

CONSOLIDATED BALANCE SHEETS

Nitto Denko Corporation and Consolidated Subsidiaries
As of March 31, 2003 and 2002

Assets	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Current Assets:				
Cash on hand and in banks (Note 2)	¥ 52,710	¥ 39,540	\$ 438,519	\$ 328,952
Marketable securities (Notes 2 and 3)	19,027	5,693	158,295	47,363
Trade notes and accounts receivable	91,362	91,145	760,083	758,278
Allowance for doubtful receivables	(1,212)	(1,328)	(10,083)	(11,048)
Inventories (Note 4)	37,674	33,536	313,428	279,002
Deferred tax assets and other (Note 5)	16,880	13,446	140,432	111,862
Total current assets	<u>216,441</u>	<u>182,032</u>	<u>1,800,674</u>	<u>1,514,409</u>
Plant and Equipment, at Cost (Note 6):				
Land.....	19,116	19,773	159,035	164,501
Buildings	104,511	98,946	869,476	823,178
Machinery and equipment	205,497	195,599	1,709,626	1,627,280
Construction in progress	6,381	10,494	53,086	87,304
	<u>335,505</u>	<u>324,812</u>	<u>2,791,223</u>	<u>2,702,263</u>
Accumulated depreciation.....	(208,059)	(194,843)	(1,730,940)	(1,620,990)
	<u>127,446</u>	<u>129,969</u>	<u>1,060,283</u>	<u>1,081,273</u>
Investments and Other Assets:				
Investments in nonconsolidated subsidiaries and affiliates	11,835	10,827	98,461	90,075
Investments in securities (Notes 3 and 6)	6,435	7,321	53,536	60,907
Goodwill	1,396	1,610	11,614	13,394
Other assets	16,259	18,581	135,266	154,584
	<u>35,925</u>	<u>38,339</u>	<u>298,877</u>	<u>318,960</u>
	<u>¥ 379,812</u>	<u>¥ 350,340</u>	<u>\$ 3,159,834</u>	<u>\$ 2,914,642</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	
	2003	2002	2003	2002
Current Liabilities:				
Short-term bank loans, including current portion of long-term debt (Note 6)	¥ 9,468	¥ 7,257	\$ 78,769	\$ 60,374
Trade notes and accounts payable	72,294	69,522	601,448	578,386
Accrued expenses.....	13,647	10,247	113,536	85,250
Income taxes (Note 5).....	13,276	749	110,449	6,231
Other current liabilities.....	520	1,265	4,326	10,524
Total current liabilities.....	<u>109,205</u>	<u>89,040</u>	<u>908,528</u>	<u>740,765</u>
Long-term Liabilities:				
Long-term debt (Note 6).....	2,649	1,962	22,038	16,323
Allowance for severance and pension benefits (Notes 1(i) and 7)	16,616	18,373	138,236	152,854
Retirement allowances for directors and corporate auditors.....	1,232	1,102	10,250	9,168
Other long-term liabilities.....	2,304	2,111	19,168	17,562
	<u>22,801</u>	<u>23,548</u>	<u>189,692</u>	<u>195,907</u>
Minority Interests.....	<u>10,246</u>	<u>9,342</u>	<u>85,241</u>	<u>77,720</u>
Commitments and Contingent Liabilities (Note 11)				
Shareholders' Equity (Note 9):				
Common stock.....	26,784	26,784	222,829	222,829
Authorized — 400,000,000 shares				
Issued — 173,758,428 shares in 2003 and 2002				
Capital surplus	50,482	50,482	419,983	419,983
Retained earnings.....	168,632	153,518	1,402,928	1,277,188
Net unrealized holding gains on securities.....	243	663	2,022	5,516
Foreign currency translation adjustments	(7,514)	(3,034)	(62,512)	(25,241)
Cost of treasury stock	(1,067)	(3)	(8,877)	(25)
	<u>237,560</u>	<u>228,410</u>	<u>1,976,373</u>	<u>1,900,250</u>
	<u>¥ 379,812</u>	<u>¥ 350,340</u>	<u>\$ 3,159,834</u>	<u>\$ 2,914,642</u>

CONSOLIDATED STATEMENTS OF INCOME

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Net Sales	¥ 378,705	¥338,930	\$ 3,150,624	\$2,819,717
Cost of Sales	269,085	247,823	2,238,644	2,061,755
Gross profit	109,620	91,107	911,980	757,962
Selling, General and Administrative Expenses	75,718	71,793	629,933	597,280
Operating income	33,902	19,314	282,047	160,682
Other Income (Expenses):				
Interest and dividend income	517	545	4,301	4,534
Interest expense	(202)	(218)	(1,681)	(1,814)
Gain on sales of marketable securities and investments in securities, net.....	(10)	406	(83)	3,378
Equity in earnings of nonconsolidated subsidiaries and affiliates	1,862	234	15,491	1,947
Loss on evaluation of investments in securities (Note 1(d))	(1,658)	(4,870)	(13,794)	(40,516)
Restructuring expense (Note 13)	(1,821)	(11,518)	(15,150)	(95,824)
Gains on return of substitutional portion of employee pension fund (Notes 1(i) and 7)	3,732	-	31,048	-
Other, net (Note 1(ii))	(2,797)	(171)	(23,269)	(1,422)
	(377)	(15,592)	(3,137)	(129,717)
Income before Provision for Income Taxes	33,525	3,722	278,910	30,965
Provision for Income Taxes (Note 5):				
Current	13,593	4,171	113,086	34,701
Deferred, net	(241)	(1,971)	(2,005)	(16,398)
	13,352	2,200	111,081	18,303
Minority Interests in Net Income of Consolidated Subsidiaries	(936)	(407)	(7,787)	(3,386)
Net Income	¥ 19,237	¥ 1,115	\$ 160,042	\$ 9,276
Per Share of Common Stock (Note 9):				
			Yen	U.S. dollars
Net Income	¥ 108.52	¥ 6.42	\$ 0.90	\$ 0.05
Net Income — Diluted	108.52	6.42	0.90	0.05
Cash Dividends, Applicable to Earnings of the Year	24.00	22.00	0.20	0.18

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, 2003 and 2002

	Number of Shares (thousands)		Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002	2003	2002
Common Stock (Note 9):						
Authorized shares	400,000	400,000				
Outstanding shares						
Beginning balance	173,758	173,758	¥ 26,784	¥ 26,784	\$ 222,829	\$ 222,829
Net increase	-	-	-	-	-	-
Ending balance	<u>173,758</u>	<u>173,758</u>	<u>¥ 26,784</u>	<u>¥ 26,784</u>	<u>\$ 222,829</u>	<u>\$ 222,829</u>
Capital Surplus (Note 9):						
Beginning balance			¥ 50,482	¥ 50,482	\$ 419,983	\$ 419,983
Net increase			-	-	-	-
Ending balance			<u>¥ 50,482</u>	<u>¥ 50,482</u>	<u>\$ 419,983</u>	<u>\$ 419,983</u>
Retained Earnings (Note 9):						
Beginning balance			¥ 153,518	¥ 156,543	\$ 1,277,188	\$ 1,302,354
Net income			19,237	1,115	160,042	9,276
Cash dividends paid			(3,819)	(3,820)	(31,772)	(31,780)
Directors' bonuses			(304)	(320)	(2,530)	(2,662)
Ending balance			<u>¥ 168,632</u>	<u>¥ 153,518</u>	<u>\$ 1,402,928</u>	<u>\$ 1,277,188</u>
Net Unrealized Holding Gains on Securities:						
Beginning balance			¥ 663	¥ -	\$ 5,516	\$ -
Net increase (decrease)			(420)	663	(3,494)	5,516
Ending balance			<u>¥ 243</u>	<u>¥ 663</u>	<u>\$ 2,022</u>	<u>\$ 5,516</u>
Foreign Currency Translation Adjustments:						
Beginning balance			¥ (3,034)	¥ (6,914)	\$ (25,241)	\$ (57,521)
Net increase (decrease)			(4,480)	3,880	(37,271)	32,280
Ending balance			<u>¥ (7,514)</u>	<u>¥ (3,034)</u>	<u>\$ (62,512)</u>	<u>\$ (25,241)</u>
Cost of Treasury Stock (Note 10):						
Beginning balance			¥ (3)	¥ (1)	\$ (25)	\$ (8)
Net decrease (increase)			(1,064)	(2)	(8,852)	(17)
Ending balance			<u>¥ (1,067)</u>	<u>¥ (3)</u>	<u>\$ (8,877)</u>	<u>\$ (25)</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, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Cash Flows from Operating Activities:				
Income before provision for income taxes	¥ 33,525	¥ 3,722	\$ 278,910	\$ 30,965
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization	21,144	20,443	175,907	170,075
Interest and dividend income	(517)	(545)	(4,301)	(4,534)
Interest expense	202	218	1,681	1,814
Foreign exchange (gain) loss	(0)	(11)	(3)	(92)
Equity in earnings of nonconsolidated subsidiaries and affiliates	(1,862)	(234)	(15,491)	(1,947)
Loss on evaluation of investments in securities	1,658	4,870	13,794	40,516
(Gain) Loss on sales and disposal of fixed assets	682	39	5,674	324
Decrease (increase) in trade notes and accounts receivable	(3,074)	10,836	(25,574)	90,150
Decrease (increase) in inventories	(4,493)	4,100	(37,379)	34,110
Decrease (increase) in other receivables	(292)	1,471	(2,429)	12,238
Increase (decrease) in trade notes and accounts payable	7,251	(4,697)	60,324	(39,077)
Other, net	3,023	(4,994)	25,152	(41,547)
Total	57,247	35,218	476,265	292,995
Interest and dividend income received	480	502	3,993	4,176
Interest paid	(208)	(224)	(1,731)	(1,864)
Income taxes refunded (paid)	1,706	(15,483)	14,193	(128,810)
Net cash provided by operating activities	59,225	20,013	492,720	166,497
Cash Flows from Investing Activities:				
Decrease in marketable securities, net	2,678	1,958	22,280	16,290
Acquisitions of plant and equipment	(24,451)	(41,630)	(203,419)	(346,339)
Proceeds from sales of plant and equipment	1,184	3,032	9,850	25,225
Decrease (increase) in time deposits, net	(2)	756	(17)	6,290
Purchase of investments in securities	(2,066)	(891)	(17,188)	(7,413)
Proceeds from sales of investments in securities	390	2,160	3,245	17,970
Acquisitions of nonconsolidated company	(2,074)	(1,059)	(17,255)	(8,810)
Other, net	(267)	81	(2,221)	672
Net cash used in investing activities	(24,608)	(35,593)	(204,725)	(296,115)
Cash Flows from Financing Activities:				
Proceeds from long-term debt	1,846	1,598	15,358	13,295
Repayments of long-term debt	(55)	(1,582)	(458)	(13,161)
Increase (decrease) in short-term debt, net	1,756	(563)	14,609	(4,684)
Acquisition of treasury stock for stock options	(1,063)	-	(8,844)	-
Repayments of bonds	(200)	-	(1,664)	-
Dividends paid	(3,819)	(3,820)	(31,772)	(31,780)
Other, net	(103)	(78)	(856)	(650)
Net cash used in financing activities	(1,638)	(4,445)	(13,627)	(36,980)
Foreign Currency Exchange Gain (Loss) in Cash and Cash Equivalents	(570)	503	(4,742)	4,185
Net Increase (Decrease) in Cash and Cash Equivalents	32,409	(19,522)	269,626	(162,413)
Cash and Cash Equivalents, Beginning of Year	40,105	57,989	333,652	482,438
Increase in Cash and Cash Equivalents due to				
Change in Scope of Consolidated Subsidiaries	828	1,638	6,888	13,627
Cash and Cash Equivalents, End of Year (Note 2)	¥ 73,342	¥ 40,105	\$ 610,166	\$ 333,652

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2003 and 2002

1. Basis of Presenting Consolidated Financial Statements

NITTO DENKO CORPORATION (the "Corporation") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas 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 consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 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 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 the 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 (\$49,709 thousand) and charged for income are immaterial.

The resulting foreign currency translation adjustments are included in minority interests and 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 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.

Other securities with fair market value are stated at fair value. Unrealized holding gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Related deferred tax assets (net) are included in other assets. Realized gains and losses on sales of such securities are principally determined by the average method.

Other securities with no available 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 available 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 ¥13,851 million (\$115,233 thousand) and ¥13,053 million (\$108,594 thousand) for the years ended March 31, 2003 and 2002, respectively.

(i) Employees' 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 the allowance for employees' severance and pension benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the balance sheet date. The allowance and expenses for severance and pension benefits are determined based on the amounts actuarially calculated using certain assumptions. The discount rate of the projected benefit obligation and the rate of expected return on plan assets used by the Corporation and its domestic subsidiaries are 2.5% and 1.5-4.0%, respectively.

Prior service cost of pension plans are amortized on the straight-line method over the fixed years less than the estimated average remaining service lives, 12 years, of the employees from the current fiscal year.

The actuarial net losses are amortized on the straight-line method over years less than the estimated average remaining service lives of the employees from the next fiscal year.

Based on the newly enacted Defined Benefit Corporate Pension

Law, the Corporation and its domestic consolidated subsidiaries were permitted by the Minister of Health, Labour and Welfare on March 26, 2003 to be released from their future obligation for payments for the substitutional portion of the Employees' Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund are to be transferred back to the government's scheme.

The Corporation and its domestic consolidated subsidiaries applies the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)", and the settlement of the substitutional portion was recognized at the date of the permission by the Ministry of Health, Labor and Welfare. As the result, in the year ended March 31, 2003, the Corporation and its consolidated domestic subsidiaries recorded gains on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme amounting to ¥3,732 million (\$31,048 thousand). The amount of pension plan assets to be transferred back to the government was ¥20,177 million (\$167,862 thousand) as at March 31, 2003.

In the current year, one of subsidiaries recorded prior year adjustment on accounting for pensions and post retirement benefits, which is charged to current income.

(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.

However, 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 2003 presentation.

2. Cash and Cash Equivalents

The reconciliations of cash and cash equivalents to the accounts on the balance sheets as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Cash on hand and in banks	¥ 52,710	¥ 39,540	\$ 438,519	\$ 328,952
Time deposits	(678)	(745)	(5,641)	(6,198)
Securities and others	21,310	1,310	177,288	10,898
Cash and cash equivalents	¥ 73,342	¥ 40,105	\$ 610,166	\$ 333,652

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, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Trading securities:				
Carrying amount	¥ 18,934	¥ 5,599	\$ 157,521	\$ 46,581
Unrealized gains (losses), net.....	9	(48)	75	(399)

(b) Available-for-sale securities as of March 31, 2003 and 2002

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	\$ 35,940	\$ 48,943	\$ 12,995
Bonds	1	1	0	8	8	0
Others	94	94	0	782	782	0
Total	¥ 4,415	¥ 5,978	¥ 1,562	\$ 36,730	\$ 49,734	\$ 12,995
Securities with book values not exceeding acquisition costs						
Equity securities	¥ 22	¥ 21	¥ (1)	\$ 183	\$ 175	\$ (8)
Bonds	963	873	(90)	8,012	7,263	(749)
Others	45	40	(5)	374	332	(42)
Total	¥ 1,030	¥ 934	¥ (96)	\$ 8,569	\$ 7,770	\$ (799)

2003

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	¥ 1,201	¥ 2,001	¥ 800	\$ 9,992	\$ 16,647	\$ 6,655
Bonds	-	-	-	-	-	-
Others	93	93	0	773	774	1
Total	¥ 1,294	¥ 2,094	¥ 800	\$ 10,765	\$ 17,421	\$ 6,656
Securities with book values not exceeding acquisition costs						
Equity securities	¥ 1,396	¥ 1,261	¥ (135)	\$ 11,614	\$ 10,491	\$ (1,123)
Bonds	757	654	(103)	6,298	5,441	(857)
Others	15	8	(7)	125	67	(58)
Total	¥ 2,168	¥ 1,923	¥ (245)	\$ 18,037	\$ 15,998	\$ (2,038)

B. The following table summarizes the book values of securities with no available fair values as of March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Other securities with no fair value				
Non-listed equity securities:				
Carrying amount.....	¥ 2,511	¥ 504	\$ 20,890	\$ 4,193

C. Total sales of available-for-sale securities sold in the year ended March 31, 2002 amounted to ¥2,160 million (\$17,970 thousand), and the related gains and losses amounted to ¥630 million (\$5,241 thousand) and ¥209 million (\$1,739 thousand), respectively. Those amounts in the year ended March 31, 2003 are immaterial.

4. Inventories

Inventories as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Finished products.....	¥ 14,128	¥ 12,751	\$ 117,538	\$ 106,082
Work in process.....	17,020	14,825	141,597	123,336
Raw materials.....	6,526	5,960	54,293	49,584
	<u>¥ 37,674</u>	<u>¥ 33,536</u>	<u>\$ 313,428</u>	<u>\$ 279,002</u>

5. Income Taxes

The effective tax rate used for calculation of deferred taxes assets and liabilities was 41.8% for the year ended March 31, 2002. Effective for the year commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of the business. Based on the change of income tax rates, for calculation of deferred taxes assets and liabilities, the Corporation and its consolidated domestic subsidiaries used the effective tax rates of 41.8% and 40.5% for current items and non-current items, respectively, for the year ended March 31, 2003.

As the result of the change in the effective tax rates, deferred taxes assets decreased by ¥276 million (\$2,296 thousand), income taxes-deferred and net unrealized holding gains on securities increased by 283 million (\$2,354 thousand) and 7 million (\$58 thousand), respectively, compared with what would have been recorded under the previous local tax law.

The difference between the effective tax rate in the accompanying consolidated statement of income and the normal statutory tax rate for the year ended March 31, 2003 was not significant.

Significant components of the Corporation's deferred tax assets and liabilities as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Current				
Deferred tax assets:				
Inventories	¥ 241	¥ 312	\$ 2,005	\$ 2,596
Unrealized gains on inventories	703	700	5,849	5,824
Allowance for doubtful receivables	201	142	1,672	1,181
Accrued revenue	117	271	973	2,255
Enterprise taxes	1,187	-	9,875	-
Accounts payable	234	647	1,947	5,383
Accrued expenses	2,929	1,732	24,368	14,409
Other	293	454	2,437	3,776
Total current deferred tax assets	5,905	4,258	49,126	35,424
Deferred tax liabilities:				
Enterprise taxes	-	230	-	1,913
Net current deferred tax assets	¥ 5,905	¥ 4,028	\$ 49,126	\$ 33,511
Long-term				
Deferred tax assets:				
Depreciation	¥ 1,613	¥ 1,203	\$ 13,419	\$ 10,008
Intangible assets	259	257	2,155	2,138
Severance and pension benefits	5,820	5,851	48,419	48,677
Retirement allowances for directors and corporate auditors	494	452	4,110	3,760
Investments in securities	-	2,035	-	16,930
Other	1,890	1,730	15,724	14,394
Total long-term deferred tax assets	10,076	11,528	83,827	95,907
Deferred tax liabilities:				
Reserve for special depreciation	1,261	676	10,491	5,624
Undistributed earnings of overseas subsidiaries and affiliates	896	1,046	7,454	8,702
Net unrealized holding gains on securities	221	613	1,839	5,100
Total deferred tax liabilities	2,378	2,335	19,784	19,426
Net long-term deferred tax assets	¥ 7,698	¥ 9,193	\$ 64,043	\$ 76,481

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 rates on these loans, as of March 31, 2003 and 2002, were approximately 2.1% and 2.5%, respectively. Long-term debt as of March 31, 2003 and 2002 is summarized below:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
0.80% to 8.00% loans from banks and others, due in installments through 2012 ...	¥ 3,523	¥ 3,203	\$ 29,309	\$ 26,647
2.1% mortgage bonds, due 2005	300	300	2,496	2,496
1.1% mortgage bonds, due 2002	-	200	-	1,664
	3,823	3,703	31,805	30,807
Current portion	(1,174)	(1,741)	(9,767)	(14,484)
	¥ 2,649	¥ 1,962	\$ 22,038	\$ 16,323

At March 31, 2003, land of ¥220 million (\$1,830 thousand), buildings with a net book value of ¥176 million (\$1,464 thousand) and investments in securities of ¥31 million (\$258 thousand) are pledged as collateral for ¥300 million (\$2,496 thousand) of mortgage bonds and ¥151 million (\$1,256 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
2005	¥ 1,327	\$ 11,040
2006	472	3,927
2007	50	416
2008	50	416
2009 and thereafter	750	6,239
	<u>¥ 2,649</u>	<u>\$ 22,038</u>

7. Employees' Severance and Pension Benefits

The allowance for severance and pension benefits as of March 31, 2003 and 2002 consist of the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Projected benefit obligation	¥ 97,401	¥ 112,457	\$ 810,324	\$ 935,582
Unrecognized prior service costs	(20)	(22)	(166)	(183)
Unrecognized actuarial differences	(36,151)	(21,308)	(300,757)	(177,271)
Less fair value of pension assets	(44,614)	(72,754)	(371,165)	(605,274)
Allowance for severance and pension benefits	<u>¥ 16,616</u>	<u>¥ 18,373</u>	<u>\$ 138,236</u>	<u>\$ 152,854</u>

Severance and pension benefits expenses for the years ended March 31, 2003 and 2002 comprise the following:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Service costs-benefits earned during the year	¥ 3,233	¥ 4,199	\$ 26,897	\$ 34,933
Interest costs on projected benefit obligation	3,833	3,774	31,889	31,398
Expected return on plan assets	(2,640)	(2,674)	(21,964)	(22,246)
Amortization of actuarial differences	1,864	1,349	15,507	11,222
Amortization of prior service costs obligation	2	2	17	17
Severance and pension benefits expense	<u>¥ 6,292</u>	<u>¥ 6,650</u>	<u>\$ 52,346</u>	<u>\$ 55,324</u>
Gains on return of substitutional portion of employee pension fund	(3,732)	-	(31,048)	-
Net	<u>¥ 2,560</u>	<u>¥ 6,650</u>	<u>\$ 21,298</u>	<u>\$ 55,324</u>

8. Leases

Finance Leases

Information relating to finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, at March 31, 2003 and 2002 and for the fiscal years then ended, is as follows:

	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
2002				
Buildings	¥ 29	¥ 20	¥ 9	\$ 75
Machinery and vehicles	814	399	415	3,453
Tools and equipment	1,108	757	351	2,920
Other	527	211	316	2,629
	<u>¥ 2,478</u>	<u>¥ 1,387</u>	<u>¥ 1,091</u>	<u>\$ 9,077</u>

	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
2003				
Buildings	¥ 28	¥ 16	¥ 12	\$ 100
Machinery and vehicles	732	437	295	2,454
Tools and equipment	643	427	216	1,797
Other	591	285	306	2,546
	<u>¥ 1,994</u>	<u>¥ 1,165</u>	<u>¥ 829</u>	<u>\$ 6,897</u>

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Future minimum lease payments				
Due within one year	¥ 370	¥ 434	\$ 3,078	\$ 3,610
Due after one year	485	691	4,035	5,749
	<u>¥ 855</u>	<u>¥ 1,125</u>	<u>\$ 7,113</u>	<u>\$ 9,359</u>
Lease payments for the year ended March 31	<u>¥ 476</u>	<u>¥ 774</u>	<u>\$ 3,960</u>	<u>\$ 6,439</u>

Operating Leases

Future minimum lease payments due under operating leases as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Due within one year	¥ 5	¥ 6	\$ 42	\$ 50
Due after one year	5	10	41	83
	<u>¥ 10</u>	<u>¥ 16</u>	<u>\$ 83</u>	<u>\$ 133</u>

9. Shareholders' Equity and Per Share Data

The Japanese Commercial Code 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.

The Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash

outlays resulting from appropriations of retained earnings with respect to each annual period 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, and additional paid-in-capital is included in capital surplus.

Effective April 1, 2002, the Corporation and its consolidated subsidiaries adopted the new accounting standard for treasury stock and statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves, etc."). There is no effect on the consolidated financial statements of adopting the new accounting standard.

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.

Effective April 1, 2002, the Corporation and its consolidated subsidiaries adopted the new accounting standard for earnings per

share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002). For the period ended March 31, 2003, earnings per share calculated in accordance with the new accounting standard and the related guidance were identical with those calculated in accordance with the previous accounting method.

The shareholders approved, at the general meeting of shareholders held on June 20, 2003, the declaration of the final cash dividends of ¥13.00 (\$0.11) per share totaling ¥2,255 million (\$18,760 thousand).

In addition, the Corporation's annual general shareholders' meeting passed a resolution to enable the Corporation to purchase up to 17 million shares of the outstanding common stock of the Corporation, limited to ¥60 billion for the purpose of flexible financing, in the period from the annual meeting to the next annual meeting, in accordance with Article 210 of the Commercial Code of Japan.

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. Stock Option Plans

At the general meeting of shareholders held on June 21, 2002, the Corporation resolved to grant all directors, key employees and some of subsidiaries' directors the right to purchase the ordinary shares of the Corporation.

The options will be granted at an exercise price of 105 percent of the higher of the average of daily closing prices on the Tokyo Stock Exchange during the month preceding the month in which the option is issued, and the closing price of the Corporation's stock on the market on the day the option is issued. The exercise price is ¥3,905 per share.

The Corporation acquired 314,700 shares of its common stock for

the plan upon the resolution of the shareholders' meeting. The options are exercisable for three years from January 1, 2003 to December 31, 2005.

In addition, at the general meeting of shareholders held on June 20, 2003, the Corporation resolved to grant all directors, key employees and some of subsidiaries' directors the right to purchase the ordinary shares of the Corporation. The exercise price will be calculated on the same conditions as above. The Corporation acquired 350,000 shares of its common stock for the plan upon the resolution of the shareholders' meeting. The options are exercisable for three years from January 1, 2004 to December 31, 2006.

11. Commitments and Contingent Liabilities

Capital Expenditure Program

Under the capital expenditure program of the Corporation and its subsidiaries, it is estimated that ¥39,796 million (\$331,082 thousand) will be expended during the two years ending March 31, 2005, of which ¥17,697 million (\$147,230 thousand) represents contractual commitments.

Contingent Liabilities

The Corporation and certain consolidated subsidiaries are contingently liable, as of March 31, 2003, for trade notes receivable which were discounted or endorsed of ¥894 million (\$7,438 thousand), and as guarantors for borrowings of ¥2,131 million (\$17,729 thousand) by certain employees and nonconsolidated subsidiaries.

12. Derivative Financial Instruments

All the derivative financial instruments currently utilized are forward foreign exchange contract for hedging foreign exchange risk on trade receivables and payable denominated in foreign currencies,

which effectively limit the Corporation's related risk.

The Corporation does not hold derivatives for trading or speculative purpose.

13. Restructuring Expenses

In the years ended on March 31, 2003 and 2002, the Corporation and certain consolidated subsidiaries implemented a restructuring program. The program resulted in restructuring expenses of ¥1,821

million (\$15,150 thousand) and ¥11,518 million employees' respectively, which principally reflects the additional severance costs and loss on business liquidation of subsidiaries.

14. 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, 2003 and 2002 is as follows:

Net Sales

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Industrial Products.....	¥ 192,273	¥ 184,131	\$ 1,599,609	\$ 1,531,872
Electronic Products.....	146,850	120,143	1,221,714	999,526
Functional Products.....	40,402	35,800	336,123	297,837
Eliminations.....	(820)	(1,144)	(6,822)	(9,518)
Consolidated Total	<u>¥ 378,705</u>	<u>¥ 338,930</u>	<u>\$ 3,150,624</u>	<u>\$ 2,819,717</u>

Operating Income

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Industrial Products.....	¥ 11,502	¥ 4,640	\$ 95,691	\$ 38,602
Electronic Products.....	16,849	10,634	140,175	88,469
Functional Products.....	5,551	4,040	46,181	33,611
Consolidated Total	<u>¥ 33,902</u>	<u>¥ 19,314</u>	<u>\$ 282,047</u>	<u>\$ 160,682</u>

Assets

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Industrial Products.....	¥ 145,768	¥ 149,758	\$ 1,212,712	\$ 1,245,907
Electronic Products.....	111,831	100,931	930,374	839,692
Functional Products.....	38,593	37,626	321,073	313,028
Corporate.....	83,620	62,025	695,675	516,015
Consolidated Total	<u>¥ 379,812</u>	<u>¥ 350,340</u>	<u>\$ 3,159,834</u>	<u>\$ 2,914,642</u>

Depreciation and Amortization

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Industrial Products.....	¥ 9,791	¥ 9,780	\$ 81,456	\$ 81,364
Electronic Products.....	8,402	7,991	69,900	66,481
Functional Products.....	2,951	2,672	24,551	22,230
Consolidated Total	<u>¥ 21,144</u>	<u>¥ 20,443</u>	<u>\$ 175,907</u>	<u>\$ 170,075</u>

Capital Expenditures

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Industrial Products.....	¥ 10,651	¥ 19,610	\$ 88,610	\$ 163,145
Electronic Products.....	9,954	14,688	82,812	122,196
Functional Products.....	2,732	6,013	22,729	50,025
Consolidated Total.....	<u>¥ 23,337</u>	<u>¥ 40,311</u>	<u>\$ 194,151</u>	<u>\$ 335,366</u>

(2) Geographic Areas

Geographic area information for the years ended March 31, 2003 and 2002 is as follows:

Net Sales

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Japan.....	¥ 321,407	¥ 287,543	\$ 2,673,935	\$ 2,392,205
Other.....	132,436	107,939	1,101,797	897,995
North America.....	35,140	32,774	292,346	272,662
Europe.....	16,359	14,494	136,098	120,582
Asia & Oceania.....	80,937	60,671	673,353	504,751
Eliminations.....	(75,138)	(56,552)	(625,108)	(470,483)
Consolidated Total.....	<u>¥ 378,705</u>	<u>¥ 338,930</u>	<u>\$ 3,150,624</u>	<u>\$ 2,819,717</u>

Operating Income

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Japan.....	¥ 29,804	¥ 16,727	\$ 247,953	\$ 139,160
Other.....	3,872	1,762	32,213	14,659
North America.....	1,028	172	8,552	1,431
Europe.....	448	249	3,727	2,072
Asia & Oceania.....	2,396	1,341	19,934	11,156
Eliminations.....	226	825	1,881	6,863
Consolidated Total.....	<u>¥ 33,902</u>	<u>¥ 19,314</u>	<u>\$ 282,047</u>	<u>\$ 160,682</u>

Assets

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
Japan.....	¥ 187,118	¥ 192,253	\$ 1,556,722	\$ 1,599,443
Other.....	112,170	99,737	933,195	829,759
North America.....	53,211	53,423	442,687	444,451
Europe.....	10,826	9,124	90,067	75,907
Asia & Oceania.....	48,133	37,190	400,441	309,401
Corporate.....	80,524	58,350	669,917	485,440
Consolidated Total.....	<u>¥ 379,812</u>	<u>¥ 350,340</u>	<u>\$ 3,159,834</u>	<u>\$ 2,914,642</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, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2003	2002	2003	2002
North America.....	¥ 28,213	¥ 26,931	\$ 234,717	\$ 224,052
Europe.....	17,357	15,476	144,401	128,752
Asia & Oceania.....	108,558	85,469	903,145	711,056
	<u>¥ 154,128</u>	<u>¥ 127,876</u>	<u>\$ 1,282,263</u>	<u>\$ 1,063,860</u>

INDEPENDENT AUDITORS' REPORT

To The Board of Directors of
NITTO DENKO CORPORATION:

We have audited the accompanying consolidated balance sheets of NITTO DENKO CORPORATION and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NITTO DENKO CORPORATION and subsidiaries as of March 31, 2003 and 2002, 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 as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion we draw attention to the following, as discussed in Notes 1(b), to the consolidated financial statements, effective April 1, 2001, NITTO DENKO CORPORATION and subsidiaries changed, with our concurrence, its method of translating income statements of foreign subsidiaries.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Osaka, Japan
June 20, 2003

Asahi x Co.