210)	(10,072)
Ending balance			¥ (40,176)	¥ (1,067)	\$ (380,310)	\$ (10,100)

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

Consolidated Statements of Cash Flows

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Cash Flows from Operating Activities:				
Income before provision for income taxes	¥ 57,075	¥ 33,525	\$ 540,278	\$ 317,351
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization	21,386	21,144	202,442	200,151
Interest and dividend income	(526)	(517)	(4,979)	(4,894)
Interest expense	246	202	2,329	1,912
Equity in earnings of nonconsolidated subsidiaries and affiliates	(2,534)	(1,862)	(23,987)	(17,626)
Loss on evaluation of investments in securities	2	1,658	19	15,695
Loss on evaluation of goodwill	683	—	6,465	—
(Gain) loss on sales and disposal of fixed assets	978	682	9,258	6,456
Decrease (increase) in trade notes and accounts receivable	(18,458)	(3,074)	(174,725)	(29,099)
Decrease (increase) in inventories	(3,948)	(4,493)	(37,372)	(42,531)
Decrease (increase) in other receivables	(1,949)	(292)	(18,449)	(2,764)
Increase (decrease) in trade notes and accounts payable	15,566	7,251	147,349	68,639
Other, net	(2,960)	3,023	(28,020)	28,616
Total	65,561	57,247	620,608	541,906
Interest and dividend income received	804	480	7,611	4,544
Interest paid	(239)	(208)	(2,262)	(1,969)
Income taxes refunded (paid)	(19,858)	1,706	(187,979)	16,149
Net cash provided by operating activities	46,268	59,225	437,978	560,630
Cash Flow from Investing Activities:				
Decrease in marketable securities, net	1,717	2,678	16,253	25,350
Acquisitions of plant and equipment	(27,085)	(24,451)	(256,390)	(231,456)
Proceeds from sales of plant and equipment	973	1,184	9,211	11,208
Decrease (increase) in time deposits, net	1	(2)	9	(19)
Purchase of investments in securities	(611)	(2,066)	(5,784)	(19,557)
Proceeds from sales of investments in securities	460	390	4,354	3,692
Acquisitions of subsidiaries	(7,660)	(2,074)	(72,510)	(19,633)
Other, net	893	(267)	8,454	(2,527)
Net cash used in investing activities	(31,312)	(24,608)	(296,403)	(232,942)
Cash Flows from Financing Activities:				
Proceeds from long-term debts	3,446	1,846	32,620	17,474
Repayments of long-term debts	(284)	(55)	(2,688)	(521)
Increase (decrease) in short-term debts, net	1,944	1,756	18,402	16,622
Acquisition of treasury stock for stock options	(39,709)	(1,063)	(375,890)	(10,062)
Repayments of bonds	—	(200)	—	(1,893)
Dividends paid	(5,034)	(3,819)	(47,652)	(36,151)
Other, net	467	(103)	4,420	(974)
Net cash used in financing activities	(39,170)	(1,638)	(370,788)	(15,505)
Foreign Currency Exchange Gain (Loss) in Cash and Cash Equivalents	(948)	(570)	(8,973)	(5,396)
Net Increase (Decrease) in Cash and Cash Equivalents	(25,162)	32,409	(238,186)	306,787
Cash and Cash Equivalents, Beginning of Year	73,342	40,105	694,264	379,638
Increase in Cash and Cash Equivalents due to				
Change in Scope of Consolidated Subsidiaries	364	828	3,445	7,839
Cash and Cash Equivalents, End of Year (Note 2)	¥ 48,544	¥ 73,342	\$ 459,523	\$ 694,264

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

Notes to Consolidated Financial Statements

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2004 and 2003

1. Basis of Presenting Consolidated Financial Statements

NITTO DENKO CORPORATION (the "Corporation") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2004, which was ¥105.64 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange. Significant accounting and reporting policies are summarized as follows:

(a) Principles of Consolidation

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

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

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

Material intercompany balances and transactions have been eliminated in consolidation.

(b) Translation of Foreign Currencies

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

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

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

Revenue and expenses accounts of the consolidated foreign subsidiaries are translated into Japanese yen at average rate. The resulting foreign currency translation adjustments are included in minority interests and are shown as a separate component of shareholders' equity.

(c) Leases

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

(d) Marketable Securities and Investments in Securities

Marketable securities consist of marketable equity and interest-bearing securities.

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

The Corporation and its domestic subsidiaries classified securities into the following two categories: (a) securities held for trading purposes (hereafter, "Trading securities"), (b) all other securities (hereafter, "Other securities").

Trading securities are stated at fair market value and unrealized gains and losses are charged to income. Realized gains and losses on sales of such securities are determined by the average cost method.

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

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

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

(e) Inventories

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

(f) Depreciation

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

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

(g) Income Taxes

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

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

(h) Research and Development Expenses

Research and development expenses are charged to income as incurred. Research and development expenses charged to income amounted to ¥15,822 million (\$149,773 thousand) and ¥13,851 million (\$131,115 thousand) for the years ended March 31, 2004 and 2003, respectively.

(i) Employees' Severance and Pension Benefits

The Corporation and its domestic subsidiaries have retirement plans and a contributory funded pension plan for employees, which are defined benefit plans.

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

Prior service costs of pension plans are amortized on the straight-line method over the fixed years, 12 years, less than the estimated average remaining service lives of the employees from fiscal 2004.

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

Based on the newly enacted Defined Benefit Corporate Pension Law, the Corporation and its domestic consolidated subsidiaries were permitted by the Minister of Health, Labor and Welfare on March 26, 2003 to be released from their future obligation for payments for the substitutional portion of the Employees' Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension

Fund are to be transferred back to the government's scheme.

The Corporation and its domestic consolidated subsidiaries applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)", and the settlement of the substitutional portion was recognized at the date of the permission by the Ministry of Health, Labor and Welfare. As the result, in the year ended March 31, 2003, the Corporation and its consolidated domestic subsidiaries recorded gains on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme amounting to ¥ 3,732million (\$ 35,328 thousand). The amount of pension plan assets to be transferred back to the government was ¥ 20,177 million (\$ 190,998 thousand) as at March 31, 2003.

In the previous year, one of subsidiaries recorded prior year adjustment on accounting for pensions and post retirement benefits, which was charged to income of the previous year.

In the current year, the reversal of allowance for severance and pension benefits amounting to ¥1,958 million (\$18,535 thousand) was incurred due to a change in the employees' pension plan of the Corporation and certain domestic subsidiaries, which decreased prior service costs.

(j) Definition of Cash Equivalents in the Consolidated Statements of Cash Flows

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

(k) Derivative Transactions and Hedge Accounting

All derivative financial instruments are stated at fair value and recorded on the balance sheets.

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

A. Hedging instruments and hedged items

Hedging instruments:

Foreign exchange forward contracts

Hedged items:

Trade receivables associated with export of products and payables associated with purchase of certain plants and equipments

B. Hedge policy

The Corporation and its domestic subsidiaries use foreign exchange forward contracts to hedge the risk due to the effect of foreign currency exchange rates.

(l) Reclassifications

Certain prior year amounts have been reclassified to conform to 2004 presentation.

2. Cash and Cash Equivalents

The reconciliations of cash and cash equivalents to the accounts on the balance sheets as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Cash on hand and in banks	¥ 49,145	¥ 52,710	\$ 465,212	\$ 498,959
Time deposits with maturities exceeding three months	(601)	(678)	(5,689)	(6,418)
Securities and others	—	21,310	—	201,723
Cash and cash equivalents	¥ 48,544	¥ 73,342	\$ 459,523	\$ 694,264

3. Securites

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

(a) Trading securities as of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Trading securities:				
Carrying amount	¥ —	¥ 18,934	\$ —	\$ 179,231
Unrealized gains (losses), net	—	9	—	85

(b) Other securities as of March 31, 2004 and 2003:

2004

Type	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs						
Equity securities	¥ 2,739	¥ 8,276	¥ 5,538	\$ 25,928	\$ 78,342	\$ 52,423
Other	165	201	35	1,562	1,903	332
Total	¥ 2,904	¥ 8,477	¥ 5,573	\$ 27,490	\$ 80,245	\$ 52,755
Securities with book values not exceeding acquisition costs						
Equity securities	¥ 517	¥ 516	¥ (1)	\$ 4,894	\$ 4,885	\$ (9)
Other	105	103	(2)	994	975	(19)
Total	¥ 622	¥ 619	¥ (3)	\$ 5,888	\$ 5,860	\$ (28)

2003

Type	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs						
Equity securities	¥ 1,201	¥ 2,001	¥ 800	\$ 11,369	\$ 18,942	\$ 7,573
Other	93	93	0	880	880	0
Total	¥ 1,294	¥ 2,094	¥ 800	\$ 12,249	\$ 19,822	\$ 7,573
Securities with book values not exceeding acquisition costs						
Equity securities	¥ 1,396	¥ 1,261	¥ (135)	\$ 13,215	\$ 11,937	\$ (1,278)
Other	15	8	(7)	142	75	(66)
Total	¥ 2,168	¥ 1,923	¥ (245)	\$ 20,523	\$ 18,203	\$ (2,319)

Notes to Consolidated Financial Statements

B. The following table summarizes the book values of other securities with no available fair values as of March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Other securities with no fair value				
Non-listed equity securities:				
Carrying amount	¥ 2,507	¥ 2,511	\$ 23,730	\$ 23,769

C. Total sales of other securities sold in the year ended March 31, 2004 amounted to ¥460 million (\$4,345 thousand) and the related gains and losses amounted to ¥38 million (\$360 thousand) and ¥14 million (\$133 thousand), respectively. These amounts in the year ended March 31, 2003 were immaterial.

4. Inventories

Inventories as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Finished products	¥ 15,262	¥ 14,128	\$ 144,472	\$ 133,737
Work in process	17,496	17,020	165,619	161,113
Raw materials	7,913	6,526	74,905	61,776
	¥ 40,671	¥ 37,674	\$ 384,996	\$ 356,626

5. Income Taxes

The normal statutory tax rates used for calculation of deferred taxes assets and liabilities were 41.8% and 40.5% for current items and non-current items, respectively, for the year ended March 31, 2003. Effective for the year commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of the business. Based on the change of income tax rates, for calculation of deferred taxes assets and liabilities, the Corporation and its consolidated domestic subsidiaries used the normal statutory tax rate of 40.5% for both current items and non-current items, for the year ended March 31, 2004. As the result of the change in the normal statutory tax rate, deferred tax assets decreased by ¥150 million (\$1,420 thousand), income taxes-deferred increased by the same amount compared with what would have been recorded under the previous local tax law. The difference between the effective tax rate in the accompanying consolidated statement of income and the normal statutory tax rate for the year ended March 31, 2003 was not significant.

The Corporation is subject to a number of different income taxes which, in aggregate, indicate the normal statutory tax rate in Japan of approximately 42% for the year ended March 31, 2004.

The following table summarizes the significant differences between the normal statutory tax rate and the Corporation's effective tax rate for financial statement purposes for the year ended March 31, 2004.

	2004
Normal statutory tax rate	42 %
Tax credits	(4)
Valuation allowance	3
Difference in normal tax rate of foreign subsidiaries	(4)
Other, net	1
Effective tax rate	38 %

Significant components of the Corporation's deferred tax assets and liabilities as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Deferred Tax Assets:				
Current				
Deferred tax assets:				
Inventories	¥ 300	¥ 241	\$ 2,840	\$ 2,281
Unrealized gains on inventories	1,014	703	9,599	6,655
Allowance for doubtful receivables	166	201	1,571	1,903
Accrued revenue	—	117	—	1,108
Enterprise taxes	1,226	1,187	11,605	11,236
Accounts payable	248	234	2,348	2,215
Accrued expenses	2,705	2,929	25,606	27,726
Other	752	293	7,118	2,773
Total current deferred tax assets	6,411	5,905	60,687	55,897
Net current deferred tax assets	¥ 6,411	¥ 5,905	\$ 60,687	\$ 55,897
Long-term				
Deferred tax assets:				
Depreciation	¥ 1,754	¥ 1,613	\$ 16,604	\$ 15,269
Intangible assets	222	259	2,101	2,452
Severance and pension benefits	3,009	5,820	28,484	55,093
Retirement allowance for directors and corporate auditors ..	542	494	5,131	4,676
Net operating loss carry forwards	1,587	—	15,023	—
Other	2,096	1,890	19,840	17,891
Gross deferred tax assets	9,210	10,076	87,183	95,381
Less valuation allowance	(1,811)	—	(17,143)	—
Total long-term deferred tax assets	7,399	10,076	70,040	95,381
Deferred tax liabilities:				
Reserve for special depreciation	1,499	1,261	14,190	11,937
Undistributed earnings of overseas subsidiaries and affiliates ..	976	896	9,238	8,482
Net unrealized holding gains on securities	2,254	221	21,337	2,092
Total deferred tax liabilities	4,729	2,378	44,765	22,511
Net long-term deferred tax assets	¥ 2,670	¥ 7,698	\$ 25,275	\$ 72,870

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

Short-term bank loans are principally notes payable to banks due in 30-365 days. The average interest rates on these loans as of March 31, 2004 and 2003 were approximately 1.7% and 2.1%,

respectively. Long-term debts as of March 31, 2004 and 2003 are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
0.52% to 7.21% loans from banks and others, due in installments through 2012	¥ 4,998	¥ 3,523	\$ 47,311	\$ 33,349
2.1% mortgage bonds, due 2005	300	300	2,840	2,840
	5,298	3,823	50,151	36,189
Current portion	(1,550)	(1,174)	(14,672)	(11,113)
	¥ 3,748	¥ 2,649	\$ 35,479	\$ 25,076

Notes to Consolidated Financial Statements

At March 31, 2004, land of ¥291 million (\$2,755 thousand), buildings with a net book value of ¥99 million (\$937 thousand) and investments in securities of ¥57 million (\$540 thousand) are pledged as collateral for ¥300 million (\$2,840 thousand) of mortgage bonds and ¥124 million (\$1,174 thousand) of trade notes and accounts payable.

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given upon request of the bank, and that

any collateral so furnished will be applicable to all indebtedness to that bank. To date, the Corporation and its subsidiaries have not received any such requests from the banks. In addition, the agreements provide that the bank has the right to offset cash deposited against any short-term debt or long-term debt that becomes due, and, in case of default and certain other specified events, against all other debt payable to the bank.

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 1,401	\$ 13,262
2007	654	6,191
2008	334	3,162
2009	331	3,133
2010 and thereafter	1,028	9,731
	¥ 3,748	\$ 35,479

7. Employees' Severance and Pension Benefits

The allowance for severance and pension benefits as of March 31, 2004 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Projected benefit obligation	¥ 87,539	¥ 97,401	\$ 828,654	\$ 922,008
Unrecognized prior service benefits (costs)	3,469	(20)	32,838	(189)
Unrecognized actuarial differences	(23,361)	(36,151)	(221,138)	(342,209)
Less fair value of pension assets	(59,250)	(44,614)	(560,867)	(422,321)
Prepaid pension cost	245	—	2,319	—
Allowance for severance and pension benefits	¥ 8,642	¥ 16,616	\$ 81,806	\$ 157,289

Severance and pension benefits expenses for the years ended March 31, 2004 and 2003 comprise the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Service costs-benefits earned during the year	¥ 3,177	¥ 3,233	\$ 30,074	\$ 30,604
Interest costs on projected benefit obligation	2,168	3,833	20,522	36,284
Expected return on plan assets	(1,721)	(2,640)	(16,291)	(24,991)
Amortization of actuarial differences	2,917	1,864	27,613	17,645
Amortization of prior service (benefits) costs	(230)	2	(2,178)	19
Severance and pension benefits expense	¥ 6,311	¥ 6,292	\$ 59,741	\$ 59,561
Gains on return of substitutional portion of employee pension fund	—	(3,732)	—	(35,328)
Plan amendments	(1,958)	—	(18,535)	—
Net	¥ 4,353	¥ 2,560	\$ 41,206	\$ 24,233

8. Leases

Finance Leases

Information relating to finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, at March 31, 2004 and 2003 and for the fiscal years then ended, is as follows:

2004	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
Buildings	¥ 19	¥ 10	¥ 9	\$ 85
Machinery and vehicles	600	356	244	2,310
Tools and equipment	340	216	124	1,174
Other	496	300	196	1,855
	¥ 1,455	¥ 882	¥ 573	\$ 5,424

2003	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
Buildings	¥ 28	¥ 16	¥ 12	\$ 114
Machinery and vehicles	732	437	295	2,793
Tools and equipment	643	427	216	2,045
Other	591	285	306	2,895
	¥ 1,994	¥ 1,165	¥ 829	\$ 7,847

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Future minimum lease payments				
Due within one year	¥ 273	¥ 370	\$ 2,584	\$ 3,503
Due after one year	318	485	3,010	4,591
	¥ 591	¥ 855	\$ 5,594	\$ 8,094
Lease payments for the year ended March 31	¥ 423	¥ 476	\$ 4,004	\$ 4,506

Operating Leases

Future minimum lease payments due under operating leases as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Due within one year	¥ 3	¥ 5	\$ 28	\$ 48
Due after one year	2	5	19	47
	¥ 5	¥ 10	\$ 47	\$ 95

9. Shareholders' Equity and Per Share Data

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

The Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriations of retained earnings with respect to each annual period shall be appropriated and set

aside as a legal reserve until the total amount of legal reserve and additional paid-in-capital equals 25% of stated capital.

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

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

Effective April 1, 2002, the Corporation and its consolidated subsidiaries adopted the new accounting standard for treasury stock and statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves, etc"). There was no effect on the consolidated financial statements of adopting the new accounting standard.

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

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

Net income per share is based on the weighted average number of shares of common stock outstanding during the year. Diluted net income per share is based on the assumption that all

warrants were exercised at the beginning of the year or the issuance date.

Effective April 1, 2002, the Corporation and its consolidated subsidiaries adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

The shareholders approved, at the general meeting of shareholders held on June 24, 2004, the declaration of the final cash dividends of ¥23.00 (\$0.22) per share totaling ¥3,763 million (\$35,621 thousand).

On June 24, 2004, the Corporation's annual general shareholders' meeting passed a resolution on modifying the articles of incorporation to allow the Corporation to purchase its outstanding shares upon approval of the Board of Directors' meeting in conformity with Article 211-3 of the Commercial Code of Japan.

10. Stock Option Plans

At the general meeting of shareholders held on June 21, 2002, the Corporation resolved to grant all directors, key employees and some of subsidiaries' directors the right to purchase the ordinary shares of the Corporation.

The options will be granted at an exercise price of 105 percent of the higher of the average of daily closing prices on the Tokyo Stock Exchange during the month preceding the month in which the option is issued, and the closing price of the Corporation's stock on the market on the day the option is issued. The Corporation acquired 314,700 shares of its common stock for the plan upon the resolution of the shareholders' meeting. The options are exercisable at an exercise price of ¥3,905 per share for three years from January 1, 2003 to December 31, 2005.

At the general meeting of shareholders held on June 20, 2003, the Corporation resolved to grant all directors, key employees and some of subsidiaries' directors the right to purchase the ordinary shares of the Corporation. The exercise price will be calculated on the same conditions above. The Corporation acquired 326,200 shares of its common stock for

the plan upon the resolution of the shareholders' meeting. The options are exercisable at an exercise price of ¥5,177 for three years from January 1, 2004 to December 31, 2006.

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

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

11. Commitments and Contingent Liabilities

Capital Expenditure Program

Under the capital expenditure program of the Corporation and its subsidiaries, it is estimated that ¥79,620 million (\$753,692 thousand) will be expended during the two years ending March 31, 2005, of which ¥23,703 million (\$224,375 thousand) represents contractual commitments.

Contingent Liabilities

The Corporation and certain consolidated subsidiaries are contingently liable, as of March 31, 2004, for trade notes receivable which were discounted or endorsed of ¥810 million (\$7,668 thousand), and as guarantors for borrowings of ¥1,712 million (\$16,206 thousand) by certain employees and nonconsolidated subsidiaries.

12. Derivative Financial Instruments

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

Because the counterparties to these derivatives are limited

to international financial institutions, the Corporation and its domestic subsidiaries do not anticipate any losses arising from credit risk. Derivative transactions used by the Corporation and its domestic subsidiaries have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

The following tables summarize market value information as of March 31, 2004 of derivative transactions for which hedge accounting has not been applied:

Year ended March 31, 2004	Contract amounts			Market value	Millions of yen	
	Due within 1 year	Due over 1 year	Total		Unrealized Gain (Loss)	
	Currency option contracts					
Buy						
Put U.S. dollars	¥ 318	—	¥ 318	¥ 5	¥ 4	
Sell						
Call U.S. dollars	405	—	405	5	(3)	

Year ended March 31, 2004	Contract amounts			Market value	Thousands of U.S. dollars	
	Due within 1 year	Due over 1 year	Total		Unrealized Gain (Loss)	
	Currency option contracts					
Buy						
Put U.S. dollars	\$ 3,010	—	\$ 3,010	\$ 47	\$ 38	
Sell						
Call U.S. dollars	3,834	—	3,834	47	(28)	

13. Restructuring Expenses

For the year ended on March 31, 2003, the Corporation and certain consolidated subsidiaries implemented a restructuring program. The program resulted in restructuring expenses of

¥1,821 million (\$17,238 thousand), which principally reflects the additional severance costs and loss on business liquidation of subsidiaries.

14. Loss on Evaluation of Fixed Assets and Goodwill

In the current year, ¥683 million (\$6,465 thousand) was written off for loss on evaluation of fixed assets as a result of a factory shutdown in one of the U.S. subsidiaries.

In addition, ¥683 million (\$6,465 thousand) was written off for loss on evaluation of goodwill in one of the U.S. subsidiaries.

(2) Geographic Areas

Geographic area information for the years ended March 31, 2004 and 2003 is as follows:

Net Sales	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Japan	¥ 384,486	¥ 321,407	\$ 3,639,587	\$ 3,042,474
Other	174,832	132,436	1,654,979	1,253,654
North America	38,823	35,140	367,503	332,639
Europe	18,372	16,359	173,911	154,856
Asia & Oceania	117,637	80,937	1,113,565	766,159
Eliminations	(106,592)	(75,138)	(1,009,011)	(711,264)
Consolidated Total	¥ 452,726	¥ 378,705	\$ 4,285,555	\$ 3,584,864

Operating Income	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Japan	¥ 51,158	¥ 29,804	\$ 484,267	\$ 282,128
Other	4,659	3,872	44,103	36,653
North America	(2,399)	1,028	(22,709)	9,731
Europe	510	448	4,828	4,241
Asia & Oceania	6,548	2,396	61,984	22,681
Eliminations	95	226	899	2,139
Consolidated Total	¥ 55,912	¥ 33,902	\$ 529,269	\$ 320,920

Assets	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Japan	¥ 245,749	¥ 187,118	\$ 2,326,287	\$ 1,771,280
Other	116,219	112,170	1,100,142	1,061,814
North America	47,628	53,211	450,852	503,701
Europe	11,369	10,826	107,620	102,480
Asia & Oceania	57,222	48,133	541,670	455,633
Corporate	27,557	80,524	260,858	762,249
Consolidated Total	¥ 389,525	¥ 379,812	\$ 3,687,287	\$ 3,595,343

(3) Net Sales to Customer Outside Japan

Manufacturing operations of the Corporation and its subsidiaries are primarily in Japan. Net sales of the Corporation and its subsidiaries to customers outside Japan for the years ended March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
North America	¥ 33,443	¥ 28,213	\$ 316,575	\$ 267,067
Europe	17,635	17,357	166,935	164,304
Asia & Oceania	158,448	108,558	1,499,886	1,027,622
	¥ 209,526	¥ 154,128	\$ 1,983,396	\$ 1,458,993

Independent Auditors' Report

To the Board of Directors of
NITTO DENKO CORPORATION:

We have audited the accompanying consolidated balance sheets of NITTO DENKO CORPORATION and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NITTO DENKO CORPORATION and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to Note 15 to the consolidated financial statements, which states that NITTO DENKO CORPORATION and subsidiaries changed the segmentation of Electronic Products and Industrial Products, effective April 1, 2003.

The consolidated financial statements as of and for the year ended March 31, 2004 and 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 24, 2004



Manufacturing Companies
Sales/Processing Companies
Others

Major Consolidated Subsidiaries

Japan

Name of Company	Scope of Business/Main Products
Nitto Shinko Co., Ltd.	Electrical insulating materials and other industrial materials
Nitto Denko Packaging System Corp.	Packaging materials and packaging-related equipment
Nitoms Inc.	Consumer goods for daily use
Nissho Corp.	Electronic and industrial materials
Kyoshin Corp.	Electronic and industrial materials
Nitto Denko Matex Corp.	Electronic and industrial materials
Nitto Life-tech Corp.	Lifecare related products
Nitto Electronics Kyusyu Co., Ltd.	Semiconductor encapsulating resins
Nitto Seiki Co., Ltd.	Tape application equipment for semiconductor manufacturing and packaging
Mie Nitto Denko Corp.	Electrical insulating materials and automotive materials
Nitto Medical Co., Ltd.	Medical products
Saitama Nitto Denko Corp.	Fluoroplastic products and porous film products
Nissho Sangyo Co., Ltd.	Electronic and industrial materials

Major Consolidated Subsidiaries (continued)
Overseas

Name of Company	Country	Scope of Business
Nitto Americas, Inc (NJ)	U.S.A.	Supervisory company in U.S.A.
Hydranautics (CA)	U.S.A.	High-polymer separation membrane modules
Permacel (NJ)	U.S.A.	Adhesive tape products
Permacel Automotive, Inc. (KS)	U.S.A.	Sealing materials for automobiles
Aveva Drug Delivery Systems, Inc. (FL)	U.S.A.	Transdermal drug delivery systems
Nitto Denko America, Inc. (CA)	U.S.A.	Specialty electronics materials
Graphic Technology, Inc. (KS)	U.S.A.	Bar-code labels
Nitto Europe N.V.	Belgium	Adhesive tapes, surface protection products, and electronic-related products
Nitto Scandinavia AB	Sweden	Nitto Denko Group products
Nitto Deutschland GmbH	Germany	Nitto Denko Group products
Nitto France S. A. R. L.	France	Nitto Denko Group products
Nitto Denko (China) Investment Co., Ltd.	China	Supervisory company in China, supervision of strategic business investments
Nitto Denko (Suzhou) Co., Ltd.	China	Electronic-related products
Nitto Denko (Shanghai Songjiang) Co., Ltd.	China	Adhesive tapes, anticorrosion materials and high-polymer separation membrane modules
Nitto Denko (Shanghai Pu Dong New Area) Co., Ltd.	China	Nitto Denko Group products
Nitto Denko (HK) Co., Ltd.	China	Nitto Denko Group products
Nitto Denko (Shanghai) Electro-Energy Co., Ltd.	China	Electronic materials
Nitto Denko (Taiwan) Corporation	Taiwan	Tape materials and electronic-related products
Korea Nitto Optical Co., Ltd.	Korea	Optical films
Nitto Denko (Singapore) Pte. Ltd.	Singapore	Nitto Denko Group products
Nitto Denko Electronics (Malaysia) Sdn. Bhd.	Malaysia	Semiconductor encapsulating resins
Nitto Denko Materials (Malaysia) Sdn. Bhd.	Malaysia	Nitto Denko Group products, excluding semiconductor encapsulating resins and conversion of adhesive tapes
Nitto Denko (Australia) Pty. Ltd.	Australia	Nitto Denko Group products

Major Non-consolidated Subsidiaries and Affiliates

Name of Company	Country	Scope of Business
Nitto Denko Technical Corp. (CA)	U.S.A.	R&D in the field of advanced materials for optical communications and bioscience
Kinovate Life Sciences Inc. (CA)	U.S.A.	Medical-related products
Nitto U.K. Limited	U.K.	Nitto Denko Group products
Nitto Italia S.R.L.	Italy	Nitto Denko Group products
Nitto Polska sp.zo.o.	Poland	Nitto Denko Group products
Nitto Denko Materials (Shenzhen) Co., Ltd.	China	Adhesive tapes
Nitto Denko (Xiamen) Co., Ltd.	China	Adhesive tapes
Korea Nitto Denko Co., Ltd.	Korea	Nitto Denko Group products, excluding polarizing films products
Nitto Denko Material (Thailand) Co., Ltd.	Thailand	Sealing and tape materials
Nitto Denko Philippines Corp.	Philippines	Nitto Denko Group Products
Nitto Denko (Thailand) Co., Ltd.	Thailand	Nitto Denko Group products
P. T. Nitto Materials Indonesia	Indonesia	Adhesive tapes
Nitto Denko Vietnam Co., Ltd.	Vietnam	Flexible printed circuits
Nitto Denko Tape Materials (Vietnam) Co., Ltd.	Vietnam	Adhesive tapes

CORPORATE DATA (As of March 31, 2004)

Company Name NITTO DENKO CORPORATION

Established October 25, 1918

Head Office 1-1-2, Shimohozumi, Ibaraki,
Osaka 567-8680, Japan

Employees 13,161

Capital US\$253,538 thousand

Fiscal Year-end March 31

Shares Issued 173,758,428

Stock Exchange Listings

Tokyo, Osaka stock exchanges

Independent Auditors

KPMG AZUSA & Co.

Business Line

Manufacture and sales of the following:
Bonding and joining products, sealing products, anticorrosion and waterproof products, surface protection products, packaging system, construction materials, life care products, consumer products, industrial-use bar-code labels, electronic component-related products, electrical insulating products, optical-related products, semiconductor-related products, flexible printed circuit products, medical-related products, engineering plastics products, membrane products

Domestic Offices Tokyo, Sendai, Takasaki, Nagoya,
Osaka, Hiroshima, Fukuoka

Overseas Offices Genk, Belgium; Shenzhen, China

Domestic Plants Miyagi, Saitama, Aichi, Mie, Shiga,
Hiroshima Prefectures

Board of Directors

Chairman: Hideki Yamamoto

President: Masamichi Takemoto

Senior Executive Corporate
Vice President: Koichi Takatsuka

Executive Corporate Vice President: Mikio Aizawa

Senior Corporate Vice President: Yasuki Nishizaka
Yoshiyasu Kamiyama
Yukio Nagira

Director: Tatsunosuke Fujiwara
Wataru Kitao

Corporate Auditor: Tsuneo Asada
Makoto Yoshida
Hisashi Hosokawa
Shiko Saikawa

Corporate Vice President: Katsuhiro Akamatsu
Yasuo Ninomiya
Ryoichi Ota
Tetsuo Horiuchi
Kaoru Aizawa
Hideo Abe
Setsuo Watanabe
William J. Hayes

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