

CONSOLIDATED BALANCE SHEETS

Nitto Denko Corporation and Consolidated Subsidiaries
March 31, 2000 and 1999

Assets	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Current Assets:				
Cash and cash equivalents	¥ 47,244	¥ 35,934	\$ 445,068	\$ 338,521
Time deposits	137	205	1,291	1,931
Marketable securities	4,396	7,862	41,413	74,065
Trade notes and accounts receivable	92,865	86,077	874,847	810,900
Allowance for doubtful receivables	(1,297)	(1,403)	(12,219)	(13,217)
Inventories (Note 3)	27,496	27,804	259,030	261,931
Deferred tax assets and other (Note 4)	10,741	15,509	101,187	146,105
Total current assets	<u>181,582</u>	<u>171,988</u>	<u>1,710,617</u>	<u>1,620,236</u>
Plant and Equipment, at Cost (Note 5):				
Land	20,481	20,134	192,944	189,675
Buildings	80,256	76,040	756,062	716,345
Machinery and equipment	<u>167,942</u>	<u>166,623</u>	<u>1,582,119</u>	<u>1,569,694</u>
	268,679	262,797	2,531,125	2,475,714
Accumulated depreciation	<u>(167,209)</u>	<u>(162,992)</u>	<u>(1,575,214)</u>	<u>(1,535,488)</u>
	<u>101,470</u>	<u>99,805</u>	<u>955,911</u>	<u>940,226</u>
Investments and Other Assets:				
Investments in nonconsolidated subsidiaries and affiliates	12,254	11,280	115,440	106,265
Investments in securities	15,630	14,172	147,244	133,509
Goodwill (Note 1(a))	1,818	3,050	17,127	28,733
Other assets	<u>9,439</u>	<u>10,582</u>	<u>88,923</u>	<u>99,689</u>
	39,141	39,084	368,734	368,196
Foreign Currency Translation Adjustments	<u>12,308</u>	<u>6,258</u>	<u>115,949</u>	<u>58,954</u>
	<u>¥334,501</u>	<u>¥317,135</u>	<u>\$3,151,211</u>	<u>\$2,987,612</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	
	2000	1999	2000	1999
Current Liabilities:				
Short-term bank loans, including current portion				
of long-term debt (Note 5)	¥ 15,435	¥ 8,452	\$ 145,407	\$ 79,623
Trade notes and accounts payable	64,465	59,988	607,301	565,125
Accrued expenses	12,318	10,839	116,043	102,110
Income taxes (Note 4)	8,594	3,924	80,961	36,967
Other current liabilities.....	927	547	8,734	5,152
Total current liabilities.....	<u>101,739</u>	<u>83,750</u>	<u>958,446</u>	<u>788,977</u>
Long-term Liabilities:				
Long-term debt (Note 5).....	2,175	24,468	20,490	230,504
Estimated retirement and termination allowances.....	12,815	13,005	120,725	122,515
Other long-term liabilities.....	1,595	1,389	15,026	13,086
	<u>16,585</u>	<u>38,862</u>	<u>156,241</u>	<u>366,105</u>
Minority Interests	<u>4,051</u>	<u>3,901</u>	<u>38,163</u>	<u>36,750</u>
Commitments and Contingent Liabilities (Note 8)				
Shareholders' Equity (Note 7):				
Common stock, par value ¥50 per share.....	22,030	16,656	207,537	156,910
Authorised — 400,000,000 shares				
Issued — 166,511,553 shares in 2000 and 158,319,518 shares in 1999				
Additional paid-in capital	45,728	40,354	430,787	380,160
Retained earnings	144,372	133,620	1,360,075	1,258,785
Cost of treasury stock	(4)	(8)	(38)	(75)
	<u>212,126</u>	<u>190,622</u>	<u>1,998,361</u>	<u>1,795,780</u>
	<u>¥334,501</u>	<u>¥317,135</u>	<u>\$3,151,211</u>	<u>\$2,987,612</u>

CONSOLIDATED STATEMENTS OF INCOME

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Net Sales	¥325,399	¥297,104	\$3,065,464	\$2,798,907
Cost of Sales	232,729	218,946	2,192,454	2,062,609
Gross profit	92,670	78,158	873,010	736,298
Selling, General and Administrative Expenses	66,058	59,896	622,308	564,258
Operating Income.....	26,612	18,262	250,702	172,040
Other Income (Expenses):				
Interest and dividend income	744	982	7,009	9,251
Interest expense.....	(789)	(1,401)	(7,433)	(13,198)
Loss on sales of marketable securities and investments in securities, net.....	2	(959)	19	(9,034)
Equity in earnings of nonconsolidated subsidiaries and affiliates	788	567	7,423	5,341
Prior service cost of pension plan	(4,819)	—	(45,398)	—
Special pension plan contribution	(628)	(1,396)	(5,916)	(13,151)
Other, net.....	(327)	(3,346)	(3,081)	(31,522)
	(5,029)	(5,553)	(47,377)	(52,313)
Income before Provision for Income Taxes	21,583	12,709	203,325	119,727
Provision for Income Taxes (Note 4):				
Current.....	11,757	5,887	110,758	55,459
Deferred, net	(3,783)	34	(35,638)	321
	7,974	5,921	75,120	55,780
Minority Interests in Net Income of Consolidated Subsidiaries	(210)	(49)	(1,978)	(462)
Net Income.....	¥ 13,399	¥ 6,739	\$ 126,227	\$ 63,486
Per Share of Common Stock (Note 7):				
	Yen		U.S. dollars	
Net Income.....	¥ 82.04	¥ 43.51	\$ 0.77	\$ 0.41
Net Income—Diluted	78.86	42.69	0.74	0.40
Cash Dividends, Applicable to Earnings of the Year	18.00	14.00	0.17	0.13

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, 2000 and 1999

	Number of Shares (thousands)		Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999	2000	1999
Common Stock (Note 7):						
Authorized shares	400,000	400,000				
Outstanding shares —						
Beginning balance	158,319	153,752	¥ 16,656	¥ 12,642	\$ 156,910	\$ 119,096
Conversion of bonds	8,193	4,567	5,374	4,014	50,627	37,814
Ending balance	<u>166,512</u>	<u>158,319</u>	<u>¥ 22,030</u>	<u>¥ 16,656</u>	<u>\$ 207,537</u>	<u>\$ 156,910</u>
Additional Paid-in Capital (Note 7):						
Beginning balance			¥ 40,354	¥ 36,392	\$ 380,160	\$ 342,836
Conversion of bonds and other			5,374	3,962	50,627	37,324
Ending balance			<u>¥ 45,728</u>	<u>¥ 40,354</u>	<u>\$ 430,787</u>	<u>\$ 380,160</u>
Retained Earnings (Notes 1 and 7):						
Beginning balance			¥133,620	¥129,408	\$1,258,785	\$1,219,105
Net income			13,399	6,739	126,227	63,486
Cash dividends paid			(2,400)	(2,158)	(22,610)	(20,330)
Directors' bonuses			(247)	(294)	(2,327)	(2,770)
Other			—	(75)	—	(706)
Ending balance			<u>¥144,372</u>	<u>¥133,620</u>	<u>\$1,360,075</u>	<u>\$1,258,785</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, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Cash Flows from Operating Activities:				
Income before provision for income taxes	¥ 21,583	¥ 12,709	\$ 203,325	\$ 119,727
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization	16,464	14,845	155,101	139,849
Interest and dividend income	(744)	(982)	(7,009)	(9,251)
Interest expense.....	789	1,401	7,433	13,198
Exchange loss.....	363	—	3,420	—
Equity in earnings of nonconsolidated subsidiaries and affiliates	(787)	(567)	(7,414)	(5,341)
Loss on sales and disposal of fixed assets.....	730	440	6,877	4,145
(Increase) in trade notes and accounts receivable	(9,060)	(338)	(85,351)	(3,184)
(Increase) decrease in inventories.....	(901)	2,327	(8,488)	21,922
Decrease (increase) in other receivables.....	6,685	(5,259)	62,977	(49,543)
Increase in trade notes and accounts payable.....	6,898	3,273	64,984	30,834
Other, net.....	4,885	2,574	46,020	24,247
Total.....	46,905	30,423	441,875	286,603
Interest and dividend income received	595	784	5,605	7,386
Interest paid	(789)	(1,400)	(7,433)	(13,189)
Income taxes paid	(6,953)	(7,480)	(65,502)	(70,466)
Net cash provided by operating activities	39,758	22,327	374,545	210,334
Cash Flows from Investing Activities:				
Decrease in marketable securities, net	3,462	1,992	32,614	18,766
Acquisitions of plant and equipment	(24,014)	(22,717)	(226,227)	(214,008)
Proceeds from sales of plant and equipment	2,367	62	22,299	584
Decrease in time deposits, net	68	510	641	4,805
Purchase of investments in securities.....	(2,743)	(329)	(25,841)	(3,099)
Proceeds from sales of investments in securities	1,237	11,327	11,653	106,707
Other, net.....	(908)	(2,068)	(8,554)	(19,483)
Net cash used in investing activities	(20,531)	(11,223)	(193,415)	(105,728)
Cash Flows from Financing Activities:				
Proceeds from long-term debt	1,690	3,327	15,921	31,342
Repayments of long-term debt.....	(3,750)	(192)	(35,327)	(1,809)
(Decrease) in short-term debt, net	(1,866)	(2,960)	(17,579)	(27,885)
Proceeds from bonds issuance	300	200	2,826	1,884
Repayments of bonds	(935)	(6,719)	(8,808)	(63,297)
Dividends paid	(2,451)	(2,217)	(23,090)	(20,886)
Other, net.....	4	(6)	37	(57)
Net cash used in financing activities	(7,008)	(8,567)	(66,020)	(80,708)
Foreign Currency Exchange Loss in Cash and Cash Equivalents	(909)	(670)	(8,563)	(6,312)
Net Increase in Cash and Cash Equivalents	11,310	1,867	106,547	17,586
Cash and Cash Equivalents, Beginning of Year	35,934	33,759	338,521	318,031
Cash and Cash Equivalents of Newly Consolidated Company	—	308	—	2,904
Cash and Cash Equivalents, End of Year	¥ 47,244	¥ 35,934	\$ 445,068	\$ 338,521
Non-cash Investing and Financing Activities:				
Increase in common stock and additional paid-in capital on conversion of convertible bonds	¥ 10,748	¥ 7,976	\$ 101,253	\$ 75,139

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, 2000 and 1999

1. Summary of Significant Accounting and Reporting Policies

NITTO DENKO CORPORATION (the "Corporation") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas-consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Corporation which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Corporation and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statement of cash flows for 1999 has been prepared for the purpose of inclusion in the consolidated financial statements, although such statement was not customarily prepared in Japan and not required to be filed with MOF prior to 2000.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2000, which was ¥106.15 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 Corporation prepared the consolidated financial statements for the year ended March 31, 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements (the "Revised Accounting Principles") effective from the year ended March 31, 2000.

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 on the equity method. The effect of adopting the Revised Accounting Principles is immaterial.

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 November 1989, the Corporation acquired Graphic Technology, Inc. through Nitto Denko America, Inc., a wholly-owned subsidiary of the Corporation. The excess of the cost over the underlying book value, amounting to ¥5,535 million (\$52,143 thousand), is being amortized as goodwill over 20 years. In principle the excess of the cost over the underlying net equity of investments in nonconsolidated subsidiaries and affiliates is being amortized over 5 years.

(b) Foreign Currency Translation

Monetary current assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at each balance sheet date.

Investments in the common stock of foreign nonconsolidated subsidiaries and affiliates and long-term debt denominated in foreign currencies are translated into Japanese yen at the exchange rate in effect at the time of each transaction.

Balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at year end rates except for shareholders equity accounts, which are translated at the historical rates. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the year end rates. Differences arising from such translations are shown as foreign currency translation adjustments in the accompanying consolidated balance sheets.

(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 securities and interest-bearing securities.

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

Marketable equity securities and interest-bearing securities are stated at the lower of average cost or market as determined on an individual security basis.

Non-marketable securities are stated at average cost.

(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

Effective April 1, 1999 the Corporation and its domestic consolidated subsidiaries adopted the new accounting standard, which recognizes 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. The effect of adopting the new accounting standard is immaterial.

(h) Research and Development Expenses

Research and development expenses are charged to income as incurred in accordance with the new accounting standard effective April 1, 1999. Research and development expenses charged to income amounted to ¥10,647 million (\$100,301 thousand) and ¥10,227 million (\$96,345 thousand) for the years ended March 31, 2000 and 1999, respectively.

(i) Retirement, Termination and Pension Plans

The Corporation and its domestic subsidiaries have retirement and termination plans for employees and directors. The amounts of the retirement and termination allowances are determined on the basis of length of service and basic pay rate at the time of termination.

In addition, the Corporation has a noncontributory funded pension plan for employees and directors. The Corporation's pension fund assets as of March 31, 1999, the most recent valuation date, were ¥47,466 million (\$447,160 thousand). Actuarial assumptions for the pension plan are generally revised at five-year intervals.

The amount payable under the plans, if all employees and directors had voluntarily terminated their services as of each balance sheet date, net of pension plan assets held by plan trustees, is fully

accrued.

In fiscal 2000, the Corporation and its domestic subsidiaries changed their accounting policies for prior service cost of pension plans from the cash basis to the accrual basis for the purpose of recognizing pension costs more conservatively. Due to this accounting change, income before provision for income taxes decreased by ¥2,929 million (\$27,593 thousand).

The total provisions charged to income for retirement, termination and pension plans were ¥6,680 million (\$62,930 thousand) in 2000 and ¥2,675 million (\$25,200 thousand) in 1999.

(j) Stock Splits

Stock splits of common stock have been accounted for by transferring an amount equivalent to the par value of such shares from additional paid-in capital to common stock in the case of capitalization by resolution of the Board of Directors as required by the Japanese Commercial Code. However, no accounting recognition is made for stock splits when common stock already includes a portion of the proceeds from shares issued at a price in excess of par value (see Note 7).

(k) Bond Issuance Costs

Bond issuance costs are charged to income as incurred.

(l) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits placed with banks on demand or with a maturity of three months or less.

In accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." (the "New Standards"), effective from the year ended March 31, 2000, the Corporation is required to prepare consolidated statements of cash flows. The prior year's consolidated statement of cash flows, which was prepared for readers outside Japan although such statement was not required, has been restated to conform to 2000 presentation.

(m) Reclassifications

Certain prior year amounts have been reclassified to conform to 2000 presentation.

2. Marketable Securities

The carrying amount, fair value and net unrealized holding gains or losses of quoted securities included in short-term investments, investments in securities and investments in nonconsolidated subsidiaries and affiliates in the accompanying consolidated balance sheets at March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current:		
Carrying amount:		
Equity securities.....	¥ 38	\$ 358
Debt securities	2,025	19,077
Other	54	508
	<u>2,117</u>	<u>19,943</u>
Fair value:		
Equity securities.....	66	622
Debt securities	2,087	19,661
Other	54	508
	<u>2,207</u>	<u>20,791</u>
Net unrealized holding gains		
Equity securities.....	28	264
Debt securities	62	584
Other	0	0
	<u>¥ 90</u>	<u>\$ 848</u>

	Millions of yen	Thousands of U.S. dollars
Non current:		
Carrying amount:		
Equity securities.....	¥11,332	\$106,755
Debt securities	9	85
Other	650	6,123
	<u>11,991</u>	<u>112,963</u>
Fair value:		
Equity securities.....	21,778	205,163
Debt securities	9	85
Other	656	6,179
	<u>22,443</u>	<u>211,427</u>
Net unrealized holding gains		
Equity securities.....	10,446	98,408
Debt securities	0	0
Other	6	56
	<u>¥10,452</u>	<u>\$98,464</u>

The information excludes unlisted securities.

3. Inventories

Inventories as of March 31, 2000 and 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Finished products.....	¥11,729	¥12,868	\$110,495	\$121,225
Work in process	10,481	9,518	98,738	89,666
Raw materials	5,286	5,418	49,797	51,040
	<u>¥27,496</u>	<u>¥27,804</u>	<u>\$259,030</u>	<u>\$261,931</u>

4. Income Taxes

The Corporation is subject to a number of different income taxes which, in the aggregate, indicate normal tax rates in Japan of approximately 42% and 47% for the years ended March 31, 2000 and 1999, respectively.

The following table summarizes the significant differences between the normal tax rates and the Corporation's effective tax rates for financial statement purposes for the year ended March 31, 2000 and 1999:

	2000	1999
Normal statutory tax rates.....	42%	47%
Permanently nondeductible expenses	2	3
Dividends received, not taxable	(1)	(1)
Undistributed earnings of overseas subsidiaries and affiliates.....	(1)	2
Tax credits	(1)	(5)
Tax regulation change.....	—	4
Differences in normal tax rate of foreign subsidiaries	(2)	(2)
Other, net	(2)	(1)
Effective tax rate	<u>37%</u>	<u>47%</u>

Significant components of the Corporation's deferred tax asset and liabilities as of March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets		
Deferred tax assets:		
Inventories	¥ 813	\$ 7,659
Gains on intercompany transactions.....	788	7,423
Accrued revenue.....	204	1,922
Enterprise taxes	641	6,039
Accounts payable.....	318	2,996
Accrued expenses	1,454	13,698
Other.....	<u>741</u>	<u>6,980</u>
Total current deferred tax assets.....	4,959	46,717
Other assets		
Deferred tax assets:		
Depreciation	¥1,119	\$10,542
Intangible fixed assets.....	171	1,611
Retirement benefits.....	2,063	19,435
Other.....	<u>627</u>	<u>5,906</u>
Total long-term deferred tax assets.....	3,980	37,494
Deferred tax liabilities:		
Reserve for special depreciation	¥ 245	\$ 2,308
Undistributed earnings of overseas subsidiaries	<u>1,571</u>	<u>14,800</u>
Total deferred tax liabilities	<u>1,816</u>	<u>17,108</u>
Net deferred tax assets.....	<u>¥2,164</u>	<u>\$20,386</u>

5. 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 rate on these loans and on trade notes receivable discounted with banks (see Note 8), as of March

31, 2000 and 1999 was approximately 2.1% and 2.4%, respectively. Long-term debt as of March 31, 2000 and 1999 is summarized respectively below:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
3.9% unsecured convertible bonds, due 2001	¥ 9,513	¥20,261	\$ 89,619	\$190,871
0.69% to 8.50% loans from banks and others, due in installments through 2030	3,221	4,985	30,344	46,962
2.1% mortgage bonds, due 2005	300	—	2,826	—
5.7% mortgage bonds, due 1999	—	400	—	3,769
6.2% mortgage bonds, due 1999	—	200	—	1,884
1.1% mortgage bonds, due 2002	200	200	1,884	1,884
7.75% to 7.8% mortgage bonds, due 2000	—	64	—	603
5.0% to 6.0% mortgage bonds, due 2005	—	271	—	2,553
4.1% to 7.3% unsecured loans from a government-sponsored agency, due 2002	20	31	188	292
	<u>13,254</u>	<u>26,412</u>	<u>124,861</u>	<u>248,818</u>
Current portion	(11,079)	(1,944)	(104,371)	(18,314)
	<u>¥ 2,175</u>	<u>¥24,468</u>	<u>\$ 20,490</u>	<u>\$230,504</u>

Following is a summary of the terms of conversion and redemption of convertible bonds:

	*Conversion price per share	Redemption at the option of the Corporation
3.9% convertible bonds, due 2001	¥1,312.00	At 103% to 100% of principal after March 31, 1997, decreasing 1% annually

*The above conversion price is subject to change in case of issuance of common stock at less than fair value.

Land of ¥643 million (\$6,057 thousand), buildings with a net book value of ¥514 million (\$4,842 thousand) and machinery with a net book value of ¥20 million (\$188 thousand) are pledged as collateral for ¥500 million (\$4,710 thousand) mortgage bonds and ¥30 million (\$283 thousand) short-term bank loans.

If all of the outstanding convertible bonds were converted as of March 31, 2000, approximately 10,430 thousand shares of common stock would be issuable.

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
2002	¥1,248	\$11,757
2003	610	5,747
2004	1	9
2005	—	—
2006 and thereafter	316	2,977
	<u>¥2,175</u>	<u>\$20,490</u>

6. 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, 2000 and 1999 and for the fiscal year, then ended, is as follows.

	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
1999				
Buildings	¥ 18	¥ 8	¥ 10	\$ 94
Machinery and vehicles	524	162	362	3,410
Tools and equipment.....	2,221	1,077	1,144	10,777
Other.....	111	39	72	679
	<u>¥2,874</u>	<u>¥1,286</u>	<u>¥1,588</u>	<u>\$14,960</u>

	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
2000				
Buildings	¥ 18	¥ 11	¥ 7	\$ 66
Machinery and vehicles	520	219	301	2,836
Tools and equipment.....	1,820	1,020	800	7,537
Other.....	159	68	91	856
	<u>¥2,517</u>	<u>¥1,318</u>	<u>¥1,199</u>	<u>\$11,295</u>

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Future minimum lease payments				
Due within one year	¥ 502	¥ 561	\$ 4,729	\$ 5,285
Due after one year	740	1,071	6,971	10,089
	<u>¥1,242</u>	<u>¥1,632</u>	<u>\$11,700</u>	<u>\$15,374</u>
Lease payments for the year ended March 31.....	<u>¥ 648</u>	<u>¥ 639</u>	<u>\$ 6,105</u>	<u>\$ 6,020</u>

Operating Leases

Future minimum lease payments due under operating leases as of March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Due within one year	¥10	¥ 7	\$ 94	\$ 66
Due after one year.....	13	11	123	104
	<u>¥23</u>	<u>¥18</u>	<u>\$217</u>	<u>\$170</u>

7. Shareholders' Equity and Per Share Data

The Japanese Commercial Code provides that at least one-half of the proceeds from shares issued at a price in excess of par value, including shares issued upon conversion of bonds, be included in common stock.

The Code also 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 fiscal or interim six-month period be appropriated to the legal reserve until such reserve equals 25% of the issued capital. Legal reserve is included in retained earnings.

The Code also provides that additional paid-in capital and the legal reserve are not available for cash dividends, but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

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.

The shareholders approved, at the general meeting of sharehold-

ers held on June 22, 2000, the declaration of the final cash dividends of ¥10.00 (\$0.09) per share totaling ¥1,665 million (\$15,685 thousand).

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 Company to purchase and retire up to 15 million outstanding shares based on the resolution of a Board of Directors' meeting.

8. Commitments and Contingent Liabilities

Capital Expenditure Program

Under the capital expenditure program of the Corporation and its subsidiaries, it is estimated that ¥36,659 million (\$345,351 thousand) will be expended during the two years ending March 31, 2002 of which ¥12,070 million (\$113,707 thousand) represents contractual commitments.

Contingent Liabilities

The Corporation and certain consolidated subsidiaries are contingently liable, as of March 31, 2000, for trade notes receivable which were discounted or endorsed of ¥1,687 million (\$15,893 thousand), and as guarantors for borrowings of ¥10,473 million (\$98,662 thousand) by certain employees and nonconsolidated subsidiaries.

9. Derivatives

The Company and some of its consolidated subsidiaries use derivatives, which include foreign exchange forward contracts, to reduce risk exposure of its financial assets, liabilities and transactions denominated in foreign currencies. The credit risk of such derivatives is assessed at low as the counter-parties of these transactions financial institutions are highly rated.

The estimated fair values of the companies' derivatives at March 31, 2000 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Foreign exchange forward contracts:		
To sell foreign currencies:		
U. S. dollars: Contract amount due		
within one year	¥428	\$4,032
Estimated fair value	426	4,013
Net unrealized loss	<u>¥ 2</u>	<u>\$ 19</u>

10. Related Party Transactions

Effective 2000, material related party transactions of the Corporation and its consolidated subsidiaries are defined by the

new accounting standard.

Those related party transactions are summarized as follows:

Name of Related Company	Paid-in Capital (millions)	Principal Business	Direct equity ownership percentage by the Corporation	Millions of yen				Thousands of U.S. Dollars	
				Transactions		Balances		Transaction made in the year ended March.31, 2000	Balances at March.31, 2000
				Description of transaction	2000	Account	at Mar.31, 2000		
Affiliates:									
Kyoshin Shoji Co, Ltd.	¥360	Wholesale of electric products and industrial products	46.7%	Sale of products	¥44,312	Accounts Receivable	¥13,211	\$417,447	\$124,456
				Disbursement for deposit	¥ 4,700	Deposits	¥ 1	\$ 44,277	\$ 9

11. Operating Segment Information

(1) Business Segments

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

Operations in Industrial Products include surface protection products, bonding and joining products, packaging products, anti-corrosion products, electronic component-related products .

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

Operations in Functional Products include medical-related products and membrane products and others.

Business segment information for the years ended March 31, 2000 and 1999 is as follows:

Net Sales

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Industrial Products	¥187,676	¥186,407	\$1,768,026	\$1,756,072
Electronic Products.....	107,798	82,442	1,015,525	776,656
Functional Products.....	32,894	30,143	309,882	283,966
Eliminations	(2,969)	(1,888)	(27,969)	(17,787)
Consolidated Total.....	<u>¥325,399</u>	<u>¥297,104</u>	<u>\$3,065,464</u>	<u>\$2,798,907</u>

Operating Income

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Industrial Products	¥10,723	¥7,852	\$101,017	\$73,971
Electronic Products.....	12,728	8,181	119,906	77,070
Functional Products.....	3,161	2,229	29,779	20,999
Consolidated total.....	<u>¥26,612</u>	<u>¥18,262</u>	<u>\$250,702</u>	<u>\$172,040</u>

Assets

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Industrial Products	¥134,811	¥140,809	\$1,270,005	\$1,326,510
Electronic Products.....	84,881	72,113	799,633	679,350
Functional Products.....	33,158	32,763	312,369	308,648
Corporate (Eliminations)	81,651	71,450	769,204	673,104
Consolidated Total.....	<u>¥334,501</u>	<u>¥317,135</u>	<u>\$3,151,211</u>	<u>\$2,987,612</u>

Depreciation and Amortization

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Industrial Products	¥ 7,577	¥7,571	\$ 71,380	\$71,324
Electronic Products.....	6,129	4,799	57,739	45,210
Functional Products.....	2,758	2,475	25,982	23,315
Consolidated Total.....	<u>¥16,464</u>	<u>¥14,845</u>	<u>\$155,101</u>	<u>\$139,849</u>

Capital Expenditures

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Industrial Products	¥11,077	¥10,930	\$104,352	\$102,967
Electronic Products.....	8,366	7,802	78,813	73,500
Functional Products.....	4,571	3,985	43,062	37,541
Consolidated Total.....	<u>¥24,014</u>	<u>¥22,717</u>	<u>\$226,227</u>	<u>\$214,008</u>

(2) Geographic Areas

Geographic area information for the years ended March 31, 2000 and 1999 is as follows:

Net Sales

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Japan	¥276,137	¥246,050	\$2,601,385	\$2,317,946
Other	98,029	91,935	923,495	866,086
North America	38,366	38,765	361,432	365,191
Europe	15,156	16,078	142,779	151,465
Asia & Oceania	44,507	37,092	419,284	349,430
Eliminations	(48,767)	(40,881)	(459,416)	(385,125)
Consolidated Total	<u>¥325,399</u>	<u>¥297,104</u>	<u>\$3,065,464</u>	<u>\$2,798,907</u>

Operating Income

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Japan	¥21,785	¥14,785	\$205,228	\$139,284
Other	4,827	3,477	45,474	32,756
North America	1,636	1,379	15,412	12,991
Europe	903	768	8,507	7,235
Asia & Oceania	2,288	1,330	21,555	12,530
Consolidated Total	<u>¥26,612</u>	<u>¥18,262</u>	<u>\$250,702</u>	<u>\$172,040</u>

Assets

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Japan	¥181,837	¥171,657	\$1,713,019	\$1,617,117
Other	72,018	76,932	678,455	724,748
North America	40,204	45,979	378,747	433,151
Europe	8,453	9,897	79,633	93,236
Asia & Oceania	23,361	21,056	220,075	198,361
Corporate (Eliminations)	80,646	68,546	759,737	645,747
Consolidated Total	<u>¥334,501</u>	<u>¥317,135</u>	<u>\$3,151,211</u>	<u>\$2,987,612</u>

The Corporation separated “Functional Products” from industrial products in the year ended March 31, 2000, to present the segment information more clearly.

The Corporation also reclassified Electronic component-related products into Industrial Products from Electronic Products.

(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 sub-

sidaries to customers outside Japan for the years ended March 31, 2000 and 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
North America	¥ 37,307	¥ 37,462	\$ 351,455	\$352,916
Europe	13,974	16,690	131,644	157,230
Asia & Oceania	60,308	46,671	568,140	439,670
	<u>¥111,589</u>	<u>¥100,823</u>	<u>\$1,051,239</u>	<u>\$949,816</u>

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
NITTO DENKO CORPORATION:

We have audited the accompanying consolidated balance sheets of NITTO DENKO CORPORATION (a Japanese corporation) and subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of NITTO DENKO CORPORATION and subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 1(a) (g) and (h), in the year ended March 31, 2000, NITTO DENKO CORPORATION and subsidiaries prospectively adopted new Japanese accounting standards for consolidation and equity method accounting, income taxes and research and development costs. Also, NITTO DENKO CORPORATION and subsidiaries changed the method of accounting for retirement termination and pension plans as referred to in Note 1(i) and business segments as referred to in Note 11, effective April 1, 1999, with which we concur.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Osaka, Japan
June 22, 2000



Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.