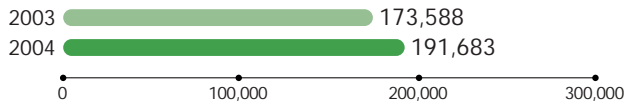


Review of Operations (1) By Business Segments

Net Sales (Millions of yen)



Note) Nitto Denko changed the segment category for the electronic processing products (formerly electronic component-related products) from Industrial Products to Electronic Products in 2004. The figures for 2003 have been restated to conform with 2004 presentation.

Industrial Products

The Industrial Products segment provides the electrical, electronics, automobile, housing, construction and many other businesses with various base materials, including plastics and metals, as well as adhesive tapes in a variety of configurations.

In fiscal 2004, ended March 31, 2004, Permacel Automotive (PCA), a US manufacturer of automotive materials became a consolidated subsidiary.

With the exception of some electrical insulation material and other segments, overall performance in fiscal 2004 was good as the domestic and overseas economies enjoyed a recovery trend. As a result, the company posted sales and profit gains. Consolidated sales rose by 10.4% to ¥191,683 million and consolidated operating income rose by 31.1% to ¥13,437 million.

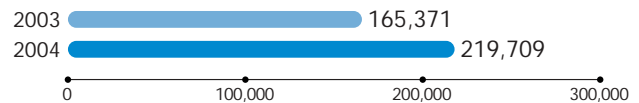
Strong performers in fiscal 2004 included surface protection materials and cleaning materials for the FPD (flat panel display) business, and bonding and joining materials and sealing materials for cellular phones, personal computer peripherals and home electronics. These segments all benefited from the boom in digital consumer electronics. Sealing materials for the automobile industry also did well. Also, PCA's inclusion as a consolidated subsidiary added ¥6,948 million to sales. In contrast, sales of electrical insulation materials for the electric power industry, packaging materials and consumable materials were all sluggish.

In fiscal 2004, the expansion of the mainstay Toyohashi Plant's production line increased the sector's production capacity. Preparations for a more proactive approach to

the FPD market were completed. In the area of automobile components, further progress was made in establishing the company's production and supply structure in Japan, the United States, Europe and Asia, providing a model for the company's overall global strategy. During the fiscal year ending March 2005, the company aims to move ahead of other companies in building strong relationships of trust with customers. To this end, it is strengthening its supply chain management, speeding up responses to customer inquiries and working to reduce the time it takes to develop new products and put them into trial production.

It should be noted that while electronic component materials have traditionally been included in the Industrial Products segment, from fiscal 2004 they will be shown separately under the Electronic Products segment as a result of changes in market applications.

Net Sales (Millions of yen)



Note) Nitto Denko changed the segment category for the electronic processing products (formerly electronic component-related products) from Industrial Products to Electronic Products in 2004. The figures for 2003 have been restated to conform with 2004 presentation.

Electronic Products

The Electronic Products segment is responsible for supplying a diverse range of key materials, such as special films and circuit materials that are essential for the manufacture of information equipment, state-of-the-art electronic devices and electronic components.

In fiscal 2004, this segment posted substantial overall growth on the back of the rapid expansion of the market for FPD displays used in LCD televisions and the like. Helped by the fact that our local subsidiary in China started full-scale operations, consolidated sales increased by 32.9% to ¥219,709 million, and consolidated operating income by 114.8% to ¥38,882 million.

In fiscal 2004, we posted sharp increases in sales of

Industrial Products

For Automobiles

Our sealing material is recognized worldwide for its superior performance in the automotive industry.



Electronic Products

For LCD Displays

Without polarizing films, an LCD display appears merely as a bright screen, with neither text nor images discernible.

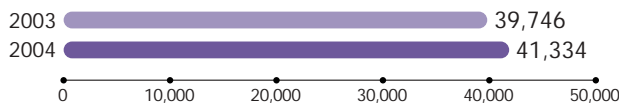


LCD-related materials, especially advanced compensation films for LCD TVs, wide-angle polarizing films for LCD monitors, and polarization conversion films (brightness enhancing films) for various applications including cellular phones, laptop PCs and LCD TVs. In comparison with fiscal 2003, supply and demand gap affecting LCD panels helped moderate the downturn in unit product prices. In order to satisfy continuing growth in demand in this sector, we initiated work on expanding our LCD optical film production capacity at our Onomichi and Kameyama Plants with a view to completion by the beginning of the fiscal year ending March 2005.

Circuit materials for cellular phone color LCDs, compact cameras and hard disks performed well, and sales of protection tapes and laminating device applicators for semiconductor manufacturing increased.

In response to rapid expansion in demand for LCD-related materials, we reviewed our mid-term management plan and made substantial upward revisions. The fiscal year ending March 2005 will be of the utmost importance from the viewpoint of achieving our new targets. For this reason, we will make proactive investments in building a production and processing structure to respond to efforts by large-panel manufacturers to reinforce their production lines, introduce new products and tackle the issue of securing and training the human resources to support business expansion.

Net Sales (Millions of yen)



Functional Products

The Functional Products segment deals with transdermal therapeutic patches and the membranes used in seawater desalination, among other things.

In fiscal 2004, we acquired Aveva Drug Delivery Systems (ADS), a U.S. manufacturer of transdermal therapeutic

patches with a view to expanding our future healthcare business.

Although revenues increased in this sector, the one-time depreciation charge and R&D costs incurred through this acquisition caused a profit decline. Consolidated sales increased by 4.0% to ¥41,334 million but operating income fell by 35.3% to ¥3,593 million.

The market for healthcare-related materials was stagnant as a whole due to the effects of government policies to control healthcare costs. Although sales of surgical tape and medical hygiene materials were flat, transdermal therapeutic patches for the treatment of bronchial asthma sold well. In high-polymer separation membranes, sales of membranes used for rinsing by the semiconductor industry and LCD panel industries were firm, as were sales of membranes for industrial water in Asia. However, sales were weak overall due to a decline in sales of large-scale desalination membranes. Engineering plastics sold well overall, as shipments of inner pressure control membranes for automotive electronics were firm, and sales of process materials for the electronics industry also increased.

In the area of healthcare materials, ADS is expected to go into the black in the fiscal year ending March 2005, and our policy is to use this company as a vehicle for engaging in joint development of new products together with top pharmaceutical manufacturers in the US and Europe. We will also commence global sales of our "Yukiban" series of surgical tapes, which use gel adhesives.

As for high-polymer separation membranes, the seawater desalination business is entering a temporary lull in demand for large-scale projects, but we shall tackle issues such as accelerating the production process and reducing defective product rates to ensure that we secure a leading position in the business worldwide. In the engineering plastic materials sector, we will specialize in the technologies and products necessary to win the number one position worldwide, and work proactively to develop the market.



Functional Products



For Healthcare Products

Transdermal therapeutic patches release the drug through our proprietary crystal-reservoir system, thereby contributing to stable improvement of cardiac functioning.

