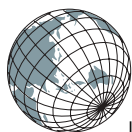
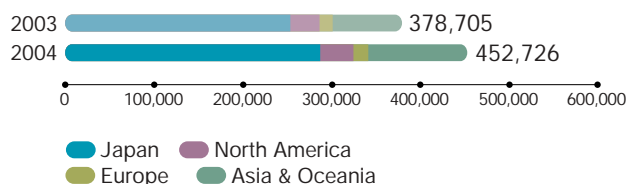


Review of Operations (2) By Geographic Areas

Net Sales (Millions of yen)



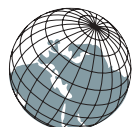
Japan

In the fiscal year ended March 2004, demand in Japan's domestic market — our largest and most important — expanded on the back of the recovery in the US economy and rising exports to Asia. As capital investment increased, the recovery in the domestic economy became more broadly-based towards the end of fiscal 2004.

The economic recovery stimulated personal spending, leading to rapid expansion in the market for LCD TVs and other FPD products. As a result, sales of advanced compensation films for LCD TVs and similar products rose sharply, while circuit materials for cellular phones and related products performed well.

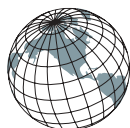
Meanwhile, our transdermal therapeutic patches for the treatment of bronchial asthma sold well even though the market for healthcare-related materials stagnated as a result of government policies to curb healthcare costs. As a result, we were able to post sales and profit gains for fiscal 2004. Sales increased by 13.2% year-on-year to ¥286,323 million and operating income by 71.7% to ¥51,158 million.

In fiscal 2005, full-scale production of optical films for LCDs will start at our Onomichi and Kameyama Plants, where capacity has been expanded to meet rapidly growing demand for LCD-related materials. In the belief that the FPD market will continue to grow, we will not only build a production and processing structure in response to efforts by large panel manufacturers to reinforce their production lines but also maintain a proactive stance towards investments and introducing new products.



Europe

During fiscal 2004, the economies of Europe also headed towards recovery. In Europe, we supplied automotive materials such as reinforcing and vibration-damping materials for high tensile steel plate and rubber sponge materials for water- and wind-resistant seals, as well as circuit materials for cellular phones to Japanese firms with operations in Europe and local companies. Sales increased by 13.3% year-on-year to ¥16,423 million and operating income by 13.9% to ¥510 million. Also during the current term, our local subsidiary Nitto Europe NV acquired ISO 14001 certification.



North America

In fiscal 2004, the US economy remained strong as large-scale tax cuts spurred personal spending and low interest rate policies bolstered housing investment. Benefiting from the strong performance of the automobile industry, we expanded our sales, mostly to Japanese-affiliated firms, of automotive materials such as reinforcing and vibration-damping materials for high tensile steel plate, rubber sponge materials for water- and wind-resistant seals, and internal inner pressure control membranes for headlight. In fiscal 2004, Permacel Automotive (PCA), a local US manufacturer of automotive materials became a consolidated subsidiary. Our objective is to use PCA's strong connections with America's Big Three auto manufacturers to strengthen our automotive materials business in North America.

At the same time, we acquired the U.S. pharmaceuticals company Aveva Drug Delivery Systems (ADS) with a view to strengthening our healthcare business in the region. ADS is currently aiming to expand its transdermal therapeutic patch business and we intend to use it as a beachhead for the development of our North American market. In fiscal 2005, we will launch new products developed by ADS on the North American market.

Performance in fiscal 2004, however, was stagnant owing to the expenses and R&D costs incurred through the acquisition of ADS, delays in the consolidation of production at Permacel's new plant, and the decline in sales of large-scale desalination membranes (high-polymer separation membranes) produced by Hydranautics. Consequently, while our North American sales in the fiscal year ended March 2004 increased by 11.5% year-on-year to ¥37,216 million, our operating loss came to ¥2,399 million.

In fiscal 2005, we shall work on improving profitability by moving ahead with the consolidation of production at Permacel's new plant. We also aim to expand our healthcare business and secure a niche share through higher sales.



Asia & Oceania

The markets for LCD TVs and electronics-related products in Asia and Oceania expanded rapidly during fiscal 2004, leading to robust local production centered on Japanese, Korean and Taiwanese companies in China and elsewhere.

Sales were strong to electronics manufacturers' plants in Asia, in particular bonding and joining materials for industrial use as well as optical films and circuit materials for LCD and cellular phones. In fiscal 2004, sales in Asia and Oceania increased by 44.7% year-on-year to ¥112,764 million, and operating income by 173.3% to ¥6,548 million.

In light of forecasts that the LCD market may overheat in fiscal 2005, we cannot deny the possibility that profitability may deteriorate. We aim to enhance our competitiveness by moving further towards higher value-added products such as high-precision items that can only be manufactured in clean rooms.