

Consolidated Balance Sheets

Nitto Denko Corporation and Consolidated Subsidiaries
As of March 31, 2004 and 2003

Assets	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Current Assets:				
Cash on hand and in banks (Note 2)	¥ 49,145	¥ 52,710	\$ 465,212	\$ 498,959
Marketable securities (Notes 2 and 3).....	—	19,027	—	180,112
Trade notes and accounts receivable	108,583	91,362	1,027,859	864,843
Allowance for doubtful receivables	(1,169)	(1,212)	(11,066)	(11,473)
Inventories (Note 4)	40,671	37,674	384,996	356,626
Deferred tax assets and other (Note 5)	14,064	16,880	133,132	159,788
	211,294	216,441	2,000,133	2,048,855
Plant and Equipment, at Cost (Note 6):				
Land	18,824	19,116	178,190	180,955
Buildings	111,061	104,511	1,051,316	989,313
Machinery and equipment	217,898	205,497	2,062,647	1,945,257
Construction in progress	10,215	6,381	96,696	60,403
	357,998	335,505	3,388,849	3,175,928
Accumulated depreciation	(218,668)	(208,059)	(2,069,936)	(1,969,510)
	139,330	127,446	1,318,913	1,206,418
Investments and Other Assets:				
Investments in nonconsolidated subsidiaries and affiliates	13,538	11,835	128,152	112,031
Investments in securities (Notes 3 and 6)	11,603	6,435	109,835	60,914
Goodwill	621	1,396	5,878	13,215
Deferred tax assets and other (Note 5)	13,139	16,259	124,376	153,910
	38,901	35,925	368,241	340,070
	¥ 389,525	¥ 379,812	\$ 3,687,287	\$ 3,595,343

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	
	2004	2003	2004	2003
Current Liabilities:				
Short-term bank loans, including current portion of long-term debts (Note 6)	¥ 12,116	¥ 9,468	\$ 114,691	\$ 89,625
Trade notes and accounts payable	97,776	72,294	925,559	684,343
Accrued expenses	15,202	13,647	143,904	129,184
Income taxes (Note 5)	12,573	13,276	119,017	125,672
Other current liabilities	607	520	5,746	4,923
	138,274	109,205	1,308,917	1,033,747
Long-term Liabilities:				
Long-term debts (Note 6)	3,748	2,649	35,479	25,076
Allowance for severance and pension benefits (Notes 1(i) and 7)	8,642	16,616	81,806	157,289
Retirement allowances for directors and corporate auditors	1,339	1,232	12,675	11,662
Other long-term liabilities	2,425	2,304	22,956	21,810
	16,154	22,801	152,916	215,837
Minority Interests	11,983	10,246	113,432	96,990
Commitments and Contingent Liabilities (Note 11)				
Shareholders' Equity (Note 9):				
Common stock	26,784	26,784	253,540	253,540
Authorized — 400,000,000 shares				
Issued — 173,758,428 shares in 2004 and 2003				
Capital surplus	50,482	50,482	477,868	477,868
Retained earnings	196,596	168,632	1,861,000	1,596,289
Net unrealized holding gains on securities	3,057	243	28,938	2,300
Foreign currency translation adjustments	(13,629)	(7,514)	(129,014)	(71,128)
Cost of treasury stock (10,169,504 shares)	(40,176)	(1,067)	(380,310)	(10,100)
	223,114	237,560	2,112,022	2,248,769
	¥ 389,525	¥ 379,812	\$ 3,687,287	\$ 3,595,343

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

Consolidated Statements of Income

Nitto Denko Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Net Sales	¥ 452,726	¥ 378,705	\$ 4,285,555	\$ 3,584,864
Cost of Sales	314,786	269,085	2,979,800	2,547,189
Gross profit	137,940	109,620	1,305,755	1,037,675
Selling, General and Administrative Expenses	82,028	75,718	776,486	716,755
Operating income	55,912	33,902	529,269	320,920
Other Income (Expenses):				
Interest and dividend income	526	517	4,979	4,894
Interest expense	(246)	(202)	(2,329)	(1,912)
Gain (loss) on sales of marketable securities and investments in securities, net	26	(10)	246	(95)
Foreign exchange gain (loss)	1,088	787	10,299	7,450
Equity in earnings of nonconsolidated subsidiaries and affiliates	2,534	1,862	23,987	17,626
Loss on evaluation of marketable securities and investments in securities (Note 1 (d))	(2)	(1,658)	(19)	(15,695)
Loss on evaluation of fixed assets.....	(683)	(485)	(6,465)	(4,591)
Loss on evaluation of goodwill	(683)	—	(6,465)	—
Restructuring expense (Note 13)	—	(1,821)	—	(17,238)
Gains on return of substitutional portion of employee pension fund (Notes 1(i) and 7)	—	3,732	—	35,328
Reversal of allowance for severance and pension benefits (Note 1 (i))	1,958	—	18,535	—
Other, net	(3,355)	(3,099)	(31,759)	(29,336)
	1,163	(377)	11,009	(3,569)
Income before Provision for Income Taxes	57,075	33,525	540,278	317,351
Provision for Income Taxes (Note 5):				
Current	18,954	13,593	179,421	128,673
Deferred, net	2,947	(241)	27,896	(2,281)
	21,901	13,352	207,317	126,392
Minority Interests in Net Income of Consolidated Subsidiaries ..	(1,788)	(936)	(16,925)	(8,859)
Net Income	¥ 33,386	¥ 19,237	\$ 316,036	\$ 182,100
Per Share of Common Stock (Note 9):				
		Yen		U.S. dollars
Net Income	¥ 197.99	¥ 108.52	\$ 1.87	\$ 1.03
Net Income — Diluted	197.93	108.52	1.87	1.03
Cash Dividends, Applicable to Earnings of the Year	40.00	24.00	0.38	0.23

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, 2004 and 2003

	Number of Shares (thousands)		Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003	2004	2003
Common Stock (Note 9):						
Authorized shares	400,000	400,000				
Outstanding shares						
Beginning balance	173,758	173,758	¥ 26,784	¥ 26,784	\$ 253,540	\$ 253,540
Net increase	—	—	—	—	—	—
Ending balance	173,758	173,758	¥ 26,784	¥ 26,784	\$ 253,540	\$ 253,540
Capital Surplus (Note 9):						
Beginning balance			¥ 50,482	¥ 50,482	\$ 477,868	\$ 477,868
Net increase			—	—	—	—
Ending balance			¥ 50,482	¥ 50,482	\$ 477,868	\$ 477,868
Retained Earnings (Note 9):						
Beginning balance			¥ 168,632	¥ 153,518	\$ 1,596,289	\$ 1,453,218
Net income			33,386	19,237	316,036	182,100
Cash dividends paid			(5,034)	(3,819)	(47,652)	(36,151)
Directors' bonuses			(386)	(304)	(3,654)	(2,878)
Loss on treasury stock			(2)	—	(19)	—
Ending balance			¥ 196,596	¥ 168,632	\$ 1,861,000	\$ 1,596,289
Net Unrealized Holding Gains on Securities:						
Beginning balance			¥ 243	¥ 663	\$ 2,300	\$ 6,276
Net increase (decrease)			2,814	(420)	26,638	(3,976)
Ending balance			¥ 3,057	¥ 243	\$ 28,938	\$ 2,300
Foreign Currency Translation Adjustments:						
Beginning balance			¥ (7,514)	¥ (3,034)	\$ (71,128)	\$ (28,720)
Net increase (decrease)			(6,115)	(4,480)	(57,886)	(42,408)
Ending balance			¥ (13,629)	¥ (7,514)	\$ (129,014)	\$ (71,128)
Cost of Treasury Stock (Note 10):						
Beginning balance			¥ (1,067)	¥ (3)	\$ (10,100)	\$ (28)
Net decrease (increase)			(39,109)	(1,064)	(370,210)	(10,072)
Ending balance			¥ (40,176)	¥ (1,067)	\$ (380,310)	\$ (10,100)

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, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Cash Flows from Operating Activities:				
Income before provision for income taxes	¥ 57,075	¥ 33,525	\$ 540,278	\$ 317,351
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization	21,386	21,144	202,442	200,151
Interest and dividend income	(526)	(517)	(4,979)	(4,894)
Interest expense	246	202	2,329	1,912
Equity in earnings of nonconsolidated subsidiaries and affiliates	(2,534)	(1,862)	(23,987)	(17,626)
Loss on evaluation of investments in securities	2	1,658	19	15,695
Loss on evaluation of goodwill	683	—	6,465	—
(Gain) loss on sales and disposal of fixed assets	978	682	9,258	6,456
Decrease (increase) in trade notes and accounts receivable	(18,458)	(3,074)	(174,725)	(29,099)
Decrease (increase) in inventories	(3,948)	(4,493)	(37,372)	(42,531)
Decrease (increase) in other receivables	(1,949)	(292)	(18,449)	(2,764)
Increase (decrease) in trade notes and accounts payable	15,566	7,251	147,349	68,639
Other, net	(2,960)	3,023	(28,020)	28,616
Total	65,561	57,247	620,608	541,906
Interest and dividend income received	804	480	7,611	4,544
Interest paid	(239)	(208)	(2,262)	(1,969)
Income taxes refunded (paid)	(19,858)	1,706	(187,979)	16,149
Net cash provided by operating activities	46,268	59,225	437,978	560,630
Cash Flow from Investing Activities:				
Decrease in marketable securities, net	1,717	2,678	16,253	25,350
Acquisitions of plant and equipment	(27,085)	(24,451)	(256,390)	(231,456)
Proceeds from sales of plant and equipment	973	1,184	9,211	11,208
Decrease (increase) in time deposits, net	1	(2)	9	(19)
Purchase of investments in securities	(611)	(2,066)	(5,784)	(19,557)
Proceeds from sales of investments in securities	460	390	4,354	3,692
Acquisitions of subsidiaries	(7,660)	(2,074)	(72,510)	(19,633)
Other, net	893	(267)	8,454	(2,527)
Net cash used in investing activities	(31,312)	(24,608)	(296,403)	(232,942)
Cash Flows from Financing Activities:				
Proceeds from long-term debts	3,446	1,846	32,620	17,474
Repayments of long-term debts	(284)	(55)	(2,688)	(521)
Increase (decrease) in short-term debts, net	1,944	1,756	18,402	16,622
Acquisition of treasury stock for stock options	(39,709)	(1,063)	(375,890)	(10,062)
Repayments of bonds	—	(200)	—	(1,893)
Dividends paid	(5,034)	(3,819)	(47,652)	(36,151)
Other, net	467	(103)	4,420	(974)
Net cash used in financing activities	(39,170)	(1,638)	(370,788)	(15,505)
Foreign Currency Exchange Gain (Loss) in Cash and Cash Equivalents	(948)	(570)	(8,973)	(5,396)
Net Increase (Decrease) in Cash and Cash Equivalents	(25,162)	32,409	(238,186)	306,787
Cash and Cash Equivalents, Beginning of Year	73,342	40,105	694,264	379,638
Increase in Cash and Cash Equivalents due to				
Change in Scope of Consolidated Subsidiaries	364	828	3,445	7,839
Cash and Cash Equivalents, End of Year (Note 2)	¥ 48,544	¥ 73,342	\$ 459,523	\$ 694,264

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, 2004 and 2003

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 Financial Reporting 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, 2004, which was ¥105.64 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.

(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. Profit and loss accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the average rate.

Revenue and expenses accounts of the consolidated foreign subsidiaries are translated into Japanese yen at average rate. 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 cost 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 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 ¥15,822 million (\$149,773 thousand) and ¥13,851 million (\$131,115 thousand) for the years ended March 31, 2004 and 2003, 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 projected benefit obligation and the rate of expected return on plan assets used by the Corporation and its domestic subsidiaries are 2.0-2.5% and 1.5-3.5%, respectively.

Prior service costs of pension plans are amortized on the straight-line method over the fixed years, 12 years, less than the estimated average remaining service lives of the employees from fiscal 2004.

The actuarial net losses are amortized on the straight-line method over years less than or equal to 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, Labor 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 applied 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 ¥ 3,732million (\$ 35,328 thousand). The amount of pension plan assets to be transferred back to the government was ¥ 20,177 million (\$ 190,998 thousand) as at March 31, 2003.

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

In the current year, the reversal of allowance for severance and pension benefits amounting to ¥1,958 million (\$18,535 thousand) was incurred due to a change in the employees' pension plan of the Corporation and certain domestic subsidiaries, which decreased prior service costs.

(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 foreign exchange forward 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 gains or losses on the hedged items are recognized.

A. Hedging instruments and hedged items

Hedging instruments:

Foreign exchange forward contracts

Hedged items:

Trade receivables associated with export of products and payables associated with purchase of certain plants and equipments

B. Hedge policy

The Corporation and its domestic subsidiaries use foreign exchange forward contracts to hedge the risk due to the effect of foreign currency exchange rates.

(l) Reclassifications

Certain prior year amounts have been reclassified to conform to 2004 presentation.

2. Cash and Cash Equivalents

The reconciliations of cash and cash equivalents to the accounts on the balance sheets as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Cash on hand and in banks	¥ 49,145	¥ 52,710	\$ 465,212	\$ 498,959
Time deposits with maturities exceeding three months	(601)	(678)	(5,689)	(6,418)
Securities and others	—	21,310	—	201,723
Cash and cash equivalents	¥ 48,544	¥ 73,342	\$ 459,523	\$ 694,264

3. Securites

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, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Trading securities:				
Carrying amount	¥ —	¥ 18,934	\$ —	\$ 179,231
Unrealized gains (losses), net	—	9	—	85

(b) Other securities as of March 31, 2004 and 2003:

2004

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	¥ 2,739	¥ 8,276	¥ 5,538	\$ 25,928	\$ 78,342	\$ 52,423
Other	165	201	35	1,562	1,903	332
Total	¥ 2,904	¥ 8,477	¥ 5,573	\$ 27,490	\$ 80,245	\$ 52,755
Securities with book values not exceeding acquisition costs						
Equity securities	¥ 517	¥ 516	¥ (1)	\$ 4,894	\$ 4,885	\$ (9)
Other	105	103	(2)	994	975	(19)
Total	¥ 622	¥ 619	¥ (3)	\$ 5,888	\$ 5,860	\$ (28)

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	\$ 11,369	\$ 18,942	\$ 7,573
Other	93	93	0	880	880	0
Total	¥ 1,294	¥ 2,094	¥ 800	\$ 12,249	\$ 19,822	\$ 7,573
Securities with book values not exceeding acquisition costs						
Equity securities	¥ 1,396	¥ 1,261	¥ (135)	\$ 13,215	\$ 11,937	\$ (1,278)
Other	15	8	(7)	142	75	(66)
Total	¥ 2,168	¥ 1,923	¥ (245)	\$ 20,523	\$ 18,203	\$ (2,319)

Notes to Consolidated Financial Statements

B. The following table summarizes the book values of other securities with no available fair values as of March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Other securities with no fair value				
Non-listed equity securities:				
Carrying amount	¥ 2,507	¥ 2,511	\$ 23,730	\$ 23,769

C. Total sales of other securities sold in the year ended March 31, 2004 amounted to ¥460 million (\$4,345 thousand) and the related gains and losses amounted to ¥38 million (\$360 thousand) and ¥14 million (\$133 thousand), respectively. These amounts in the year ended March 31, 2003 were immaterial.

4. Inventories

Inventories as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Finished products	¥ 15,262	¥ 14,128	\$ 144,472	\$ 133,737
Work in process	17,496	17,020	165,619	161,113
Raw materials	7,913	6,526	74,905	61,776
	¥ 40,671	¥ 37,674	\$ 384,996	\$ 356,626

5. Income Taxes

The normal statutory tax rates used for calculation of deferred taxes assets and liabilities were 41.8% and 40.5% for current items and non-current items, respectively, for the year ended March 31, 2003. 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 normal statutory tax rate of 40.5% for both current items and non-current items, for the year ended March 31, 2004. As the result of the change in the normal statutory tax rate, deferred tax assets decreased by ¥150 million (\$1,420 thousand), income taxes-deferred increased by the same amount 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.

The Corporation is subject to a number of different income taxes which, in aggregate, indicate the normal statutory tax rate in Japan of approximately 42% for the year ended March 31, 2004.

The following table summarizes the significant differences between the normal statutory tax rate and the Corporation's effective tax rate for financial statement purposes for the year ended March 31, 2004.

	2004
Normal statutory tax rate	42 %
Tax credits	(4)
Valuation allowance	3
Difference in normal tax rate of foreign subsidiaries	(4)
Other, net	1
Effective tax rate	38 %

Significant components of the Corporation's deferred tax assets and liabilities as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Deferred Tax Assets:				
Current				
Deferred tax assets:				
Inventories	¥ 300	¥ 241	\$ 2,840	\$ 2,281
Unrealized gains on inventories	1,014	703	9,599	6,655
Allowance for doubtful receivables	166	201	1,571	1,903
Accrued revenue	—	117	—	1,108
Enterprise taxes	1,226	1,187	11,605	11,236
Accounts payable	248	234	2,348	2,215
Accrued expenses	2,705	2,929	25,606	27,726
Other	752	293	7,118	2,773
Total current deferred tax assets	6,411	5,905	60,687	55,897
Net current deferred tax assets	¥ 6,411	¥ 5,905	\$ 60,687	\$ 55,897
Long-term				
Deferred tax assets:				
Depreciation	¥ 1,754	¥ 1,613	\$ 16,604	\$ 15,269
Intangible assets	222	259	2,101	2,452
Severance and pension benefits	3,009	5,820	28,484	55,093
Retirement allowance for directors and corporate auditors ..	542	494	5,131	4,676
Net operating loss carry forwards	1,587	—	15,023	—
Other	2,096	1,890	19,840	17,891
Gross deferred tax assets	9,210	10,076	87,183	95,381
Less valuation allowance	(1,811)	—	(17,143)	—
Total long-term deferred tax assets	7,399	10,076	70,040	95,381
Deferred tax liabilities:				
Reserve for special depreciation	1,499	1,261	14,190	11,937
Undistributed earnings of overseas subsidiaries and affiliates ..	976	896	9,238	8,482
Net unrealized holding gains on securities	2,254	221	21,337	2,092
Total deferred tax liabilities	4,729	2,378	44,765	22,511
Net long-term deferred tax assets	¥ 2,670	¥ 7,698	\$ 25,275	\$ 72,870

6. Short-term Bank Loans and Long-term Debts

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, 2004 and 2003 were approximately 1.7% and 2.1%,

respectively. Long-term debts as of March 31, 2004 and 2003 are summarized below:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
0.52% to 7.21% loans from banks and others, due in installments through 2012	¥ 4,998	¥ 3,523	\$ 47,311	\$ 33,349
2.1% mortgage bonds, due 2005	300	300	2,840	2,840
	5,298	3,823	50,151	36,189
Current portion	(1,550)	(1,174)	(14,672)	(11,113)
	¥ 3,748	¥ 2,649	\$ 35,479	\$ 25,076

Notes to Consolidated Financial Statements

At March 31, 2004, land of ¥291 million (\$2,755 thousand), buildings with a net book value of ¥99 million (\$937 thousand) and investments in securities of ¥57 million (\$540 thousand) are pledged as collateral for ¥300 million (\$2,840 thousand) of mortgage bonds and ¥124 million (\$1,174 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 debts are summarized below:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 1,401	\$ 13,262
2007	654	6,191
2008	334	3,162
2009	331	3,133
2010 and thereafter	1,028	9,731
	¥ 3,748	\$ 35,479

7. Employees' Severance and Pension Benefits

The allowance for severance and pension benefits as of March 31, 2004 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Projected benefit obligation	¥ 87,539	¥ 97,401	\$ 828,654	\$ 922,008
Unrecognized prior service benefits (costs)	3,469	(20)	32,838	(189)
Unrecognized actuarial differences	(23,361)	(36,151)	(221,138)	(342,209)
Less fair value of pension assets	(59,250)	(44,614)	(560,867)	(422,321)
Prepaid pension cost	245	—	2,319	—
Allowance for severance and pension benefits	¥ 8,642	¥ 16,616	\$ 81,806	\$ 157,289

Severance and pension benefits expenses for the years ended March 31, 2004 and 2003 comprise the following:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Service costs-benefits earned during the year	¥ 3,177	¥ 3,233	\$ 30,074	\$ 30,604
Interest costs on projected benefit obligation	2,168	3,833	20,522	36,284
Expected return on plan assets	(1,721)	(2,640)	(16,291)	(24,991)
Amortization of actuarial differences	2,917	1,864	27,613	17,645
Amortization of prior service (benefits) costs	(230)	2	(2,178)	19
Severance and pension benefits expense	¥ 6,311	¥ 6,292	\$ 59,741	\$ 59,561
Gains on return of substitutional portion of employee pension fund	—	(3,732)	—	(35,328)
Plan amendments	(1,958)	—	(18,535)	—
Net	¥ 4,353	¥ 2,560	\$ 41,206	\$ 24,233

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, 2004 and 2003 and for the fiscal years then ended, is as follows:

2004	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
Buildings	¥ 19	¥ 10	¥ 9	\$ 85
Machinery and vehicles	600	356	244	2,310
Tools and equipment	340	216	124	1,174
Other	496	300	196	1,855
	¥ 1,455	¥ 882	¥ 573	\$ 5,424

2003	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net amount	Net amount
Buildings	¥ 28	¥ 16	¥ 12	\$ 114
Machinery and vehicles	732	437	295	2,793
Tools and equipment	643	427	216	2,045
Other	591	285	306	2,895
	¥ 1,994	¥ 1,165	¥ 829	\$ 7,847

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Future minimum lease payments				
Due within one year	¥ 273	¥ 370	\$ 2,584	\$ 3,503
Due after one year	318	485	3,010	4,591
	¥ 591	¥ 855	\$ 5,594	\$ 8,094
Lease payments for the year ended March 31	¥ 423	¥ 476	\$ 4,004	\$ 4,506

Operating Leases

Future minimum lease payments due under operating leases as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Due within one year	¥ 3	¥ 5	\$ 28	\$ 48
Due after one year	2	5	19	47
	¥ 5	¥ 10	\$ 47	\$ 95

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.

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 was 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

warrants were exercised at the beginning of the year or the issuance date.

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).

The shareholders approved, at the general meeting of shareholders held on June 24, 2004, the declaration of the final cash dividends of ¥23.00 (\$0.22) per share totaling ¥3,763 million (\$35,621 thousand).

On June 24, 2004, the Corporation's annual general shareholders' meeting passed a resolution on modifying the articles of incorporation to allow the Corporation to purchase its outstanding shares upon approval of the Board of Directors' meeting in conformity with Article 211-3 of the Commercial Code of Japan.

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 Corporation acquired 314,700 shares of its common stock for the plan upon the resolution of the shareholders' meeting. The options are exercisable at an exercise price of ¥3,905 per share for three years from January 1, 2003 to December 31, 2005.

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 above. The Corporation acquired 326,200 shares of its common stock for

the plan upon the resolution of the shareholders' meeting. The options are exercisable at an exercise price of ¥5,177 for three years from January 1, 2004 to December 31, 2006.

At the general meeting of shareholders held on June 24, 2004, 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 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, 2005 to December 31, 2007.

In addition, at the general meeting of shareholders held on June 24, 2004, the Corporation resolved to grant all directors and corporate officers the right to purchase the ordinary shares of the Corporation. The option will be granted at an exercise price of ¥1. The Corporation acquired 45,000 shares of its common stock for the plan upon the resolution of the shareholders' meeting. The options are exercisable for twenty years from June 25, 2004 to June 24, 2024.

11. Commitments and Contingent Liabilities

Capital Expenditure Program

Under the capital expenditure program of the Corporation and its subsidiaries, it is estimated that ¥79,620 million (\$753,692 thousand) will be expended during the two years ending March 31, 2005, of which ¥23,703 million (\$224,375 thousand) represents contractual commitments.

Contingent Liabilities

The Corporation and certain consolidated subsidiaries are contingently liable, as of March 31, 2004, for trade notes receivable which were discounted or endorsed of ¥810 million (\$7,668 thousand), and as guarantors for borrowings of ¥1,712 million (\$16,206 thousand) by certain employees and nonconsolidated subsidiaries.

12. Derivative Financial Instruments

The Corporation and its domestic subsidiaries use foreign exchange forward and option contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Corporation and its domestic subsidiaries do not hold or issue derivatives for trading or speculative purpose. If these derivative transactions are used as hedges and meet certain hedging criteria, the Corporation and its domestic subsidiaries undertake hedge accounting for the derivatives.

Because the counterparties to these derivatives are limited

to international financial institutions, the Corporation and its domestic subsidiaries do not anticipate any losses arising from credit risk. Derivative transactions used by the Corporation and its domestic subsidiaries have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

The following tables summarize market value information as of March 31, 2004 of derivative transactions for which hedge accounting has not been applied:

Year ended March 31, 2004	Contract amounts			Market value	Millions of yen	
	Due within 1 year	Due over 1 year	Total		Unrealized Gain (Loss)	
	Currency option contracts					
Buy						
Put U.S. dollars	¥ 318	—	¥ 318	¥ 5	¥ 4	
Sell						
Call U.S. dollars	405	—	405	5	(3)	

Year ended March 31, 2004	Contract amounts			Market value	Thousands of U.S. dollars	
	Due within 1 year	Due over 1 year	Total		Unrealized Gain (Loss)	
	Currency option contracts					
Buy						
Put U.S. dollars	\$ 3,010	—	\$ 3,010	\$ 47	\$ 38	
Sell						
Call U.S. dollars	3,834	—	3,834	47	(28)	

13. Restructuring Expenses

For the year ended on March 31, 2003, the Corporation and certain consolidated subsidiaries implemented a restructuring program. The program resulted in restructuring expenses of

¥1,821 million (\$17,238 thousand), which principally reflects the additional severance costs and loss on business liquidation of subsidiaries.

14. Loss on Evaluation of Fixed Assets and Goodwill

In the current year, ¥683 million (\$6,465 thousand) was written off for loss on evaluation of fixed assets as a result of a factory shutdown in one of the U.S. subsidiaries.

In addition, ¥683 million (\$6,465 thousand) was written off for loss on evaluation of goodwill in one of the U.S. subsidiaries.

15. 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, and packaging products and equipment.

Electronic Products include semiconductor-related products, LCD-related products, flexible printed circuit products,

and electronic processing products.

Functional Products include medical-related products, polymer separation membranes, and fluoroplastic products.

From the year ended March 31, 2004, the Corporation changed the segment category for the electronic processing products (formerly electronic component-related products) from Industrial products to Electronic Products. Prior year information has been restated to conform to the new presentation method.

Business segment information for the years ended March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Net Sales				
Industrial Products	¥ 191,694	¥ 173,602	\$ 1,814,597	\$ 1,643,336
Electronic Products	219,805	165,519	2,080,699	1,566,821
Functional Products	41,829	40,402	395,958	382,450
Eliminations	(602)	(818)	(5,699)	(7,743)
Consolidated Total	¥ 452,726	¥ 378,705	\$ 4,285,555	\$ 3,584,864
	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Operating Income				
Industrial Products	¥ 13,437	¥ 10,252	\$ 127,196	\$ 97,047
Electronic Products	38,882	18,099	368,061	171,327
Functional Products	3,593	5,551	34,012	52,546
Consolidated Total	¥ 55,912	¥ 33,902	\$ 529,269	\$ 320,920
	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Assets				
Industrial Products	¥ 118,462	¥ 122,028	\$ 1,121,374	\$ 1,155,131
Electronic Products	165,957	135,572	1,570,967	1,283,340
Functional Products	41,457	38,592	392,437	365,316
Corporate	63,649	83,620	602,509	791,556
Consolidated Total	¥ 389,525	¥ 379,812	\$ 3,687,287	\$ 3,595,343
	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Depreciation and Amortization				
Industrial Products	¥ 7,833	¥ 8,368	\$ 74,148	\$ 79,212
Electronic Products	10,439	9,825	98,817	93,005
Functional Products	3,114	2,951	29,477	27,934
Consolidated Total	¥ 21,386	¥ 21,144	\$ 202,442	\$ 200,151
	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Capital Expenditures				
Industrial Products	¥ 11,995	¥ 8,801	\$ 113,546	\$ 83,312
Electronic Products	19,148	11,804	181,257	111,738
Functional Products	5,175	2,732	48,987	25,861
Consolidated Total	¥ 36,318	¥ 23,337	\$ 343,790	\$ 220,911

(2) Geographic Areas

Geographic area information for the years ended March 31, 2004 and 2003 is as follows:

Net Sales	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Japan	¥ 384,486	¥ 321,407	\$ 3,639,587	\$ 3,042,474
Other	174,832	132,436	1,654,979	1,253,654
North America	38,823	35,140	367,503	332,639
Europe	18,372	16,359	173,911	154,856
Asia & Oceania	117,637	80,937	1,113,565	766,159
Eliminations	(106,592)	(75,138)	(1,009,011)	(711,264)
Consolidated Total	¥ 452,726	¥ 378,705	\$ 4,285,555	\$ 3,584,864

Operating Income	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Japan	¥ 51,158	¥ 29,804	\$ 484,267	\$ 282,128
Other	4,659	3,872	44,103	36,653
North America	(2,399)	1,028	(22,709)	9,731
Europe	510	448	4,828	4,241
Asia & Oceania	6,548	2,396	61,984	22,681
Eliminations	95	226	899	2,139
Consolidated Total	¥ 55,912	¥ 33,902	\$ 529,269	\$ 320,920

Assets	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
Japan	¥ 245,749	¥ 187,118	\$ 2,326,287	\$ 1,771,280
Other	116,219	112,170	1,100,142	1,061,814
North America	47,628	53,211	450,852	503,701
Europe	11,369	10,826	107,620	102,480
Asia & Oceania	57,222	48,133	541,670	455,633
Corporate	27,557	80,524	260,858	762,249
Consolidated Total	¥ 389,525	¥ 379,812	\$ 3,687,287	\$ 3,595,343

(3) Net Sales to Customer 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, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	2003
North America	¥ 33,443	¥ 28,213	\$ 316,575	\$ 267,067
Europe	17,635	17,357	166,935	164,304
Asia & Oceania	158,448	108,558	1,499,886	1,027,622
	¥ 209,526	¥ 154,128	\$ 1,983,396	\$ 1,458,993

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, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese 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, 2004 and 2003, 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 Note 15 to the consolidated financial statements, which states that NITTO DENKO CORPORATION and subsidiaries changed the segmentation of Electronic Products and Industrial Products, effective April 1, 2003.

The consolidated financial statements as of and for the year ended March 31, 2004 and 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 Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka, Japan
June 24, 2004