

CONSOLIDATED BALANCE SHEETS

Nitto Denko Corporation and Consolidated Subsidiaries
March 31, 2001 and 2000

Assets	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Current Assets:				
Cash on hand and in banks (Note 2)	¥ 54,926	¥ 47,381	\$ 443,309	\$ 382,413
Marketable securities (Notes 2 and 3)	8,692	4,396	70,153	35,480
Trade notes and accounts receivable	91,994	92,865	742,486	749,516
Allowance for doubtful receivables	(1,158)	(1,297)	(9,346)	(10,468)
Inventories (Note 4)	35,682	27,496	287,990	221,921
Deferred tax assets and other (Note 5)	15,053	10,741	121,493	86,691
Total current assets	<u>205,189</u>	<u>181,582</u>	<u>1,656,085</u>	<u>1,465,553</u>
Plant and Equipment, at Cost (Note 6):				
Land	19,209	20,481	155,036	165,303
Buildings	88,131	80,256	711,308	647,748
Machinery and equipment	189,749	167,942	1,531,469	1,355,464
	<u>297,089</u>	<u>268,679</u>	<u>2,397,813</u>	<u>2,168,515</u>
Accumulated depreciation	(183,614)	(167,209)	(1,481,953)	(1,349,548)
	<u>113,475</u>	<u>101,470</u>	<u>915,860</u>	<u>818,967</u>
Investments and Other Assets:				
Investments in nonconsolidated subsidiaries and affiliates (Note 3)	12,811	12,254	103,398	98,902
Investments in securities (Note 3)	10,814	15,630	87,280	126,150
Goodwill (Note 1(a))	1,860	1,818	15,012	14,673
Other assets	13,505	9,439	108,999	76,183
	<u>38,990</u>	<u>39,141</u>	<u>314,689</u>	<u>315,908</u>
Foreign Currency Translation Adjustments	-	12,308	-	99,338
	<u>¥357,654</u>	<u>¥334,501</u>	<u>\$2,886,634</u>	<u>\$2,699,766</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	
	2001	2000	2001	2000
Current Liabilities:				
Short-term bank loans, including current portion of long-term debt (Note 6)	¥ 7,266	¥ 15,435	\$ 58,644	\$ 124,576
Trade notes and accounts payable	74,231	64,465	599,120	520,299
Accrued expenses	11,672	12,318	94,205	99,419
Income taxes (Note 5)	8,819	8,594	71,178	69,362
Other current liabilities	840	927	6,780	7,482
Total current liabilities	102,828	101,739	829,927	821,138
Long-term Liabilities:				
Long-term debt (Note 6)	2,500	2,175	20,178	17,554
Estimated retirement and termination allowances	-	11,032	-	89,040
Allowance for severance and pension benefits (Note 7)	19,324	-	155,964	-
Retirement allowances for directors and corporate auditors	1,384	1,783	11,170	14,391
Other long-term liabilities	1,598	1,595	12,898	12,873
	24,806	16,585	200,210	133,858
Minority Interests	3,126	4,051	25,230	32,696
Commitments and Contingent Liabilities (Note 10)				
Shareholders' Equity (Note 9):				
Common stock, par value ¥50 per share	26,784	22,030	216,174	177,805
Authorized — 400,000,000 shares				
Issued — 173,758,428 shares in 2001 and 166,511,553 shares in 2000				
Additional paid-in capital	50,482	45,728	407,441	369,072
Retained earnings	156,543	144,372	1,263,462	1,165,230
Foreign currency translation adjustments	(6,914)	-	(55,802)	-
Cost of treasury stock	(1)	(4)	(8)	(32)
	226,894	212,126	1,831,267	1,712,074
	¥357,654	¥334,501	\$2,886,634	\$2,699,766

CONSOLIDATED STATEMENTS OF INCOME

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Net Sales	¥365,698	¥325,399	\$2,951,558	\$2,626,303
Cost of Sales	259,277	232,729	2,092,631	1,878,361
Gross profit	106,421	92,670	858,927	747,942
Selling, General and Administrative Expenses	71,597	66,058	577,862	533,156
Operating income	34,824	26,612	281,065	214,786
Other Income (Expenses):				
Interest and dividend income	914	744	7,377	6,005
Interest expense	(478)	(789)	(3,858)	(6,368)
Gain on sales of marketable securities and investments in securities, net	48	2	387	16
Equity in earnings of nonconsolidated subsidiaries and affiliates	508	788	4,100	6,360
Prior service cost of pension plan	-	(4,819)	-	(38,894)
Special pension plan contribution	-	(628)	-	(5,069)
Gain on securities contributed to employee retirement benefit trust	7,466	-	60,258	-
Net transition obligation due to the change in accounting for retirement benefits	(15,567)	-	(125,642)	-
Other, net	(1,991)	(327)	(16,068)	(2,639)
	(9,100)	(5,029)	(73,446)	(40,589)
Income before Provision for Income Taxes	25,724	21,583	207,619	174,197
Provision for Income Taxes (Note 5):				
Current	14,298	11,757	115,400	94,891
Deferred, net	(4,433)	(3,783)	(35,779)	(30,533)
	9,865	7,974	79,621	64,358
Minority Interests in Net Income of Consolidated Subsidiaries	(8)	(210)	(64)	(1,695)
Net Income	¥ 15,851	¥ 13,399	\$ 127,934	\$ 108,144
Per Share of Common Stock (Note 9):				
Net Income	¥ 93.51	¥ 82.04	\$ 0.75	\$ 0.66
Net Income—Diluted	91.81	78.86	0.74	0.64
Cash Dividends, Applicable to Earnings of the Year	21.00	18.00	0.17	0.15

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, 2001 and 2000

	Number of Shares (thousands)		Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000	2001	2000
Common Stock (Note 9):						
Authorized shares	400,000	400,000				
Outstanding shares —						
Beginning balance	166,512	158,319	¥ 22,030	¥ 16,656	\$ 177,805	\$ 134,431
Conversion of bonds	7,246	8,193	4,754	5,374	38,369	43,374
Ending balance	<u>173,758</u>	<u>166,512</u>	<u>¥ 26,784</u>	<u>¥ 22,030</u>	<u>\$ 216,174</u>	<u>\$ 177,805</u>
Additional Paid-in Capital (Note 9):						
Beginning balance			¥ 45,728	¥ 40,354	\$ 369,072	\$ 325,698
Conversion of bonds			4,754	5,374	38,369	43,374
Ending balance			<u>¥ 50,482</u>	<u>¥ 45,728</u>	<u>\$ 407,441</u>	<u>\$ 369,072</u>
Retained Earnings (Note 9):						
Beginning balance			¥144,372	¥133,620	\$1,165,230	\$1,078,450
Net income			15,851	13,399	127,934	108,144
Cash dividends paid			(3,339)	(2,400)	(26,950)	(19,370)
Directors' bonuses			(341)	(247)	(2,752)	(1,994)
Ending balance			<u>¥156,543</u>	<u>¥144,372</u>	<u>\$1,263,462</u>	<u>\$1,165,230</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, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Cash Flows from Operating Activities:				
Income before provision for income taxes	¥ 25,724	¥ 21,583	\$ 207,619	\$ 174,197
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization	18,345	16,464	148,063	132,881
Interest and dividend income	(914)	(744)	(7,377)	(6,005)
Interest expense.....	478	789	3,858	6,368
Foreign exchange loss.....	272	363	2,195	2,930
Equity in earnings of nonconsolidated subsidiaries and affiliates	(508)	(787)	(4,100)	(6,352)
(Gains) Loss on sales and disposal of fixed assets.....	(236)	730	(1,905)	5,892
Decrease (increase) in trade notes and accounts receivable.....	5,255	(9,060)	42,413	(73,123)
Decrease (increase) in inventories.....	(5,655)	(901)	(45,642)	(7,272)
Decrease (increase) in other receivables.....	(3,447)	6,685	(27,821)	53,955
Increase in trade notes and trade accounts payable.....	184	6,898	1,485	55,674
Other, net.....	8,327	4,885	67,209	39,426
Total.....	47,825	46,905	385,997	378,571
Interest and dividend income received	864	595	6,973	4,803
Interest paid	(470)	(789)	(3,793)	(6,368)
Income taxes paid	(14,269)	(6,953)	(115,166)	(56,118)
Net cash provided by operating activities	33,950	39,758	274,011	320,888
Cash Flows from Investing Activities:				
Decrease in marketable securities, net	331	3,462	2,672	27,942
Acquisitions of plant and equipment	(27,777)	(24,014)	(224,189)	(193,818)
Proceeds from sales of plant and equipment.....	2,597	2,367	20,960	19,104
Decrease (increase) in time deposits, net	(1,313)	68	(10,597)	549
Purchase of investments in securities.....	(97)	(2,743)	(783)	(22,139)
Proceeds from sales of investments in securities	1,027	1,237	8,289	9,984
Other, net.....	(1,601)	(908)	(12,922)	(7,328)
Net cash used in investing activities	(26,833)	(20,531)	(216,570)	(165,706)
Cash Flows from Financing Activities:				
Proceeds from long-term debt	1,762	1,690	14,221	13,640
Repayments of long-term debt.....	(106)	(3,750)	(856)	(30,266)
(Decrease) in short-term debt, net	(544)	(1,866)	(4,391)	(15,061)
Proceeds from bonds issuance	-	300	-	2,421
Repayments of bonds	(5)	(935)	(40)	(7,546)
Dividends paid	(3,339)	(2,451)	(26,950)	(19,782)
Other, net.....	(38)	4	(305)	32
Net cash used in financing activities	(2,270)	(7,008)	(18,321)	(56,562)
Foreign Currency Exchange Loss in Cash and Cash Equivalents	530	(909)	4,278	(7,337)
Net Increase in Cash and Cash Equivalents.....	5,377	11,310	43,398	91,283
Cash and Cash Equivalents, Beginning of Year	47,244	35,934	381,308	290,025
Cash and Cash Equivalents of Newly Consolidated Company.....	352	-	2,841	-
Increase in Cash and Cash Equivalents due to Change in Definition.....	5,016	-	40,484	-
Cash and Cash Equivalents, End of Year	¥ 57,989	¥ 47,244	\$ 468,031	\$ 381,308
Non-cash Investing and Financing Activities:				
Increase in common stock and additional paid-in capital on conversion of convertible bonds	¥ 9,508	¥ 10,748	\$ 76,739	\$ 86,747

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, 2001 and 2000

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 foreign 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 Ministry 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 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, 2001, which was ¥123.90 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 on 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 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 (\$4,673 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) Translation of Foreign Currencies

Effective April 1, 2000, the Corporation and its domestic subsidiaries adopted the revised Accounting Standard for Foreign Currency Transactions.

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. Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the year-end rates.

The resulting foreign currency translation adjustments are shown as a separate component of shareholders' equity.

The effect of adopting the Standard is immaterial.

(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

Prior to April 1, 2000, marketable equity securities and interest-bearing securities are stated at the lower of average cost or market as determined on an individual security basis and non-marketable securities are stated at average cost.

Effective April 1, 2000, the Corporation and its domestic subsidiaries adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

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 on the sale of such securities are determined by the average cost method.

Other securities are stated at the average cost method.

Trading securities are included in the current assets and other securities are included in investments and other assets. As a result, as of March 31, 2000, marketable securities in current assets

increased by ¥3,684 million (\$29,734 thousand) and investments in securities decreased by the same amount compared with what would have been recorded under the previous accounting standard.

As a result of adopting the new accounting standard for financial instruments, income before provision for income taxes decreased by ¥1,707 million (\$13,777 thousand).

(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 ¥12,423 million (\$100,266 thousand) and ¥10,647 million (\$85,932 thousand) for the years ended March 31, 2001 and 2000, respectively.

(i) Employee's 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.

At March 31, 2000, the amount payable under the retirement plans, if all employees had voluntarily terminated their services as of each balance sheet date, net of plan assets held by plan trustees, is fully accrued. Pension expenses were charged to income as incurred.

Effective April 1, 2000, the Corporation and its domestic subsidiaries adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the Corporation and its domestic subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date. Allowance and expenses for severance and pension benefits are determined based on the amounts actuarially calculated using certain assumptions. The discount rate of projected benefit obligation and the rate of expected return on plan assets used by the Corporation and its domestic subsidiaries are 3.5 % and 1.5 - 4.0 %, respectively.

Prior service cost of pension plans are amortized over the fixed years less than the estimated average remaining service lives of the employees, which is 12 years for current year, from the current fiscal year.

The actuarial net losses are amortized over the fixed years less than the estimated average remaining service lives of the employees, which is 12 years for current year, from the next fiscal year.

The excess of the projected benefit obligation over the fair value of plan assets as of April 1, 2000 was ¥15,567 million (\$125,642 thousand) and was recognized as the "net transition obligation" as of April 1, 2000 and fully charged to income. The Corporation also recognized ¥7,446 million (\$60,258 thousand) gain on the contribution of the Corporation's investment securities to the employee retirement benefit trust in 2000.

As a result of the adoption of the "New Accounting Standard" in the year ended March 31, 2001, severance and pension benefits expense decreased by ¥1,286 million (\$10,379 thousand), operating income increased by ¥1,286 million (\$10,379 thousand) and income before provision for income taxes decreased by ¥6,815 million (\$55,004 thousand) compared with what would have been recorded under the previous accounting standard.

(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.

Short-term financial instruments maturing within three months from the date of acquisition have been included in cash and cash equivalents in the statements of cash flows from fiscal 2001, based on a judgment that their price fluctuation risks due to changes in interest rates are low.

As a result, cash flows from investing activities decreased by ¥1,825 million (\$14,730 thousand), while cash and cash equivalents as of March 31, 2000 increased by ¥5,016 million (\$40,484 thousand), compared with the amount calculated under the previous method.

(k) Derivative Transactions and Hedge Accounting

Effective April 1, 2000, the Corporation and its domestic subsidiaries adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

As a result, 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 2001 presentation.

2. Cash and Cash Equivalents

Reconciliation of cash and cash equivalents to the account on balance sheets as of March 31, 2001 and 2000 comprise as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Cash on hand and in banks	¥54,926	¥47,381	\$443,309	\$382,413
Time deposits	(1,450)	(137)	(11,703)	(1,105)
Securities and other	4,513	-	36,425	-
Cash and cash equivalents	¥57,989	¥47,244	\$468,031	\$381,308

3. Securities

Previous fiscal year, ended March 31, 2000

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 sheet at March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Current:			Non current:		
Carrying amount:			Carrying amount:		
Equity securities.....	¥ 38	\$ 307	Equity securities.....	¥11,332	\$ 91,461
Debt securities	2,025	16,344	Debt securities	9	73
Other	54	435	Other	650	5,246
	<u>2,117</u>	<u>17,086</u>		<u>11,991</u>	<u>96,780</u>
Fair value:			Fair value:		
Equity securities.....	66	533	Equity securities.....	21,778	175,771
Debt securities	2,087	16,844	Debt securities	9	73
Other	54	436	Other	656	5,294
	<u>2,207</u>	<u>17,813</u>		<u>22,443</u>	<u>181,138</u>
Net unrealized holding gains:			Net unrealized holding gains:		
Equity securities.....	28	226	Equity securities.....	10,446	84,310
Debt securities	62	500	Debt securities	-	-
Other	-	-	Other	6	48
	<u>¥ 90</u>	<u>\$ 726</u>		<u>¥10,452</u>	<u>\$84,358</u>

Current fiscal year ended March 31, 2001

The carrying amount and net unrealized gains or losses on securities in the accompanying consolidated balance sheet at March 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
Trading securities		
Carrying amount:	¥8,501	\$68,612
Unrealized gains or loss, net.....	45	363
Other securities with no fair value		
Non-listed equity securities		
carrying amount	579	4,673

The information excludes unlisted securities.

The contractual maturities of debt securities are as follows:

	Millions of yen				Thousands of U.S. dollars	
	Within one year	Over one year through five years	Over five years through ten years	Over ten years	Total	Total
Other securities						
Corporate bond	¥ 9	¥ -	¥ -	¥ -	¥ 9	\$ 73
Other.....	-	30	-	-	30	242
Total	<u>¥ 9</u>	<u>¥ 30</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ 39</u>	<u>\$ 315</u>

4. Inventories

Inventories as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Finished products.....	¥15,281	¥11,729	\$123,333	\$ 94,665
Work in process	13,689	10,481	110,484	84,592
Raw materials	6,712	5,286	54,173	42,664
	<u>¥35,682</u>	<u>¥27,496</u>	<u>\$287,990</u>	<u>\$221,921</u>

5. 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% for the years ended March 31, 2001 and 2000.

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 years ended March 31, 2001 and 2000:

	2001	2000
Normal statutory tax rates.....	42%	42%
Permanently nondeductible expenses	1	2
Dividends received, not taxable	(1)	(1)
Undistributed earnings of overseas subsidiaries and affiliates.....	(1)	(1)
Tax credits	(2)	(1)
Differences in normal tax rate of foreign subsidiaries	(1)	(2)
Other, net	0	(2)
Effective tax rate	<u>38%</u>	<u>37%</u>

Significant components of the Corporation's deferred tax asset and liabilities as of March 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets		
Deferred tax assets:		
Inventories	¥ 404	\$ 3,261
Unrealized gains on inventories.....	957	7,724
Allowance for doubtful receivables ...	77	621
Accrued revenue.....	168	1,356
Enterprise taxes	656	5,295
Accounts payable.....	157	1,267
Accrued expenses	1,765	14,245
Other.....	696	5,618
Total current deferred tax assets.....	<u>4,880</u>	<u>39,387</u>
Other assets		
Deferred tax assets:		
Depreciation.....	¥1,019	\$ 8,224
Intangible assets	178	1,437
Severance and pension benefits	5,460	44,068
Retirement allowances for directors and corporate auditors.....	572	4,617
Other.....	1,296	10,459
Total long-term deferred tax assets.....	<u>8,525</u>	<u>68,805</u>
Deferred tax liabilities:		
Reserve for special depreciation.....	¥ 566	\$ 4,568
Undistributed earnings of overseas subsidiaries and affiliates.....	1,252	10,105
Total deferred tax liabilities.....	<u>1,818</u>	<u>14,673</u>
Net deferred tax assets.....	<u>¥6,707</u>	<u>\$54,132</u>

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 rate on these loans with banks, as of March 31, 2001 and 2000 was approximately 2.9% and 2.1%,

respectively. Long-term debt as of March 31, 2001 and 2000 is summarized below:

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
3.9% unsecured convertible bonds, due 2001	¥ -	¥ 9,513	\$ -	\$ 76,780
0.69% to 8.00% loans from banks and others, due in installments through 2003	3,892	3,221	31,413	25,997
2.1% mortgage bonds, due 2005	300	300	2,421	2,421
1.1% mortgage bonds, due 2002	200	200	1,614	1,614
4.1% to 7.3% unsecured loans from a government-sponsored agency, due 2002	10	20	81	161
	<u>4,402</u>	13,254	<u>35,529</u>	106,973
Current portion	<u>(1,902)</u>	(11,079)	<u>(15,351)</u>	(89,419)
	<u>¥ 2,500</u>	<u>¥ 2,175</u>	<u>\$20,178</u>	<u>\$ 17,554</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.

At March 31, 2001, land of ¥652 million (\$5,262 thousand), buildings with a net book value of ¥479 million (\$3,866 thousand) and investments in securities of ¥20 million (\$161 thousand) are pledged as collateral for ¥500 million (\$4,036 thousand) of mortgage bonds and ¥106 million (\$856 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
2003	¥1,859	\$15,004
2004	341	2,752
2005	-	-
2006	300	2,422
2007 and thereafter	-	-
	<u>¥2,500</u>	<u>\$20,178</u>

7. Employees' Severance and Pension Benefits

As explained in Note 1. (Significant accounting policies), effective April 1, 2000, the Corporations and its domestic subsidiaries adopted the new accounting standard for employees' severance and pension benefits, under which allowance and expenses for severance and pension benefits are determined based on the amounts obtained by actuarial calculations.

Allowance for severance and pension benefits as of March 31, 2001 consists of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation.....	¥108,774	\$877,918
Unrecognized prior service costs.....	(23)	(186)
Unrecognized actuarial differences.....	(16,186)	(130,638)
Less fair value of pension assets.....	<u>(73,241)</u>	<u>(591,130)</u>
Allowance for severance and pension benefits	<u>¥ 19,324</u>	<u>\$155,964</u>

Severance and pension benefits expense for the year ended March 31, 2001 comprises the following:

	Millions of yen	Thousands of U.S. dollars
Service costs - benefits earned during the year	¥ 3,932	\$31,735
Interest cost on projected benefit obligation.....	3,552	28,669
Expected return on plan assets.....	(2,880)	(23,245)
Amortization of prior service costs	1	8
Amortization of net transition obligation	<u>15,567</u>	<u>125,642</u>
Severance and pension benefits expense.....	<u>¥20,172</u>	<u>\$162,809</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, 2001 and 2000 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
2000				
Buildings	¥ 18	¥ 11	¥ 7	\$ 56
Machinery and vehicles	520	219	301	2,429
Tools and equipment	1,820	1,020	800	6,457
Other	159	68	91	735
	<u>¥2,517</u>	<u>¥1,318</u>	<u>¥1,199</u>	<u>\$ 9,677</u>

	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
2001				
Buildings	¥ 28	¥ 15	¥ 13	\$ 105
Machinery and vehicles	565	297	268	2,163
Tools and equipment	2,387	1,239	1,148	9,266
Other	233	112	121	976
	<u>¥3,213</u>	<u>¥1,663</u>	<u>¥1,550</u>	<u>\$12,510</u>

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Future minimum lease payments				
Due within one year	¥ 589	¥ 502	\$ 4,754	\$ 4,052
Due after one year	1,011	740	8,160	5,972
	<u>¥1,600</u>	<u>¥1,242</u>	<u>\$12,914</u>	<u>\$10,024</u>
Lease payments for the year ended March 31	¥ 704	¥ 648	\$ 5,682	\$ 5,230

Operating Leases

Future minimum lease payments due under operating leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Due within one year	¥ 6	¥10	\$ 48	\$ 81
Due after one year	7	13	57	105
	<u>¥13</u>	<u>¥23</u>	<u>\$105</u>	<u>\$186</u>

9. 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 shareholders held on June 22, 2001, the declaration of the final cash dividends of ¥11.00 (\$0.09) per share totaling ¥1,911 million (\$15,424 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 Corporation to purchase and retire up to 15 million outstanding shares based on the resolution of a Board of Directors' meeting.

10. Commitments and Contingent Liabilities

Capital Expenditure Program

Under the capital expenditure program of the Corporation and its subsidiaries, it is estimated that ¥49,607 million (\$400,379 thousand) will be expended during the two years ending March 31, 2003, of which ¥22,194 million (\$179,128 thousand) represents contractual commitments.

Contingent Liabilities

The Corporation and certain consolidated subsidiaries are contingently liable, as of March 31, 2001, for trade notes receivable which were discounted or endorsed of ¥1,191 million (\$9,613 thousand), and as guarantors for borrowings of ¥5,367 million (\$43,317 thousand) by certain employees and nonconsolidated subsidiaries.

11. Derivative Financial Instruments and Hedging Transactions

The Corporation and its subsidiaries (the "Corporations") use foreign exchanges forward contracts as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates with respect to foreign currency receivables and payables.

The derivative transactions are executed and managed by the Corporations' Finance Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed. The credit risk of such derivatives is assessed at low as the counter-parties of these transactions financial institutions are highly rated.

The following summarizes hedging derivative financial instruments used by the Corporations and items hedged:

Hedging instruments:

Foreign exchange forward contracts

Hedged items:

Foreign currency trade receivables and trade payables

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

Fiscal year ended March 31, 2000:

	Millions of yen	Thousands of U.S. dollars
<i>Foreign exchange forward contracts:</i>		
To sell foreign currencies:		
U. S. dollars: Contract amount due		
within one year	¥428	\$3,454
Estimated fair value	426	3,438
Net unrealized loss	¥ 2	\$ 16

Fiscal year ended March 31, 2001:

There are no items to disclose as all the derivative transactions are effective hedges.

12. Related Party Transactions

Significant related party transactions of the Corporation as of March 31, 2001 and for the year then ended 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		Transactions for the year ended Mar. 31, 2001	Balance as of Mar. 31, 2001
				Description of transaction	for the year ended Mar. 31, 2001	Account	as of Mar. 31, 2001		

Affiliates:

Kyoshin Shoji Co., Ltd.	¥360	Wholesale of electric products and industrial products	46.7%	Sale of products	¥50,399	Accounts receivable	¥12,339	\$406,772	\$99,588
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13. 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, 2001 and 2000 is as follows:

Net Sales

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Industrial Products	¥197,270	¥187,676	\$1,592,171	\$1,514,738
Electronic Products.....	133,115	107,798	1,074,374	870,040
Functional Products.....	37,186	32,894	300,129	265,488
Eliminations	(1,873)	(2,969)	(15,116)	(23,963)
Consolidated Total.....	¥365,698	¥325,399	\$2,951,558	\$2,626,303

Operating Income

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Industrial Products	¥13,229	¥10,723	\$106,772	\$ 86,546
Electronic Products.....	16,392	12,728	132,300	102,728
Functional Products.....	5,203	3,161	41,993	25,512
Consolidated Total.....	¥34,824	¥26,612	\$281,065	\$214,786

Assets

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Industrial Products	¥137,202	¥134,811	\$1,107,361	\$1,088,063
Electronic Products.....	100,697	84,881	812,728	685,077
Functional Products.....	36,909	33,158	297,893	267,619
Corporate	82,846	81,651	668,652	659,007
Consolidated Total.....	¥357,654	¥334,501	\$2,886,634	\$2,699,766

Depreciation and Amortization

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Industrial Products	¥ 8,100	¥ 7,577	\$ 65,375	\$61,154
Electronic Products.....	7,325	6,129	59,120	49,467
Functional Products.....	2,920	2,758	23,568	22,260
Consolidated Total.....	¥18,345	¥16,464	\$148,063	\$132,881

Capital Expenditures

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Industrial Products	¥13,876	¥11,077	\$111,993	\$89,403
Electronic Products.....	13,034	8,366	105,198	67,522
Functional Products.....	5,817	4,571	46,949	36,893
Consolidated Total.....	¥32,727	¥24,014	\$264,140	\$193,818

(2) Geographic Areas

Geographic area information for the years ended March 31, 2001 and 2000 is as follows:

Net Sales

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Japan	¥302,754	¥276,137	\$2,443,535	\$2,228,709
Other	124,553	98,029	1,005,270	791,195
North America.....	39,616	38,366	319,742	309,653
Europe.....	19,383	15,156	156,440	122,325
Asia & Oceania.....	65,554	44,507	529,088	359,217
Eliminations	(61,609)	(48,767)	(497,247)	(393,601)
Consolidated Total.....	¥365,698	¥325,399	\$2,951,558	\$2,626,303

Operating Income

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Japan	¥28,776	¥21,785	\$232,252	\$175,827
Other	5,923	4,827	47,805	38,959
North America.....	1,403	1,636	11,324	13,204
Europe.....	1,025	903	8,273	7,288
Asia & Oceania.....	3,495	2,288	28,208	18,467
Eliminations	125	-	1,008	-
Consolidated Total.....	¥34,824	¥26,612	\$281,065	\$214,786

Assets

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Japan	¥187,529	¥181,837	\$1,513,551	\$1,467,611
Other	89,235	72,018	720,218	581,259
North America.....	48,831	40,204	394,116	324,488
Europe.....	9,647	8,453	77,861	68,224
Asia & Oceania.....	30,757	23,361	248,241	188,547
Corporate	80,890	80,646	652,865	650,896
Consolidated Total.....	¥357,654	¥334,501	\$2,886,634	\$2,699,766

(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-

sidiaries to customers outside Japan for the years ended March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
North America.....	¥ 37,974	¥37,307	\$ 306,489	\$301,106
Europe.....	18,256	13,974	147,345	112,785
Asia & Oceania.....	82,922	60,308	669,265	486,747
	¥139,152	¥111,589	\$1,123,099	\$900,638

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 its consolidated subsidiaries as of March 31, 2001 and 2000, 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 its consolidated subsidiaries as of March 31, 2001 and 2000, 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 applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 1 (b) (d) (i) and (k), in the year ended March 31, 2001, NITTO DENKO CORPORATION and its consolidated subsidiaries prospectively adopted new Japanese accounting standards for "transaction of foreign currencies", "marketable securities and investments in securities", "employee's severance and pension benefits" and "derivative transactions and hedge accounting". Also, as explained in Note 1 (j) in the year ended March 31, 2001, NITTO DENKO CORPORATION and its consolidated subsidiaries changed, with our concurrence, the definition of cash equivalents.

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, 2001



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.