

## CONSOLIDATED BALANCE SHEETS

Nitto Denko Corporation and Consolidated Subsidiaries  
As of March 31, 2002 and 2001

| Assets  | Millions of yen  |                  | Thousands of U.S. dollars |                    |
|---|------------------|------------------|---------------------------|--------------------|
|   | 2002             | 2001             | 2002                      | 2001               |
| <b>Current Assets:</b>  |                  |                  |                           |                    |
| Cash on hand and in banks (Note 2).....                                   | ¥ 39,540         | ¥ 54,926         | \$ 296,847                | \$ 412,357         |
| Marketable securities (Notes 2 and 3) .....                               | 5,693            | 8,692            | 42,740                    | 65,255             |
| Trade notes and accounts receivable .....                                 | 91,145           | 91,994           | 684,272                   | 690,646            |
| Allowance for doubtful receivables .....                                  | (1,328)          | (1,158)          | (9,970)                   | (8,694)            |
| Inventories (Note 4) .....  | 33,536           | 35,682           | 251,772                   | 267,883            |
| Deferred tax assets and other (Note 5).....                               | 13,446           | 15,053           | 100,946                   | 113,011            |
| Total current assets .....  | <u>182,032</u>   | <u>205,189</u>   | <u>1,366,607</u>          | <u>1,540,458</u>   |
| <br>  |                  |                  |                           |                    |
| <b>Plant and Equipment, at Cost (Note 6):</b>                             |                  |                  |                           |                    |
| Land.....   | 19,773           | 19,209           | 148,446                   | 144,212            |
| Buildings .....   | 98,946           | 88,131           | 742,838                   | 661,644            |
| Machinery and equipment .....   | <u>206,093</u>   | <u>189,749</u>   | <u>1,547,245</u>          | <u>1,424,542</u>   |
|   | 324,812          | 297,089          | 2,438,529                 | 2,230,398          |
| Accumulated depreciation.....   | <u>(194,843)</u> | <u>(183,614)</u> | <u>(1,462,786)</u>        | <u>(1,378,484)</u> |
|   | <u>129,969</u>   | <u>113,475</u>   | <u>975,743</u>            | <u>851,914</u>     |
| <br>  |                  |                  |                           |                    |
| <b>Investments and Other Assets:</b>                                      |                  |                  |                           |                    |
| Investments in nonconsolidated subsidiaries and affiliates (Note 3) ..... | 10,827           | 12,811           | 81,284                    | 96,179             |
| Investments in securities (Note 3).....                                   | 7,321            | 10,814           | 54,962                    | 81,186             |
| Goodwill (Note 1(a)).....   | 1,610            | 1,860            | 12,087                    | 13,964             |
| Other assets .....  | <u>18,581</u>    | <u>13,505</u>    | <u>139,497</u>            | <u>101,389</u>     |
|   | <u>38,339</u>    | <u>38,990</u>    | <u>287,830</u>            | <u>292,718</u>     |
|   | <u>¥ 350,340</u> | <u>¥357,654</u>  | <u>\$ 2,630,180</u>       | <u>\$2,685,090</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 |                     |
|---|------------------|------------------|---------------------------|---------------------|
|   | 2002             | 2001             | 2002                      | 2001                |
| <b>Current Liabilities:</b>                                     |                  |                  |                           |                     |
| Short-term bank loans, including current portion                |                  |                  |                           |                     |
| of long-term debt (Note 6) .....                                | ¥ 7,257          | ¥ 7,266          | \$ 54,482                 | \$ 54,550           |
| Trade notes and accounts payable .....                          | 69,522           | 74,231           | 521,937                   | 557,290             |
| Accrued expenses.....   | 10,247           | 11,672           | 76,929                    | 87,628              |
| Income taxes (Note 5).....                                      | 749              | 8,819            | 5,623                     | 66,209              |
| Other current liabilities.....                                  | 1,265            | 840              | 9,497                     | 6,305               |
| Total current liabilities.....                                  | <u>89,040</u>    | <u>102,828</u>   | <u>668,468</u>            | <u>771,982</u>      |
| <b>Long-term Liabilities:</b>                                   |                  |                  |                           |                     |
| Long-term debt (Note 6).....                                    | 1,962            | 2,500            | 14,730                    | 18,769              |
| Allowance for severance and pension benefits (Note 7).....      | 18,373           | 19,324           | 137,935                   | 145,075             |
| Retirement allowances for directors and corporate auditors..... | 1,102            | 1,384            | 8,273                     | 10,390              |
| Other long-term liabilities.....                                | 2,111            | 1,598            | 15,849                    | 11,997              |
|   | <u>23,548</u>    | <u>24,806</u>    | <u>176,787</u>            | <u>186,231</u>      |
| <b>Minority Interests</b> .....                                 | <u>9,342</u>     | <u>3,126</u>     | <u>70,135</u>             | <u>23,469</u>       |
| <b>Commitments and Contingent Liabilities (Note 10)</b>         |                  |                  |                           |                     |
| <b>Shareholders' Equity (Note 9):</b>                           |                  |                  |                           |                     |
| Common stock.....   | 26,784           | 26,784           | 201,081                   | 201,081             |
| Authorized — 400,000,000 shares                                 |                  |                  |                           |                     |
| Issued — 173,758,428 shares in 2002 and 2001                    |                  |                  |                           |                     |
| Additional paid-in capital .....                                | 50,482           | 50,482           | 378,994                   | 378,994             |
| Retained earnings.....  | 153,518          | 156,543          | 1,152,538                 | 1,175,248           |
| Net unrealized holding gains on securities.....                 | 663              | -                | 4,978                     | -                   |
| Foreign currency translation adjustments .....                  | (3,034)          | (6,914)          | (22,778)                  | (51,907)            |
| Cost of treasury stock.....                                     | (3)              | (1)              | (23)                      | (8)                 |
|   | <u>228,410</u>   | <u>226,894</u>   | <u>1,714,790</u>          | <u>1,703,408</u>    |
|   | <u>¥ 350,340</u> | <u>¥ 357,654</u> | <u>\$ 2,630,180</u>       | <u>\$ 2,685,090</u> |

# CONSOLIDATED STATEMENTS OF INCOME

Nitto Denko Corporation and Consolidated Subsidiaries  
For the Years Ended March 31, 2002 and 2001

|  | Millions of yen  |                 | Thousands of U.S. dollars |                    |
|--|------------------|-----------------|---------------------------|--------------------|
|  | 2002             | 2001            | 2002                      | 2001               |
| <b>Net Sales</b> .....   | <b>¥ 338,930</b> | <b>¥365,698</b> | <b>\$ 2,544,520</b>       | <b>\$2,745,480</b> |
| <b>Cost of Sales</b> .....   | <b>247,823</b>   | <b>259,277</b>  | <b>1,860,534</b>          | <b>1,946,524</b>   |
| Gross profit .....   | <b>91,107</b>    | <b>106,421</b>  | <b>683,986</b>            | <b>798,956</b>     |
| <b>Selling, General and Administrative Expenses</b> .....                                  | <b>71,793</b>    | <b>71,597</b>   | <b>538,986</b>            | <b>537,515</b>     |
| Operating income .....   | <b>19,314</b>    | <b>34,824</b>   | <b>145,000</b>            | <b>261,441</b>     |
| <b>Other Income (Expenses):</b>  |                  |                 |                           |                    |
| Interest and dividend income .....   | 545              | 914             | 4,092                     | 6,862              |
| Interest expense .....   | (218)            | (478)           | (1,637)                   | (3,589)            |
| Gain on sales of marketable securities and investments in securities, net.....             | 406              | 48              | 3,048                     | 360                |
| Equity in earnings of nonconsolidated subsidiaries and affiliates .....                    | 234              | 508             | 1,757                     | 3,814              |
| Gain on securities contributed to employee retirement benefit trust.....                   | -                | 7,466           | -                         | 56,051             |
| Net transition obligation due to<br>the change in accounting for retirement benefits ..... | -                | (15,567)        | -                         | (116,869)          |
| Loss on evaluation of investments in securities (Note 1(d)).....                           | (4,870)          | -               | (36,562)                  | -                  |
| Restructuring expense (Note 12).....   | (11,518)         | -               | (86,471)                  | -                  |
| Other, net .....   | (171)            | (1,991)         | (1,284)                   | (14,947)           |
|  | <b>(15,592)</b>  | <b>(9,100)</b>  | <b>(117,057)</b>          | <b>(68,318)</b>    |
| <b>Income before Provision for Income Taxes</b> .....                                      | <b>3,722</b>     | <b>25,724</b>   | <b>27,943</b>             | <b>193,123</b>     |
| <b>Provision for Income Taxes (Note 5):</b>  |                  |                 |                           |                    |
| Current .....  | 4,171            | 14,298          | 31,314                    | 107,342            |
| Deferred, net.....   | (1,971)          | (4,433)         | (14,797)                  | (33,280)           |
|  | <b>2,200</b>     | <b>9,865</b>    | <b>16,517</b>             | <b>74,062</b>      |
| <b>Minority Interests in Net Income of Consolidated Subsidiaries</b> .....                 | <b>(407)</b>     | <b>(8)</b>      | <b>(3,055)</b>            | <b>(59)</b>        |
| <b>Net Income</b> .....  | <b>¥ 1,115</b>   | <b>¥ 15,851</b> | <b>\$ 8,371</b>           | <b>\$ 119,002</b>  |
| <b>Per Share of Common Stock (Note 9):</b>   |                  |                 |                           |                    |
|  | Yen              |                 | U.S. dollars              |                    |
| <b>Net Income</b> .....  | <b>¥ 6.42</b>    | <b>¥ 93.51</b>  | <b>\$ 0.05</b>            | <b>\$ 0.70</b>     |
| <b>Net Income—Diluted</b> .....  | -                | 91.81           | -                         | 0.69               |
| <b>Cash Dividends, Applicable to Earnings of the Year</b> .....                            | <b>22.00</b>     | <b>21.00</b>    | <b>0.17</b>               | <b>0.16</b>        |

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, 2002 and 2001

|  | Number of Shares (thousands) |                | Millions of yen  |                  | Thousands of U.S. dollars |                     |
|--|------------------------------|----------------|------------------|------------------|---------------------------|---------------------|
|  | 2002                         | 2001           | 2002             | 2001             | 2002                      | 2001                |
| <b>Common Stock (Note 9):</b>                      |                              |                |                  |                  |                           |                     |
| Authorized shares.....                             | 400,000                      | 400,000        |                  |                  |                           |                     |
| Outstanding shares —                               |                              |                |                  |                  |                           |                     |
| Beginning balance.....                             | 173,758                      | 166,512        | ¥ 26,784         | ¥ 22,030         | \$ 201,081                | \$ 165,390          |
| Conversion of bonds .....                          | -                            | 7,246          | -                | 4,754            | -                         | 35,691              |
| Ending balance .....                               | <u>173,758</u>               | <u>173,758</u> | <u>¥ 26,784</u>  | <u>¥ 26,784</u>  | <u>\$ 201,081</u>         | <u>\$ 201,081</u>   |
| <b>Additional Paid-in Capital (Note 9):</b>        |                              |                |                  |                  |                           |                     |
| Beginning balance.....                             |                              |                | ¥ 50,482         | ¥ 45,728         | \$ 378,994                | \$ 343,303          |
| Conversion of bonds .....                          |                              |                | -                | 4,754            | -                         | 35,691              |
| Ending balance.....                                |                              |                | <u>¥ 50,482</u>  | <u>¥ 50,482</u>  | <u>\$ 378,994</u>         | <u>\$ 378,994</u>   |
| <b>Retained Earnings (Note 9):</b>                 |                              |                |                  |                  |                           |                     |
| Beginning balance.....                             |                              |                | ¥ 156,543        | ¥ 144,372        | \$ 1,175,248              | \$ 1,083,874        |
| Net income .....                                   |                              |                | 1,115            | 15,851           | 8,371                     | 119,002             |
| Cash dividends paid .....                          |                              |                | (3,820)          | (3,339)          | (28,679)                  | (25,068)            |
| Directors' bonuses.....                            |                              |                | (320)            | (341)            | (2,402)                   | (2,560)             |
| Ending balance.....                                |                              |                | <u>¥ 153,518</u> | <u>¥ 156,543</u> | <u>\$ 1,152,538</u>       | <u>\$ 1,175,248</u> |
| <b>Net Unrealized Holding Gains on Securities:</b> |                              |                |                  |                  |                           |                     |
| Beginning balance.....                             |                              |                | ¥ -              | ¥ -              | \$ -                      | \$ -                |
| Net increase .....                                 |                              |                | 663              | -                | 4,978                     | -                   |
| Ending balance.....                                |                              |                | <u>¥ 663</u>     | <u>¥ -</u>       | <u>\$ 4,978</u>           | <u>\$ -</u>         |
| <b>Foreign Currency Translation Adjustments:</b>   |                              |                |                  |                  |                           |                     |
| Beginning balance.....                             |                              |                | ¥ (6,914)        | ¥ -              | \$ (51,907)               | \$ -                |
| Net increase (decrease) .....                      |                              |                | 3,880            | (6,914)          | 29,129                    | (51,907)            |
| Ending balance.....                                |                              |                | <u>¥ (3,034)</u> | <u>¥ (6,914)</u> | <u>\$ (22,778)</u>        | <u>\$ (51,907)</u>  |
| <b>Cost of Treasury Stock:</b>                     |                              |                |                  |                  |                           |                     |
| Beginning balance.....                             |                              |                | ¥ (1)            | ¥ (4)            | \$ (8)                    | \$ (30)             |
| Net increase (decrease) .....                      |                              |                | (2)              | 3                | (15)                      | 22                  |
| Ending balance.....                                |                              |                | <u>¥ (3)</u>     | <u>¥ (1)</u>     | <u>\$ (23)</u>            | <u>\$ (8)</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, 2002 and 2001

|   | Millions of yen |          | Thousands of U.S. dollars |            |
|---|-----------------|----------|---------------------------|------------|
|   | 2002            | 2001     | 2002                      | 2001       |
| <b>Cash Flows from Operating Activities:</b>  |                 |          |                           |            |
| Income before provision for income taxes .....  | ¥ 3,722         | ¥ 25,724 | \$ 27,943                 | \$ 193,123 |
| Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities: |                 |          |                           |            |
| Depreciation and amortization .....   | 20,443          | 18,345   | 153,476                   | 137,725    |
| Interest and dividend income .....  | (545)           | (914)    | (4,092)                   | (6,862)    |
| Interest expense .....  | 218             | 478      | 1,637                     | 3,589      |
| Foreign exchange (gain) loss .....  | (11)            | 272      | (83)                      | 2,042      |
| Equity in earnings of nonconsolidated subsidiaries and affiliates .....   | (234)           | (508)    | (1,757)                   | (3,814)    |
| Loss on evaluation of investments in securities .....   | 4,870           | -        | 36,562                    | -          |
| (Gain) Loss on sales and disposal of fixed assets .....   | 39              | (236)    | 293                       | (1,772)    |
| Decrease (increase) in trade notes and accounts receivable .....  | 10,836          | 5,255    | 81,351                    | 39,452     |
| Decrease (increase) in inventories .....  | 4,100           | (5,655)  | 30,781                    | (42,455)   |
| Decrease (increase) in other receivables .....  | 1,471           | (3,447)  | 11,044                    | (25,878)   |
| Increase (decrease) in trade notes and accounts payable .....   | (4,697)         | 184      | (35,263)                  | 1,381      |
| Other, net .....  | (4,994)         | 8,327    | (37,493)                  | 62,516     |
| Total .....   | 35,218          | 47,825   | 264,399                   | 359,047    |
| Interest and dividend income received .....   | 502             | 864      | 3,769                     | 6,487      |
| Interest paid .....   | (224)           | (470)    | (1,681)                   | (3,529)    |
| Income taxes paid .....   | (15,483)        | (14,269) | (116,239)                 | (107,125)  |
| Net cash provided by operating activities .....   | 20,013          | 33,950   | 150,248                   | 254,880    |
| <b>Cash Flows from Investing Activities:</b>  |                 |          |                           |            |
| Decrease in marketable securities, net .....  | 1,958           | 331      | 14,700                    | 2,485      |
| Acquisitions of plant and equipment .....   | (41,630)        | (27,777) | (312,538)                 | (208,536)  |
| Proceeds from sales of plant and equipment .....  | 3,032           | 2,597    | 22,763                    | 19,497     |
| Decrease (increase) in time deposits, net .....   | 756             | (1,313)  | 5,676                     | (9,857)    |
| Purchase of investments in securities .....   | (891)           | (97)     | (6,689)                   | (728)      |
| Proceeds from sales of investments in securities .....  | 2,160           | 1,027    | 16,216                    | 7,710      |
| Other, net .....  | (978)           | (1,601)  | (7,343)                   | (12,020)   |
| Net cash used in investing activities .....   | (35,593)        | (26,833) | (267,215)                 | (201,449)  |
| <b>Cash Flows from Financing Activities:</b>  |                 |          |                           |            |
| Proceeds from long-term debt .....  | 1,598           | 1,762    | 11,997                    | 13,228     |
| Repayments of long-term debt .....  | (1,582)         | (106)    | (11,877)                  | (796)      |
| Decrease in short-term debt, net .....  | (563)           | (544)    | (4,227)                   | (4,084)    |
| Repayments of bonds .....   | -               | (5)      | -                         | (38)       |
| Dividends paid .....  | (3,820)         | (3,339)  | (28,679)                  | (25,068)   |
| Other, net .....  | (78)            | (38)     | (585)                     | (284)      |
| Net cash used in financing activities .....   | (4,445)         | (2,270)  | (33,371)                  | (17,042)   |
| Foreign Currency Exchange Loss in Cash and Cash Equivalents .....   | 503             | 530      | 3,776                     | 3,979      |
| Net Increase (Decrease) in Cash and Cash Equivalents .....  | (19,522)        | 5,377    | (146,562)                 | 40,368     |
| Cash and Cash Equivalents, Beginning of Year .....  | 57,989          | 47,244   | 435,353                   | 354,685    |
| Cash and Cash Equivalents of a Newly Consolidated Company .....   | 1,638           | 352      | 12,298                    | 2,642      |
| Increase in Cash and Cash Equivalents due to Change in Definition .....   | -               | 5,016    | -                         | 37,658     |
| Cash and Cash Equivalents, End of Year .....  | ¥ 40,105        | ¥ 57,989 | \$ 301,089                | \$ 435,353 |
| <b>Non-cash Investing and Financing Activities:</b>   |                 |          |                           |            |
| Increase in common stock and additional paid-in capital on conversion of convertible bonds .....                | ¥ -             | ¥ 9,508  | \$ -                      | \$ 71,381  |

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

## 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. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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 appropriate Local Financial Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to 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, 2002, which was ¥133.20 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Significant accounting and reporting policies are summarized as follows:

### (a) Principles of Consolidation

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

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

In the elimination of investments in subsidiaries, the portion of the assets and liabilities of a subsidiary attributable to the subsidiary's shares owned by the Corporation are evaluated based on the fair value at the time when the Corporation acquired control of the

subsidiary. The amounts of assets and liabilities attributable to minority shareholders of the subsidiary are determined using the financial statements of the subsidiary.

Material intercompany balances and transactions have been eliminated in consolidation.

In 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 (\$41,554 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 five years.

### (b) Translation of Foreign Currencies

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

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

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

Prior to April 2001, revenue and expenses accounts of the consolidated foreign subsidiaries are translated into Japanese yen at year-end rates. Effective April 1, 2001, the Corporation changed the translation into Japanese yen of income statements of consolidated overseas subsidiaries from year-end rates to average rates. As a result of this change for the year 2002, sales decreased ¥5,975 million (\$44,857 thousand) and charged for income are immaterial.

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

### (c) Leases

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

### (d) Marketable Securities and Investments in Securities

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

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

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

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

In the year ended March 31, 2001, other securities were principally stated at the average cost method under the provision for

a one-year grace period by the new Accounting Standards for Financial Instruments subject to disclosure as indicated in Note 3.

Effective April 1, 2001, other securities with fair market value are stated at fair market value. Unrealized holding gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. As a result of this change, net unrealized holding gains on securities of ¥663 million (\$4,978 thousand) were recorded, investments in securities increased by ¥1,466 million (\$11,006 thousand), minority interests increased by ¥190 million (\$1,426 thousand) and deferred tax assets decreased by ¥613 million (\$4,602 thousand) compared with what would have been recorded under the previous accounting standard. Deferred tax assets were included in other assets. Realized gains and losses on sales of such securities were principally determined by the average method.

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

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

#### (e) Inventories

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

#### (f) Depreciation

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

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

#### (g) Income Taxes

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

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

#### (h) Research and Development Expenses

Research and development expenses are charged to income as incurred. Research and development expenses charged to income amounted to ¥13,053 million (\$97,995 thousand) and ¥12,423 million (\$93,266 thousand) for the years ended March 31, 2002 and 2001, 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.

The Corporation and its domestic subsidiaries provided allowance for employees' severance and pension benefits at March 31, 2002 based on the estimated amounts of projected benefit obligation and the fair value of 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 the 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 the 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 (\$116,869 thousand) and was recognized as the "net transition obligation" as of April 1, 2000 and fully charged to income. The Corporation also recognized ¥7,466 million (\$56,051 thousand) gain on the contribution of the Corporation's investment securities to the employee retirement benefit trust in 2001.

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

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

#### (k) Derivative Transactions and Hedge Accounting

All derivative financial instruments are stated at fair value and recorded on the balance sheets as of March 31, 2002.

Also, 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 2002 presentation.

Net unrealized holding gains on securities in the prior year's consolidated financial statements have not been reclassified.

## 2. Cash and Cash Equivalents

Reconciliation of cash and cash equivalents to the account on balance sheets as of March 31, 2002 and 2001 comprises as follows:

|                                 | Millions of yen |          | Thousands of U.S. dollars |            |
|---------------------------------|-----------------|----------|---------------------------|------------|
|                                 | 2002            | 2001     | 2002                      | 2001       |
| Cash on hand and in banks ..... | ¥ 39,540        | ¥ 54,926 | \$ 296,847                | \$ 412,357 |
| Time deposits .....             | (745)           | (1,450)  | (5,593)                   | (10,886)   |
| Securities and others .....     | 1,310           | 4,513    | 9,835                     | 33,882     |
| Cash and cash equivalents.....  | ¥ 40,105        | ¥ 57,989 | \$ 301,089                | \$ 435,353 |

## 3. Securities

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

(a) Trading securities as of March 31, 2002 and 2001

|                                     | Millions of yen |         | Thousands of U.S. dollars |           |
|-------------------------------------|-----------------|---------|---------------------------|-----------|
|                                     | 2002            | 2001    | 2002                      | 2001      |
| Trading securities:                 |                 |         |                           |           |
| Carrying amount.....                | ¥ 5,599         | ¥ 8,501 | \$ 42,035                 | \$ 63,821 |
| Unrealized gains (losses), net..... | (48)            | 45      | (360)                     | 338       |

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

| Type  | Millions of yen  |            |            | Thousands of U.S. dollars |            |            |
|---|------------------|------------|------------|---------------------------|------------|------------|
|   | Acquisition cost | Book value | Difference | Acquisition cost          | Book value | Difference |
| Securities with book values exceeding acquisition costs     |                  |            |            |                           |            |            |
| Equity securities .....                                     | ¥4,320           | ¥5,883     | ¥1,562     | \$ 32,432                 | \$ 44,166  | \$ 11,734  |
| Bonds .....   | 1                | 1          | 0          | 8                         | 8          | 0          |
| Others .....  | 94               | 94         | 0          | 706                       | 706        | 0          |
| Total .....   | ¥4,415           | ¥5,978     | ¥1,562     | \$ 33,146                 | \$ 44,880  | \$ 11,734  |
| Securities with book values not exceeding acquisition costs |                  |            |            |                           |            |            |
| Equity securities .....                                     | ¥ 22             | ¥ 21       | ¥ (1)      | \$ 165                    | \$ 158     | \$ (7)     |
| Bonds .....   | 963              | 873        | (90)       | 7,230                     | 6,554      | (676)      |
| Others .....  | 45               | 40         | (5)        | 338                       | 300        | (38)       |
| Total .....   | ¥1,030           | ¥ 934      | ¥ (96)     | \$ 7,733                  | \$ 7,012   | \$ (721)   |

B. The following table summarizes the book values of securities with no available fair values as of March 31, 2002 and 2001:

|                                     | Millions of yen |       | Thousands of U.S. dollars |          |
|-------------------------------------|-----------------|-------|---------------------------|----------|
|                                     | 2002            | 2001  | 2002                      | 2001     |
| Other securities with no fair value |                 |       |                           |          |
| Non-listed equity securities:       |                 |       |                           |          |
| Carrying amount.....                | ¥ 504           | ¥ 579 | \$ 3,784                  | \$ 4,347 |

C. The contractual maturities of debt securities are as follows:

| As of March 31, 2001 | 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         | \$ 68                     |
| Other .....          | -               | 30                               | -                                 | -              | 30          | 225                       |
| Total .....          | <u>¥ 9</u>      | <u>¥ 30</u>                      | <u>¥ -</u>                        | <u>¥ -</u>     | <u>¥ 39</u> | <u>\$ 293</u>             |

D. Total sales of available-for-sale securities sold in the year ended March 31, 2002 amounted to ¥2,160 million (\$16,216 thousand) and the related gains and losses amounted to ¥630 million (\$4,730 thousand) and ¥209 million (\$1,569 thousand), respectively.

#### 4. Inventories

Inventories as of March 31, 2002 and 2001 are as follows:

|                         | Millions of yen |                | Thousands of U.S. dollars |                  |
|-------------------------|-----------------|----------------|---------------------------|------------------|
|                         | 2002            | 2001           | 2002                      | 2001             |
| Finished products ..... | ¥12,751         | ¥15,281        | \$ 95,728                 | \$114,722        |
| Work in process .....   | 14,825          | 13,689         | 111,299                   | 102,770          |
| Raw materials .....     | 5,960           | 6,712          | 44,745                    | 50,391           |
|                         | <u>¥33,536</u>  | <u>¥35,682</u> | <u>\$251,772</u>          | <u>\$267,883</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, 2002 and 2001.

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, 2002 and 2001:

|   | 2002       | 2001       |
|---|------------|------------|
| Normal statutory tax rates.....                                     | 42%        | 42%        |
| Permanently nondeductible expenses.....                             | 7          | 1          |
| Dividends received, not taxable.....                                | (4)        | (1)        |
| Undistributed earnings of overseas subsidiaries and affiliates..... | (11)       | (1)        |
| Tax credits.....  | (6)        | (2)        |
| Differences in normal tax rates of foreign subsidiaries.....        | (7)        | (1)        |
| Losses on unprofitable subsidiaries and affiliates..                | 42         | 0          |
| Other, net.....   | (4)        | 0          |
| Effective tax rate.....   | <u>59%</u> | <u>38%</u> |

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

|   | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| <b>Current</b>  |                 |                           |
| Deferred tax assets:  |                 |                           |
| Inventories .....   | ¥ 312           | \$ 2,342                  |
| Unrealized gains on inventories .....                               | 700             | 5,255                     |
| Allowance for doubtful receivables ..                               | 142             | 1,066                     |
| Accrued revenue .....   | 271             | 2,035                     |
| Accounts payable .....  | 647             | 4,857                     |
| Accrued expenses.....   | 1,732           | 13,003                    |
| Other .....   | 454             | 3,409                     |
| Total current deferred tax assets.....                              | <u>4,258</u>    | <u>31,967</u>             |
| Deferred tax liabilities:   |                 |                           |
| Enterprise taxes .....  | ¥ 230           | \$ 1,727                  |
| Net deferred tax assets .....                                       | <u>¥4,028</u>   | <u>\$30,240</u>           |
| <b>Long-term</b>  |                 |                           |
| Deferred tax assets:  |                 |                           |
| Depreciation .....  | ¥1,203          | \$ 9,032                  |
| Intangible assets.....  | 257             | 1,929                     |
| Severance and pension benefits.....                                 | 5,851           | 43,926                    |
| Retirement allowances for directors and corporate auditors .....    | 452             | 3,393                     |
| Investments in securities.....                                      | 2,035           | 15,278                    |
| Other .....   | 1,730           | 12,989                    |
| Total long-term deferred tax assets ...                             | <u>11,528</u>   | <u>86,547</u>             |
| Deferred tax liabilities:   |                 |                           |
| Reserve for special depreciation .....                              | ¥ 676           | \$ 5,075                  |
| Undistributed earnings of overseas subsidiaries and affiliates..... | 1,046           | 7,853                     |
| Net unrealized holding gains on securities .....                    | 613             | 4,602                     |
| Total deferred tax liabilities .....                                | <u>2,335</u>    | <u>17,530</u>             |
| Net deferred tax assets .....                                       | <u>¥9,193</u>   | <u>\$69,017</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, 2002 and 2001 was approximately 2.5% and 2.9%, respectively. Long-term debt as of March 31, 2002 and 2001 is summarized below:

|  | Millions of yen |                | Thousands of U.S. dollars |                  |
|--|-----------------|----------------|---------------------------|------------------|
|  | 2002            | 2001           | 2002                      | 2001             |
| 0.80% to 8.00% loans from banks and others, due in installments through 2009 ... | ¥ 3,203         | ¥ 3,892        | \$ 24,047                 | \$ 29,219        |
| 2.1% mortgage bonds, due 2005 .....  | 300             | 300            | 2,252                     | 2,252            |
| 1.1% mortgage bonds, due 2002 .....  | 200             | 200            | 1,501                     | 1,502            |
| 4.1% to 7.3% unsecured loans from a government-sponsored agency, due 2002 ..     | -               | 10             | -                         | 75               |
|  | <u>3,703</u>    | <u>4,402</u>   | <u>27,800</u>             | <u>33,048</u>    |
| Current portion .....  | <u>(1,741)</u>  | <u>(1,902)</u> | <u>(13,070)</u>           | <u>(14,279)</u>  |
|  | <u>¥ 1,962</u>  | <u>¥ 2,500</u> | <u>\$ 14,730</u>          | <u>\$ 18,769</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, 2002, land of ¥574 million (\$4,309 thousand), buildings with a net book value of ¥533 million (\$4,002 thousand) and investments in securities of ¥26 million (\$195 thousand) are pledged as collateral for ¥500 million (\$3,754 thousand) of mortgage bonds and ¥144 million (\$1,081 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 |
|--------------------------|-----------------|---------------------------|
| 2004 .....               | ¥1,159          | \$ 8,701                  |
| 2005 .....               | 734             | 5,511                     |
| 2006 .....               | 15              | 113                       |
| 2007 .....               | 15              | 113                       |
| 2008 and thereafter..... | 39              | 292                       |
|                          | <u>¥1,962</u>   | <u>\$14,730</u>           |

## 7. Employees' Severance and Pension Benefits

Allowance for severance and pension benefits as of March 31, 2002 and 2001 consists of the following:

|  | Millions of yen |                 | Thousands of U.S. dollars |                   |
|--|-----------------|-----------------|---------------------------|-------------------|
|  | 2002            | 2001            | 2002                      | 2001              |
| Projected benefit obligation .....                 | ¥ 112,457       | ¥ 108,774       | \$ 844,271                | \$ 816,622        |
| Unrecognized prior service costs .....             | (22)            | (23)            | (165)                     | (173)             |
| Unrecognized actuarial differences .....           | (21,308)        | (16,186)        | (159,970)                 | (121,517)         |
| Less fair value of pension assets .....            | <u>(72,754)</u> | <u>(73,241)</u> | <u>(546,201)</u>          | <u>(549,857)</u>  |
| Allowance for severance and pension benefits ..... | <u>¥ 18,373</u> | <u>¥ 19,324</u> | <u>\$ 137,935</u>         | <u>\$ 145,075</u> |

Severance and pension benefits expense for the year ended March 31, 2002 and 2001 comprises the following:

|  | Millions of yen |          | Thousands of U.S. dollars |            |
|--|-----------------|----------|---------------------------|------------|
|  | 2002            | 2001     | 2002                      | 2001       |
| Service costs-benefits earned during the year .....  | ¥ 4,199         | ¥ 3,932  | \$ 31,524                 | \$ 29,520  |
| Interest costs on projected benefit obligation ..... | 3,774           | 3,552    | 28,333                    | 26,667     |
| Expected return on plan assets .....                 | (2,674)         | (2,880)  | (20,075)                  | (21,622)   |
| Amortization of actuarial differences .....          | 1,349           | -        | 10,128                    | -          |
| Amortization of prior service costs obligation ..... | 2               | 1        | 15                        | 7          |
| Amortization of net transition obligation .....      | -               | 15,567   | -                         | 116,869    |
| Severance and pension benefits expense .....         | ¥ 6,650         | ¥ 20,172 | \$ 49,925                 | \$ 151,441 |

## 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, 2002 and 2001 and for the fiscal years then ended, is as follows.

| 2001                         | Millions of yen |                          |            | Thousands of U.S. dollars |
|------------------------------|-----------------|--------------------------|------------|---------------------------|
|                              | Cost            | Accumulated depreciation | Net amount | Net amount                |
| Buildings .....              | ¥ 28            | ¥ 15                     | ¥ 13       | \$ 98                     |
| Machinery and vehicles ..... | 565             | 297                      | 268        | 2,012                     |
| Tools and equipment .....    | 2,387           | 1,239                    | 1,148      | 8,619                     |
| Other .....                  | 233             | 112                      | 121        | 908                       |
|                              | ¥3,213          | ¥1,663                   | ¥1,550     | \$11,637                  |

| 2002                         | Millions of yen |                          |            | Thousands of U.S. dollars |
|------------------------------|-----------------|--------------------------|------------|---------------------------|
|                              | Cost            | Accumulated depreciation | Net amount | Net amount                |
| Buildings .....              | ¥ 29            | ¥ 20                     | ¥ 9        | \$ 68                     |
| Machinery and vehicles ..... | 814             | 399                      | 415        | 3,116                     |
| Tools and equipment .....    | 1,108           | 757                      | 351        | 2,635                     |
| Other .....                  | 527             | 211                      | 316        | 2,372                     |
|                              | ¥2,478          | ¥1,387                   | ¥1,091     | \$8,191                   |

|  | Millions of yen |        | Thousands of U.S. dollars |          |
|--|-----------------|--------|---------------------------|----------|
|  | 2002            | 2001   | 2002                      | 2001     |
| Future minimum lease payments                    |                 |        |                           |          |
| Due within one year .....                        | ¥ 434           | ¥ 589  | \$3,258                   | \$ 4,422 |
| Due after one year .....                         | 691             | 1011   | 5,188                     | 7,590    |
|  | ¥1,125          | ¥1,600 | \$8,446                   | \$12,012 |
| Lease payments for the year ended March 31 ..... | ¥ 774           | ¥ 704  | \$5,811                   | \$ 5,285 |

**Operating Leases**

Future minimum lease payments due under operating leases as of March 31, 2002 and 2001 are as follows:

|                           | Millions of yen |            | Thousands of U.S. dollars |             |
|---------------------------|-----------------|------------|---------------------------|-------------|
|                           | 2002            | 2001       | 2002                      | 2001        |
| Due within one year ..... | ¥ 6             | ¥ 6        | \$ 45                     | \$45        |
| Due after one year .....  | 10              | 7          | 75                        | 53          |
|                           | <u>¥16</u>      | <u>¥13</u> | <u>\$120</u>              | <u>\$98</u> |

**9. Shareholders' Equity and Per Share Data**

Prior to October 1, 2001, the Japanese Commercial Code provided that at least one-half of the proceeds from shares issued at a price in excess of par value be included in common stock. Effective October 1, 2001, the Code abolished par value of shares and provides that at least one-half of the proceeds from shares issued be included in common stock and the remaining amount of the proceeds be accounted for as additional paid-in capital. In conformity therewith, the Corporation recorded as common stock over one-half of the principal amount of the convertible bonds converted into common stock.

Effective October 1, 2001, the Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings with respect to each annual period be appropriated to legal reserve shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of stated capital.

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

Legal reserve is included in retained earnings.

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 21, 2002, the declaration of the final cash dividends of ¥11.00 (\$0.08) per share totaling ¥1,911 million (\$14,347 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 ¥30,037 million (\$225,503 thousand) will be expended during the two years ending March 31, 2004, of which ¥11,439 million (\$85,878 thousand) represents contractual commitments.

**Contingent Liabilities**

The Corporation and certain consolidated subsidiaries are contingently liable, as of March 31, 2002, for trade notes receivable which were discounted or endorsed of ¥750 million (\$5,631 thousand), and as guarantors for borrowings of ¥1,844 million (\$13,844 thousand) by certain employees and nonconsolidated subsidiaries.

**11. Derivative Financial Instruments and Hedging Transactions**

*Fiscal years ended March 31, 2002 and 2001:*

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

## 12. Restructuring Expense

In fiscal 2002, the Corporation and certain consolidated subsidiaries implemented a restructuring program. The program resulted in a restructuring expense of ¥11,518 million (\$86,471 thousand), which

principally reflects the additional severance costs and loss on business liquidation of subsidiaries.

## 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, 2002 and 2001 is as follows:

### Net Sales

|                          | Millions of yen |                 | Thousands of U.S. dollars |                    |
|--------------------------|-----------------|-----------------|---------------------------|--------------------|
|                          | 2002            | 2001            | 2002                      | 2001               |
| Industrial Products..... | ¥184,131        | ¥197,270        | \$1,382,365               | \$1,481,006        |
| Electronic Products..... | 120,143         | 133,115         | 901,974                   | 999,362            |
| Functional Products..... | 35,800          | 37,186          | 268,769                   | 279,174            |
| Eliminations.....        | (1,144)         | (1,873)         | (8,588)                   | (14,062)           |
| Consolidated Total ..... | <u>¥338,930</u> | <u>¥365,698</u> | <u>\$2,544,520</u>        | <u>\$2,745,480</u> |

### Operating Income

|                          | Millions of yen |                | Thousands of U.S. dollars |                  |
|--------------------------|-----------------|----------------|---------------------------|------------------|
|                          | 2002            | 2001           | 2002                      | 2001             |
| Industrial Products..... | ¥ 4,640         | ¥13,229        | \$ 34,835                 | \$ 99,317        |
| Electronic Products..... | 10,634          | 16,392         | 79,835                    | 123,063          |
| Functional Products..... | 4,040           | 5,203          | 30,330                    | 39,061           |
| Consolidated Total ..... | <u>¥19,314</u>  | <u>¥34,824</u> | <u>\$145,000</u>          | <u>\$261,441</u> |

### Assets

|                          | Millions of yen |                 | Thousands of U.S. dollars |                    |
|--------------------------|-----------------|-----------------|---------------------------|--------------------|
|                          | 2002            | 2001            | 2002                      | 2001               |
| Industrial Products..... | ¥149,758        | ¥137,202        | \$1,124,309               | \$1,030,045        |
| Electronic Products..... | 100,931         | 100,697         | 757,740                   | 755,983            |
| Functional Products..... | 37,626          | 36,909          | 282,477                   | 277,095            |
| Corporate.....           | 62,025          | 82,846          | 465,654                   | 621,967            |
| Consolidated Total ..... | <u>¥350,340</u> | <u>¥357,654</u> | <u>\$2,630,180</u>        | <u>\$2,685,090</u> |

### Depreciation and Amortization

|                          | Millions of yen |                | Thousands of U.S. dollars |                  |
|--------------------------|-----------------|----------------|---------------------------|------------------|
|                          | 2002            | 2001           | 2002                      | 2001             |
| Industrial Products..... | ¥ 9,780         | ¥ 8,100        | \$ 73,423                 | \$ 60,811        |
| Electronic Products..... | 7,991           | 7,325          | 59,993                    | 54,992           |
| Functional Products..... | 2,672           | 2,920          | 20,060                    | 21,922           |
| Consolidated Total ..... | <u>¥20,443</u>  | <u>¥18,345</u> | <u>\$153,476</u>          | <u>\$137,725</u> |

**Capital Expenditures**

|                          | Millions of yen |                | Thousands of U.S. dollars |                  |
|--------------------------|-----------------|----------------|---------------------------|------------------|
|                          | 2002            | 2001           | 2002                      | 2001             |
| Industrial Products..... | ¥19,610         | ¥13,876        | \$147,222                 | \$104,174        |
| Electronic Products..... | 14,688          | 13,034         | 110,270                   | 97,853           |
| Functional Products..... | 6,013           | 5,817          | 45,143                    | 43,671           |
| Consolidated Total ..... | <u>¥40,311</u>  | <u>¥32,727</u> | <u>\$302,635</u>          | <u>\$245,698</u> |

**(2) Geographic Areas**

Geographic area information for the years ended March 31, 2002 and 2001 is as follows:

**Net Sales**

|                          | Millions of yen |                 | Thousands of U.S. dollars |                    |
|--------------------------|-----------------|-----------------|---------------------------|--------------------|
|                          | 2002            | 2001            | 2002                      | 2001               |
| Japan.....               | ¥287,543        | ¥302,754        | \$2,158,731               | \$2,272,928        |
| Other .....              | 107,939         | 124,553         | 810,353                   | 935,083            |
| North America.....       | 32,774          | 39,616          | 246,051                   | 297,418            |
| Europe .....             | 14,494          | 19,383          | 108,814                   | 145,518            |
| Asia & Oceania.....      | 60,671          | 65,554          | 455,488                   | 492,147            |
| Eliminations.....        | (56,552)        | (61,609)        | (424,564)                 | (462,531)          |
| Consolidated Total ..... | <u>¥338,930</u> | <u>¥365,698</u> | <u>\$2,544,520</u>        | <u>\$2,745,480</u> |

**Operating Income**

|                          | Millions of yen |                | Thousands of U.S. dollars |                  |
|--------------------------|-----------------|----------------|---------------------------|------------------|
|                          | 2002            | 2001           | 2002                      | 2001             |
| Japan.....               | ¥16,727         | ¥28,776        | \$125,578                 | \$216,036        |
| Other .....              | 1,762           | 5,923          | 13,228                    | 44,467           |
| North America.....       | 172             | 1,403          | 1,291                     | 10,533           |
| Europe .....             | 249             | 1,025          | 1,869                     | 7,695            |
| Asia & Oceania.....      | 1,341           | 3,495          | 10,068                    | 26,239           |
| Eliminations.....        | 825             | 125            | 6,194                     | 938              |
| Consolidated Total ..... | <u>¥19,314</u>  | <u>¥34,824</u> | <u>\$145,000</u>          | <u>\$261,441</u> |

**Assets**

|                          | Millions of yen |                 | Thousands of U.S. dollars |                    |
|--------------------------|-----------------|-----------------|---------------------------|--------------------|
|                          | 2002            | 2001            | 2002                      | 2001               |
| Japan.....               | ¥192,253        | ¥187,529        | \$1,443,341               | \$1,407,875        |
| Other .....              | 99,737          | 89,235          | 748,776                   | 669,932            |
| North America.....       | 53,423          | 48,831          | 401,074                   | 366,599            |
| Europe .....             | 9,124           | 9,647           | 68,498                    | 72,425             |
| Asia & Oceania.....      | 37,190          | 30,757          | 279,204                   | 230,908            |
| Corporate.....           | 58,350          | 80,890          | 438,063                   | 607,283            |
| Consolidated Total ..... | <u>¥350,340</u> | <u>¥357,654</u> | <u>\$2,630,180</u>        | <u>\$2,685,090</u> |

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

Manufacturing operations of the Corporation and its subsidiaries are primarily in Japan. Net sales of the Corporation and its subsidiaries to customers outside Japan for the years ended March 31, 2002 and 2001 are as follows:

|                     | Millions of yen |                 | Thousands of U.S. dollars |                    |
|---------------------|-----------------|-----------------|---------------------------|--------------------|
|                     | 2002            | 2001            | 2002                      | 2001               |
| North America.....  | ¥ 26,931        | ¥ 37,974        | \$202,185                 | \$ 285,090         |
| Europe .....        | 15,476          | 18,256          | 116,186                   | 137,057            |
| Asia & Oceania..... | 85,469          | 82,922          | 641,659                   | 622,538            |
|                     | <u>¥127,876</u> | <u>¥139,152</u> | <u>\$960,030</u>          | <u>\$1,044,685</u> |

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, 2002 and 2001, 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, 2002 and 2001, 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 (Note 1) applied on a consistent basis during the periods, except as noted in the following paragraph.

Effective April 1, 2001, NITTO DENKO CORPORATION and its consolidated subsidiaries adopted a new accounting requirement for other securities with fair market values under the Accounting Standards for Financial Instruments, which was adopted in the previous year (Note 1 (d)). In addition, NITTO DENKO CORPORATION and its consolidated subsidiaries changed, with our concurrence, its method of translating income statements of foreign consolidated subsidiaries (Note 1 (b)).

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 21, 2002

A handwritten signature in cursive script that reads "Asahi & Co." with a small flourish at the end.