

RESULTS OF OPERATIONS

Sales Overview

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

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

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

Summary of Results by Business Segment

Industrial Products

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

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

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

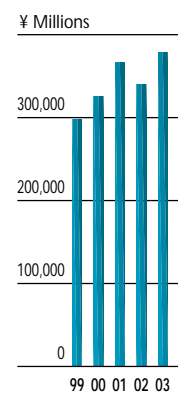
Electronic Products

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

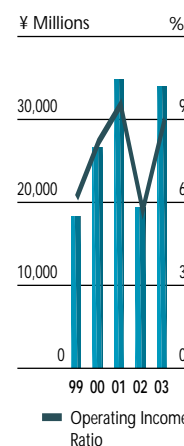
Among LCD-related products, sales of high-performance optical films for laptop computers and LCD monitors posted solid increases, especially films for wide-angle polarizing films (NWF) and brightness enhancing films, owing to the growing demand for a larger screen with higher resolution and a wider viewing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

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

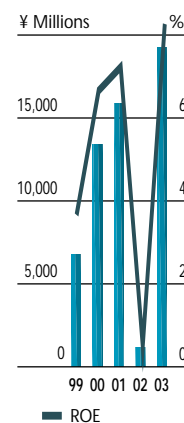
NET SALES



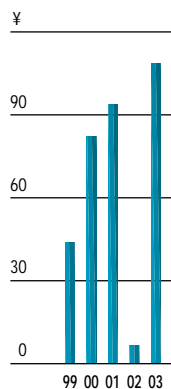
OPERATING INCOME & OPERATING INCOME RATIO



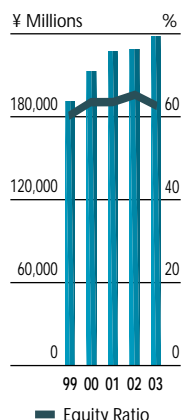
NET INCOME & ROE



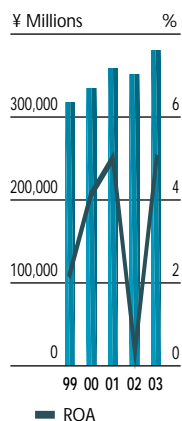
NET INCOME PER SHARE



SHAREHOLDERS' EQUITY & EQUITY RATIO



TOTAL ASSETS & ROA



Functional Products

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

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

Results by Geographic Area

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

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

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

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

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

Income Analysis

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

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

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

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

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

¥19,314 million in fiscal 2002.

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

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

ANALYSIS OF FINANCIAL CONDITION

Assets and Liabilities & Shareholders' Equity

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

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

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

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

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

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

Cash Flow Analysis

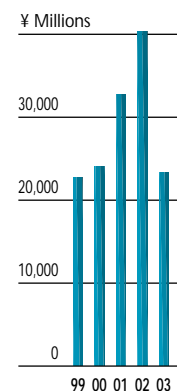
As of March 31, 2003, cash and cash equivalents, end of year were ¥73,342 million, up ¥33,237 million versus the previous fiscal period. This was largely due to an increase in income before provision for income taxes by ¥29,804 million, along with an increase in cash and cash equivalents of a newly consolidated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

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

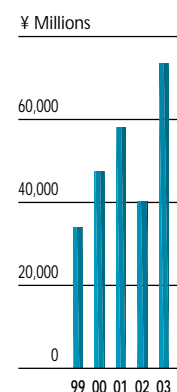
Net cash used in investing activities totaled ¥24,608 million. This was mainly attributable to an outlay of ¥24,451 million for acquisitions of plant and equipment.

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

CAPITAL EXPENDITURES



CASH & CASH EQUIVALENTS



DEPRECIATION & AMORTIZATION

