

NITTO DENKO CORPORATION

*ANNUAL REPORT 2003*

Year ended March 31, 2003

*The Global Nitto Denko:*

*Drawing on International Competence to  
Power Constant Transformation*

The background of the lower half of the cover is a dark blue gradient. It features several overlapping, thin white circles of varying sizes, creating a complex, geometric pattern. A single, solid yellow horizontal line cuts across the middle of the page, passing through the center of the overlapping circles.

# Creating New Value

*Nitto Denko Corporation is a company with an unchanging vision: creating new value precisely matched to the evolving needs of customers and the community.*

*The Company was founded in 1918 as Japan's first manufacturer of electrical insulation materials. Capitalizing particularly on our Group strengths in polymer synthesis, application and processing technologies, Nitto Denko has constantly stayed at the leading edge in the development and implementation of our expanding range of advanced technologies that enable us to offer customers in countless fields the products they need when they need them.*

*A basic Nitto Denko strategy, called Global Niche Top, is to establish overwhelming world dominance in carefully selected global niche businesses. It immediately aims for top market share by offering unique, sophisticated products that cannot be matched by the competition.*

*Consisting of 103 companies in 23 countries, the Nitto Denko Group is a continually evolving business organization that strives to enrich the quality of life worldwide through better products, while also helping to protect the environment and contributing to society.*

## CONTENTS

Financial Highlights	1
Nitto Denko at a Glance	2
To Our Shareholders	4
Review of Operations	10
Research & Development	16
Environmental Activities	18
Six-Year Summary	20
Analysis of Results of Operations and Financial Condition	21
Financial Statements	24
Nitto Denko Group	40
Corporate Data	43

## FINANCIAL HIGHLIGHTS

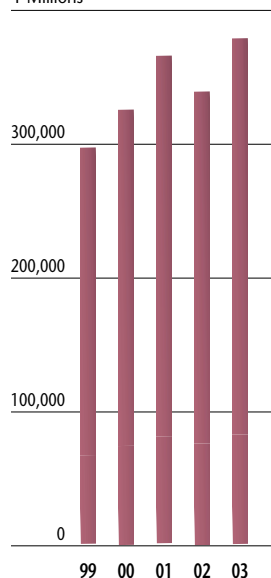
Nitto Denko Corporation and Consolidated Subsidiaries  
For the Years Ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net sales .....	¥378,705	¥338,930	\$3,150,624
Net income .....	19,237	1,115	160,042
Shareholders' equity .....	237,560	228,410	1,976,373
<b>Per share of common stock:</b>	Yen		U.S. dollars
Net income .....	¥ 108.52	¥ 6.42	\$ 0.90
Shareholders' equity .....	1,367.38	1,314.53	11.38
Cash dividends .....	24.00	22.00	0.20

Note: The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥120.20=US\$1. See Note 1 to Financial Statements.

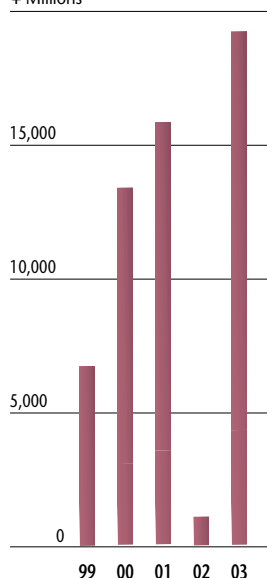
### NET SALES

¥ Millions



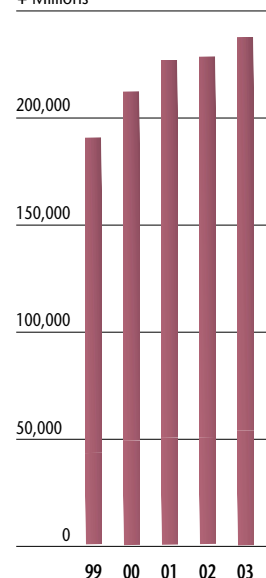
### NET INCOME

¥ Millions



### SHAREHOLDERS' EQUITY

¥ Millions



## NITTO DENKO AT A GLANCE

The Nitto Denko Group supports a broad spectrum of industrial activities by providing an extensive lineup of high-performance products to markets around the globe. Developed by combining the Group's core polymer processing and synthesizing expertise with a variety of other advanced technologies, these products offer numerous sophisticated functions, including sealing, bonding, separation, permeation and diffusion. The Group's 103 companies strive to capture top share in global-scale niche markets. Consolidated net sales for fiscal 2003 amounted to ¥378,705 million.

### INDUSTRIAL PRODUCTS

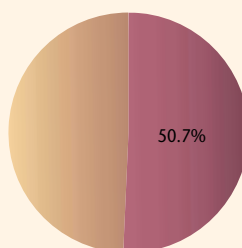
We offer a diversity of high-performance materials for innumerable highly specific applications in fields ranging from electronics to such consumer product sectors as home electric appliances and automobiles. Many of these products, including such basic items as adhesive tapes and sealing materials, as well as specialty products like surface protection films for automobile bodies, are No. 1 in market share in their market niches.

The Industrial Products sector posted net sales of ¥192,179 million and operating income of ¥11,502 million in fiscal 2003.

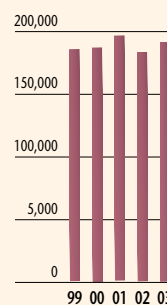
#### MAIN PRODUCTS

Double-coated adhesive tapes for various industrial applications, surface protection films, heat peelable sheets (REVALPHA), electrical component carrier tapes, foam sealing material (EPT Sealer)

Share of Industrial Products



Net Sales  
¥ Millions



EPT Sealer



Surface protection films

## ELECTRONIC PRODUCTS

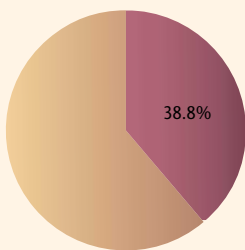
Nitto Denko exploits its considerable store of core technologies to develop future-oriented electronic products matched to the changing needs of the global information industry. The products of this sector help to underpin technological advances throughout the electronics industry. LCD-use optical films (polarizing films and retardation films) and transparent encapsulating resins for optical devices are especially strong contributors to the industry that have become the world's best-selling products in their respective markets.

The Electronic Products sector posted net sales of ¥146,780 million and operating income of ¥16,849 million in fiscal 2003.

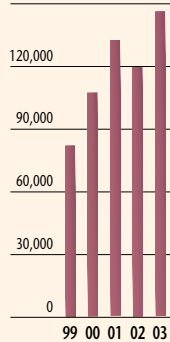
### MAIN PRODUCTS

Polarizing films (NPF), retardation films (NRF), polarization converting systems, semiconductor encapsulating resins, thin metal core boards for magnetoresistive heads, flexible printed circuits (FPCs)

Share of Electronic Products



Net Sales  
¥ Millions



Polarization converting system



Semiconductor encapsulating resins

## FUNCTIONAL PRODUCTS

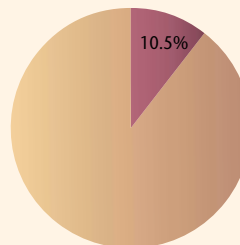
Nitto Denko's strong reputation as a contributor to the ecology sector derives mainly from our environmental protection, health care and other functional products. These include medical-use tapes, transdermal therapeutic patches, high-polymer separation membranes for separating, refining and condensing water and chemicals, and engineering plastics produced utilizing industry-leading fluoroplastic processing technologies. The list of top-market-share products in this sector includes reverse osmosis membranes used to generate ultrapure water for semiconductor production processes.

The Functional Products sector posted net sales of ¥39,745 million and operating income of ¥5,551 million in fiscal 2003.

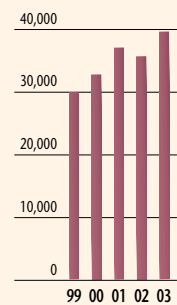
### MAIN PRODUCTS

High-polymer separation membrane modules, transdermal therapeutic patches, fluoroplastic tapes, semi-conductive polyimide belts

Share of Functional Products



Net Sales  
¥ Millions



Polyimide belt



Transdermal therapeutic patches



From left: Hideki Yamamoto, Chairman, Masamichi Takemoto, President

### The “Muscle Plan” Halts Performance Decline

Although the operating environment during fiscal 2003, ended March 31, 2003, was affected by an array of negative factors, including a worldwide decline in stock prices, sluggish consumer spending and protracted deflation in Japan, Nitto Denko Corporation and its consolidated subsidiaries nevertheless made solid advances in performance by aggressively focusing business activities on growth industries. Net sales were up 11.7% from the previous fiscal year, to ¥378,705 million, and operating income rose 75.5%, to ¥33,902 million.

The decline in results, considered unavoidable in light of the difficult fiscal 2003 operating conditions, unexpectedly turned into a V-curve recovery. This pleasant surprise is unquestionably traceable to the introduction of the *Muscle Plan*. Fortunately, the measures we took to maintain the Company’s profit-making capability were launched at an early stage before the downside could gather momentum. If it had not been for the nearly ¥9,000 million cutback of fixed costs, the Company may well have been driven into dire straits. Another major benefit reaped through the

1

## Management Plan

### 1 Muscle Plan

In fiscal 2002 the Nitto Denko Group experienced an unprecedented decline in results triggered by cataclysmic market changes. In light of the new market realities, the Company decided that it urgently needed to reform corporate essentials so that profits could be maintained, even if at the cost of some decrease in production. The G-2002 Mid-Term Management Plan was frozen and the Muscle Plan implemented as a program focused on carrying out a productivity reform by March 2003.

#### Target ▶▶▶

Cut annual fixed costs around ¥9,000 million by achieving every reform goal with regard to the three productivity aspects of manufacturing, distribution and head office administrative functions.

#### ▶ Domestic manufacturing fixed costs

In April 2002, the Kyushu Plant was spun off and a personnel cutback initiative was implemented that allowed freedom in deciding the number of personnel at any given site.

#### ▶ Total operating expenses

Work was started to unify Group distribution, chiefly through the establishment of SCM centers.

#### ▶ Administrative support fixed costs

A reassessment of administrative services from the ground up was carried out and work begun on eliminating those functions determined to be redundant or unnecessary.

improvement of corporate essentials under the Muscle Plan was the instilling of a fresh “we can build a strong Nitto Denko” mentality among employees.

As the year progressed, results seemed almost too good during the first quarter, only to hit rock bottom during the second. The third quarter was expected to follow on the heels of the second, but in fact, turned in a strong performance in the medical and membrane sectors, with firm underpinning from tapes and semi-conductors. During the fourth quarter, the sharp rebound in the LCD-related products optical sector was particularly notable.

2

### Fiscal 2004: Training Camp for the Next Big Advance

To use a baseball metaphor, fiscal 2003, the year the Muscle Plan was introduced, was an individual training period preceding the start of group training camp in fiscal 2004 (from April 1, 2003 to March 31, 2004). The first year of the Muscle Plan, 2003, was used to build up basic strengths, while 2004 will be a period for choosing the lineup and preparing for the long pennant race. It will be a time for deciding what products and business sectors will play the

role of the cleanup hitters for pushing up business results and which products will serve as the starting pitchers, middle relievers, closers. We plan to continue this optimization of player deployment based on careful analysis of the product and business sectors currently making the biggest contributions and those we expect to be the star performers five years from now. We see the *New Mid-Term Management Plan* being launched in fiscal 2004 as a three-year plan envisioning Nitto Denko in five years. The primary focus is on how strong a team can be built over the next three years. Fiscal 2004 will be a training camp period for transforming Nitto Denko into a company ready to take on world-class competitors.

The first stage of the Muscle Plan provided the Company’s individual groups with a muscular organizational alignment centered on the production divisions. But from the viewpoint of the Company as a business group, Nitto Denko has by no means yet attained muscularity. In carrying out the second stage, muscle building will equate to enhancing the functionality of the head office and the productivity of the marketing, distribution and R&D segments. The Muscle Plan represents a perpetually continuing

## 2 New Mid-Term Management Plan (April 2003 to March 2006)

New Mid-Term Management Plan target: Establish double the lineup of global niche top products and a singular corporate culture by promoting Group management unhindered by national borders or organizational barriers.

### Chief Measures ▶ ▶ ▶

#### Creation of global niche top businesses

- ▶ Building of a sales and marketing system in China
- ▶ Business expansion in the United States and Europe
- ▶ Strengthening R&D capability
- ▶ Creation of new businesses through industry-government-academic collaboration
- ▶ Reformation of harvest business profitability

#### Establishing the One-NITTO culture

- ▶ Simplification of Group structure

#### Realization of speedy management and business execution

- ▶ Entrenching of governance system and separation of managerial and executive functions
- ▶ Revising management decision-making system

### Performance Plan

	FY2003	FY2006
Operating income	¥33,902 million	¥55,000 million
Operating income ratio	9%	12%
ROA	9%	15%

process to be relentlessly pursued till it becomes a new segment of the Nitto Denko DNA.

Against this backdrop, our goal in fiscal 2004 is to shift to new growth strategies. At Nitto Denko, the key to offering customers the products they really want and need has always been to stay at the customer's side and listen carefully. This basic growth strategy will now be played out on the global stage. And the process will involve not only new products from Japan but also new offerings from all over the world. Around the globe, we intend to exploit every burgeoning bud showing promise for growth as the Company moves forward under the new 2004 banner of "Double the Lineup of Global Niche Top Products - Grow to the Next Stage through Rapid Evolution and Deepening Technology."

### Transformation Phase 5: Globalization

The Nitto Denko Group has gone through four major transformations in response to changing market realities. The first phase was "business diversification," the second "overseas expansion" of manufacturing operations, the third "re-focusing on manufacturing

businesses," and the fourth "building a technology-oriented company," all of which ran in parallel with the Company's global niche top strategy. The Company is currently moving into a fifth phase of globalization. This will involve broadening Nitto Denko's field of vision beyond just Japanese and Japanese-owned businesses to encompass businesses in Europe, North America and Asia. Increasingly, new approaches to business will emerge from groups in countries all over the world, including Japan, and be implemented by all groups in concert. The search for new ideas and technologies for transforming area niches into global niches will be intensified.

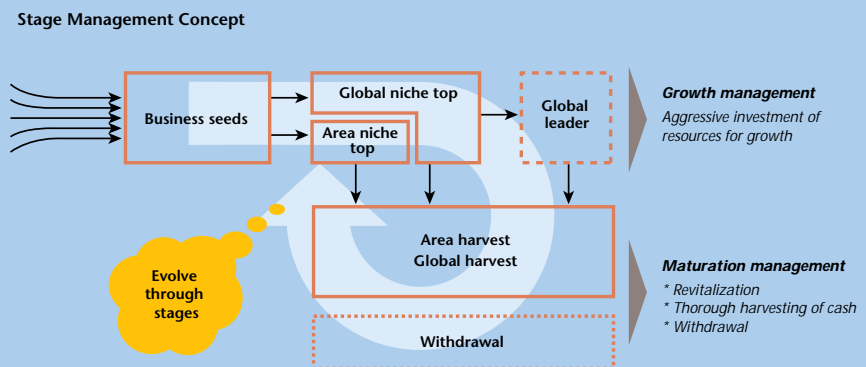
Over the course of five years, some products are certain to become prime candidates for withdrawal owing to changes in global practices and product needs. The Company must be prepared to make product tradeoffs. The importance of accurately assessing product and technology life cycles can be expected to increase. For this, the Nitto Denko Group will introduce *Stage Management*. Based on a global awareness, this management will take into account that a product that has already matured in Japan

3

## Management Plan

### 3 Stage management

Nitto Denko is committed to creating global niche top businesses utilizing not only Japanese resources but also those of group members around the globe. Stage management was introduced to achieve this by enabling every area worldwide to create products and businesses with potential for global development. The method adopted in stage management is first to broadly classify businesses into 1) those in the growth stage (business seeds, area niche top, global niche top), and 2) those in the no-growth but stable stage, and then to take action matched to the respective stages. This objective analysis of business stages enables prompt decisions regarding the best times for effective investment and for withdrawal from the business. The aim is to double the number of global niche top products by deliberately speeding up the growth pattern cycle.





may well still be a growth product in some other world market. Simply stated, it will be directed at *global optimization from the viewpoint of the Group as a whole.*

4

#### Vision of the Nitto Denko Group in Five Years

The setting of concrete numerical targets is, to be candid, not practical. Markets are not stable enough to foresee conditions five years from now. But this does not deter us from the goal of making Nitto Denko into a top-tier company by world standards. What this means in terms of numbers will become evident automatically during the push forward. The strategies for reaching this goal are, in combination, the substance of the New Mid-Term Management Plan.

A prerequisite to achieving world-class excellence is the training



and deployment of people who can meet the challenges of world markets, people with ideas that reflect a global outlook, people

who can think from the viewpoint of optimizing the Nitto Denko Group as a whole. Persons of outstanding ability employed by overseas Group companies will be sought out and placed in positions where they can apply their capabilities to the full.

Nitto Denko also needs to continue to build itself into a technology-oriented company. This means broadening and intensifying R&D.

It means strengthening new product development capability. It means keeping so closely in touch with customers as to be able sense their changing needs and priorities from



the twitch of an eyebrow. And it requires speedy, precise information gathering capability, bold and appropriate decision-making power, and the ability to act with speed and flexibility. By perfecting and bringing these qualities into good balance, we want to make the Nitto Denko Group a company that is constantly on its toes. This, we believe, is the essence of thoroughly implemented speedy management. Management speed is the Company's greatest asset.

## Globalization

### 4 Global Optimization— Supervisory company established in China

Nitto Denko (China) Investment Co., Ltd. was established in July 2002 as a company for centralizing supervision of the strategic business investments and management infrastructure of the Nitto Denko Group in China. In China, the growing number of foreign companies establishing production bases and the rapid growth of internal demand are making the Group's China strategy increasingly important. The establishment of the supervisory company is aimed at enhancing scale merit and Group synergy through various means, including shared information.

### 6 Stronger, more extensive M&A— Acquisition of AcoustiSeal, Inc.

In December 2002, Nitto Americas, Inc., which supervises Group operations in the United States, acquired AcoustiSeal, Inc., a Missouri-based company engaged in the manufacture and marketing of automotive sealing materials. The objectives of the acquisition were to add complementary products to the Nitto Denko Group's existing product line so as to solidify the Group's position as a total solutions provider in the sealing material field and to strengthen marketing access to the three big U.S. automakers.

5

*Collaboration with overseas universities and research institutions*

is being vigorously promoted as a way of bolstering and accelerating research and development. Not all development work needs to be done in-house. *Stepping up M&A* is another option. In-house ventures will also be aggressively pursued as a source of additional seeds of growth.

6

One new measure being used to speed up management is the *separation of managerial and executive functions*. Delegation of authority is needed for faster implementation of business decisions, while the management side needs to make prompt and unerring decisions with foremost attention to global affairs. Everything is aimed at increasing speed. The separation of functions also contributes to management transparency. NITTO needs to be a single entity from whatever angle it is viewed. That is why we are intent on establishing a "One-NITTO" culture, on creating a company whose global components share the same management policies, business strategies and business decision implementation standards under the concept of the "NITTO WAY."

7

**Pinpointing the Buds of Core Products**

So what businesses will drive the Nitto Denko Group five years down the road? While the optical sector is currently doing a fine job as cleanup hitter, it is certain to peak out eventually. The Company must be on the lookout for replacements. The medical sector, including transdermal drug delivery patches is likely to break out as a powerful force on world markets from around fiscal 2007. Among membrane products, high-polymer separation membrane modules that provide basic support for water treatment technologies can be expected to enjoy surging growth in response to the ongoing global expansion of water-related businesses. The tape and film sectors also have high growth potential, thanks to the role they play in revolutionizing the manufacturing processes of many high value-added products. About half of flexible printed circuits (FPCs) production is now centered in Japan. A shift to global production is indispensable. The plan for Japan is to boost the ratio of high value-added specialty parts production.

# Technology

**5 Building R&D muscle through collaboration**

A joint research project being carried out by U.S.-based Nitto Denko Technical Corp. in cooperation with the University of Arizona is starting to pay off with some interesting results. Nitto Denko Technical Corp. was established in Oceanside, California in 2000 to conduct R&D in the field of advanced materials for optical communications and bioscience, with an eye directed 10 to 20 years into the future. It has since launched joint research initiatives with the University of Arizona, the University of California at San Diego and other institutions in the United States. During fiscal 2003, a project being conducted in cooperation with a group headed by Dr. Peyghambarian at the University of Arizona achieved two breakthroughs in optical communications-related materials. As application of optical communications is certain to move beyond the realm of trunk lines into home telecommunications and electronic equipment, the two newly developed materials are expected to make a substantial contribution to the next generation of optical communication devices.

Promotion of industry-government-academic and other types of collaboration is to be vigorously promoted as an avenue to strengthening research and development overseas.

In a short-term view of the Company's operations, we believe fiscal 2004 will be a turning point for the LCD business. In the optical sector, the question is whether demand generated by LCD TVs will swell sufficiently to take over from personal computers and mobile phones as a new growth engine. If the strategy we are taking, including the building of a new plant, succeeds in fiscal 2005, prospects for five years for now will be excellent. We think the Company will be able to maintain its niche top status.

The tape materials sector ought to benefit from a synergistic effect produced by demand from the automotive industry. This will enable it to move ahead with the creation of new products and fresh demand in close liaison with customers.

The electronics sector's all-out effort to minimize production costs, such as through the expansion of production in China, can be expected to keep it on a steady upward course.

In the specialty products sector, whose mainstays are medical and membrane products, the outlook is for higher profits than in fiscal 2003. From here on, the sector's biggest challenge will be global expansion.

During fiscal 2004, "Double the Lineup of Global Niche Top Products" will remain the central theme of the corporate business strategy for leading the Group to continued growth through energetic development of new products of enhanced value in niche product sectors. We believe that Nitto Denko can achieve its fiscal 2004 goals of an operating income ratio of 10%, operating income of ¥40,000 million and net sales of ¥400,000 million.



Hideki Yamamoto

Chairman



Masamichi Takemoto

President

## *Corporate Governance*

### **7 Separation of management and executive functions**

On April 1, 2003, a corporate governance reform was put in effect for improving managerial soundness, strengthening and speeding up the conduct of business and increasing unified Group management power. Management decision-making functions and business execution functions were clearly differentiated in a move to separate the two. An operating officer system was introduced to ensure faster and more powerful conduct of the Company's businesses. The newly created operating officers are responsible for optimizing the performance of their assigned area of business. Concomitantly, with the introduction of the operating officer system, the Board of Directors was reduced from 14 members to 9, and the term of office of both directors and operating officers was set at one year.

### *Industrial Products*

*On a consolidated basis, net sales of industrial products in fiscal 2003 were ¥192,179 million, up 4.6% from fiscal 2002, and operating income was ¥11,502 million, up 147.9%. The sharp upswing in earnings was the result of the Company's intensive concentration of business activities on high-growth industries, such the electronic equipment and automotive industries, and of progress in corporate restructuring. Earnings were also pushed up substantially by the inventory-reducing effect of the SCM system being installed in Japan.*

*During the year under review, the Company sought to secure a firmer foothold in automotive-related materials by acquiring AcoustiSeal, Inc., a U.S.-based manufacturer and marketer of automotive sealing materials. Meanwhile, plans call for the new Engineering Center scheduled for completion at the Toyohashi Plant in fiscal 2004 to channel a major share of its R&D efforts into automotive-related material products. These moves are expected to grow tape materials for the automotive industry into a mainstay of the industrial products sector.*

*Investment in new plant and equipment included outlays for the completion of a plant for Permacel in the U.S. midwest, which is now online, and expansion of tape production facilities at the Toyohashi Plant in Japan.*

Bonding and joining products made a strong showing, especially in products for cellular phones, OA equipment in Eastern Asia, and peripheral equipment for PCs. Tapes for vehicle interior and exterior applications performed strongly in the Asian automotive market. In preparation for an anticipated surge in demand in China, Chinese marketing operations are to be reinforced in fiscal 2004.

In sealing products, automaker moves to reduce vehicle weight generated active industry demand for NITOHARD (reinforcing material) and LEGETOLEX (vibration-damping material). Use of Super Clean Foam (foam sealing material) around cellular phone LCDs moved into full swing. New applications in other products are being developed to accelerate the shift to volume production. The segment as a whole posted a solid advance in sales for the year.

Anticorrosion and waterproofing products faltered, mostly because anticorrosion materials for construction work were held back by a decline in the number of new project starts. Newly marketed housing waterproofing tape products made a notable contribution to sales.

Surface protection products for LCDs did particularly well thanks to a recovery in the electronics-driven industries. In the United States, Permacel moved into full-capacity production of automobile surface protection products during the year. Eighty percent of products for the U.S. market are now manufactured locally. E-MASK, a protective packaging material for large polarizing films for LCDs, went into full-scale production at the Toyohashi No. 13 Plant, a clean environment facility, which looks forward to a sales takeoff in fiscal 2004.

Packaging systems experienced sluggish sales owing to softening product prices and withdrawal from marketing of underperformers. The effort to ensure profits will continue in fiscal 2004, with stress on lowering product costs and distribution expenses.

Construction materials were led by the solid performance of a curing compound used for construction. Global supply of environment-friendly halogen-free wire harnesses is to be launched in fiscal 2004, upon completion of the production facility under construction at Nitto Denko (Taiwan) Corp.

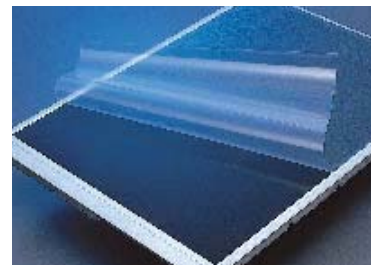
Life care products experienced a steep decline in sales of air-permeable films for disposable body warmers owing to a mild winter in Japan, but the Company captured a larger share of the market for double-coated adhesive tape used in such products as disposable body warmers. The Chinese and South Korean body warmer markets are to be targeted in fiscal 2004.

Consumer products saw a decline in domestic sales of flooring cleaner and other cleaning products. Overseas marketing of flooring cleaner will be intensified in fiscal 2004, with top priority on doubling sales in the East Asian region.

Industrial-use bar-code label sales rose slightly. Newly introduced thermal transfer dual label products helped to buoy sales.

Electronic components made a robust comeback powered mostly by increased demand for IT-related products from the recovering semiconductor and electronic component industries. Sales rose 40% from a year earlier. Electrical component carrier tapes and thermal release sheets used in manufacturing processes were especially powerful performers. Nitto Denko Materials (Malaysia) Sdn. Bhd. stepped up production of electrical component carrier tapes and began supplying these products to the East Asian area. Cupil was introduced on a commercial basis as a new product for use in electronic component inspection. Cleaning Wafer, a semiconductor wafer-shaped extraneous particle remover, received the 2002 Nikkei Superior Products and Services Awards (Nikkei Business Daily Awards for Superiority) from Nihon Keizai Shimbun, Inc., Japan's leading business newspaper.

In electrical insulation products, good results were turned in by aluminum substrates and electromagnetic shielding materials, which benefited from resurgent demand for equipment in the electronics sector, and by radiator sheets for automotive electronic components in the automotive sector.



*E-MASK*



*Cleaning Wafer*



*REVALPHA*



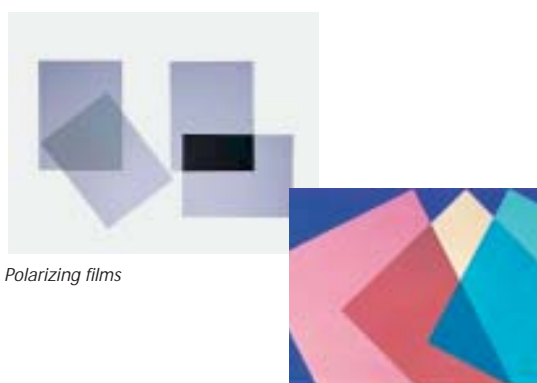
*Electrical component carrier tape*

## Electronic Products

Sales of electronic products in fiscal 2003 came to ¥146,780 million, up 22.7% from the preceding year, and operating income was ¥16,849 million, up 58.4%. Segment results got a quantum boost from the excellent performance of LCD materials against the backdrop of the expanding market for flat-panel displays. While flexible printed circuits (FPCs) stagnated, semiconductor-related products fared well as a result of a recovery in demand for components used in PCs, cellular phones and IT equipment.

The fiscal 2004 market is certain to be impacted by full-fledged emergence of LCD TVs and continuation of the ongoing shift from CRT to LCD displays. Work has therefore been started at the Kameyama Plant in Japan on the construction of a new facility dedicated to production of optical films for large LCDs used in wide-screen LCD TVs. Operations are scheduled to commence in early fiscal 2004.

Plant and equipment investment was directed chiefly to completion of the Suzhou Plant in China as an integrated FPC facility, which is now in full operation, and the expansion of optical film production facilities at the Onomichi Plant in Japan.



Polarizing films

Retardation films

During the year under review, optical-related products were hit by severe product unit price declines brought on by falling LCD panel prices. Total sales nevertheless increased by more than 25%. This gain was driven by the introduction of new products into an expanding market. Sales of large retardation films for LCD TVs rose markedly, while retardation films for cellular phones also did well because of the increasing use of color phone displays. Owing to the switchover from CRT monitors to LCD monitors, large gains were also posted by wide-angle polarizing films (NWF) and brightness enhancing films for notebook PCs and LCD monitors. At the Kameyama Plant, the Company's strategic LCD TV production base, top priority is being given to speedy ramp-up of a new facility in preparation for the takeoff of LCD TVs in fiscal 2004, as well as to speedy implementation of promising LCD TV technologies still in the laboratory. Other measures being taken to increase production capability in preparation for the expected demand explosion include production capacity increases at overseas facilities handling downstream operations. In China, which has seen an almost constant inflow of panel manufacturers, plans for increasing production are centered on establishing an efficient converting processing system through tighter liaison among the plants in Suzhou, Shanghai and Shenzhen.

In semiconductor-related products, a recovery in demand for PC-, cellular phone- and IT-related components led to better results for semiconductor encapsulating resins, wafer protection tapes for the semiconductor manufacturing process and laminators. Sales were up 30% from the preceding year and the earnings rate also increased. The chief reasons for the improvement in the earnings ratio were declines in the inventories of PCs, cellular phones and their components, the spin-off of the Kyushu Plant in April 2000, and the consolidation of domestic production bases. In fiscal 2004, the emphasis in products for the automotive industry will be on on-board electronic equipment. Synergism will be sought through closer teamwork with other segments.

FPCs for HDDs and other storage devices were lackluster, but products for cellular phones and displays advanced thanks to the shift to color phone displays and increasing demand for plasma displays. Overall sales were substantially unchanged from the preceding year. Fiscal 2003 saw the completion of the Suzhou Plant in China as an integrated production facility that has since moved into full operation. Fiscal 2004 is likely to be marked by a rebound in hard disk drives and an even faster shift to color cellular phone displays and camera-equipped cellular phones. The Company plans to exploit these developments to achieve a quick earnings recovery by strengthening downstream operations at the Shenzhen and Vietnam plants and promoting efficient teamwork between Kameyama and overseas production bases.



ELEP HOLDER



Flexible printed circuit

### Production Forecast for Widescreen LCDs by Product Application

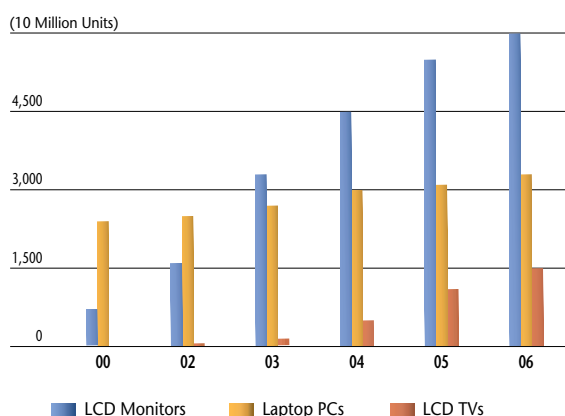
**LCD monitors:** Owing to the progressive shift from CRTs to LCDs, annual growth of roughly 20% is expected in the future.

**Laptop PCs:** While a large production increase is not expected, production volume will shift by roughly 10% annually.

**LCD TVs:** From fiscal 2004, sixth-generation facilities will be launched, and cost reduction is expected to progress in line with rapidly expanding production volume.



Polarizing film



- ▶ LCD monitors are expected to account for more than 50% of annual demand for desktop PC monitors by 2005.
- ▶ Annual production volume is expected to increase to 1,500 million units due to surging demand for LCD TVs.
- ▶ Large LCD manufacturers are pushing ahead with capital investment activities for sixth-generation facilities (1500 X 1800, 1800 X 2000) to compete with plasma display panels (PDPs).



## Functional Products

Sales of functional products in fiscal 2003 amounted to ¥39,745 million, an increase of 11.6% from the preceding year, and operating income came to ¥5,551 million, up 37.4%. Sales of medical-related products were held to about the preceding year level. The most notable cause was a decrease in transdermal therapeutic patch and medical-use tape prices under the government's National Health Insurance (NHI) drug price revisions. Among engineering plastic products, environment-friendly items and products for the automotive industry were strong. Membrane products, invigorated by increased activity in water-related businesses, made good progress. A series of orders received for large seawater desalination plants was a major factor in improved results. Water-related businesses have also made appreciable advances in China and are viewed as having high growth potential worldwide.

Investment in new plant and equipment was focused on the expansion of air filter production facilities at the Kanto Plant and polymer separation membranes production facilities at the Shiga Plant.



Transdermal therapeutic patch



Bag filter

Medical-related products experienced a slight decline in overall sales due to a shrinking market for sanitation products and a drop in transdermal therapeutic patch and medical-use tape prices under the government's NHI drug price revisions in fiscal 2003. Although sales of transdermal therapeutic patches decreased owing to liquidation of the angina pectoris treatment patch inventory, patches for bronchodilatation treatment supported sales and profit by achieving a sales volume that more than offset the price decrease. The planned marketing of patches for bronchodilatation in other areas of Asia during fiscal 2004, among other measures, should keep transdermal therapeutic patch sales on an upward trajectory during fiscal 2004. In order to increase transdermal therapeutic patch production capacity, a new plant (No. 7) is being constructed at the Tohoku Plant. It will go into operation in early fiscal 2004.

Engineering plastic products posted a huge sales increase attributable to a major OA equipment manufacturer's incorporation of the Company's advanced polyimide belts in its new color copying machine series. Bag filters also made a strong gain based on the product's significant contribution to reducing dioxin generation at urban garbage incinerators. Among filtration products, products used in automobile lamps and inkjet printers were up sharply. The production capacity of bag filters was increased at the Kanto Plant during the year. Production of NITOFロン fluoroplastic adhesive tapes is to be transferred from the Kanto Plant to Shanghai Songjiang in China in fiscal 2004. The outlook is for further advances by polyimide belts and filtration products during the coming year. Among these, a newly developed filtration product that is a composite product combining waterproofing, dustproofing and air permeation capabilities is thought to have especially strong growth potential.

In membrane products, high-polymer separation membrane modules for application in the semiconductor industry were inactive, but results were boosted by a series of large orders received for seawater desalination plants. Overall sector sales rose 30%. The Nitto Denko fresh water generation system installed at



the desalination plant on the U.S. east coast near Tampa, Florida cut operating costs to one-half that of the earlier system. The water processing capacity of the system is the largest in the United States. Desalination plant orders were also received from Fujairah in the UAE and Fukuoka Prefecture in Japan. Prompted by the sharp rise in the seawater desalination business' sales share, the Company is taking steps to put in place a more efficient system within the Nitto Denko Group for dealing with large project orders. This is being achieved primarily by closely coordinating operations between Hydranautics in the United States and Nitto Denko (Shanghai Songjiang) Co., Ltd. While brisk orders for large-scale desalination plants can also be expected during fiscal 2004, the unstable situation in the Middle East may delay construction work. All signs point to continuing growth of the Chinese market in fiscal 2004.



Reverse osmosis membrane modules

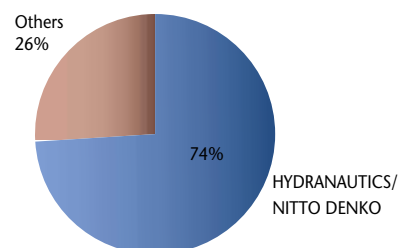


Seawater desalination plant

### Expanding Water-related Business

Several techniques are available for seawater desalination, including evaporation, thermo-compression evaporation and reverse osmosis membrane methods. The reverse osmosis membrane method has taken center stage in recent years because it offers low running cost, particularly from the aspect of energy consumption. Nitto Denko Corporation and its U.S. subsidiary, Hydranautics, are suppliers of membrane modules, the heart of a seawater desalination plant, to freshwater generation plants throughout the world. They have captured a 70% share of this market among large seawater desalination projects started within the past four years.

### NITTO DENKO GROUP SHARE (Past four years)



### Nitto Denko Group Large Seawater Desalination Projects (2001 to 2003)

Country	Name of Plant	Distilling Capability (m <sup>3</sup> /day)	Start Date
UAE	Fujairah	170,000	2003
USA	Tampa Bay	95,000	2003
Spain	Cartagena	65,000	2002
Spain	Carboneras	120,000	2002
Spain	Almeria	50,000	2002
Cyprus	Larnaca	54,000	2001

## RESEARCH & DEVELOPMENT

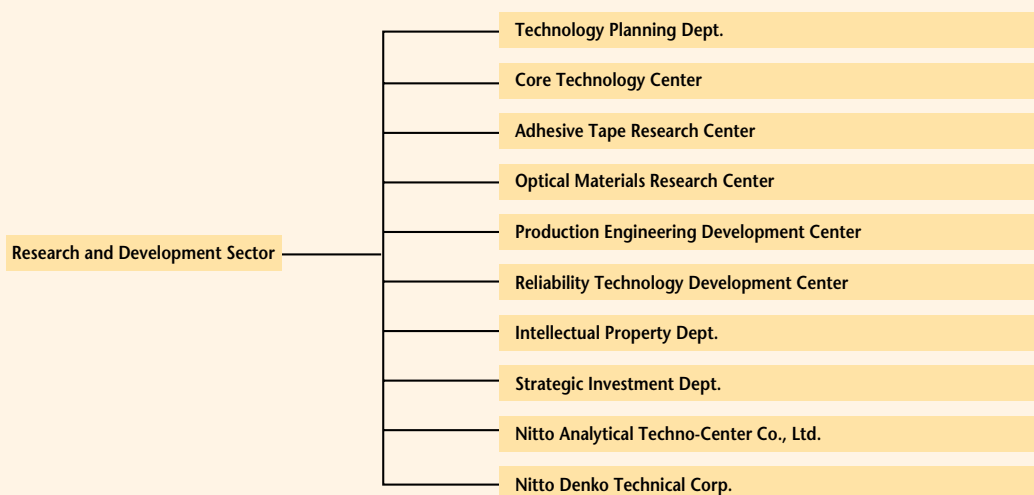
Nitto Denko considers itself to be technology-oriented company, and accordingly, has been making continuous investment in R&D. R&D expenses for fiscal 2003 amounted to ¥13,851 million, and R&D expenses to net sales was 3.7%. Nitto Denko's driving force is

our R&D capability in creating global niche products. In realizing this objective, we have established an R&D system for the purpose of promoting speedy and timely R&D to bring new products to market sooner.

### R&D Organization

The R&D activities of the Nitto Denko Group are aimed at developing new technologies and enriching existing core technologies. The individual R&D sectors focus considerable effort on refining core technologies in line with product development.

#### Organization of Research and Development Sector (as of April 2003)



#### Core Technology Center

In order to create new business and expand existing businesses, the Center is engaged in developing new core technologies focusing on biotechnology, ecology and energy, optronics and electronics markets in which growth is anticipated.

#### Adhesive Tape Research Center

As an operational base at the Toyohashi Plant, the Center develops fundamental technologies related to adhesive tapes. It is currently focused on research into the manufacture of adhesive tapes and tape materials without using organic solvents like toluene. The technologies it develops are helping to reduce the environmental load.

#### Optical Materials Research Center

The Center, located inside the Onomichi Plant, is equipped with the latest testing and evaluation equipment. It is engaged in the development of LCD optical film products, mainly polarizing films for LCDs.

#### Production Engineering Development Center

The Center promotes development of manufacturing technologies for the Toyohashi Plant and other manufacturing facilities through the Nitto Denko Group.

#### Reliability Technology Development Center

The Center develops technologies for assessing reliability in terms of physical properties and equipment analysis with the ultimate aim of helping to create new and next-generation products with high added value.

#### Nitto Denko Technical Corp.

This subsidiary was established in Oceanside, California to conduct R&D in the field of advanced materials for organic materials for use in optical communications terminal devices and bioscience focusing on genetic diagnosis.

## R&D System

An Integrated Technology Strategy Meeting is held monthly by the chief technical officer (CTO), whose duties are currently assumed by the president, to decide the priority areas of R&D and allocate R&D resources for maximum efficiency and effect. Group-wide R&D Projects have been defined as an initiative of high strategic significance and urgency to be pursued under the direct control of the CTO. Nitto Denko's group-wide R&D project system enables implementation of concentrated investment spending to maximize synergies beyond the management resources framework.

## Latest R&D Results

### *Optical communications*

Two promising breakthroughs in optical communications materials have emerged from the joint research initiative between the University of Arizona and Nitto Denko Technical Corp., the company's R&D arm in the United States.

#### *Organic photorefractive material*

To say that a material is "photorefractive" means that its optical characteristics change with the amount of energy applied to it from the outside. With a diffraction efficiency of 50% and a response speed of 10-plus milliseconds, the newly developed organic photorefractive material ranks at the top by global standards, plus has the additional advantage of superb compositional stability. It is expected to find applications in the next generation of optical communications elements and systems.

#### *Photosensitive polyimide material for waveguide*

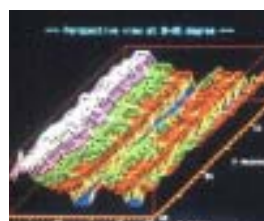
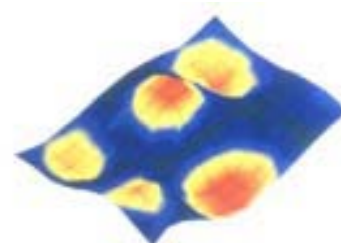
This material boasts a list of outstanding properties that starts with high transparency in the optical communications wavelength band and continues with world-class propagation loss performance,

solder heat resistance and simple fabrication. The need for a reliable waveguide material that is easy to fabricate has increased as the spread of optical communications into the home has made efficient transmission of optical signals more important than ever before.

### *Technology tie-up yields new product for LCD panels*

Nitto Denko and 3M of the United States have succeeded in developing a film for LCD panels that integrally combines the

functions of a polarization film and a brightness-enhancing film. Marketing is to start from July 2003. This new film selectively reflects the light emitted by the LCD panel backlight so that it can be reused to boost the panel's brightness, with no sacrifice of viewing angle or color rendering. The film, which is markedly superior to existing products in brightness, viewing angle characteristics, thickness and other properties, was developed through a technology tie-up aimed at melding 3M's advanced expertise in brightness-enhancing film with Nitto Denko's leading-edge polarization film technologies.



# ENVIRONMENTAL ACTIVITIES

“Promoting business activities in harmony with the natural environment” is one of the core tenets of our management philosophy. We aim to reduce the impact of our activities on the environment, and accordingly, have established mid- to long-term objectives. Our three most important goals are to develop new manufacturing technologies, to create environment-friendly products and establish an environment management system.

## Environment-friendly Manufacturing

Industrial waste, CO<sub>2</sub> and chemicals generated from manufacturing activities impact the environment in various ways. The Nitto Denko Group is undertaking efforts to further reduce the environment load, including introduction of an energy-saving system, product collection and recycling and manufacturing process innovation.

## Development of Environment-friendly Products

Nitto Denko Group develops environmentally sound products from the following four perspectives.

1. Products that contribute to environmental conservation

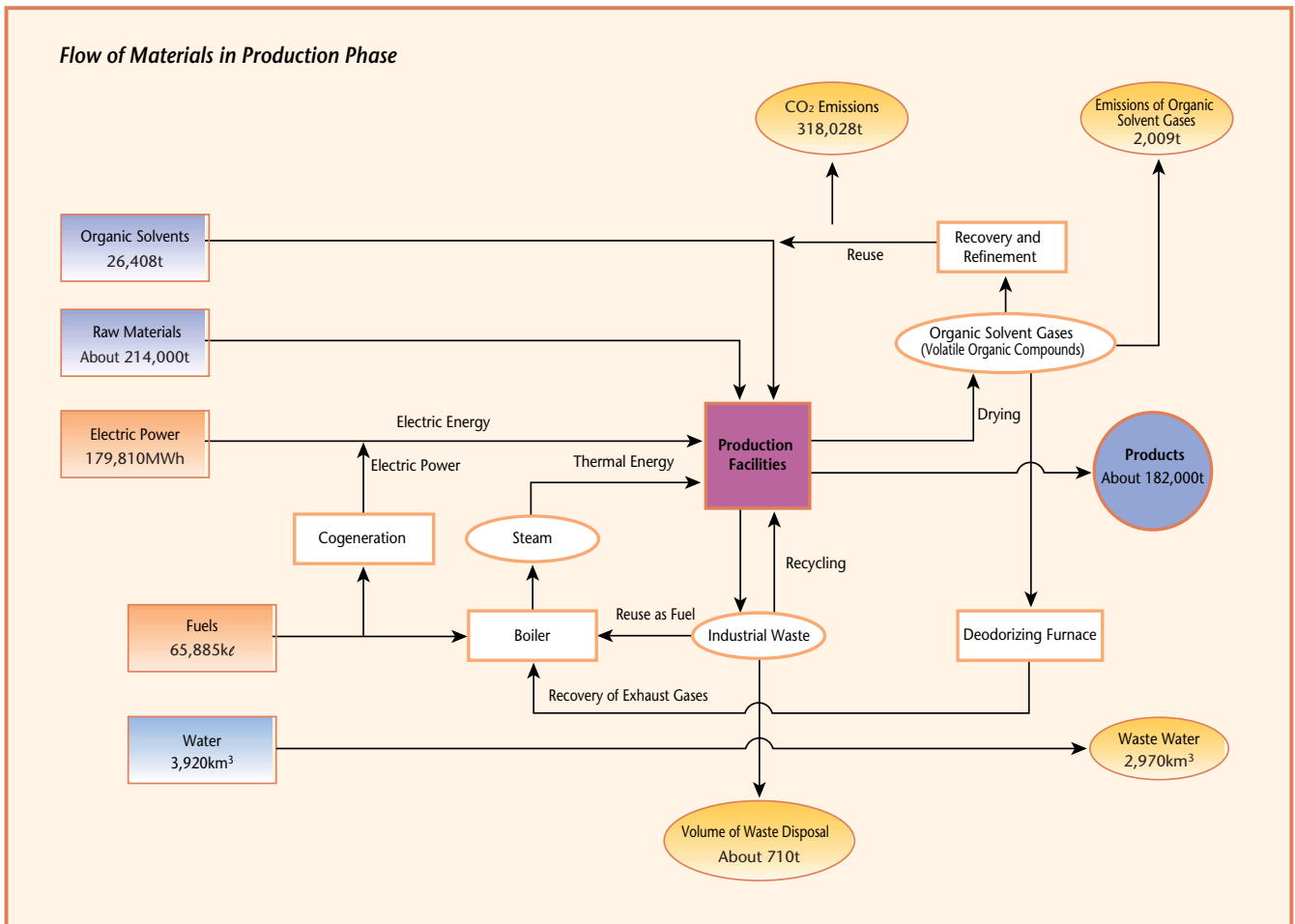
### Halogen-free sealing materials in line with Green

#### Procurement Policy:

*Super Clean Foam* (foam sealing material)



*Super Clean Foam*



2. Products that contribute to reduction of environmental load when used

**Enhances brightness of LCDs and contributes to energy saving:**  
Polarization converting system



*Polarization converting system*

3. Products that are easily recycled upon disposal

**Employs recycling-oriented system from sales and usage to collection and recycling:**

*Cleaning Wafer*



*Cleaning Wafer*

### Establishment of Environment Management System

We introduced an internally developed environmental accounting system in fiscal 2001, and actively promoted the implementation of this system to designated Group companies in fiscal 2002.

As one of the main features of Nitto Denko's environmental accounting system, we include the costs of raw materials used in processing industrial waste, and the costs associated with the purchase of energy, solvents and industrial-use water, in addition to the environmental conservation costs identified in the Ministry of the Environment's "Guidelines for Introducing an Environmental Accounting System."

Through this environmental accounting system, we intend to shift our environmental policy from a conventional approach centered on waste management to the development and establishment of new manufacturing technologies that produce zero waste, together with pursuing a balance between environmental management and business performance. In addition, Nitto Denko has introduced flow cost accounting being developed in Germany and other countries on a trial basis. With this type of accounting, costs from energy and raw materials invested in production to indirect costs are separated into flow to manufactured products and flow to waste in order to get an understanding of both the amount of materials and money by process units.

### Non-consolidated Environmental Costs

(Millions of yen)

	Fiscal 2003	Fiscal 2002
Net sales	225,450	195,456
Environmental conservation costs		
General expenses	913	976
Waste disposal	1,039	925
Outsourcing	181	227
Salary and compensation	466	515
Depreciation and amortization	1,218	1,159
Technology development	972	1,141
Total	4,789	4,943
Environmental impact costs		
Waste costs	33,554	30,918
Energy	4,085	3,970
Solvent supply	1,692	1,561
Industrial water supply	304	260
Total	39,635	36,709
Environmental impact cost ratio to net sales	17.6%	18.8%

## SIX-YEAR SUMMARY

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

	Thousands of	Millions of yen					
	U.S. dollars	2003	2002	2001	2000	1999	1998
Net sales .....	<b>\$ 3,150,624</b>	<b>¥ 378,705</b>	¥338,930	¥365,698	¥325,399	¥297,104	¥319,318
Industrial products .....	<b>1,599,609</b>	<b>192,273</b>	184,131	197,270	187,676	186,407	211,101
Electronic products .....	<b>1,221,714</b>	<b>146,850</b>	120,143	133,115	107,798	82,442	109,642
Functional products (Note A) .....	<b>336,123</b>	<b>40,402</b>	35,800	37,186	32,894	30,143	-
Eliminations .....	<b>(6,822)</b>	<b>(820)</b>	(1,144)	(1,873)	(2,969)	(1,888)	(1,425)
Operating income .....	<b>282,047</b>	<b>33,902</b>	19,314	34,824	26,612	18,262	24,782
Income before provision for income taxes .....	<b>278,910</b>	<b>33,525</b>	3,722	25,724	21,583	12,709	23,232
Net income .....	<b>160,042</b>	<b>19,237</b>	1,115	15,851	13,399	6,739	12,664
Domestic sales .....	<b>2,673,935</b>	<b>321,407</b>	287,543	302,754	276,137	246,050	257,914
Overseas sales .....	<b>1,101,797</b>	<b>132,436</b>	107,939	124,553	98,029	91,935	108,348
North America .....	<b>292,346</b>	<b>35,140</b>	32,774	39,616	38,366	38,765	45,209
Europe .....	<b>136,098</b>	<b>16,359</b>	14,494	19,383	15,156	16,078	19,086
Asia & Oceania .....	<b>673,353</b>	<b>80,937</b>	60,671	65,554	44,507	37,092	44,053
Eliminations .....	<b>(625,108)</b>	<b>(75,138)</b>	(56,552)	(61,609)	(48,767)	(40,881)	(46,944)
Depreciation & amortization .....	<b>175,907</b>	<b>21,144</b>	20,443	18,345	16,464	14,845	14,582
Capital expenditures .....	<b>194,151</b>	<b>23,337</b>	40,311	32,727	24,014	22,717	18,813
R&D expenses .....	<b>115,233</b>	<b>13,851</b>	13,053	12,423	10,647	10,227	11,439
Total assets .....	<b>3,159,834</b>	<b>379,812</b>	350,340	357,654	334,501	317,135	319,592
Shareholders' equity .....	<b>1,976,373</b>	<b>237,560</b>	228,410	226,894	212,126	190,622	178,441
Number of employees .....	<b>10,764</b>	<b>10,764</b>	9,510	9,857	9,092	9,257	8,698
	U.S. dollars	Yen					
Net income per share of common stock .....	<b>\$ 0.90</b>	<b>¥ 108.52</b>	¥ 6.42	¥ 93.51	¥ 82.04	¥ 43.51	¥ 82.96
Cash dividends per share of common stock .....	<b>0.20</b>	<b>24.00</b>	22.00	21.00	18.00	14.00	14.00
Number of shares outstanding (thousands) .....	<b>173,758</b>	<b>173,758</b>	173,758	173,758	166,512	158,319	153,752
Number of shareholders .....	<b>16,952</b>	<b>16,952</b>	15,386	14,745	5,943	5,382	5,505
		(%)					
ROE .....	<b>8.26</b>	<b>8.26</b>	0.49	7.22	6.65	3.65	7.35
ROA .....	<b>5.27</b>	<b>5.27</b>	0.32	4.58	4.11	2.12	4.02
Operating income ratio .....	<b>8.95</b>	<b>8.95</b>	5.70	9.52	8.18	6.15	7.76
Equity ratio .....	<b>62.55</b>	<b>62.55</b>	65.20	63.44	63.42	60.11	55.83
Asset turnover (times) .....	<b>1.04</b>	<b>1.04</b>	0.97	1.06	1.00	0.93	1.01
	U.S. dollars	Thousands of yen					
Net sales per employee .....	<b>\$ 292,704</b>	<b>¥ 35,183</b>	¥ 35,639	¥ 37,100	¥ 35,790	¥ 32,095	¥ 36,712

(Note A) The Corporation split industrial products into Industrial Products and Functional Products in 1999.

## ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

### RESULTS OF OPERATIONS

#### Sales Overview

On a consolidated basis, Nitto Denko's net sales for fiscal 2003, ended March 31, 2003, amounted to ¥378,705 million, up 11.7% from the previous fiscal year.

During fiscal 2003, the global economy showed signs of being in the process of recovery in line with the progress in inventory adjustments, but slowed as demand from inventory rebuilding subsided and global equity markets were impacted by a simultaneous downtrend and stagnant personal consumption. The Japanese economy appeared to be on the upswing, led by export industries, but due to concerns about the uncertainty of the U.S. and other world economies as well as a lack of enthusiasm in capital investment due to prolonged deflation, it remained mired in a deflationary trend.

Under such economic conditions, the Group maintained steady growth by actively engaging in expanding sales in such areas as LCD-related products and tape materials for automotive industries in addition to semiconductor-related products for electronic components and electronic-related components for the electronics industry, which underwent a process of inventory adjustment. In spite of lackluster sales in some areas, high-polymer separation membrane modules also boasted an increase in demand as environment conservation-related products.

#### Summary of Results by Business Segment

##### Industrial Products

Net sales of industrial products increased 4.6% to ¥192,179 million, and operating income increased 147.9% to ¥11,502 million.

Sales of bonding and joining products for cellular phones and the electronics industry, including OA products in East Asia and PC peripherals, remained strong, as did surface protection and sealing products for the display industries in line with a recovery in capital investment. Sales of electronic component-related products, such as electrical component carrier

tapes and thermal release sheets for temporary bonding used in manufacturing processes, advanced mainly due to the recovery of production in the electronic component industry. Among construction materials, such products as waterproofing and airtight-type products for the construction industry incurred sluggish sales growth due to the decrease of new housing starts. Conversely, damping materials for the automotive industry and a curing compound used for construction recorded positive sales.

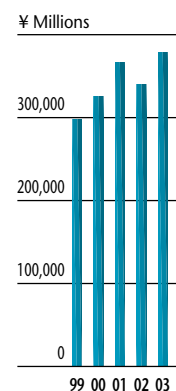
##### Electronic Products

Net sales of electronic products increased 22.7% to ¥146,780 million, and operating income increased 58.4% to ¥16,849 million.

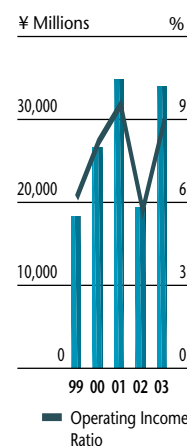
Among LCD-related products, sales of high-performance optical films for laptop computers and LCD monitors posted solid increases, especially films for wide-angle polarizing films (NWF) and brightness enhancing films, owing to the growing demand for a larger screen with higher resolution and a wider viewing angle as a result of the shift from CRT monitors to LCD monitors.

Sales of retardation films were solid due to the shift to cellular phones with color displays. Sales of high-performance retardation films for LCD TVs remained favorable as well. Although there were severe decreases in unit prices of LCD-related film products, the release of new products and expansion of the market contributed significantly to overall business results. Among semiconductor-related products, recovery of demand for PCs, cellular phones and IT-related products contributed to sales growth of semiconductor encapsulating resins, wafer-protection tapes and bonding machines for the semiconductor manufacturing process. With regard to flexible printed circuits (FPCs), demand for circuits in HDD industries remained weak, while sales of high-density FPCs for color screens of cellular phones and plasma display panels (PDPs) were favorable due to an increased number of color LCD displays being mounted on cellular phones and expansion of the PDP market.

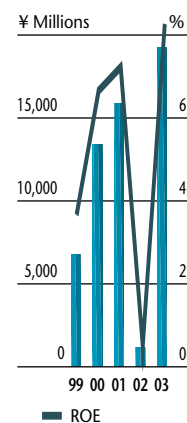
#### NET SALES



#### OPERATING INCOME & OPERATING INCOME RATIO

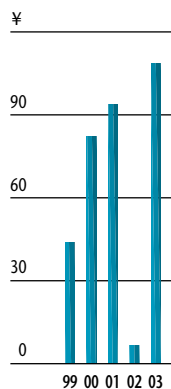


#### NET INCOME & ROE

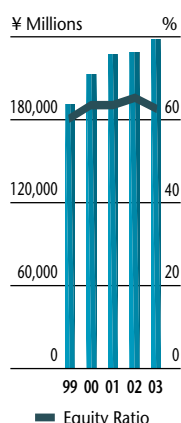




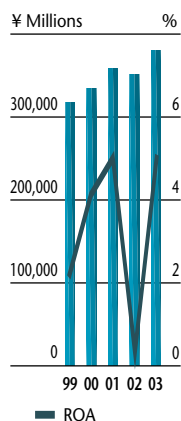
### NET INCOME PER SHARE



### SHAREHOLDERS' EQUITY & EQUITY RATIO



### TOTAL ASSETS & ROA



### Functional Products

Net sales of functional products increased 11.6% to ¥39,745 million, and operating income increased 37.4% to ¥5,551 million.

Among healthcare products, while sales of transdermal therapeutic patches for bronchodilatation remained favorable, sales of the products for treatment of ischemic heart disease were on a par with the previous year due to National Health Insurance (NHI) drug price revisions. Among polymer separating membrane modules, sales of membrane modules for producing the water in the cleansing process for the LCD industry, condensation in power plants and for treatment of agricultural water and drinking water in the Chinese market, continued to perform well. Among engineering plastic products, sales of environment conservation filters, inner pressure control filters for OA equipment and automobiles, in addition to polyimide belts for OA equipment and process products for semiconductor and electronic component industries were robust.

### Results by Geographic Area

In Japan, net sales totaled ¥321,407 million, up 11.8% from the previous period, and operating income increased 78.2% to ¥29,804 million. Sales of electrical component carrier tapes and thermal release sheets for temporary bonding used in manufacturing processes advanced due to the recovery of production in the electronic component industry. Among LCD-related products, solid sales of high-performance optical films for laptop computers and LCD monitors, especially NWFs and brightness-enhancing films were recorded, together with favorable sales of FPCs for color screens of cellular phones and PDPs due to an increased number of color LDC displays being mounted on cellular phones and expansion of the PDP market. Conversely, sales of surgical products were sluggish due to restructuring and elimination of unprofitable products.

In North America, net sales amounted to ¥35,140 million, up 7.2% from the previous period, and

operating income increased 496.3% to ¥1,028 million. Sales of high-polymer separation membrane products for seawater desalination performed well, as did surface protection and sealing products for the automotive industry.

In Europe, net sales totaled ¥16,359 million, up 12.9% from the previous period, and operating income increased 79.8% to ¥448 million. Sales of semiconductor-related products and FPCs were favorable in line with a recovery in the cellular phone and semiconductor product markets.

In Asia & Oceania, net sales amounted to ¥80,937 million, up 33.4% from the previous period, and operating income increased 78.7% to ¥2,396 million. Sales of LCD-related products were robust due to an expansion of the market, while sales of electronic component products also increased due to the recovery of production in related industries. Among polymer separating membrane modules, production commenced for a new plant in Shanghai, China, and were further bolstered by positive sales of membrane modules for drinking water.

### Income Analysis

The structural reform plan known as the "Muscle Plan," which was launched during the second half of the previous fiscal year, contributed greatly to a growth in profits.

Cost of sales amounted to ¥269,085 million, up 8.6% from the previous year, while an 11.7% increase was recorded in net sales. This in turn led to an improvement in the ratio of cost of sales to net sales by 2.0 percentage points to 71.1%.

Gross profit amounted to ¥109,620 million, up 20.3%. The ratio of gross profit to net sales increased 2.0 percentage points to 28.9%.

Selling, general and administrative (SGA) expenses were up 5.5% to ¥75,718 million. The ratio of SGA expenses decreased 1.3 percentage points to 19.9%.

As a result of the above, operating income increased 75.5% to ¥33,902 million compared with



¥19,314 million in fiscal 2002.

With regard to other income and expenses, despite gains on return of substituted portion of employee pension fund of ¥3,732 million, a loss on evaluation of investments in securities amounted to ¥1,658 million, and restructuring expense, including expenses related to early retirement benefits, amounted to ¥1,821 million. As a result, other income and expenses resulted in a loss totaling ¥377 million.

Income before provision for income taxes increased 800.7% to ¥33,525 million. Net income amounted to ¥19,237 million, a 1,625.1% increase. The ratio of net income to net sales was 5.1%, up 4.8 percentage points. Net income per share was ¥108.52, an increase of ¥102.10. ROE increased 7.8 percentage points to 8.3%.

## ANALYSIS OF FINANCIAL CONDITION

### Assets and Liabilities & Shareholders' Equity

Total assets amounted to ¥379,812 million, representing an 8.4% increase.

Regarding current assets, cash on hand and in banks increased ¥13,170 million to ¥52,710 million. Marketable securities increased ¥13,334 million to ¥19,027 million, and inventories increased ¥4,138 million to ¥37,674 million. As a result, total current assets amounted to ¥216,441 million, up 18.9% compared to the previous fiscal year.

Plant and equipment decreased ¥2,523 million to ¥127,446 million. While ongoing investments included an FPC plant in Suzhou, China and industrial adhesive tapes plant in Wisconsin, in the United States, this decrease was mainly due to controlled investments in fiscal 2003 compared with substantial investments in fiscal 2002 and an increase in accumulated depreciation.

Total current liabilities increased ¥20,165 million to ¥109,205 million, mainly due to an increase of ¥12,527 million in income taxes payable. Regarding long-term liabilities, the allowance for severance and pension benefits decreased by ¥1,757 million,

primarily as a result of return of the substituted portion of employee pension fund. Total long-term liabilities decreased ¥747 million to ¥22,801 million.

Shareholders' equity increased ¥9,150 million to ¥237,560 million. The shareholders' equity ratio fell 2.7 percentage points to 62.5%. Shareholders' equity per share increased ¥52.85 to ¥1,367.38.

### Cash Flow Analysis

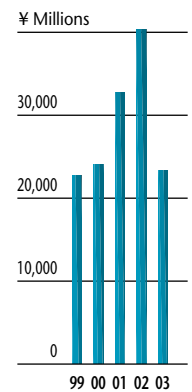
As of March 31, 2003, cash and cash equivalents, end of year were ¥73,342 million, up ¥33,237 million versus the previous fiscal period. This was largely due to an increase in income before provision for income taxes by ¥29,804 million, along with an increase in cash and cash equivalents of a newly consolidated company amounting to ¥828 million.

Net cash provided by operating activities totaled ¥59,225 million. This was mainly attributable to an increase in income before provision for income taxes to ¥33,525 million, depreciation and amortization totaling ¥21,144 million, an increase in trade notes and accounts payable to ¥7,251 million, an increase in trade notes and accounts receivable to ¥3,074 million and an increase in inventories to ¥4,493 million.

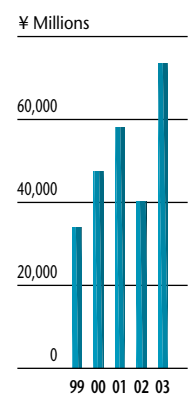
Net cash used in investing activities totaled ¥24,608 million. This was mainly attributable to an outlay of ¥24,451 million for acquisitions of plant and equipment.

Net cash used in financing activities totaled ¥1,638 million. This was mainly attributable to an outlay of ¥3,819 million for dividends paid.

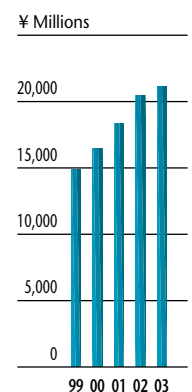
### CAPITAL EXPENDITURES



### CASH & CASH EQUIVALENTS



### DEPRECIATION & AMORTIZATION



## CONSOLIDATED BALANCE SHEETS

Nitto Denko Corporation and Consolidated Subsidiaries  
As of March 31, 2003 and 2002

Assets	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
<b>Current Assets:</b>				
Cash on hand and in banks (Note 2).....	¥ 52,710	¥ 39,540	\$ 438,519	\$ 328,952
Marketable securities (Notes 2 and 3) .....	19,027	5,693	158,295	47,363
Trade notes and accounts receivable .....	91,362	91,145	760,083	758,278
Allowance for doubtful receivables .....	(1,212)	(1,328)	(10,083)	(11,048)
Inventories (Note 4) .....	37,674	33,536	313,428	279,002
Deferred tax assets and other (Note 5).....	16,880	13,446	140,432	111,862
Total current assets .....	<u>216,441</u>	<u>182,032</u>	<u>1,800,674</u>	<u>1,514,409</u>
<b>Plant and Equipment, at Cost (Note 6):</b>				
Land.....	19,116	19,773	159,035	164,501
Buildings .....	104,511	98,946	869,476	823,178
Machinery and equipment .....	205,497	195,599	1,709,626	1,627,280
Construction in progress .....	6,381	10,494	53,086	87,304
	<u>335,505</u>	<u>324,812</u>	<u>2,791,223</u>	<u>2,702,263</u>
Accumulated depreciation.....	<u>(208,059)</u>	<u>(194,843)</u>	<u>(1,730,940)</u>	<u>(1,620,990)</u>
	<u>127,446</u>	<u>129,969</u>	<u>1,060,283</u>	<u>1,081,273</u>
<b>Investments and Other Assets:</b>				
Investments in nonconsolidated subsidiaries and affiliates .....	11,835	10,827	98,461	90,075
Investments in securities (Notes 3 and 6) .....	6,435	7,321	53,536	60,907
Goodwill .....	1,396	1,610	11,614	13,394
Other assets .....	16,259	18,581	135,266	154,584
	<u>35,925</u>	<u>38,339</u>	<u>298,877</u>	<u>318,960</u>
	<u>¥ 379,812</u>	<u>¥350,340</u>	<u>\$ 3,159,834</u>	<u>\$2,914,642</u>

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	
	2003	2002	2003	2002
<b>Current Liabilities:</b>				
Short-term bank loans, including current portion				
of long-term debt (Note 6) .....	¥ 9,468	¥ 7,257	\$ 78,769	\$ 60,374
Trade notes and accounts payable .....	72,294	69,522	601,448	578,386
Accrued expenses.....	13,647	10,247	113,536	85,250
Income taxes (Note 5).....	13,276	749	110,449	6,231
Other current liabilities.....	520	1,265	4,326	10,524
Total current liabilities .....	<u>109,205</u>	<u>89,040</u>	<u>908,528</u>	<u>740,765</u>
<b>Long-term Liabilities:</b>				
Long-term debt (Note 6).....	2,649	1,962	22,038	16,323
Allowance for severance and pension benefits (Notes 1(i) and 7) .....	16,616	18,373	138,236	152,854
Retirement allowances for directors and corporate auditors.....	1,232	1,102	10,250	9,168
Other long-term liabilities.....	2,304	2,111	19,168	17,562
	<u>22,801</u>	<u>23,548</u>	<u>189,692</u>	<u>195,907</u>
<b>Minority Interests</b> .....	<u>10,246</u>	<u>9,342</u>	<u>85,241</u>	<u>77,720</u>
<b>Commitments and Contingent Liabilities (Note 11)</b>				
<b>Shareholders' Equity (Note 9):</b>				
Common stock.....	26,784	26,784	222,829	222,829
Authorized — 400,000,000 shares				
Issued — 173,758,428 shares in 2003 and 2002				
Capital surplus .....	50,482	50,482	419,983	419,983
Retained earnings.....	168,632	153,518	1,402,928	1,277,188
Net unrealized holding gains on securities.....	243	663	2,022	5,516
Foreign currency translation adjustments .....	(7,514)	(3,034)	(62,512)	(25,241)
Cost of treasury stock .....	(1,067)	(3)	(8,877)	(25)
	<u>237,560</u>	<u>228,410</u>	<u>1,976,373</u>	<u>1,900,250</u>
	<u>¥ 379,812</u>	<u>¥ 350,340</u>	<u>\$ 3,159,834</u>	<u>\$ 2,914,642</u>

## CONSOLIDATED STATEMENTS OF INCOME

Nitto Denko Corporation and Consolidated Subsidiaries  
For the Years Ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
<b>Net Sales</b> .....	<b>¥ 378,705</b>	¥338,930	<b>\$ 3,150,624</b>	\$2,819,717
<b>Cost of Sales</b> .....	<b>269,085</b>	247,823	<b>2,238,644</b>	2,061,755
Gross profit .....	<b>109,620</b>	91,107	<b>911,980</b>	757,962
<b>Selling, General and Administrative Expenses</b> .....	<b>75,718</b>	71,793	<b>629,933</b>	597,280
Operating income .....	<b>33,902</b>	19,314	<b>282,047</b>	160,682
<b>Other Income (Expenses):</b>				
Interest and dividend income .....	517	545	4,301	4,534
Interest expense .....	(202)	(218)	(1,681)	(1,814)
Gain on sales of marketable securities and investments in securities, net.....	(10)	406	(83)	3,378
Equity in earnings of nonconsolidated subsidiaries and affiliates .....	1,862	234	15,491	1,947
Loss on evaluation of investments in securities (Note 1(d)).....	(1,658)	(4,870)	(13,794)	(40,516)
Restructuring expense (Note 13).....	(1,821)	(11,518)	(15,150)	(95,824)
Gains on return of substitutional portion of employee pension fund (Notes 1(i) and 7).....	3,732	-	31,048	-
Other, net (Note 1(i)).....	(2,797)	(171)	(23,269)	(1,422)
	<b>(377)</b>	(15,592)	<b>(3,137)</b>	(129,717)
<b>Income before Provision for Income Taxes</b> .....	<b>33,525</b>	3,722	<b>278,910</b>	30,965
<b>Provision for Income Taxes (Note 5):</b>				
Current .....	13,593	4,171	113,086	34,701
Deferred, net.....	(241)	(1,971)	(2,005)	(16,398)
	<b>13,352</b>	2,200	<b>111,081</b>	18,303
<b>Minority Interests in Net Income of Consolidated Subsidiaries</b> .....	<b>(936)</b>	(407)	<b>(7,787)</b>	(3,386)
<b>Net Income</b> .....	<b>¥ 19,237</b>	¥ 1,115	<b>\$ 160,042</b>	\$ 9,276
<b>Per Share of Common Stock (Note 9):</b>				
		Yen		U.S. dollars
<b>Net Income</b> .....	<b>¥ 108.52</b>	¥ 6.42	<b>\$ 0.90</b>	\$ 0.05
<b>Net Income — Diluted</b> .....	<b>108.52</b>	6.42	<b>0.90</b>	0.05
<b>Cash Dividends, Applicable to Earnings of the Year</b> .....	<b>24.00</b>	22.00	<b>0.20</b>	0.18

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, 2003 and 2002

	Number of Shares (thousands)		Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002	2003	2002
<b>Common Stock (Note 9):</b>						
Authorized shares .....	400,000	400,000				
Outstanding shares						
Beginning balance.....	173,758	173,758	¥ 26,784	¥ 26,784	\$ 222,829	\$ 222,829
Net increase .....	-	-	-	-	-	-
Ending balance .....	<u>173,758</u>	<u>173,758</u>	<u>¥ 26,784</u>	<u>¥ 26,784</u>	<u>\$ 222,829</u>	<u>\$ 222,829</u>
<b>Capital Surplus (Note 9):</b>						
Beginning balance.....			¥ 50,482	¥ 50,482	\$ 419,983	\$ 419,983
Net increase .....			-	-	-	-
Ending balance.....			<u>¥ 50,482</u>	<u>¥ 50,482</u>	<u>\$ 419,983</u>	<u>\$ 419,983</u>
<b>Retained Earnings (Note 9):</b>						
Beginning balance.....			¥ 153,518	¥ 156,543	\$ 1,277,188	\$ 1,302,354
Net income .....			19,237	1,115	160,042	9,276
Cash dividends paid .....			(3,819)	(3,820)	(31,772)	(31,780)
Directors' bonuses.....			(304)	(320)	(2,530)	(2,662)
Ending balance.....			<u>¥ 168,632</u>	<u>¥ 153,518</u>	<u>\$ 1,402,928</u>	<u>\$ 1,277,188</u>
<b>Net Unrealized Holding Gains on Securities:</b>						
Beginning balance.....			¥ 663	¥ -	\$ 5,516	\$ -
Net increase (decrease) .....			(420)	663	(3,494)	5,516
Ending balance.....			<u>¥ 243</u>	<u>¥ 663</u>	<u>\$ 2,022</u>	<u>\$ 5,516</u>
<b>Foreign Currency Translation Adjustments:</b>						
Beginning balance.....			¥ (3,034)	¥ (6,914)	\$ (25,241)	\$ (57,521)
Net increase (decrease) .....			(4,480)	3,880	(37,271)	32,280
Ending balance.....			<u>¥ (7,514)</u>	<u>¥ (3,034)</u>	<u>\$ (62,512)</u>	<u>\$ (25,241)</u>
<b>Cost of Treasury Stock (Note 10):</b>						
Beginning balance.....			¥ (3)	¥ (1)	\$ (25)	\$ (8)
Net decrease (increase) .....			(1,064)	(2)	(8,852)	(17)
Ending balance.....			<u>¥ (1,067)</u>	<u>¥ (3)</u>	<u>\$ (8,877)</u>	<u>\$ (25)</u>

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, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
<b>Cash Flows from Operating Activities:</b>				
Income before provision for income taxes .....	¥ 33,525	¥ 3,722	\$ 278,910	\$ 30,965
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization .....	21,144	20,443	175,907	170,075
Interest and dividend income .....	(517)	(545)	(4,301)	(4,534)
Interest expense .....	202	218	1,681	1,814
Foreign exchange (gain) loss .....	(0)	(11)	(3)	(92)
Equity in earnings of nonconsolidated subsidiaries and affiliates .....	(1,862)	(234)	(15,491)	(1,947)
Loss on evaluation of investments in securities .....	1,658	4,870	13,794	40,516
(Gain) Loss on sales and disposal of fixed assets .....	682	39	5,674	324
Decrease (increase) in trade notes and accounts receivable .....	(3,074)	10,836	(25,574)	90,150
Decrease (increase) in inventories .....	(4,493)	4,100	(37,379)	34,110
Decrease (increase) in other receivables .....	(292)	1,471	(2,429)	12,238
Increase (decrease) in trade notes and accounts payable .....	7,251	(4,697)	60,324	(39,077)
Other, net .....	3,023	(4,994)	25,152	(41,547)
Total .....	57,247	35,218	476,265	292,995
Interest and dividend income received .....	480	502	3,993	4,176
Interest paid .....	(208)	(224)	(1,731)	(1,864)
Income taxes refunded (paid) .....	1,706	(15,483)	14,193	(128,810)
Net cash provided by operating activities .....	59,225	20,013	492,720	166,497
<b>Cash Flows from Investing Activities:</b>				
Decrease in marketable securities, net .....	2,678	1,958	22,280	16,290
Acquisitions of plant and equipment .....	(24,451)	(41,630)	(203,419)	(346,339)
Proceeds from sales of plant and equipment .....	1,184	3,032	9,850	25,225
Decrease (increase) in time deposits, net .....	(2)	756	(17)	6,290
Purchase of investments in securities .....	(2,066)	(891)	(17,188)	(7,413)
Proceeds from sales of investments in securities .....	390	2,160	3,245	17,970
Acquisitions of nonconsolidated company .....	(2,074)	(1,059)	(17,255)	(8,810)
Other, net .....	(267)	81	(2,221)	672
Net cash used in investing activities .....	(24,608)	(35,593)	(204,725)	(296,115)
<b>Cash Flows from Financing Activities:</b>				
Proceeds from long-term debt .....	1,846	1,598	15,358	13,295
Repayments of long-term debt .....	(55)	(1,582)	(458)	(13,161)
Increase (decrease) in short-term debt, net .....	1,756	(563)	14,609	(4,684)
Acquisition of treasury stock for stock options .....	(1,063)	-	(8,844)	-
Repayments of bonds .....	(200)	-	(1,664)	-
Dividends paid .....	(3,819)	(3,820)	(31,772)	(31,780)
Other, net .....	(103)	(78)	(856)	(650)
Net cash used in financing activities .....	(1,638)	(4,445)	(13,627)	(36,980)
Foreign Currency Exchange Gain (Loss) in Cash and Cash Equivalents .....	(570)	503	(4,742)	4,185
Net Increase (Decrease) in Cash and Cash Equivalents .....	32,409	(19,522)	269,626	(162,413)
Cash and Cash Equivalents, Beginning of Year .....	40,105	57,989	333,652	482,438
Increase in Cash and Cash Equivalents due to				
Change in Scope of Consolidated Subsidiaries .....	828	1,638	6,888	13,627
Cash and Cash Equivalents, End of Year (Note 2) .....	¥ 73,342	¥ 40,105	\$ 610,166	\$ 333,652

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, 2003 and 2002

## 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 Accounting 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, 2003, which was ¥120.20 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.

In principle, the excess of the cost over the underlying net equity of investments in nonconsolidated subsidiaries and affiliates is being amortized over five years.

### (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.

Prior to April 2001, revenue and expenses accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the year-end rates. Effective April 1, 2001, the Corporation changed the translation into Japanese yen of income statements of consolidated overseas subsidiaries from year-end rates to average rates. As a result of this change for the year 2002, sales decreased ¥5,975 million (\$49,709 thousand) and charged for income are immaterial.

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 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 available 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 ¥13,851 million (\$115,233 thousand) and ¥13,053 million (\$108,594 thousand) for the years ended March 31, 2003 and 2002, 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 the projected benefit obligation and the rate of expected return on plan assets used by the Corporation and its domestic subsidiaries are 2.5% and 1.5-4.0%, respectively.

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

The actuarial net losses are amortized on the straight-line method over years less than 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, Labour 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 applies 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 ¥3,732 million (\$31,048 thousand). The amount of pension plan assets to be transferred back to the government was ¥20,177 million (\$167,862 thousand) as at March 31, 2003.

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

**(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 forward foreign exchange 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 losses or gains on the hedged items are recognized.

**(l) Reclassifications**

Certain prior year amounts have been reclassified to conform to 2003 presentation.

**2. Cash and Cash Equivalents**

The reconciliations of cash and cash equivalents to the accounts on the balance sheets as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Cash on hand and in banks .....	¥ 52,710	¥ 39,540	\$ 438,519	\$ 328,952
Time deposits .....	(678)	(745)	(5,641)	(6,198)
Securities and others .....	21,310	1,310	177,288	10,898
Cash and cash equivalents .....	¥ 73,342	¥ 40,105	\$ 610,166	\$ 333,652



### 3. Securities

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, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Trading securities: .....				
Carrying amount.....	¥ 18,934	¥ 5,599	\$ 157,521	\$ 46,581
Unrealized gains (losses), net.....	9	(48)	75	(399)

(b) Available-for-sale securities as of March 31, 2003 and 2002

2002

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 .....	¥ 4,320	¥ 5,883	¥ 1,562	\$ 35,940	\$ 48,943	\$ 12,995
Bonds .....	1	1	0	8	8	0
Others .....	94	94	0	782	782	0
Total .....	¥ 4,415	¥ 5,978	¥ 1,562	\$ 36,730	\$ 49,734	\$ 12,995
Securities with book values not exceeding acquisition costs						
Equity securities .....	¥ 22	¥ 21	¥ (1)	\$ 183	\$ 175	\$ (8)
Bonds .....	963	873	(90)	8,012	7,263	(749)
Others .....	45	40	(5)	374	332	(42)
Total .....	¥ 1,030	¥ 934	¥ (96)	\$ 8,569	\$ 7,770	\$ (799)

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	\$ 9,992	\$ 16,647	\$ 6,655
Bonds .....	-	-	-	-	-	-
Others .....	93	93	0	773	774	1
Total .....	¥ 1,294	¥ 2,094	¥ 800	\$ 10,765	\$ 17,421	\$ 6,656
Securities with book values not exceeding acquisition costs						
Equity securities .....	¥ 1,396	¥ 1,261	¥ (135)	\$ 11,614	\$ 10,491	\$ (1,123)
Bonds .....	757	654	(103)	6,298	5,441	(857)
Others .....	15	8	(7)	125	67	(58)
Total .....	¥ 2,168	¥ 1,923	¥ (245)	\$ 18,037	\$ 15,998	\$ (2,038)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

B. The following table summarizes the book values of securities with no available fair values as of March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Other securities with no fair value				
Non-listed equity securities:				
Carrying amount.....	¥ 2,511	¥ 504	\$ 20,890	\$ 4,193

C. Total sales of available-for-sale securities sold in the year ended March 31, 2002 amounted to ¥2,160 million (\$17,970 thousand), and the related gains and losses amounted to ¥630 million (\$5,241 thousand) and ¥209 million (\$1,739 thousand), respectively. Those amounts in the year ended March 31, 2003 are immaterial.

### 4. Inventories

Inventories as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Finished products.....	¥ 14,128	¥ 12,751	\$ 117,538	\$ 106,082
Work in process.....	17,020	14,825	141,597	123,336
Raw materials.....	6,526	5,960	54,293	49,584
	<u>¥ 37,674</u>	<u>¥ 33,536</u>	<u>\$ 313,428</u>	<u>\$ 279,002</u>

### 5. Income Taxes

The effective tax rate used for calculation of deferred taxes assets and liabilities was 41.8% for the year ended March 31, 2002. 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 effective tax rates of 41.8% and 40.5% for current items and non-current items, respectively, for the year ended March 31, 2003.

As the result of the change in the effective tax rates, deferred taxes assets decreased by ¥276 million (\$2,296 thousand), income taxes-deferred and net unrealized holding gains on securities increased by 283 million (\$2,354 thousand) and 7 million (\$58 thousand), respectively, 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.

Significant components of the Corporation's deferred tax assets and liabilities as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
<b>Current</b>				
Deferred tax assets:				
Inventories .....	¥ 241	¥ 312	\$ 2,005	\$ 2,596
Unrealized gains on inventories .....	703	700	5,849	5,824
Allowance for doubtful receivables .....	201	142	1,672	1,181
Accrued revenue .....	117	271	973	2,255
Enterprise taxes .....	1,187	-	9,875	-
Accounts payable .....	234	647	1,947	5,383
Accrued expenses .....	2,929	1,732	24,368	14,409
Other .....	293	454	2,437	3,776
Total current deferred tax assets .....	5,905	4,258	49,126	35,424
Deferred tax liabilities:				
Enterprise taxes .....	-	230	-	1,913
Net current deferred tax assets .....	¥ 5,905	¥ 4,028	\$ 49,126	\$ 33,511
<b>Long-term</b>				
Deferred tax assets:				
Depreciation .....	¥ 1,613	¥ 1,203	\$ 13,419	\$ 10,008
Intangible assets .....	259	257	2,155	2,138
Severance and pension benefits .....	5,820	5,851	48,419	48,677
Retirement allowances for directors and corporate auditors .....	494	452	4,110	3,760
Investments in securities .....	-	2,035	-	16,930
Other .....	1,890	1,730	15,724	14,394
Total long-term deferred tax assets .....	10,076	11,528	83,827	95,907
Deferred tax liabilities:				
Reserve for special depreciation .....	1,261	676	10,491	5,624
Undistributed earnings of overseas subsidiaries and affiliates .....	896	1,046	7,454	8,702
Net unrealized holding gains on securities .....	221	613	1,839	5,100
Total deferred tax liabilities .....	2,378	2,335	19,784	19,426
Net long-term deferred tax assets .....	¥ 7,698	¥ 9,193	\$ 64,043	\$ 76,481

## 6. Short-term Bank Loans and Long-term Debt

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, 2003 and 2002, were approximately 2.1% and 2.5%, respectively. Long-term debt as of March 31, 2003 and 2002 is summarized below:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
0.80% to 8.00% loans from banks and others, due in installments through 2012 ...	¥ 3,523	¥ 3,203	\$ 29,309	\$ 26,647
2.1% mortgage bonds, due 2005 .....	300	300	2,496	2,496
1.1% mortgage bonds, due 2002 .....	-	200	-	1,664
	3,823	3,703	31,805	30,807
Current portion .....	(1,174)	(1,741)	(9,767)	(14,484)
	¥ 2,649	¥ 1,962	\$ 22,038	\$ 16,323

At March 31, 2003, land of ¥220 million (\$1,830 thousand), buildings with a net book value of ¥176 million (\$1,464 thousand) and investments in securities of ¥31 million (\$258 thousand) are pledged as collateral for ¥300 million (\$2,496 thousand) of mortgage bonds and ¥151 million (\$1,256 thousand) of trade notes and accounts payable.

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

long-term debt that becomes due, and, in case of default and certain other specified events, against all other debt payable to the bank.

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005 .....	¥ 1,327	\$ 11,040
2006 .....	472	3,927
2007 .....	50	416
2008 .....	50	416
2009 and thereafter.....	750	6,239
	<u>¥ 2,649</u>	<u>\$ 22,038</u>

## 7. Employees' Severance and Pension Benefits

The allowance for severance and pension benefits as of March 31, 2003 and 2002 consist of the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Projected benefit obligation .....	¥ 97,401	¥ 112,457	\$ 810,324	\$ 935,582
Unrecognized prior service costs .....	(20)	(22)	(166)	(183)
Unrecognized actuarial differences .....	(36,151)	(21,308)	(300,757)	(177,271)
Less fair value of pension assets .....	(44,614)	(72,754)	(371,165)	(605,274)
Allowance for severance and pension benefits .....	<u>¥ 16,616</u>	<u>¥ 18,373</u>	<u>\$ 138,236</u>	<u>\$ 152,854</u>

Severance and pension benefits expenses for the years ended March 31, 2003 and 2002 comprise the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Service costs-benefits earned during the year .....	¥ 3,233	¥ 4,199	\$ 26,897	\$ 34,933
Interest costs on projected benefit obligation .....	3,833	3,774	31,889	31,398
Expected return on plan assets .....	(2,640)	(2,674)	(21,964)	(22,246)
Amortization of actuarial differences.....	1,864	1,349	15,507	11,222
Amortization of prior service costs obligation .....	2	2	17	17
Severance and pension benefits expense .....	<u>¥ 6,292</u>	<u>¥ 6,650</u>	<u>\$ 52,346</u>	<u>\$ 55,324</u>
Gains on return of substitutional portion of employee pension fund.....	(3,732)	-	(31,048)	-
Net .....	<u>¥ 2,560</u>	<u>¥ 6,650</u>	<u>\$ 21,298</u>	<u>\$ 55,324</u>

## 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, 2003 and 2002 and for the fiscal years then ended, is as follows:

	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
2002				
Buildings .....	¥ 29	¥ 20	¥ 9	\$ 75
Machinery and vehicles .....	814	399	415	3,453
Tools and equipment .....	1,108	757	351	2,920
Other .....	527	211	316	2,629
	<u>¥ 2,478</u>	<u>¥ 1,387</u>	<u>¥ 1,091</u>	<u>\$ 9,077</u>

	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
2003				
Buildings .....	¥ 28	¥ 16	¥ 12	\$ 100
Machinery and vehicles .....	732	437	295	2,454
Tools and equipment .....	643	427	216	1,797
Other .....	591	285	306	2,546
	<u>¥ 1,994</u>	<u>¥ 1,165</u>	<u>¥ 829</u>	<u>\$ 6,897</u>

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Future minimum lease payments				
Due within one year .....	¥ 370	¥ 434	\$ 3,078	\$ 3,610
Due after one year .....	485	691	4,035	5,749
	<u>¥ 855</u>	<u>¥ 1,125</u>	<u>\$ 7,113</u>	<u>\$ 9,359</u>
Lease payments for the year ended March 31 .....	<u>¥ 476</u>	<u>¥ 774</u>	<u>\$ 3,960</u>	<u>\$ 6,439</u>

### Operating Leases

Future minimum lease payments due under operating leases as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Due within one year .....	¥ 5	¥ 6	\$ 42	\$ 50
Due after one year .....	5	10	41	83
	<u>¥ 10</u>	<u>¥ 16</u>	<u>\$ 83</u>	<u>\$ 133</u>

## 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. In conformity therewith, the Corporation recorded as common stock over one-half of the principal amount of the convertible bonds converted into common stock.

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 is 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 dilutive convertible bonds were converted into common stock at the beginning of the year.

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). For the period ended March 31, 2003, earnings per share calculated in accordance with the new accounting standard and the related guidance were identical with those calculated in accordance with the previous accounting method.

The shareholders approved, at the general meeting of shareholders held on June 20, 2003, the declaration of the final cash dividends of ¥13.00 (\$0.11) per share totaling ¥2,255 million (\$18,760 thousand).

In addition, the Corporation's annual general shareholders' meeting passed a resolution to enable the Corporation to purchase up to 17 million shares of the outstanding common stock of the Corporation, limited to ¥60 billion for the purpose of flexible financing, in the period from the annual meeting to the next annual meeting, in accordance with Article 210 of the Commercial Code of Japan.

The Commercial Code of Japan allows a company to retire a portion of its outstanding shares upon approval of the shareholders at the annual general shareholders' meeting. On June 26, 1998, the Corporation's annual general shareholders' meeting passed a resolution to enable the Corporation to purchase and retire up to 15 million outstanding shares based on the resolution of a Board of Directors' meeting.

## 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 exercise price is ¥3,905 per share.

The Corporation acquired 314,700 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, 2003 to December 31, 2005.

In addition, 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 as 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, 2004 to December 31, 2006.

## 11. Commitments and Contingent Liabilities

### Capital Expenditure Program

Under the capital expenditure program of the Corporation and its subsidiaries, it is estimated that ¥39,796 million (\$331,082 thousand) will be expended during the two years ending March 31, 2005, of which ¥17,697 million (\$147,230 thousand) represents contractual commitments.

### Contingent Liabilities

The Corporation and certain consolidated subsidiaries are contingently liable, as of March 31, 2003, for trade notes receivable which were discounted or endorsed of ¥894 million (\$7,438 thousand), and as guarantors for borrowings of ¥2,131 million (\$17,729 thousand) by certain employees and nonconsolidated subsidiaries.

## 12. Derivative Financial Instruments

All the derivative financial instruments currently utilized are forward foreign exchange contract for hedging foreign exchange risk on trade receivables and payable denominated in foreign currencies,

which effectively limit the Corporation's related risk.

The Corporation does not hold derivatives for trading or speculative purpose.

### 13. Restructuring Expenses

In the years ended on March 31, 2003 and 2002, the Corporation and certain consolidated subsidiaries implemented a restructuring program. The program resulted in restructuring expenses of ¥1,821

million (\$15,150 thousand) and ¥11,518 million employees' respectively, which principally reflects the additional severance costs and loss on business liquidation of subsidiaries.

### 14. Operating Segment Information

#### (1) Business Segments

The Corporation operates principally in three business segments: Industrial Products, Electronic Products and Functional Products.

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

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

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

Business segment information for the years ended March 31, 2003 and 2002 is as follows:

#### Net Sales

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Industrial Products.....	¥ 192,273	¥ 184,131	\$ 1,599,609	\$ 1,531,872
Electronic Products.....	146,850	120,143	1,221,714	999,526
Functional Products.....	40,402	35,800	336,123	297,837
Eliminations.....	(820)	(1,144)	(6,822)	(9,518)
Consolidated Total .....	<u>¥ 378,705</u>	<u>¥ 338,930</u>	<u>\$ 3,150,624</u>	<u>\$ 2,819,717</u>

#### Operating Income

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Industrial Products.....	¥ 11,502	¥ 4,640	\$ 95,691	\$ 38,602
Electronic Products.....	16,849	10,634	140,175	88,469
Functional Products.....	5,551	4,040	46,181	33,611
Consolidated Total .....	<u>¥ 33,902</u>	<u>¥ 19,314</u>	<u>\$ 282,047</u>	<u>\$ 160,682</u>

#### Assets

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Industrial Products.....	¥ 145,768	¥ 149,758	\$ 1,212,712	\$ 1,245,907
Electronic Products.....	111,831	100,931	930,374	839,692
Functional Products.....	38,593	37,626	321,073	313,028
Corporate.....	83,620	62,025	695,675	516,015
Consolidated Total .....	<u>¥ 379,812</u>	<u>¥ 350,340</u>	<u>\$ 3,159,834</u>	<u>\$ 2,914,642</u>

#### Depreciation and Amortization

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Industrial Products.....	¥ 9,791	¥ 9,780	\$ 81,456	\$ 81,364
Electronic Products.....	8,402	7,991	69,900	66,481
Functional Products.....	2,951	2,672	24,551	22,230
Consolidated Total .....	<u>¥ 21,144</u>	<u>¥ 20,443</u>	<u>\$ 175,907</u>	<u>\$ 170,075</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Capital Expenditures

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Industrial Products.....	¥ 10,651	¥ 19,610	\$ 88,610	\$ 163,145
Electronic Products.....	9,954	14,688	82,812	122,196
Functional Products.....	2,732	6,013	22,729	50,025
Consolidated Total.....	¥ 23,337	¥ 40,311	\$ 194,151	\$ 335,366

### (2) Geographic Areas

Geographic area information for the years ended March 31, 2003 and 2002 is as follows:

#### Net Sales

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Japan.....	¥ 321,407	¥ 287,543	\$ 2,673,935	\$ 2,392,205
Other.....	132,436	107,939	1,101,797	897,995
North America.....	35,140	32,774	292,346	272,662
Europe.....	16,359	14,494	136,098	120,582
Asia & Oceania.....	80,937	60,671	673,353	504,751
Eliminations.....	(75,138)	(56,552)	(625,108)	(470,483)
Consolidated Total.....	¥ 378,705	¥ 338,930	\$ 3,150,624	\$ 2,819,717

#### Operating Income

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Japan.....	¥ 29,804	¥ 16,727	\$ 247,953	\$ 139,160
Other.....	3,872	1,762	32,213	14,659
North America.....	1,028	172	8,552	1,431
Europe.....	448	249	3,727	2,072
Asia & Oceania.....	2,396	1,341	19,934	11,156
Eliminations.....	226	825	1,881	6,863
Consolidated Total.....	¥ 33,902	¥ 19,314	\$ 282,047	\$ 160,682

#### Assets

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Japan.....	¥ 187,118	¥ 192,253	\$ 1,556,722	\$ 1,599,443
Other.....	112,170	99,737	933,195	829,759
North America.....	53,211	53,423	442,687	444,451
Europe.....	10,826	9,124	90,067	75,907
Asia & Oceania.....	48,133	37,190	400,441	309,401
Corporate.....	80,524	58,350	669,917	485,440
Consolidated Total.....	¥ 379,812	¥ 350,340	\$ 3,159,834	\$ 2,914,642

### (3) Net Sales to Customers Outside Japan

Manufacturing operations of the Corporation and its subsidiaries are primarily in Japan. Net sales of the Corporation and its subsidiaries to customers outside Japan for the years ended March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
North America.....	¥ 28,213	¥ 26,931	\$ 234,717	\$ 224,052
Europe.....	17,357	15,476	144,401	128,752
Asia & Oceania.....	108,558	85,469	903,145	711,056
	¥ 154,128	¥ 127,876	\$ 1,282,263	\$ 1,063,860



## 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, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in 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, 2003 and 2002, 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 the following, as discussed in Notes 1(b), to the consolidated financial statements, effective April 1, 2001, NITTO DENKO CORPORATION and subsidiaries changed, with our concurrence, its method of translating income statements of foreign subsidiaries.

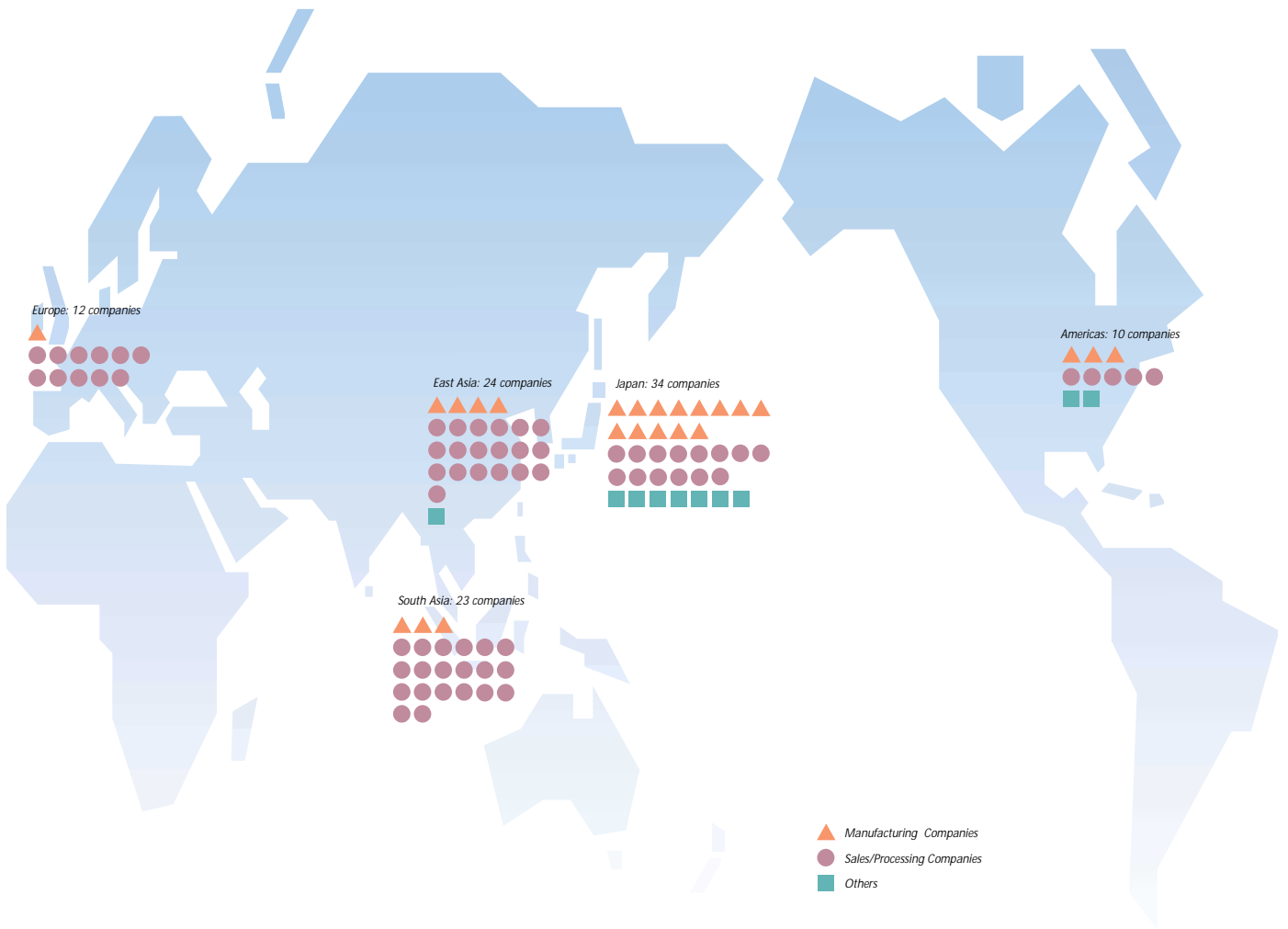
The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated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

Osaka, Japan  
June 20, 2003

*Asahi x Co.*

# NITTO DENKO GROUP

(As of March 31, 2003)



## Consolidated Subsidiaries

### Japan

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

### Overseas

<i>Name of Company</i>	<i>Country</i>	<i>Scope of Business</i>
■ Nitto Americas, Inc (NJ)	U.S.A.	Supervisory company in U.S.A.
● Nitto Denko America, Inc. (CA)	U.S.A.	Specialty electronics materials
▲ Permacel (NJ)	U.S.A.	Adhesive tape products
▲ Graphic Technology, Inc. (KS)	U.S.A.	Bar-code labels
▲ Hydranautics (CA)	U.S.A.	High-polymer separation membrane modules
● Permacel of Latin America LTDA.	Brazil	Adhesive tape products
● Permacel of Mexico, S. de R.L. de C.V.	Mexico	Adhesive tape products
▲ Nitto Europe N.V.	Belgium	Adhesive tapes, surface protection products, and electronic-related products
● Nitto Deutschland GmbH	Germany	Nitto Denko Group products
● Nitto France S. A. R. L.	France	Nitto Denko Group products
● Nitto Scandinavia AB	Sweden	Nitto Denko Group products
● HY Membranes Iberia S.L.	Spain	High-polymer separation membrane modules
● Hydranautics B.V.	Netherlands	High-polymer separation membrane modules
● Hydranautics GmbH	Germany	High-polymer separation membrane modules

<i>Name of Company</i>	<i>Country</i>	<i>Scope of Business</i>
▲ Nitto Denko (Taiwan) Corporation	Taiwan	Tape materials and electronic-related products
● Nitto Denko (HK) Co., Ltd.	China	Nitto Denko Group 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 (Suzhou) Co., Ltd.	China	Electronic-related products
● Korea Nitto Optical Co., Ltd.	Korea	Optical films
■ Nitto Denko (China) Investment Co., Ltd.	China	Supervisory company in China, supervision of strategic business investments
● Nitto Denko (Singapore) Pte. Ltd.	Singapore	Nitto Denko Group products
▲ Nitto Denko Electronics (Malaysia) Sdn. Bhd.	Malaysia	Semiconductor encapsulating resins
● Nitto Denko (Australia) Pty. Ltd.	Australia	Nitto Denko Group products
● Nitto Denko Materials (Malaysia) Sdn. Bhd.	Malaysia	Nitto Denko Group products, excluding semiconductor encapsulating resins and conversion of adhesive tapes

#### **Major Non-consolidated Subsidiaries and Affiliates**

<i>Name of Company</i>	<i>Country</i>	<i>Scope of Business</i>
■ Nitto Denko Technical Corp. (CA)	U.S.A.	R&D in the field of advanced materials for optical communications and bioscience
● 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
● Korea Nitto Denko Co., Ltd.	Korea	Nitto Denko Group products, excluding polarizing films products
● Nitto Denko (Xiamen) Co., Ltd.	China	Adhesive tapes
● Nitto Denko Materials (Shenzhen) Co., Ltd.	China	Adhesive tapes
● Nitto Denko Phillipines Corp.	Philippines	Nitto Denko Group Products
▲ Nitto Denko Material (Thailand) Co., Ltd.	Thailand	Sealing and tape materials
● 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
● Nitto Denko (Thailand) Co., Ltd.	Thailand	Nitto Denko Group products

▲ Manufacturing Companies  
● Sales/Processing Companies  
■ Others

## CORPORATE DATA

(As of March 31, 2003)

**Company Name** NITTO DENKO CORPORATION

**Established** October 25, 1918

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

**Employees** 10,764

**Capital** US\$222,829 thousand

**Fiscal Year-end** March 31

**Shares Issued** 173,758,428

**Stock Exchange Listings**

Tokyo, Nagoya, Osaka stock exchanges

**Independent Auditors**

Asahi & Co.

**Business Lines** 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

*Executive Vice President:* Koichi Takatsuka

*Senior Executive Managing Director:* Mikio Aizawa

*Executive Managing Directors:* Yasuki Nishizaka  
Tetsuo Iwaki  
Yoshiyasu Kamiyama  
Yukio Nagira

*Directors:* Katsuhiko Akamatsu  
Yasuo Ninomiya  
Tatsunosuke Fujiwara  
Ryoichi Ota  
Tetsuo Horiuchi  
Shunichiro Sayanagi

*Corporate Auditors:* Tsuneo Asada  
Makoto Yoshida  
Hisashi Hosokawa  
Shiko Saikawa

# NITTO DENKO CORPORATION

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

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