Business Results

Analysis of the Business Results

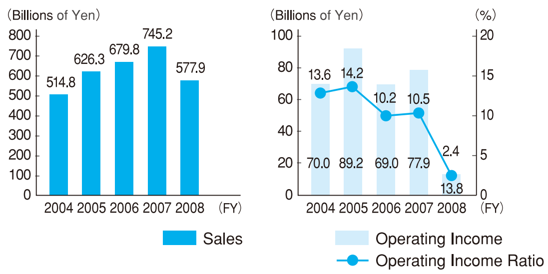
1. Summary of Overall Business

During the fiscal year under review, the economic situation drastically deteriorated in the economy with decreased corporate earnings and weaker consumer spending in the wake of the global financial uncertainty situation, which was triggered in the U.S. in the latter half of the fiscal year.

Under these circumstances, the Nitto Denko Group labored to promote the reduction of costs; including manufacturing costs and attempted to improve earnings. However, the results significantly worsened due to a greater-than-expected decrease in demand across almost all business sectors; such as the electronic, automobile, housing and construction industries.

As a result, consolidated net sales decreased 22.5% from the previous year (changes in percentage hereinafter are in comparison to the previous year) to 577,922 million yen. Operating income fell 82.2% to 13,838 million yen, and ordinary income dropped 80.1% to 14,807 million yen. Net income decreased by 99.4% to 267 million yen due to the recording of domestic and international business re-structuring costs recognized as extraordinary losses.

Sales, Operating Income & Operating income Ratio



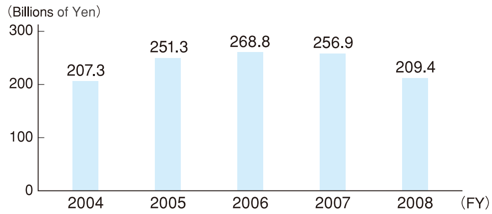
2. Summary by Business Segment

Industrial Products

Regarding bonding and joining products, sales for nearly all product categories were weak because products for the personal computer industry, portable music players, gaming electronics devices industry, HDDs (hard disk drives) industry and home appliances industry were all affected by customer inventory adjustments during the latter half of the fiscal year. Surface protection products experienced difficult sales conditions as a result of production adjustments in the metal processing industry, in the latter half of the year when the financial crisis began. In the FPD (flat panel display) industry, sales of protection film for optical use lagged due to decreased production of panel makers, despite favorable results from some transparent double-coated adhesive tape products for use by optical device. Sales of sealing products were low due to a decline in the production of portable devices and flat panel TVs, as well as production adjustments in the automobile industry. Sales of construction materials were lower overall as a result of the sharp deterioration of market conditions in the latter half of the fiscal year for certain products such as, protection tape, even though waterproof tape for the overseas market fared well.

As a result, sales for the industrial products segment were 209,491 million yen (down 18.5%) and operating income was 8,300 million yen (down 70.3%).

Industrial Products Sales

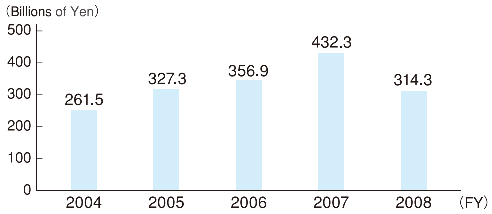


Electronic Products

With regard to LCD related products, demand sharply decreased since last fall for all applications including LCD TVs, PCs and portable devices. In response to this, in the large-sized panels segment, we sought to secure quantities of sales to keep the facilities operating and, at the same time, implemented rationalization and cost cutting efforts at domestic and overseas plants. However, the sales for large-sized panels faltered as demand fell significantly due to production adjustments at panel makers. Sales of semiconductor related products produced unfavorable results as environmentally friendly resin sales fell due to worsening market conditions despite a good showing up to the second quarter. Sales for flexible printed circuit products, for which a special focus is made for the storage industry and the cell phone industry, were lower due to sluggish parts procurement by customers. Some printed circuits developed for the flat TV industry were discontinued due to the low expectation of the recovery in profitability. With regard to electronic processing materials, despite robust sales of die attach sheet in semiconductor packaging, there was a large drop in demand for protection sheets and protection sheet laminating machines for semiconductor manufacturing processes due to a restraint on capital investment and production adjustments in the semiconductor industry. Sales of processing materials for small electronic components experienced a downward adjustment due to customer production adjustments.

As a result, sales for the electronic products segment were 314,315 million yen (down 27.3%) with an operating loss of 933 million yen.

Electronic Products Sales

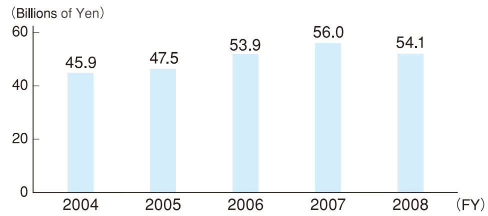


Functional Products

Medical related products such as transdermal therapeutic patches which are pharmaceutical products and other existing products (for treatment of asthma and angina) were affected by the drug price revision in Japan. However, as a result of sales enhancement, overall revenues were robust. Recently, official approval in the US was acquired by our partner in a joint development agreement, thus launching sales of cancer pain palliatives. In addition, sanitary material sales were favorable resulting in strong overall performance. Sales of high-polymer separation membranes, used mainly in overseas seawater desalination projects, positively mitigated the impact from deteriorating demand for new projects for industrial applications and conversions as a result the economic slowdown. As for engineering plastics, sales were down due to worsening market conditions in the area of functional materials for porous films for home appliances and semiconductors, automobile parts and information equipment.

As a result, sales in the functional products segment were 54,114 million yen (down 3.4%) and operating income was 6,470 million yen (down 29.5%).

Functional Products Sales



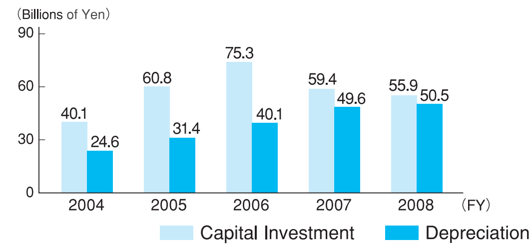
3. Summary by Geographic Area

In Japan, earnings were constrained by a slowdown in the economy caused by unstable prices of crude oil and petrochemicals in the first half of the fiscal year and the slowdown of the US economy and the appreciated of the yen , in the latter half of the fiscal year. With regard to the Asia and Oceania region, conditions were difficult due to the impact to LCD related products caused by significant production adjustments in Taiwan and Korea as well as customer inventory adjustments in China and South Asia for industrial products and electronic products used as electronic components in cellular phones, HDDs, and home appliances. As a result, sales in Japan were 207,263 million yen (down 19.1%) and operating income was 3,305 million yen (down 92.7%). Sales in the Asia and Oceania region were 306,136 million yen (down 26.2%) with an operating income of 8,368 million yen (down 69.7%). In Europe, sales for industrial products and electronic products for the electronic and automobile industries were impacted by the downturn in the economy. As a result, sales overall in Europe were 25,519 million yen (down 12.5%) with an operating loss of 20 million yen. In North America, there was a strong contribution from the launching of transdermal therapeutic patches (for treatment of cancer pain palliatives) in the U.S., after acquiring official approval, as well as from high-polymer separation membranes for seawater desalination projects. However, the strong contribution was offset by other factors such as a drop in sales of industrial products in the wake of weakened demand for automobiles, which resulted in sales in North America of 39,002 million yen (down 13.4%) with an operating loss of 1,298 million yen. Please note that business structure reforms are now being implemented in North America and local production of tape for electrical and electronic products is being phased out.

4. Capital Investment

The Group invested a total of 55,926 million yen in plant and equipment during the business year under review. Of this total, 39,817 million yen was invested on a non-consolidated basis for capital investment to improve the productivity for LCD related materials at the Onomichi Plant, as well as to improve production facilities for joining materials and surface protection materials at the Toyohashi Plant, and for building a new facility for surface protection materials at the Shiga Plant. For group companies, a total of 16,109 million yen was invested in production facilities for LCD related products and facilities for industrial materials in China, Taiwan and South Korea.

Capital investment & Depreciation



5. Financial Condition

Cash and cash equivalents (hereinafter, “Cash”) was 113,722 million yen at the end of the fiscal year, an increase of 34,484 million yen compared with the end of fiscal 2007. The main factors for changes by each cash flow activity were as follows.

Cash Flows from Operating Activities
Cash increased to 51,290 million yen as a result of operating activities.

The main factors for this increase include income before income taxes of 1,676 million yen, depreciation and amortization of 50,556 million yen, and an increase in notes and accounts receivable-trade of 43,149 million yen. On the other hand, the main uses of cash during the period include decreases of notes and accounts payable-trade of 41,844 million yen and payment of income taxes of 19,831 million yen.

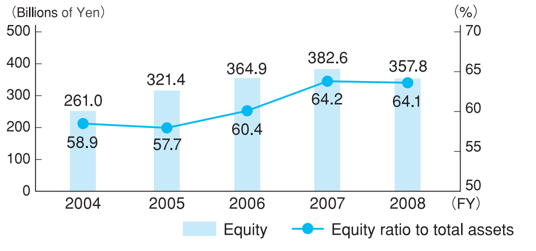
Cash Flows from Investing Activities
Cash decreased to 60,751 million yen as a result of investing activities.

This was mainly attributable to the result of purchases of noncurrent assets of 61,396 million yen.

Cash Flows from Financing Activities
Cash increased to 46,703 million yen as a result of financing activities.

This was mainly the result of an increase of short-term loans payable of 21,046 million yen, an increase of commercial paper of 25,000 million yen, an increase of long-term loans payable of 14,850 million yen and cash dividends paid of 13,325 million yen.

Equity & Equity ratio to total asset



The following table shows the changes in the Group's cash flow indices:

	2005	2006	2007	2008
Equity ratio (%)	57.7	60.4	64.2	64.1
Equity ratio on a market value basis (%)	296.2	152.4	117.7	59.8
Debt redemption period (year)	0.3	0.6	0.2	1.5
Interest coverage ratio	92.1	57.1	57.6	37.5

Note 1. Respective indices are obtained by calculating the financial results on a consolidated basis with the following formulae:

Shareholders' equity ratio: shareholders' equity / total assets
Shareholders' equity ratio on a market value basis: total market value of shares / total assets
Debt redemption period: liabilities with interest / cash flow from operating activities
Interest coverage ratio: cash flow from operating activities / interest payment

2. Total market value of shares is obtained by multiplying the closing price of a share at the end of the year by the number of shares issued at the end of the year, after deduction of treasury stock.

3. Cash flow from operating activities and interest payment used here are those included in the consolidated cash flow statement.

4. Liabilities with interest represent all the liabilities included in the consolidated balance sheet for which interest is paid.

6. Business and Other Risks

1 Optical Business (LCD related products)

The Group's optical business, the core business of the Group, achieved the top position in global market share. However, while demand for LCD TVs is anticipated to grow, there are many companies participating in this market and competition continues to be stiff. Relationships with panel manufactures (our customers), an imbalance between the supply and demand conditions of the industry, decline in prices, corporate reorganization among panel makers, intensified price competition due to new players entering the market, under capacity of material suppliers and sharp increases in material costs could all negatively affect the performance of the Group.