

Global Niche



Polarizing film for LCDs



Retardation film for LCDs



Polarization conversion system for LCDs



Transparent epoxy encapsulating resin



Reverse osmosis membrane for semiconductor cleaning wafer



Semiconductor wafer protection and fixing tapes



Thin metal core board for magnetron resistive heads



Electronic component carrier tapes

To Our Shareholders



Hideki Yamamoto
Chairman

Masamichi Takemoto
President

Global Recovery Propels Sales & Income to New Highs

In fiscal 2004, ended March 31, 2004, the world economy entered a recovery phase centering on Asia and the United States. The U.S. economy was particularly robust amid large-scale tax reductions and a low interest rate policy. With the resurgence of the U.S. economy and strong exports to Asia, the Japanese economy also revived quickly, and by the end of the fiscal year, rising capital investment was accompanied by a broad-based recovery.

In these economic conditions, the Nitto Denko Group enjoyed firm sales of liquid-crystal display (LCD)-related materials and surface protection materials for the flat-panel display (FPD) industry, and of bonding and joining materials, circuit materials and -related items for the cellular phone and personal computer industries. As a result, we achieved all-time record Net Sales of ¥452,726 million, representing a 19.5% increase over the previous year, and also the highest-ever Net Income of ¥33,386 million, a 73.6% annual increase.

For our company, fiscal 2004 was the first step in the "One-NITTO Dream Plan," a mid-term management plan running through March 2008 (See page 6). The aim of the plan is to make Nitto Denko a "Global Excellent Company" (See page 7), comparable to the world's best. We have already achieved the targets set in this plan to achieve net sales of ¥450 billion and Operating Income of ¥55 billion.

However, this excellent result was not entirely due to our capabilities; we were also fortunate to experience an economic recovery and favorable markets for our products

TopTM products



Thermal release sheets

Surface protection film for automobiles

Ceramic barcode labels

Transdermal therapeutic patches

-conditions we may not always enjoy. Therefore, we should always look for areas of improvement within our company, not to see them as faults but as opportunities. I see these as mere milestones on the path to becoming a Global Excellent Company. From now on, instead of being satisfied with favorable results, we will be tackling ways to strengthen our company, including development of our human resources and management systems.

LCD Market Drives Demand for Nitto's Advanced Electronics Materials

Favorable performance in LCD-related materials supported sales growth in the fiscal 2004. As the markets for LCD monitors, laptop PCs, cellular phones and LCD televisions expanded, sales of our company's optical films for LCDs increased greatly. These optical film products include advanced compensation films for high-definition LCDs, viewing angle compensation films, and polarization conversion films.

Overall sales of Electronic Products, which include LCD-related optical films, increased dramatically by 32.9% over the previous year to reach ¥219,709 million. Operating Income in Electronic Products increased 114.8% to ¥38,882 million.

In order to respond to the expected continuing expansion of the digital-imaging market, Nitto Denko will be investing a total of ¥59 billion, the largest amount in our history, during the fiscal 2005, ending March 2005. The primary target will be for LCD-related materials, including

construction of new production facilities in South Korea and Taiwan. In Japan, starting in spring 2004, we are starting up new production facilities at our Onomichi and Kameyama plants (See page 8).

The LCD-related products business has developed into our company's mainstay business, but competition in this area is expected to intensify in the future. While it is almost certain that overall market demand will increase, there is no guarantee that our company can maintain its current position. Newcomers from among the materials manufacturers are entering into this market, which already can no longer be termed a niche. Although we have obtained various patents for manufacturing, we cannot be complacent.

The world economy could slow down following the Athens Olympics or the U.S. presidential election in the second half of fiscal 2005. Also, as more resources are consumed in China, which has seen remarkable economic growth, changes in raw material prices could become more severe.

In order to avoid being pulled around by such "tides of change," and to ensure that we do not miss the next wave, for the next several years we must develop enough strength to compete in the world market and maintain our current position. The investment needed for this should be made now, while our results are strong. - It was based on this judgment that we undertook this large-scale investment program.

Nitto Denko attributes its recent success to a basic marketing strategy we call "Global Niche Top." First, we choose a promising market in the early stages of growth and find a niche where our unique technologies can work effectively; then, we develop and promote a new product capable of gaining the leading market share in that field.

By gaining the leading share, we have three advantages. First, we have timely information from the market and customers. Second, customers will come to us first with their problems as well as ideas. These are seeds of future products. Third, we will anticipate market trends, allowing us to make appropriate investment ahead of competitors. By the time this market has grown, our once 'niche' product will have become the industry standard. This is the basis of our strategy.

Currently, we have 12 Global Niche Top products and are trying to establish more in the electrical, automotive, medical and environmental fields.

We follow market trends in precise detail, enabling us to develop, invest and market effectively. But more important, our best "consultants" are our customers. The Global Niche Top strategy is the driving force of our success, and we expect it will continue to power our future growth.

What is Global Niche Top™ ? >>> One-NI

Developing the Potential of our Medical and Separation-Membrane Products

How will we achieve the targets set in our mid-term strategic plan for fiscal 2008? We can already start to envision the scenario. The FPD business that is so strong now will probably continue to be a growth engine for some time. For the duration, our tape-related industrial products sector and other non-LCD-related electronics products will continue to earn us cash income, and we will nurture businesses with the potential to become the next growth engine from among these segments. Then, with those earnings, we will expand our medical and membrane-related businesses, which are also expected to become growth engines in the future.

In Industrial Products, bonding and sealing materials for cellular phones, PC peripherals and home electronics have sold well, and we have also increased sales of sealing materials for the auto industry.

In Electronic Products for non-FPD industries, sales of circuit materials for cellular phones, hard disk drives and related devices have increased greatly, while sales of protection sheets and laminating applicators for the semiconductor manufacturers as well as thermal release sheets for component fabrication processes have been firm. From among these, we hope to develop products that will become the new growth engines to succeed LCD-related materials.

In the Functional Products, we spent approximately ¥5.6 billion in fiscal 2004 to acquire the American pharmaceutical company, Aveva Drug Delivery Systems

(ADS). In order to conduct a medical-products business in the U.S., approval of the U.S. Food and Drug Administration (FDA) is required. Starting with the U.S., we would like to enter the world medical-drug market, primarily with our transdermal therapeutic medical products, supported by Nitto's expertise in tape technologies. The range of applications in this field is wide, and there are a variety of products, including local and whole-body treatments.

Besides transdermal therapeutic medical products, Nitto Denko is currently studying the area of genetic treatments. Our research and development subsidiary in the U.S., Nitto Denko Technical Corporation, is working on transport devices for genetic treatments. We expect genetic treatments to form a large market in the future.

We believe our high-polymer separation membrane business has a very strong future potential for growth due to the increasingly severe shortage of water in many locations around the world. We currently have the No. 2 share worldwide. However, as in LCD-related products, we cannot necessarily keep our current market share in the future. One reason is that the form of this business is changing from one of selling modules to the construction of gigantic desalination plants. If this change continues, it will be necessary to make a fundamental change in our approach to the business, such as by finding a good partner that possesses know-how for plant construction. Including production facilities, we are re-evaluating our membrane business.

Long Term Vision

Nitto Denko launched a mid-term management plan called "One-NITTO Dream Plan" for the year ending March 2006, as a 3-year action plan that views our business from the standpoint of five years ahead. The plan focuses on two chief measures; enhancing business growth based on our basic strategy, and sharing the same corporate culture globally.

In fiscal 2004, the initial year of this plan, we already achieved a business results that exceeded the mid-term management targets of ¥450,000 million in sales and ¥55,000 million in operating income that were initially announced. However, the statistical figure is just one measure. We will keep working to be a "Global Excellent Company."

Although the development of top global-niche products is a fundamental strategy for our company's operations, the ideal that Nitto Denko and its Group are aiming for is to become a truly excellent, global corporation.

A "Global Excellent Company" is one that is able to maintain world-class performance comparable with other companies acknowledged as global leaders of industry. But beyond its market and financial results, such a company strives to be an organization whose corporate values themselves are admired and honored by the public. Our company has targeted fiscal 2008 as the year we will submit ourselves for appraisal and recognition as a Global Excellent Company. As quantitative targets to satisfy the conditions for that honor, we have set as our goals a Return on Assets of 20% and Operating Income ratio of 17%.

TTO Dream Plan ➡➡ GLOBAL EXCELLENT COMPANY

Leveraging our Human and Technological Resources to Develop Global Niche Top Products

Our company's fundamental product strategy is to supply Global Niche Top products. In order to make that a reality, it is essential that we keep close to our customers, anticipating their needs as quickly as possible, and also to maintain the technological strength to meet those needs. Until now, our company has grown by maintaining close relationships primarily with customers in Japan and generating new products to meet their needs. However, for Nitto Denko to evolve into a Global Excellent Company with world-class capabilities, I believe we will have to maintain close contact with growing sectors, growing regions, and growing companies worldwide, and form new core businesses in rapid succession in which we develop Global Niche Top products.

The decisive requirement for our company in pursuit of this strategy will be how skillfully we leverage our human resources in each location around the world. Not only in management and sales, but also in R&D and production, we will need to develop a corporate system for maintaining close interaction with customers in each region of the globe.

Starting in about 2000, we have already begun to relocate our R&D functions to various overseas locations. In the U.S., we have hired outstanding and highly motivated people who are undertaking research in leading-edge fields such as biotechnology and applied optical science. Our subsidiary in Malaysia is gradually taking on work in development of semiconductor packaging materials that

was being conducted in Japan. In July 2003, we introduced a 24-hour system of development, which allows speedy response time and has led to cost reductions.

Also, while our R&D had previously been done essentially in-house, in some cases this approach is unable to keep up with the timing of market "ripeness." The ability to obtain up-to-date information on which organizations possess the technology we need now, and to foresee with clarity whether those technologies will be truly useful, is important. We intend to nurture personnel with this clarity of foresight and pursue collaborations with universities and related companies as well as mergers and acquisitions.

At the same time, we need to re-evaluate our entire production system. Within Japan, Nitto Denko has achieved a structure in which we can manufacture products in optimal

Nitto Denko launched operations at its Kameyama facility in 1969 for the purpose of concentrating production of electrical insulation materials. Since then, this facility has expanded its business domain into the development and production of electronics-related products, such as materials for circuit components and semiconductor encapsulation, while adapting and improving on Nitto Denko's proprietary technologies. In 2003, Nitto Denko constructed a new global-scale production facility inside the premises of the Kameyama Plant in order to meet growing demand for LCD panels. The plant started production in January, 2004. In order to prevent technology leakage, our domestic plants including the new Kameyama Plant specialize in high-value-added pre-processing, while overseas plants in Asia are responsible for labor-intensive post-processing. We plan to enhance overseas plants in charge of post-processes in Asia in response to the strong need to expand production among customers.

In April 2004, Nitto Denko launched production of Optical Products at its new Onomichi Plant No. 4. In the same way that Kameyama leads in LCD-related materials, the Onomichi Plant is expected to serve as a model producer and innovator of Optical Products, and a resource for Nitto Denko Group companies worldwide.



Kameyama Plant, Mie



Onomichi Plant, Hiroshima

▶▶ New Plants Lead the Way

locations, but from our customers' standpoint, there may be items that would better be made overseas. From now on, we must see the market from a global point of view and optimize our production on a worldwide basis.

Also, concerning distribution, currently each channel conducts its own logistics, meaning there is room for improving our efficiency. Therefore, we will be initiating a reform program for distribution with a policy of slimming by fiscal 2006.

So that we can train future group leaders capable of implementing and developing these strategies, our company has established two internal corporate education institutions, Nitto University and Nitto Denko Management School. Designed for employees who form the backbone of our company, these schools provide a forum for the company management including the Chairman and President to speak face-to-face with employees on business and management. We expect these institutions to serve as an effective means of directly training tomorrow's top company leaders and managers.

▶ Investing in Corporate Brand Value and Focusing on Global Niche Top Products to Secure Continued Growth

In fiscal 2004, our company achieved the fiscal 2006 targets established in the "One-NITTO Dream Plan" two years ahead of schedule: ¥450 billion in net sales and ¥55 billion in operating income. However, the operating environment may well become more difficult, and the

economy will eventually slow down. The business environment in fiscal 2006 through 2008 is expected to be difficult for our company. Therefore, we have determined that the year ending March 2005 will be one of storing up strength for the future and reinforcing our corporate structure.

In order for Nitto Denko to become a Global Excellent Company both in name and fact, it is essential that we not only strengthen our operations for growth but also enhance our corporate brand value in terms of the trust placed in our corporation (See. page 9), in our products, and in our employees. Starting with fiscal 2005, we are launching a full-scale effort to enhance the corporate brand value of the Nitto Denko Group. We intend to increase the trust and expectations of our shareholders, our customers, the public, as well as our employees in a well-balanced manner, and by linking each group's satisfaction create a synergy that in total will lift our corporate value even higher.

Fiscal 2005 represents the second year of the three-year "One-NITTO Dream Plan," in which we planned to double the number of top global-niche products from 12 to 24. We have advanced the target date by one year, and are now investing aggressively to reach this goal by March 2005.

Specifically, focusing our energies on industries that can be expected to continue growing, we are strengthening our lines of LCD-related products, surface protection materials, and circuit materials for cellular phones, and meanwhile expanding sales of process materials for the semiconductor and electronic component industries,



Flexible Technology Company

“At Moments of Change with Brilliant Technology and Flexible Attitude”

The Nitto Denko Group pledges to all our stakeholders:

Moments of Change: are opportunities, the very time to initiate growth. We foresee the changes in the world before anyone else, and present precise solutions timely to their specific needs, in close collaboration with our customers. We create future values and make dreams come true by continuously changing ourselves.

Brilliant Technology: is our confidence. Our gleaming technology, sparkling solutions and bright ideas are all backed by radiant people. As our various sources of light gather to highlight the future, we create wonder and excitement for tomorrow.

Flexibility: is our attitude. We provide the greatest satisfaction at every turn through our flexible and persistent stance. We shape that 'eureka!' moment into reality by skillfully combining various possibilities.

We continue to advance globally in harmony with the social environment as we integrate each and everyone's capabilities into a single solid power.

We are your "Flexible Technology Company" The Nitto Denko Group.



whose markets continue to recover. As for our future growth businesses, medical-related products and high-polymer separation membranes, we intend to steadily develop markets and work to improve results. For fiscal 2005 we are forecasting net sales of ¥530 billion (a 17.1% increase) and net income of ¥41 billion (a 22.8% increase).

▶ A Trustworthy Company of Global Excellence

In fiscal 2004, Nitto Denko implemented organizational reforms to separate operations and management. In fiscal 2005, we plan to begin to reduce the number of directors, transfer the authority of the reduced directorships to the operational divisions, and increase the number of auditors. With the elimination of cross-shareholding, it is even more important to maintain an organization in which every shareholder can have full confidence. As a step toward strengthening our corporate structure, we intend to continue organizational reviews in the future.

Our company's core business is tape, which has evolved into a variety of products in sheet and film form, ranging from LCD materials to medical products. These products have many different shapes and uses, but it is not our intention to make products that deviate completely from our core business. However, by adding various functions to these sheets and films, and by innovating variations to meet customer needs, we believe we can find unlimited business opportunities.

It is precisely now, when our results are favorable, that we must not become too optimistic about our situation. It is also now that we must take special care not to make mistakes that could interrupt our progress as we take on new challenges and manage our business. Our intention is to develop Nitto Denko's corporate structure so that we will not miss out on business opportunities, and to move at full speed ahead toward becoming the Global Excellent Company.

It is my sincere hope and request that Nitto Denko continues to enjoy the valuable guidance and encouragement of all our shareholders and stakeholders, now and in the future.

Masamichi Takemoto
President