

**Consolidated Semiannual Financial Summary  
(for the fiscal year ending March 31, 2004)**

Listed company name: **Nitto Denko Corporation**  
Stock exchange listings: Tokyo, Osaka, First Section  
Head office: Osaka, Japan  
(URL <http://www.nitto.com/>)

Code Number: 6988

Company representative: President, Masamichi Takemoto  
Contact person: General Manager, Public & Investor Relations Department  
Name Hideki Komai TEL(072) 622-2981

Date of the board of directors' meeting for the semiannual financial statements: October 23, 2003

Adoption of the GAAP in the U.S. : No

(All monetary values noted herein are rounded down to the nearest million yen.)

## 1. Consolidated semiannual business results ( From April 1, 2003 to September 30, 2003 )

## (1) Operational results

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
September, 2003	213,606	(13.2)	21,427	(19.7)	23,259	(32.9)
September, 2002	188,751	(13.2)	17,906	(148.9)	17,507	(128.6)
March, 2003	378,705		33,901		35,832	

	Net income (semiannual)		Earnings per share – Basic		Earnings per share - Diluted	
	Millions of yen	%	yen		yen	
September, 2003	14,085	(51.6)	83.	62	83.	62
September, 2002	9,293	(152.0)	53.	52	--	
March, 2003	19,237		108.	52	--	

Notes: Equity in earnings of affiliates and non-consolidated subsidiaries:

(September, 2003) 1,202 million yen (September, 2002) 497 million yen (March, 2003) 1,861 million yen

Average number of shares outstanding (consolidated): (September, 2003) 168,451,674 shares

(September, 2002) 173,652,252 shares (March, 2003) 173,546,147 shares

Changes in accounting policies: Yes

Numbers in percentage in parentheses under the column of sales, operating income, ordinary income, and net income (semiannual) indicate changes in percentage from the corresponding period of the previous fiscal year.

## (2) Financial condition

	Total assets	Shareholders' equity	Shareholders' equity to total assets	Shareholders' equity per share
	Millions of yen	Millions of yen	%	yen
September, 2003	359,012	206,921	57.6	1,265. 54
September, 2002	364,463	230,158	63.1	1,327. 00
March, 2003	379,811	237,560	62.5	1,367. 38

Note: Number of shares outstanding at the term end (consolidated): (September, 2003) 163,500,733 shares  
(September, 2002) 173,442,540 shares (March, 2003) 173,438,827 shares

## (3) Cash flows

	Cash flows from operating activities	Cash flows from Investing activities	Cash flows from financing activities	Cash and cash equivalents, end of term
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
September, 2003	13,983	14,809	32,375	39,959
September, 2002	32,498	15,484	4,029	53,428
March, 2003	59,224	24,608	1,638	73,341

(4) Scope of consolidation and equity method

Consolidated subsidiaries: 42 Non-consolidated subsidiaries applicable of equity method: 62  
Affiliates applicable of equity method: 2

(5) Changes in the scope of consolidation and the equity method

Consolidation (Inclusion): 4 (Exclusion): -  
Equity method (Inclusion): 3 (Exclusion): 3

2. Projections for the year ending March 31, 2004 ( From April 1, 2003 to March 31, 2004 )

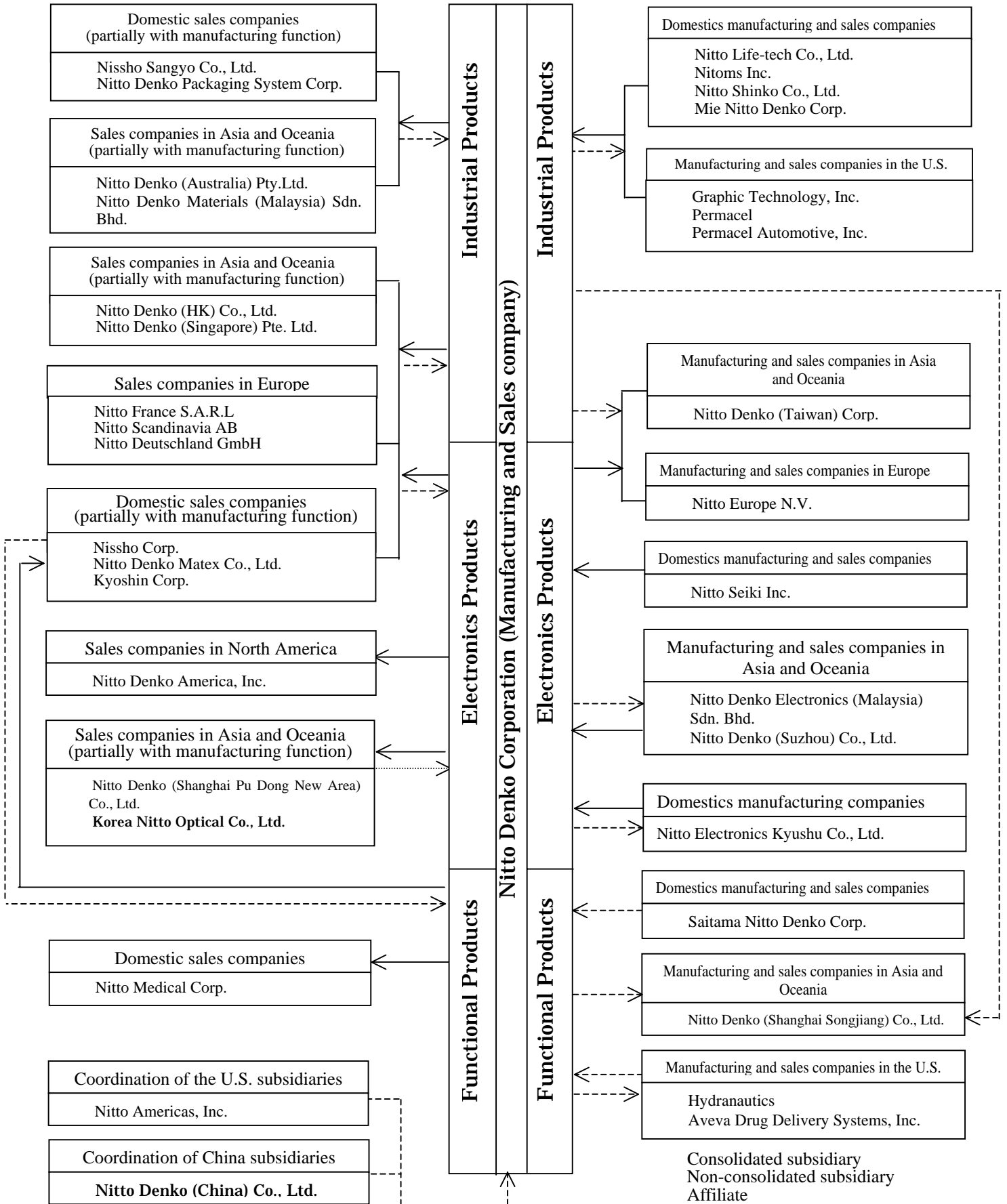
	Net sales	Operating income	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Full-year	447,000	47,000	50,000	30,000

(Reference) Projected net income per share for the full year: 178.43 yen

\*The projections shown above are prepared based on information available as of the issuing date of this report, and therefore the actual results may differ from the projected figures due to various unknown factors.  
The projected net income per share for the full year is calculated using the projected average number of shares outstanding, considered purchase of treasury stock in this fiscal year.

# Nitto Denko Group Operations

As of September 30, 2003 Nitto Denko Group is comprised of this Corporation and its 104 subsidiaries as well as its 2 affiliated companies, where their business lines, positioning of each affiliated companies and their relationship to each business segment are indicated in the chart below. The information provided here reflects the classification used in the segment information.



# Management Policy

## **1. The Corporation's Basic Management Policy**

The Nitto Denko Group has a corporate vision – “Creating New Value” – common to all the group companies. This leads us towards continuously delivering new value to customers throughout the world, while achieving sound growth as a corporation. The Nitto Denko Group intends to become a corporation that enhances value for all its stakeholders, including society, shareholders and employees.

Nitto Denko's strategy is to become a “Global Niche Top” – identifying future needs in selective growing markets worldwide, developing proprietary technologies attuned to those needs to the fullest satisfaction of customers, and then becoming the leader in these markets. We believe that drawing on the combined strength of the Nitto Denko Group, both domestic and overseas companies, will enable us to become the “Global Niche Top”. To promote the strategy, it is necessary to establish and to prepare proprietary technologies ready for customers' future needs accurately and in a timely manner, so we are working hard to enhance our technologies with a slogan of “Technology-oriented Company”. In addition, we are promoting marketing activities called “Sanshin (three new) Activities”: “Development of new applications”, “Development of new products”, and “Development of new demands” to expand our business domain around the current business.

By applying this strategy globally, we intend to become a corporation that is not vulnerable to the fluctuations of the Japanese economy. In other words, “Global Niche Top” is a strategy that enables us to maintain growth through focusing and expanding our business in areas that keep expanding and changing even under a globally bad economy. As filing of “Global Niche Top” as a trademark was completed in Japan, it now officially represents the Corporation's management strategy both in name and reality.

## **2. Basic Policy for Appropriation of the Corporation's Profits**

The Corporation is committed, as its basic dividend policy, to ensure a stable and fair return for its shareholders. At the same time, in order to stay ahead of rapidly changing technologies and to respond to customers' needs, the Corporation aggressively devotes funds for investment in R&D and in production facilities. Therefore, dividends to shareholders are determined, after taking into account the Corporation's overall financial condition, profit level, and payout ratio.

## **3. Mid-term and Long-term Business Strategies and Management Goals**

We have established our goal to become a “Globally Excellent Company” in 5 years. As a method of achieving our goal for our company, we have conceived an actual action plan "as a 3-year action plan that views the Corporation's business from the standpoint of 5 years ahead", and started "One-NITTO Dream Plan": a new mid-term business plan that end in fiscal year 2006.

The plan focuses on business growth and aims to double the “Global Niche Top” products by expanding product development efforts that used to be limited in Japan to all 5 areas of the world and to develop products suitable for industries in each area. We will enhance the business execution structure, empower regional companies and strengthen R&D investment. Especially, we will extend our utmost effort in China, whose economy has expanded remarkably these past years. We will make our Suzhou plant, which will soon be in full operation, profitable, enhance the area marketing sales forces and promote joint research projects with universities to strengthen business execution functions by integrating technology, production and sales forces.

In other words, we treat China not only as a low cost production center, but an area with attractive market and excellent talents.

In the plan, we will further continue the “Muscle Plan”, a business plan that significantly improved company-wide “Productivity Enhancement” for these two years by modifying it into “Muscle Plan 2<sup>nd</sup> Step”, so that it will take root within the Corporation as our backbone and one of the key concepts within the plan. We plan to increase the consolidated operating income for the fiscal year ending March 2006 to 55,000 million yen, the ROA (Return on Assets) 15%, and operating earning rate 12%.

In addition to the mid-term business plan, in 5 years, we plan to increase the ROA to 20% and the operating margin to 17%, the figures comparable to the world's leading companies and suitable for an Excellent Global Company of our vision. In this way, the new mid-term management plan, “One-NITTO Dream Plan” is positioned as a passing point for us to realize our goal in 5 years. We are committed to achieving this goal. We will continue to achieve sufficient growth to satisfy the needs of our customers, and to be active in the development of environmentally friendly products, thus fostering corporate activities that win the trust of the community and are in concert with society.

#### **4. Challenges the Corporation Faces**

While Nitto Denko Group's endeavors to become a "Global Niche Top", on the foundation of its technological expertise remains unchanged, we will focus on executing the new mid-term business plan, to improve the corporation's resilience in the face of economic downturns and to reinforce business capabilities for growth.

In order to double the number of Global Niche Top products, we will focus on enhancing our R & D capability. For this purpose, we will strengthen our basic technologies and strengthen the R & D capability in overseas facilities. We will also aggressively promote joint research projects with local universities in order to minimize development periods.

We have been working actively for environmental conservation and formulated a voluntary plan (the Environmental Protection Action Plan), established a "Code of Conduct" and released "Environmental Reports".

From the fiscal year ending March 2003, we have introduced an Environmental Accounting System on a consolidated base. We are committed to our continuous effort for environmental conservation.

We are working on construction of a new LCD plant in Kameyama city in Mie prefecture to cope with the growing demand for LCD displays for LCD TV and other equipment. We are also working hard to increase production capacity of the Onomichi LCD plant. In the field of tape business, our affiliate in the U.S. has acquired an automotive parts design and sales company to strengthen marketing in the area. With this structure, we will work towards a fully-fledged marketing effort in the field of automotive industries there. We have also started the operation of a new plant of our affiliate in the U.S. from January 2003 with a clean room. In addition, we have expanded the production line in our Toyohashi plant to increase production capacity. As to our electronics business, we have taken all measures to realize low cost production by transferring our production facilities to China and are working hard to create new businesses. We are already taking strategic moves for growth in the future. As to our medical business, this is considered to be a growth driving force for our mid-term plan, so we plan to expand the production line for transdermal therapeutic patches. For the membrane business, we plan to expand our business by establishing a production facility in Shanghai, China. We will aim to maintain our current continued growth by positive investment to these mid-term engines of growth as well as the current ones.

#### **5. Basic concept for corporate governance and implementation of relevant policies**

We have enforced reform to the corporate management control structure on April 1<sup>st</sup>, 2003 aiming to "Improve managerial soundness", to "Strengthen and speed up the conduct of business" and to "Increase unified Group management".

To clearly separate management and operation functions, we made "Clarification of the role of the management decision-making function and the role of the operation function" and introduced the "operating officer system".

Here, directors devote themselves exclusively to management of the group as a whole. Newly established operating officers are responsible for optimizing the performance of their assigned area of business. With the introduction of the new system, the Board of Directors was reduced from 14 members to 9, and the term of office of both directors and operating officers was set at one year.

In July, there was a change of main shareholders. We will continue to strengthen corporate governance to achieve growth that satisfies our shareholders, we will practice business behavior that can be relied on by society through development of environment-conscious products, and we will promote business activity in harmony with society.

# **Business Results and Financial Condition**

## **1. Summary of First Half of the Fiscal 2004**

### Summary of overall business

As to the world economy during the midterm, the U.S. economy after the Iraqi war fared rather better than expectation, contributing to the economy of major Europe and Asian countries, and has slowly started on a recovery process. The Japanese economy has benefited from exports and capital investment is recovering to show a bottom out phase.

Under such an economic environment, electronics related businesses, especially FPD (flat panel display) and the cellular phones industries remained favorable, the result of our group were favorable for LCD related materials and electronic materials as circuit materials, while industrial materials such as tape materials for electronics remained steady.

Net sales increased by 13.2% from the same term last year (changes in percentage below indicate the change from the first half of the previous fiscal year) to 213,606 million yen.

In terms of profits, despite negative factors such as pricing pressure, the increase in capacity utilization caused by an increase in sales as well as the reduction of materials unit prices, contributed to the profit growth. As a result, operating income increased 19.7% to 21,427 million yen, ordinary income increased 32.9% to 23,259 million yen, and net income increased 51.6% to 14,085 million yen.

### Summary of Result by Business Segments

#### [Industrial Products]

As to tape materials, sales of bonding materials for information and telecommunications industries that makes cellular phones and PCs and peripheral equipment, surface protection materials and cleaning materials for display industry remained steady. For the automotive industry, sealing materials remain steady; the company we purchased last year, Permacel Automotive has realized sales in North America. Protecting and waterproofing tapes for the construction industry remained steady, packaging materials and consumer goods were sluggish. Among other products, tape products for information and telecommunication industries remained steady.

As a result, the sales of industrial materials increased 9.2% to 92,716 million yen, and operating income increased 22.8% to 5,800 million yen.

#### [Electronic Products]

Among LCD-related products, the speed of shift from CRT monitors to LCD monitor has become faster, enhanced optical films remained steady due to the needs for screen enhancement and widening of viewing area. Because of production expansion for LCD TV, sales of enhanced compensation films for high quality display, and sales of phase contrast films for color cellular phones showed favorable results. Among semiconductor related products, sales of products for enhanced packages remained steady, however both the overseas and domestic markets remained rather sluggish as a product category. As to circuit materials, sales remained steady as the market for color LCD screens for cellular phones and compact cameras expanded significantly. Suzhou factory in China, an integrated manufacturing factory for circuit materials, started making a contribution from this term. As to electronic process materials, sales of protection sheets, thermal release sheets for bonding machines, and parts packaging tapes for production processes remained steady, but it was sluggish as a whole due to the reduction of production by major customers and the slow take-up from the electronic parts industry.

As a result, the sales of electronic products increased 20.5% to 101,195 million yen, and operating income increased 35.9% to 14,368 million yen.

#### [Functional Products]

Among health care products, despite the sluggish demand within the pharmaceutical market due to the impact of medical expenses containment policy, sales of transdermal therapeutic patches, pharmaceutical products, remained steady. Sales of surgical tapes for hospitals remained steady despite the sluggish status of medical and medical hygienic materials as a whole. However due to reckoning up of expenses for purchase of ADS (Aveva Drug Delivery Systems) profits were sluggish. Although sales of items such as polymer separation membrane, washing water for semiconductor industry and LCD industry, drinking water and industrial water for Chinese market remained steady, we had few large projects such as seawater desalination, but as a whole it was rather sluggish. Profit has reduced significantly due to the clearance of dead stock at Hydronautics. As to engineering plastic parts, sales of production process materials for semiconductors was sluggish, and in spite of the impact due to our

withdrawal from unprofitable products, sales of office automation equipment and internal pressure control filters for automotive electrical components remained steady and total sales remained almost flat.

As a result, net sales of functional materials decreased 0.8% to 19,694 million yen, and operating income decreased 51.7% to 1,258 million yen.

### Interim dividend

The Corporation will pay 17 yen per share for the interim dividends, increasing by 6 yen the dividend paid previously.

## **2. Projection for the full year**

Going forward, in spite of concerns about recovery of the U.S. and Asian economies, and further appreciation of the yen, we expect that capital investment and production will recover gradually. In such an economic environment, our group will quickly cope with rapid growth of the FPD (flat panel display) market by enhancing our response to develop and produce LED related materials. We will vary the response for circuit materials in terms of technologies and markets. We will enhance global development of the tape business, our backbone, and we will concentrate our management resources in order to develop process materials that quickly respond to changes within markets areas. In addition, we will work hard to expand sales of medical materials and polymer separation membranes to further improve our business. To strengthen management practices, we will implement further productivity reforms to build a low cost production system.

For our projection for the business results of our group in the fiscal year (FY 2004), we expect sales to amount to 447 billion yen (an increase of 18.0% from the previous year (changes in percentage below indicate the change from the first half of the previous fiscal year)), operating income at 47 billion yen (up 38.6%), ordinary income at 50 billion yen (up 39.5%), net income at 30 billion yen (up 55.9%).

## **3. Financial conditions**

Cash and cash equivalents (hereunder called "net cash") at the end of the mid fiscal year was 39,959 million yen, a decrease in 33,382 million yen from the end of the previous fiscal year. Analysis of cash flow and financial position are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities totaled, increased to 13,983 million yen.

This was mainly attributable to an increase in net profit after taxes by 24,054 million yen, depreciation by 10,010 million yen, accounts payable by 6,905 million yen, increase of accounts receivable of 8,762 million yen, and a reduction of payments for items such as corporate income tax by 13,804 million yen.

(Cash flow from investing activities)

Net cash used in investing activities totaled 14,809 million yen.

This was mainly attributable to an outlay of 10,147 million yen for the acquisition of fixed assets, and an outlay of 6,922 million yen for the purchase of stocks of affiliate companies.

(Cash flow from financing operations)

Net cash used in financing operations totaled 32,375 million yen.

This was mainly attributable to an outlay of 2,254 million yen for dividend payment, and an outlay of 39,704 million yen for the purchase of treasury stocks.

Movements of the cash flow indexes of our group companies as follows.

	2001 March	2002 March	2002 September	2003 March	2003 September
Equity ratio (%)	63.4	65.2	63.1	62.5	57.6
Equity ratio at market value basis (%)	155.5	190.0	147.0	144.8	220.0
Liability Maturity (year)	0.3	0.5	0.1	0.2	0.8
Interest Coverage Ratio	72.3	89.2	440.3	284.1	190.5

(Notes)

1 Each index is calculated by relevant formulas with financial figures quoted from the consolidated balance sheet.

Equity ratio

Shareholder's equity ÷ Total assets

Equity ratio at market value basis

Total market value of listed shares ÷ Total assets

Liability Maturity

liability with interest ÷ Cash flows from operating activities

Liability maturity at semi-annual basis

liability with interest ÷ (Cash flows from operating activities x 2)

Interest Coverage Ratio

Cash flows from operating activities ÷ interest payment

2 Market capitalization is calculated by multiplying a closing price of a share at the half-year end (term-end) by the number of shares issued after deduction of own shares at the half-year end (term-end).

3 Liabilities with interest, liabilities accounted in the consolidated balance sheet, all debts that incur interest payment.

4 For the amount of cash flows from operating activities and interest payment, "Cash flows from operating activities" and "Interest payment" in the consolidated statement of cash flow are used.

**CONSOLIDATED SEMIANNUAL BALANCE SHEETS**

Description	As of September 30, 2002		As of September 30, 2003		As of March 31, 2003	
	Amount	Composition	Amount	Composition	Amount	Composition
(Assets)	Millions of yen	%	Millions of yen	%	Millions of yen	%
<b><u>Current Assets</u></b>	(194,110)	53.3	(191,247)	53.3	(216,440)	57.0
Cash on hand and in banks	51,807		40,401		52,709	
Trade notes and accounts receivable	89,311		98,415		89,727	
Marketable securities	4,298		643		19,027	
Inventories	33,726		37,389		37,674	
Deferred tax assets	6,790		6,122		5,905	
Other current assets	9,456		9,559		12,608	
Allowance for doubtful receivables	1,279		1,286		1,211	
<b><u>Fixed Assets</u></b>	(170,352)	46.7	(167,765)	46.7	(163,371)	43.0
<b>Tangible Fixed Assets</b>	132,192	36.3	131,576	36.7	127,445	33.6
Buildings and structures	101,827		106,037		104,511	
Machinery and material-handling equipment	177,267		186,052		183,576	
Tools, fixtures and parts	21,415		21,836		21,920	
Land	19,559		18,925		19,115	
Construction in progress	12,806		12,030		6,380	
Accumulated depreciation	200,683		213,305		208,059	
<b>Intangible Fixed Assets</b>	5,679	1.5	6,614	1.8	5,705	1.5
Goodwill	1,376		659		1,396	
Other intangible fixed assets	4,303		5,955		4,309	
<b>Investments and Other Assets</b>	32,479	8.9	29,574	8.2	30,219	7.9
Investments in securities	8,764		9,223		6,434	
Investments in non-consolidated subsidiaries and affiliates	9,484		11,339		11,835	
Deferred tax assets	9,456		4,660		7,697	
Others	5,428		4,978		4,993	
Allowance for doubtful receivables	654		627		741	
<b>Total Assets</b>	<b>364,463</b>	<b>100.0</b>	<b>359,012</b>	<b>100.0</b>	<b>379,811</b>	<b>100.0</b>

Description	As of September 30, 2002		As of September 30, 2003		As of March 31, 2003	
	Amount	Composition	Amount	Composition	Amount	Composition
(Liabilities)	Millions of yen	%	Millions of yen	%	Millions of yen	%
<b><u>Current Liabilities</u></b>	(99,653)	27.4	(123,438)	34.4	(109,204)	28.8
Trade notes and accounts payable	52,680		62,474		55,457	
Short-term loans payable	5,662		14,948		9,468	
Commercial paper	--		2,000		--	
Current portion of bonds	200		--		--	
Accrued expenses	11,582		13,995		13,647	
Income taxes	9,992		6,839		13,276	
Other current liabilities	19,535		23,180		17,355	
<b><u>Long-term Liabilities</u></b>	(24,856)	6.8	(17,614)	4.9	(22,800)	6.0
Bonds	300		300		300	
Long-term loans payable	1,838		3,540		2,348	
Provision for retirement benefits	19,390		10,415		16,616	
Provision for retirement allowances for directors and corporate auditors	1,090		1,077		1,232	
Other long-term liabilities	2,237		2,282		2,303	
<b>Total Liabilities</b>	<b>124,510</b>	<b>34.2</b>	<b>141,053</b>	<b>39.3</b>	<b>132,005</b>	<b>34.8</b>
(Minority Interests)						
Minority interests	9,794	2.7	11,037	3.1	10,246	2.7
(Shareholders' Equity)						
Common stock	26,783		26,783		26,783	
Capital surplus	50,482		50,482		50,482	
Earned surplus	160,596		180,074		168,632	
Net unrealized holding gains or losses on securities	451		1,788		242	
Foreign currency translation adjustments	7,100		11,685		7,513	
Cost of treasury stock	1,054		40,522		1,067	
Cost of parent company's stocks held by subsidiaries	--		--		--	
<b>Total Shareholders' Equity</b>	<b>230,158</b>	<b>63.1</b>	<b>206,921</b>	<b>57.6</b>	<b>237,560</b>	<b>62.5</b>
<b>Total Liabilities, Minority Interest and Shareholders' Equity</b>	<b>364,463</b>	<b>100.0</b>	<b>359,012</b>	<b>100.0</b>	<b>379,811</b>	<b>100.0</b>

**CONSOLIDATED SEMIANNUAL STATEMENTS OF INCOME**

Description	(From April 1, 2002 to September 30, 2002)		(From April 1, 2003 to September 30, 2003)		(From April 1, 2002 to March 31, 2003)	
	Amount	Composition	Amount	Composition	Amount	Composition
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Net sales	188,751	100.0	213,606	100.0	378,705	100.0
Cost of sales	133,452	70.7	151,768	71.1	269,084	71.1
Gross profit	55,299	29.3	61,837	28.9	109,620	28.9
Selling, general and administrative expenses	37,393	19.8	40,410	18.9	75,718	19.9
<b>Operating Income</b>	17,906	9.5	21,427	10.0	33,901	9.0
<b>Other Income</b>	(2,011)	1.1	(3,325)	1.6	(5,876)	1.5
Interest and dividend income	279		329		516	
Equity in earnings of non-consolidated subsidiaries and affiliates	497		1,202		1,861	
Miscellaneous income	1,234		1,793		3,497	
<b>Other Expenses</b>	(2,410)	1.3	(1,493)	0.7	(3,945)	1.0
Interest expenses	70		84		201	
Miscellaneous expenses	2,339		1,409		3,744	
<b>Ordinary Income</b>	17,507	9.3	23,259	10.9	35,832	9.5
<b>Extraordinary Gains</b>	(259)	0.1	(2,007)	0.9	(4,080)	1.1
Gains on sales of fixed assets	243		24		343	
Gains on return of substituted portion of employee pension fund	--		--		3,731	
Reversal of provision for retirement benefits by system changes	--		1,957		--	
Other extraordinary gains	16		25		4	
<b>Extraordinary Losses</b>	(1,855)	1.0	(1,213)	0.5	(6,387)	1.7
Losses on sales and disposal of fixed assets	358		347		1,025	
Losses on evaluation of investment in Securities	6		2		1,657	
Restructuring expenses	1,487		--		1,820	
Losses on evaluation of goodwill	--		713		--	
Collective treatment such as retirement benefits of overseas subsidiaries	--		--		1,382	
Other extraordinary losses	3		150		502	
Income before provision for income taxes	15,911	8.4	24,054	11.3	33,524	8.9
Corporate income, local and business taxes	8,731	4.6	7,103	3.3	13,592	3.6
Adjustments to income taxes	2,518	1.3	2,016	1.0	240	0.1
Minority interest in net income of consolidated subsidiaries	405	0.2	848	0.4	935	0.3
<b>Net Income</b>	9,293	4.9	14,085	6.6	19,237	5.1

**CONSOLIDATED SEMIANNUAL STATEMENTS OF SHAREHOLDERS' EQUITY**

Description	(From April 1, 2002 to September 30, 2002)	(From April 1, 2003 to September 30, 2003)	(From April 1, 2002 to March 31, 2003)
	Millions of yen	Millions of yen	Millions of yen
(Capital Surplus)			
I Beginning balance of capital surplus	50,482	50,482	50,482
II Ending balance of capital surplus (Semiannual/Annual)	50,482	50,482	50,482
(Earned Surplus)			
I Beginning balance of earned surplus	153,518	168,632	153,518
II Increase in earned surplus	(9,293)	(14,085)	(19,237)
Net income (Semiannual/Annual)	9,293	14,085	19,237
III Decrease in earned surplus	(2,215)	(2,643)	(4,123)
Cash dividends paid	1,911	2,254	3,819
Directors' bonuses	303	385	303
Loss on disposal of treasury stock	--	2	
IV Ending balance of earned surplus (Semiannual/Annual)	160,596	180,074	168,632

## CONSOLIDATED SEMIANNUAL STATEMENTS OF CASH FLOWS

Year	Previous First Half (From April 1,2002 to September 30, 2002)	Current First Half (From April 1,2003 to September 30, 2003)	Previous Fiscal-Full (From April 1,2002 to March 31, 2003)
Description	Millions of yen	Millions of yen	Millions of yen
<b>I Cash Flows from Operating Activities</b>			
Income before provision for income taxes before adjustments to reconcile income to net cash provided by operating activities	15,911	24,054	33,524
Depreciation and amortization	10,169	10,010	21,143
Increase/decrease in provision for retirement benefits	1,017	6,200	1,756
Increase/decrease in provision for retirement allowances for directors and corporate auditors	11	155	130
Interest and dividend income	279	329	516
Interest expenses	70	84	201
Equity in earnings of non-consolidated subsidiaries and affiliates	497	1,202	1,861
Losses on evaluation of investment in securities	6	2	1,657
Increase (decrease) in trade notes and accounts receivable	1,838	8,762	2,398
Increase (decrease) in inventories	429	8	4,493
Increase (decrease) in other accounts receivable	258	1,450	291
Increase (decrease) in trade notes and accounts payable	4,465	6,905	7,251
Directors' bonuses paid	344	430	344
Others, net	629	4,725	5,001
Sub-total	29,127	27,258	57,247
Interest and dividends received	251	602	480
Interest paid	73	73	208
Income taxes paid and refunded	3,192	13,804	1,706
<b>Net cash provided by operating activities</b>	<b>32,498</b>	<b>13,983</b>	<b>59,224</b>
<b>II Cash Flows from Investing Activities</b>			
Increase (decrease) in time deposits	0	199	1
Purchase of marketable securities	--	--	3,000
Proceeds from sales of marketable securities	402	1,072	5,677
Acquisition of fixed assets	14,415	10,147	24,451
Proceeds from sales of fixed assets	631	443	1,184
Purchase of investments in securities	2,029	34	2,065
Proceeds from sales of investments in securities	55	27	389
Purchase of securities of subsidiaries	113	6,922	2,073
Proceeds from sales of securities of subsidiaries	--	148	--
Payments of loans	353	28	975
Collections of loans	337	431	708
<b>Net cash used in investing activities</b>	<b>15,484</b>	<b>14,809</b>	<b>24,608</b>
<b>III Cash Flows from Financing Activities</b>			
Increase (decrease) in short-term debt	1,879	4,993	1,756
Increase (decrease) in commercial paper	--	2,000	--
Proceeds from long-term debt	970	2,498	1,845
Repayment of long-term debt	55	23	54
Purchase of treasury stock based on stock option	1,051	39,704	1,063
Proceeds from sales of treasury stock	--	245	--
Redemption of debenture	--	--	200
Dividends paid	1,911	2,254	3,819
Dividends paid to minority interest	102	130	102
<b>Net cash used in financing activities</b>	<b>4,029</b>	<b>32,375</b>	<b>1,638</b>
<b>IV Effect of Exchange-rate Changes on Cash and Cash Equivalents</b>	<b>488</b>	<b>545</b>	<b>569</b>
<b>V Net Increase in Cash and Cash Equivalents</b>	<b>12,495</b>	<b>33,746</b>	<b>32,408</b>
<b>VI Cash and Cash Equivalents, Beginning of Year</b>	<b>40,105</b>	<b>73,341</b>	<b>40,105</b>
<b>VII Cash and Cash Equivalents of Newly Consolidated Companies</b>	<b>827</b>	<b>364</b>	<b>827</b>
<b>VIII Cash and Cash Equivalents, End of First Half of Fiscal Year</b>	<b>53,428</b>	<b>39,959</b>	<b>73,341</b>

## Basis of Preparation for the Consolidated Financial Statements

### 1. Scope of Consolidation

#### 1) Consolidated subsidiaries: 42

Major companies: Nitto Shinko Corp, Nissho Corp., Kyoshin Co., Ltd., Nitto Denko Matex Co., Ltd., and Nitto Europe N. V.

Aveva Drug Delivery Systems, Inc. was newly acquired.

Taiwan Nitto Optical Co., Ltd. was newly established.

Nitto Denko (Shanghai) Electro-Energy Co., Ltd. was newly established.

Permacel Automotive, Inc. was newly added from non-consolidated company.

#### 2) Non-consolidated subsidiaries: 62

Major company: Nistem Corporation

Nissho Precision (Suzhou) Co., Ltd. and other 2 companies were newly established.

Nichiei Insatsu Shiko Co., Ltd. and other 2 companies were excluded.

### 2. Application of equity method

#### 1) Non-consolidated subsidiaries applicable of equity method: 62

Major company : Nistem Corporation

Nissho Precision (Suzhou) Co., Ltd. and other 2 companies were newly established.

Nichiei Insatsu Shiko Co., Ltd. and other 2 companies were excluded.

#### 2) Affiliates applicable of equity method: 2

### 3. First Half of Fiscal Year End of Consolidated Companies

37 of the consolidated subsidiaries use the same first half of fiscal year end.

5 of the consolidated subsidiaries use the different first half of fiscal year end.

Necessary adjustments have been made for inter-company transactions between these five subsidiaries and the Corporation, which have taken place during the intervening period from the end of last consolidated fiscal year-end to the current consolidated first half of fiscal year end.

### 4. Accounting Principles and Practices

#### 1) Revaluation standards and method of significant assets

Securities

Marketable securities for trading purposes

Stated at market value (Moving average cost method for cost of sales)

Other securities

Market value is available: Stated at market value on the date of the current consolidated first half of fiscal year end (**Valuation adjustments are reported in Equity section, and the sales cost is calculated by a moving average method**).

Market value is not available: Stated at moving-average cost

Derivatives Fair value method

Inventories Mainly the lower of cost or market, where cost is determined by the average method.

#### 2) Depreciation method of significant depreciable assets

Tangible fixed assets Mainly declining balance method

Intangible fixed assets Straight-line method

(Straight-line method is applied for the software used in-house for the proprietary purposes during its usable life (five years).)

### 3) Provision of significant allowances

#### Allowance for doubtful receivables

Allowance of doubtful receivables is provided at an amount sufficient to cover possible losses on the collection of receivables. For certain probable doubtful accounts the uncollectible amounts are estimated based on a review of the collectivity of individual receivables.

#### Provision for retirement benefits

The corporation provided allowance for employees' severance and pension benefits at the end of this semiannual period based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the end of this fiscal year.

Prior service cost of pension plans are amortized over the fixed years less than the estimated average remaining service lives of the employees, which is 12 years for the current year.

The actuarial net losses are amortized over the fixed years less than the estimated average remaining service lives of the employees, which is 12 years for the current year, from the next fiscal year.

#### Provision for retirement allowances for directors and corporate auditors

Domestic consolidated companies provide for retirement allowances for directors and corporate auditors at the full amount which would be required to be paid if all directors and corporate auditors retired at the balance sheet date based on each Company's internal regulations.

### 4) Translation of foreign currency assets and liabilities into Japanese yen

Foreign currency assets and liabilities of the Corporation are translated into Japanese yen at the spot exchange rate prevailing at the date of the first half end of the fiscal year, while exchange gain or loss adjustments were posted as gains or losses. The assets and liabilities of the foreign subsidiaries are translated into Japanese yen at the spot exchange rate prevailing at the balance sheet date, and their revenues and expenses are translated into Japanese yen at the average exchange rate during the reporting semiannual period, the differences arising from such translations are posted as "Minority interests" and "Foreign currency translation adjustments" at the section of the Shareholder's equity.

### 5) Lease transactions

Finance leases, except for those leases where the ownership of the leased assets is considered to be transferred to the lessee are allowed to be accounted for in the same manner as ordinary rental transactions.

### 6) Hedging accounting

#### Hedge accounting

Deferred hedge accounting is adopted for the foreign currency forward contracts on anticipated transactions.

#### Hedging instruments and hedged items

Hedging instruments and hedged items subject to the hedging accounting during the current semiannual fiscal year are as follows:

- 1) Hedging instruments: Foreign currency forward contracts
- 2) Hedged items: Accounts receivable denominated in foreign currencies for product exports  
Debt in foreign currencies for imports of facilities and others

#### Hedging policy

Foreign currency forward contracts are executed to hedge the risk in fluctuations in the amount of receivables due to fluctuations in foreign currency exchange rates.

### 7) Other basic information for preparation of the semiannual consolidated financial statements

The tax-excluded method is adopted for accounting treatment of consumption and other taxes.

## 5. Scope of funds in the Consolidated Statements of Cash Flows

Funds (cash and cash equivalents) in the consolidated statements of cash flows are comprised of cash in hand, demand deposits and time deposits maturing within three months from the date of acquisition, and highly liquid short-term investments having an original maturity of three months or less with minor risk of fluctuations in value.

### **(Significant contingent liabilities)**

Not applicable.

## Notes

### **(Consolidated balance sheets)**

#### 1. Pledged assets and secured debt

	<u>September 30, 2002</u>	<u>September 30, 2003</u>	<u>March 31, 2003</u>
Pledged assets	1,258 mil. yen	438 mil. yen	427 mil.yen
Secured debt	620 mil. yen	442 mil. yen	451 mil.yen

#### 2. Obligation and commitment under the guarantee agreements (including letters of comfort for management guidance)

	<u>September 30, 2002</u>	<u>September 30, 2003</u>	<u>March 31, 2003</u>
Obligations under the guarantee agreements	2,098 mil. yen	1,773 mil. yen	1,980 mil.yen
Commitments under the Guarantee agreements (including letters of comfort for management guidance)	222 mil. yen	-- mil. yen	150 mil.yen

#### 3. Trade notes discounted and trade notes endorsed

	<u>September 30, 2002</u>	<u>September 30, 2003</u>	<u>March 31, 2003</u>
Notes receivable discounted	90 mil. yen	90 mil. yen	90 mil.yen
Notes receivable endorsed	388 mil. yen	809 mil. yen	803 mil.yen

### **(Consolidated statements of cash flows)**

Cash and cash equivalents at the end of the first half of fiscal year and their relevant items posted in the balance sheet and their amount

	<u>September 30, 2002</u>	<u>September 30, 2003</u>	<u>March 31, 2003</u>
Cash on hand and in banks	51,807 mil. yen	40,401 mil. yen	52,709 mil.yen
Time deposits maturing over 3 months	689 mil. yen	442 mil. yen	678 mil. yen
Marketable securities	2,310 mil. yen	-- mil. yen	21,310 mil. yen
Cash and cash equivalents	53,428 mil. yen	39,959 mil. yen	73,341 mil. yen

### **(Leases)**

No notes are made since we disclose them electronically in accordance with the provisions in paragraph 30-6 of Article 27 of Securities Exchange Law.

**(Securities)**

(Previous first half of fiscal year end)(As of September 30, 2002)

1. Debt securities intended to be held till their maturities

Not applicable.

2. Other Securities with Fair Value

(Unit: Millions of yen)

	Acquisition cost	Book value	Difference
(1) Equity securities	4,312	5,354	1,042
(2) Bonds			
Government bonds, municipal bonds	-	-	-
Corporate bonds	-	-	-
Others	959	861	98
(3) Others	138	131	6
<b>Total</b>	<b>5,410</b>	<b>6,347</b>	<b>937</b>

3. Securities with no Fair Values

	Carrying amount
Other securities	
Unlisted equity securities (not including over-the-counter traded equities)	2,509
<b>Total</b>	<b>2,509</b>

(Current first half of fiscal year end)(As of September 30, 2003)

1. Debt securities intended to be held till their maturities

Not applicable

2. Other Securities with Fair Value

(Unit: Millions of yen)

	Acquisition cost	Book value	Difference
(1) Equity securities	2,689	6,021	3,331
(2) Bonds			
Government bonds, municipal bonds	-	-	-
Corporate bonds	-	-	-
Others	679	688	9
(3) Others	40	40	0
<b>Total</b>	<b>3,408</b>	<b>6,750</b>	<b>3,341</b>

3. Other Securities with No Fair Value

	Carrying amount
Other securities	
Unlisted equity securities (not including over-the-counter traded equities)	2,513
<b>Total</b>	<b>2,513</b>

(Previous fiscal year end)(As of March 31, 2003)

1. Marketable securities for trading purposes

Amount posted on balance sheet

18,934 mil. yen

Securities valuation adjustments included in the current fiscal year's gains and losses

8 mil. yen

2. The debt securities intended to be held till their maturities

Not applicable

3. Other securities subject to marked-to-market

Securities with book values exceeding acquisition costs

(Unit: Millions of yen)

	Acquisition cost	Book value	Difference
(1) Equity securities	1,200	2,001	800
(2) Bonds			
Government bonds, municipal bonds	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
(3) Others	92	93	0
<b>Total</b>	<b>1,293</b>	<b>2,094</b>	<b>800</b>

Securities with book values not exceeding acquisition costs

(Unit: Millions of yen)

	Acquisition cost	Book value	Difference
(1) Equity securities	1,395	1,260	134
(2) Bonds			
Government bonds, municipal bonds	-	-	-
Corporate bonds	-	-	-
Others	757	654	102
(3) Others	15	7	7
<b>Total</b>	<b>2,167</b>	<b>1,922</b>	<b>245</b>

4. Other securities sold during the current fiscal year (From April 1, 2002 to March 31, 2003)

No notes are made because of little significance of total amount of capital gains/loss.

5. Securities not subject to marked-to-market

(Unit: Millions of yen)

	Amount posted on balance sheet
Other securities	
Unlisted equity securities (not including over-the-counter traded equities)	2,510

6. Redemption amount of marketable securities subject to matured and debt securities intended to be held till their maturities

Not applicable.

**(Derivative transactions)**

No notes are made since we disclose them electronically in accordance with the provisions in paragraph 30-6 of Article 27 of Securities Exchange Law.

**(Segment information)****I. Operating Segment Information**

From April 1, 2002 to September 30, 2002

(Unit : Millions of yen)

	Industrial products	Electronic products	Functional products	Total	Eliminations (corporate)	Consolidated total
Net sales						
(1) Net sales to outside customers	94,676	74,222	19,853	188,751	--	188,751
(2) Inter-segment sales or transfers	57	34	390	482	(482)	--
Total	94,733	74,256	20,243	189,234	(482)	188,751
Operating expenses	89,259	64,432	17,635	171,327	(482)	170,845
Operating income	5,474	9,823	2,608	17,906	--	17,906

From April 1, 2003 to September 30, 2003

(Unit : Millions of yen)

	Industrial products	Electronic products	Functional products	Total	Eliminations (corporate)	Consolidated total
Net sales						
(1) Net sales to outside customers	92,716	101,195	19,694	213,606	--	213,606
(2) Inter-segment sales or transfers	5	41	245	293	(293)	--
Total	92,722	101,237	19,939	213,899	(293)	213,606
Operating expenses	86,921	86,869	18,681	192,472	(293)	192,179
Operating income	5,800	14,368	1,258	21,427	--	21,427

(Fiscal 2003) (From April 1, 2002 to March 31, 2003)

(Unit : Millions of yen)

	Industrial products	Electronic products	Functional products	Total	Eliminations (corporate)	Consolidated total
Net sales						
(1) Net sales to outside customers	192,179	146,780	39,745	378,705	--	378,705
(2) Inter-segment sales or transfers	93	69	656	819	(819)	--
Total	192,273	146,849	40,402	379,525	(819)	378,705
Operating expenses	180,771	130,000	34,851	345,623	(819)	344,803
Operating income	11,502	16,848	5,550	33,901	--	33,901

(Notes) Methods of business segmentation

The Corporation classifies its operation principally in three business segments, industrial products, electronic products, and functional products, depending on the use of the products in the market.

&lt;Alteration of business segmentation&gt;

The Corporation altered "electronic component-related products" into "electronic processing products" and its segmentation from Industrial products to Electronic products, depending on the use of the products in the market.

Major products for each business segment

(1) Previous First Half (From April 1, 2002 to September 30, 2002)

Business segment	Major products
Industrial products	Bonding and joining products, surface protection products, <b>anticorrosion and waterproofing products</b> , sealing products, packaging products and equipment, electronic component-related products
Electronic products	Semi-conductor related products, LCD-related products, flexible printed circuit products
Functional products	Medical-related products, polymer separation membranes, engineering plastics products

(2) Current First Half (From April 1, 2003 to September 30, 2003)

Business segment	Major products
Industrial products	Bonding and joining products, surface protection products, <b>anticorrosion and waterproofing products</b> , sealing products, packaging products and equipment
Electronic products	Semi-conductor related products, LCD-related products, flexible printed circuit products, electronic processing products
Functional products	Medical-related products, polymer separation membranes, engineering plastics products

Segment information of the previous First Half and Fiscal-Full revised based on the current business segmentation are as follows:

From April 1, 2002 to September 30, 2002

(Unit : Millions of yen)

	Industrial products	Electronic products	Functional products	Total	Eliminations (corporate)	Consolidated total
Net sales						
(1) Net sales to outside customers	84,892	84,005	19,853	188,751	--	188,751
(2) Inter-segment sales or transfers	7	82	390	480	480	--
Total	84,900	84,088	20,243	189,232	480	188,751
Operating expenses	80,177	73,512	17,635	171,326	480	170,845
Operating income	4,722	10,575	2,608	17,906	--	17,906

(Fiscal 2003) (From April 1, 2002 to March 31, 2003 )

(Unit : Millions of yen)

	Industrial products	Electronic products	Functional products	Total	Eliminations (corporate)	Consolidated total
Net sales						
(1) Net sales to outside customers	173,588	165,371	39,745	378,705	--	378,705
(2) Inter-segment sales or transfers	13	147	656	817	817	--
Total	173,601	165,518	40,402	379,522	817	378,705
Operating expenses	163,350	147,419	34,851	345,620	817	344,803
Operating income	10,251	18,099	5,550	33,901	--	33,901

## II. Segment information by geographic area

From April 1, 2002 to September 30, 2002

(Unit : Millions of yen)

	Japan	North America	Europe	Asia & Oceania	Total	Eliminations (corporate)	Consolidated total
Net sales							
(1) Net sales to outside customers	124,752	17,213	7,036	39,749	188,751	--	188,751
(2) Inter-segment sales or transfers	34,727	1,098	833	1,867	38,527	(38,527)	--
Total	159,479	18,312	7,869	41,617	227,279	(38,527)	188,751
Operating expenses	144,570	17,566	7,529	39,825	209,492	(38,646)	170,845
Operating income	14,908	745	340	1,791	17,786	119	17,906

From April 1, 2003 to September 30, 2003

(Unit : Millions of yen)

	Japan	North America	Europe	Asia & Oceania	Total	Eliminations (corporate)	Consolidated total
Net sales							
(1) Net sales to outside customers	137,156	18,603	7,917	49,928	213,606	--	213,606
(2) Inter-segment sales or transfers	41,385	783	848	2,078	45,095	(45,095)	--
Total	178,542	19,386	8,766	52,006	258,701	(45,095)	213,606
Operating expenses	158,992	20,578	8,579	49,376	237,526	(45,347)	192,179
Operating income	19,549	1,191	186	2,630	21,175	251	21,427

From April 1, 2002 to March 31, 2003

(Unit : Millions of yen)

	Japan	North America	Europe	Asia & Oceania	Total	Eliminations (corporate)	Consolidated total
Net sales							
(1) Net sales to outside customers	252,881	33,386	14,496	77,940	378,705	--	378,705
(2) Inter-segment sales or transfers	68,525	1,753	1,862	2,996	75,138	(75,138)	--
Total	321,407	35,140	16,358	80,937	453,843	(75,138)	378,705
Operating expenses	291,603	34,112	15,911	78,541	420,168	(75,364)	344,803
Operating income	29,803	1,027	447	2,396	33,675	226	33,901

- (Notes) Countries or regions are segmented by geographical proximity.  
Major countries or regions excluding Japan represented by categories:  
North America : U.S.A.  
Europe : European countries  
Asia & Oceania : East and South-east Asian countries, Australia

### III. Net Sales to customers outside Japan

From April 1, 2002 to September 30, 2002

	North America	Europe	Asia & Oceania	Total
I. Net sales to customers outside Japan	Millions of yen 14,349	Millions of yen 8,413	Millions of yen 54,946	Millions of yen 77,709
II. Consolidated sales				Millions of yen 188,751
III. Ratio of net sales to customers outside Japan to consolidated sales	% 7.6	% 4.5	% 29.1	% 41.2

From April 1, 2003 to September 30, 2003

	North America	Europe	Asia & Oceania	Total
I. Net sales to customers outside Japan	Millions of yen 16,583	Millions of yen 8,716	Millions of yen 71,702	Millions of yen 97,002
II. Consolidated sales				Millions of yen 213,606
III. Ratio of net sales to customers outside Japan to consolidated sales	% 7.8	% 4.1	% 33.6	% 45.4

(Fiscal 2003) (From April 1, 2002 to March 31, 2003)

	North America	Europe	Asia & Oceania	Total
I. Net sales to customers outside Japan	Millions of yen 28,212	Millions of yen 17,357	Millions of yen 108,558	Millions of yen 154,128
II. Consolidated sales				Millions of yen 378,705
III. Ratio of net sales to customers outside Japan to consolidated sales	% 7.4	% 4.6	% 28.7	% 40.7

Notes: Countries or regions are listed in the order of geographical proximity.

Major countries or regions excluding Japan represented by categories:

North America : U.S.A.

Europe : European countries

Asia & Oceania : East and South-east Asian countries, Australia

Net sales to customers outside Japan represent the sales by the parent company and its consolidated subsidiaries in the countries or regions outside Japan.

**(Production and sales)****(1) Production results**

Production results by business segment for the current consolidated first half of the fiscal year are as follows:  
(Unit: Millions of yen)

Description of business segment	Amount	Change (%)
Industrial products	51,230	108.2
Electronic products	92,184	120.4
Functional products	18,524	99.3
Total	161,940	113.6

(Notes) The amounts are rounded since it is difficult to accurately estimate the total amounts of products due to the complex nature of the transactions between consolidated subsidiaries.  
Figures of Change (%) are approximated based on the production output of each business segment of the previous period adjusted to the current business segmentation.

**(2) Sales results**

Sales results by business segment for the current consolidated first half of the fiscal year are as follows:

(Unit: Millions of yen)

Description of business segment	Amount	Change (%)
Industrial products	92,716	109.2
Electronic products	101,195	120.5
Functional products	19,694	99.2
Total	213,606	113.2

(Notes) Names of major counter-parties are not indicated herein as none has constituted 10% or more of the total sales.  
Amounts in the table do not include consumption taxes.  
Figures of Change (%) are approximated based on the sales amount of each business segment of the previous period adjusted to the current business segmentation.