

## TO OUR SHAREHOLDERS

*A technology-oriented,  
market-driven company  
creating new value to  
become the top player in  
global niche markets*

### **Shift to "Growth Business" Delivers Excellent Results**

The business results of Nitto Denko Corporation and its consolidated subsidiaries for fiscal 2001, ended March 31, 2001, were extremely encouraging. Consolidated net sales totaled ¥365,698 million, up 12.4% over fiscal 2000, ended March 31, 2000.

Operating income amounted to ¥34,824 million, up 30.9%.

These results were all the more satisfying given the adverse business environment, with continued deflationary tendencies in Japan and a slowing of the U.S. economy. It is the second successive year that we have achieved two-digit growth in sales and income.

The increases in sales and income reflect our work in reorganizing our business structure over the last five years. We have shifted our focus onto rapidly growing fields, including general electronics and IT, where we have the potential to become a global market leader. In addition, we have motivated our entire staff to emphasize profitability rather than sales. Our employees at every level now understand that, to improve our corporate value, we must utilize our advanced technological know-how to create new, high value-added products. In this way, we will generate new demand and eventually new markets.



Left: Hideki Yamamoto, Chairman Right: Masamichi Takemoto, President

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The shift to growth business is well under way. In fiscal 2001, our substantial R&D investment in the medical-related products segment bore fruit. [Products such as our transdermal therapeutic patches for asthma sufferers have proven popular.](#)

Until at least fiscal 2005, the electronics, ecology, and energy-related segments (the "3Es") are likely to drive our growth. [In October 2000, we set up an R&D base in the U.S., specializing in the bioscience and optical communications fields.](#)

Our future development activities will be keenly focused on fields in which we have competitive advantages and the potential to offer high value-added products that compete on quality rather than price. We will implement our "selection and concentration" policy vigorously, taking decisive measures to divest weak segments and further enhance our capabilities in our already strong segments.

Under our mid-term management plan, "G-2002," we are targeting consolidated net sales of ¥420 billion and income before income taxes of ¥45 billion. To meet these targets, we will accelerate our restructuring program, emphasizing a reduction in our currently high fixed costs.

During fiscal 2001, we closed four regional sales offices, and merged three sales agencies into one. Nevertheless, our sales structure still requires further reorganization.

### **Technological Strength – New Product Sales Top 40% of Total Sales**

Since 1997, we have been establishing ourselves as a technology-oriented company. In the second half of fiscal 2001, the ratio of new product sales to total sales reached 42%. We also increased the ratio of "completely new products," as opposed to upgrades, to over 30% of new product sales, thereby exceeding our target.

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An example of our upcoming new products is [the world's first plastic substrate for use in LCDs of cellular phones. We plan to launch the substrate in calendar 2001.](#)

### **Corporate Governance**

In fiscal 2001, we redoubled our efforts to act as a socially responsible corporate citizen. We are keen to establish an open corporate culture and emphasize activities that contribute to society and its development. On May 1, 2000, we created a subsidiary, Nitto Denko Himawari Co., Ltd., under the auspices of a government scheme aimed at promoting the employment of the physically handicapped and the aged. The subsidiary started operations in October 2000. We also enhanced transparency both within and outside the Company in order to gain the respect of the public and thus enhance our corporate value.

### **Management Change to Enhance "Market-in" Strategy**

In April 2001, we appointed a new president, Mr. Masamichi Takemoto. His elevation marks a move to a new generation of leaders. One of Mr. Takemoto's main priorities is to ensure that Nitto Denko becomes more market-driven. This appointment is intended to rejuvenate our management team in readiness for expected radical changes in our business environment.

An important part of our strategy to overcome ever-intensifying global competition is to build a firmer foundation for our overseas operations. In fiscal 2002, we intend to increase to 40% the ratio of overseas sales to total sales.

Since the fall of 2000, IT-related markets have been stagnant, adversely affected by difficult conditions in the U.S. However, when they recover we anticipate that completely new business fields will be created, presenting tremendous opportunities. We are determined to attain the top position in these new fields



and become the trusted partner of choice for many customers. To do this, we must offer new products and technologies unique to Nitto Denko. The constant development of original products relatively immune to price competition requires both strong technological skills and the ability to identify customer needs accurately. In short, our next step is to become a "market-driven" company as well as a technology-oriented company. Under this two-pronged strategy, we will strive to reach a global niche top position in the anticipated new business areas.

### **Swift Response to Change is in Nitto Denko's "DNA"**

Since its foundation, Nitto Denko has regarded swift response to change as the essence of its business style. The ability to anticipate change and to innovate in response is in our genes.

Nitto Denko is akin to a collection of high-tech ventures covering a variety of technology segments. This structure gives us a great advantage. By sharing the vast amount of information accumulated in each venture, we can propose cutting-edge products tailored to meet changing market needs. We can also quickly evaluate the technical feasibility of products.

Our ability to change with the times goes beyond developing advanced products. For example, we have also transformed our manufacturing processes in response to growing concerns about conservation of the natural environment.

Our current priority in terms of change is to establish Nitto Denko as a truly market-driven company. We intend to exchange staff between our sales and technology development

sides. Sales staff who understand the thinking of our engineers can give more valuable feedback to engineers and customers alike. Similarly, technicians who understand the position of our sales staff, and who have listened to our customers directly, will be better placed to develop technologies that dovetail with our "market-in" philosophy. They will also be more highly motivated to anticipate changes in customer demand. Improved communications between all staff members will ensure that every employee fully understands our two-pronged strategy.

### **Sustained Growth through Further Innovation and Substantial Investment**

For calendar 2001, our motto is, "Change represents opportunity. Innovation is the tool to sustain growth." This reflects our positive attitude to the fast-changing market environment of recent years, an environment that has provided us with tremendous opportunities for technological innovation and market expansion.

For example, in March 1998, we established the Adhesive Tape Research Center within our Toyohashi Plant [to accelerate the development of new manufacturing processes designed to reduce environmental impact and manufacturing costs](#). Staff at the center have subsequently developed emission-free technologies and "clean" manufacturing processes for adhesive tapes and surface protection films used during the manufacture and assembly of IT-related equipment.

By viewing change as an opportunity, we are able to develop

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previously unthought of products, applications and demand. This aspect of Nitto Denko's DNA, which values change, will manifest itself in the sustained growth and enhanced profitability of the Nitto Denko Group.

Over the three years beginning fiscal 2002, we will make capital investments in a total amount of ¥100 billion.

Approximately 70% will be invested in the electronics-related fields, mainly to enhance our manufacturing facilities for LCD plastic substrates and other LCD-related products, including LCD polarizing films. We also plan to increase our production capacity and quality for adhesive tapes and surface-protection films for IT-related products, for which demand is growing strongly.

We will advance into new product fields, in particular by continuing to make strategic moves in the growing "3Es." More specifically, we intend to expand in the fields of energy-related materials, pharmaceutical reagents, and others. On the environmental front, we will reduce the environmental impact of production at the "source" rather than at the "exit." That is to say, we will establish manufacturing processes that do not produce waste, rather than disposing of the waste later. We will also undertake R&D into manufacturing costs reduction.

All of these moves are aimed at securing pole position in the "new business world" expected to emerge once the current slowdown ends.

"Creating New Value" is the common management philosophy throughout the Nitto Denko Group. Our ultimate goal is to

become a company truly valuable to end-users, shareholders, employees, and other stakeholders. We are convinced we are on the right track in the pursuit of our long-term Group-wide goal of becoming a "Global Niche Top" enterprise with a market capitalization of ¥1,000 billion.



Hideki Yamamoto  
Chairman



Masamichi Takemoto  
President

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