

Consolidated Six-year Summary

Nitto Boseki Co., Ltd., and Consolidated Subsidiaries

	Millions of yen						Thousands of U.S. dollars
	2004	2003	2002	2001	2000	1999	2004
Years ended March 31							
Net sales	¥ 127,312	¥ 127,950	¥ 125,057	¥ 142,624	¥ 136,023	¥ 146,621	\$ 1,204,578
Cost of goods sold	99,923	101,805	100,967	110,828	107,266	115,647	945,437
Selling, general and administrative expenses	24,138	24,502	25,494	26,259	26,470	27,846	228,381
Operating income (loss)	3,251	1,643	(1,404)	5,537	2,287	3,128	30,760
Income (Loss) before income taxes, minority interests and equity in earnings of affiliates	3,165	2,316	(1,180)	3,439	2,210	3,308	29,942
Income taxes	1,177	2,003	440	1,846	1,413	1,929	11,131
Net income (loss)	1,870	219	(1,041)	2,259	1,325	2,265	17,693
Total assets	161,549	174,103	182,965	187,675	172,857	177,581	1,528,520
Total shareholders' equity	61,070	59,832	61,011	60,951	59,963	60,337	577,821
Capital expenditure	3,289	2,773	7,473	14,861	5,049	12,881	31,115
Depreciation expenses	6,225	7,496	7,864	7,061	6,690	6,651	58,893
Per share data:							
Net income (loss) (Yen/Dollars)	¥ 7.56	¥ 0.88	¥ (4.20)	¥ 9.12	¥ 5.35	¥ 9.15	\$ 0.072
Cash dividend (Yen/Dollars)	3.00	3.00	3.00	3.00	3.00	3.00	0.028
Shareholders' equity ratio (%)	37.8	34.4	33.3	32.5	34.7	34.0	
Return on equity (%)	3.1	0.4	(1.7)	3.7	2.2	3.7	

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥105.69=US\$1.

2. The computation of net income (loss) per share is based on the average number of issued shares (excluding treasury stock).

3. In the fiscal year under review, equity in earnings of affiliates is included in income (loss) before income taxes, minority interests and equity in earnings of affiliates. For convenience only, the figures in the previous fiscal year have been recalculated on the same basis.

Consolidated Financial Review

SCOPE OF CONSOLIDATION

The accompanying consolidated financial statements have been prepared from accounting records maintained by Nitto Boseki Co., Ltd. (Nittobo), 26 consolidated subsidiaries, and two affiliates accounted for by the equity method. The Nittobo Group was comprised of Nittobo, 43 subsidiaries, and 10 affiliates, as of March 31, 2004.

NET SALES

Consolidated net sales for fiscal 2004, the fiscal year ended March 31, 2004, decreased ¥638 million from ¥127,950 million to ¥127,312 million. Despite a year-on-year sales increase in the Textiles and Building Materials Divisions, segment sales in the Glass Fiber Products Division fell due to the impact of the yen's appreciation and increased competition both in Japan and overseas. The Company also experienced a drop in rental revenues in its Real Estate Utilization Division attributable to the closure of the commercial rental facility (the former Suzuka Saty) in Suzuka City, Mie Prefecture.

OPERATING EXPENSES, OPERATING INCOME

Gross profit for the fiscal year under review increased ¥1,244 million to ¥27,389 million, reflecting the efforts made to reduce the cost of sales. Despite a slight deterioration in the Textiles and Building Materials Divisions, contributions from the Glass Fiber Products Division rose due to a drop in fixed expenses, an increase in demand for high-value-added IT-related products and a significant improvement in operating efficiency. As a result, the cost of goods sold showed a year-on-year improvement of ¥1,882 million, to ¥99,923 million.

Buoyed by this improvement, operating income for fiscal 2004 jumped ¥1,608 million to ¥3,251 million.

Under extraordinary items, Nittobo reported an extraordinary profit on sales of investments in securities of ¥1,388 million, and an extraordinary loss totaling ¥315 million attributed to unrealized losses on unlisted securities. In addition, the Company recorded an extraordinary profit of ¥5,654 million, representing settlement of legal claims against Mycal General Development Co., Ltd., a company under reorganization. Again, on the debit side, Nittobo incurred an extraordinary loss of ¥4,969 million attributable to business liquidation losses following the withdrawal from leasing activities in connection with the closure of the former Suzuka Saty commercial rental facility in Suzuka City, Mie Prefecture. As a result of these factors, income before income taxes, minority interests and equity in earnings of affiliates totaled ¥3,165 million, an increase of ¥849 million compared with the previous fiscal year.

SEGMENT INFORMATION

Excluding sales for high-quality IT-related products, shipments of glass fiber yarn and fabrics for printed circuit boards from the Glass Fiber Products Division were slow. Despite a sudden recovery in IT-related demand, results were negatively impacted by the appreciation of the yen and intense competition in Japan and overseas. While shipments of glass fiber for reinforced plastics used in household appliances increased due to increased sales in Japan and efforts to boost exports, revenues from glass fiber used in automobiles declined owing to growing industry competition. Our performance in industrial-use fabrics was on a par with the previous fiscal year. Strong sales of products including those used in automobiles and architectural membranes were offset by a drop in sales of fabric, a mainstay product for residences and other buildings, battered by the decline in large-scale redevelopment projects and public sector investment. As a result, sales in this segment decreased 2.8% to ¥41,117 million, while operating income surged significantly driven by increased sales volume of IT-related high-value-added products.

Sales of thermal insulation and sound absorption materials, the mainstay products of the Building Materials Division, were strong. Despite a slump in sales of rock wool for industrial use, sales for residential use increased, fueled by tax incentives and the implementation of energy conservation requirements. Sales of glass wool also rose, with a number of new construction projects brought forward to take advantage of the tax incentives. As a result of these factors, overall sales of thermal insulation and sound absorption materials increased year on year. In the field of interior decorating materials, the impact on sales from a drop in large-scale developments and public sector investments was more than offset by growth in sales volume of fireproof, sound absorption ceiling panels and an increase in exports of base board to Korea. Sales of floor materials were down reflecting weak performance in general-purpose and non-vinyl chloride tiles and a drop in sales of office automation (OA) double-deck flooring systems. In external building materials, Nittobo achieved parity with the previous fiscal year's performance with efforts to increase sales in flat and corrugated fiber reinforced panels balancing out weak sales for roof renovations and coverings for steel pipes and sheet piles, and panels for the stockbreeding industry, brought on by intense competition in each respective field. The Company experienced mixed results from its push into new businesses. Sales of external thermal insulation systems and new products such as aluminum roof materials were stagnant, while sales grew in environmentally conscious businesses such as the elimination and removal of asbestos and dioxins. Accounting for all these factors, sales in the Building Materials Division edged up 1.5% to ¥50,031 million, while operating income improved reflected cuts in logistics and production costs.

As stretch fabric Core Spun Yarn (C·S·Y®) has become more commonplace, imports continue to flood the market, causing imbalance in supply and demand, and sales prices of the Company's mainstay fabrics to decline, conditions in the Textiles Division continue to deteriorate rapidly. While Nittobo has endeavored to promote knit fabric and new synthetic products, efforts have only results in a parallel performance with the fiscal year ended March 31, 2003. Sales of adhesive interlinings for apparel increased year on year despite a growing trend toward casual fashion and the continuing flow of imports. Results were buoyed by efforts to promote high-value-added and highly functional products and the synergy effects of steady sales in China by Nittobo (China) Co., Ltd. and contributions from Nippon Haskell Co., Ltd. As a result of these initiatives, sales in the Textiles Division climbed 4.4% to ¥18,320 million with an increase in operating income.

Despite continued low consumer spending, results from the Sports Facilities Business remained steady due to successful customer privilege plans. Overall, rentals from office buildings were strong on close to full occupancy, while commercial facilities such as The Mall Koriyama provided a positive contribution. The closure of the Suzuka Saty commercial rental facility (building sold on December 25, 2003), however, impacted significantly on the Company's performance. Accordingly, sales of the Real Estate Utilization Division fell 13.3% to ¥2,610 million.

In Medical Operations, revenue in Japan in the clinical diagnostic reagents business fell, reflecting government policies to curtail medical expenditure and increased competition. This was exacerbated by a weak performance overseas, primarily in the United States. The Specialty Chemicals Operations experienced an overall increase in sales, the slump in dye fixatives and products used for the treatment of paper offset by growth in sales of developed products. Sales declined in engineering operations for highway sound suppression products despite development efforts. Meanwhile, sales volumes in the PET-bottled beverage business increased. As a result of these factors, sales in the Other Operations segment declined 3.7% to ¥15,234 million.

NET INCOME (LOSS)

Corporate, enterprise and inhabitants' tax, together with the application of tax-effect accounting, resulted in a tax expense for the fiscal year under review of ¥1,177 million, down ¥826 million compared with the previous fiscal year. This translated to an improvement in the ratio of income taxes to income before income taxes and minority interests from 86.5% to 37.2%. This was primarily attributed to increased probability in the recovery of tax loss carryforwards of consolidated subsidiaries. As a result, net income jumped ¥1,651 million to ¥1,870 million.

CASH FLOWS AND FINANCIAL POSITION

Net cash provided by operating activities during the fiscal year under review totaled ¥4,023 million, a decrease of ¥5,084 million compared with fiscal 2003. The major components were income before income taxes of ¥3,165 million, an increase of ¥849 million; decrease in trade receivables of ¥381 million, a drop of ¥2,790 million; decrease in long-term deposits held, which declined ¥6,968 million, and; income taxes paid of ¥3,251 million, an increase of ¥1,977 million.

During the fiscal year under review, the Company undertook capital expenditure of ¥2,258 million, down ¥547 million. Proceeds from sale of properties and investment securities were ¥2,166 million, a decrease of ¥1,052 million, and ¥1,783 million, up ¥589 million, respectively. As a result, net cash provided by investing activities amounted to ¥2,463 million, an increase of ¥1,606 million compared with fiscal 2003.

Net cash used in financing activities totaled ¥8,196 million, up ¥364 million. The net decrease in long-term debt and short-term bank loans was ¥7,398 million, resulting in an increase in outflow totaling ¥401 million compared with the previous fiscal year.

Cash and cash equivalents at the end of the year amounted to ¥21,324 million, a decrease of ¥1,743 million. The major component was income before income taxes of ¥3,165 million included in net cash provided by operating activities of ¥4,023 million.

Current assets as of March 31, 2004 stood at ¥87,732 million, a decrease of ¥5,729 million. The primary cause was the ¥2,314 million drop in cash and cash equivalents partly reflecting a reduction in interest-bearing debt. Net property, plant and equipment amounted to ¥53,549 million, a fall of ¥9,167 million compared with the previous fiscal year. This was caused by such factors as the decline in buildings and structures resulting from the transfer of the former Suzuka Mycal shopping center in Suzuka City, Mie Prefecture.

Current liabilities stood at ¥51,307 million, a decline of ¥12,589 million, owing to the decrease in short-term bank loans and current portion of long-term debt. Long-term liabilities fell ¥1,272 million to ¥47,686 million reflecting the increase in long-term debt and the decrease in long-term deposits held totaling ¥7,187 million in connection with the termination of the lease covering of the Suzuka Saty commercial facility from Mycal General Development Co., Ltd., a company undergoing reorganization.

Shareholders' equity as of March 31, 2004 stood at ¥61,070 million, an increase of ¥1,238 million as of the previous fiscal year-end. Major components were retained earnings, which declined ¥1,118 million due to the inclusion or exclusion of equity-method affiliates in the Company's scope of consolidation, and an increase of ¥2,989 million in unrealized gain on securities.

Consolidated Financial Data

Consolidated Balance Sheets

Nitto Boseki Co., Ltd., and Consolidated Subsidiaries As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 21,524	¥ 23,838	\$ 203,653
Marketable securities	—	1	—
Receivables—Trade and others:			
Notes and accounts	40,210	42,170	380,457
Non-consolidated subsidiaries and affiliates	2,018	1,761	19,093
Less: Allowance for doubtful accounts	(294)	(168)	(2,785)
Inventories (Note 3)	22,529	24,324	213,163
Deferred tax assets (Note 9)	1,329	1,093	12,571
Prepaid expenses and other current assets	416	442	3,935
Total current assets	87,732	93,461	830,087
Property, plant and equipment (Note 5):			
Land	15,745	15,842	148,975
Buildings and structures	53,181	60,430	503,178
Machinery and equipment	110,929	111,119	1,049,567
Construction in progress	478	555	4,527
Less: Accumulated depreciation	(126,784)	(125,230)	(1,199,581)
Net property, plant and equipment	53,549	62,716	506,666
Investments and other assets:			
Investments in securities	13,816	11,674	130,720
Investments in and advances to non-consolidated subsidiaries and affiliates	553	587	5,233
Deferred tax assets (Note 9)	1,400	724	13,243
Other assets	4,499	4,941	42,571
Total investments and other assets	20,268	17,926	191,767
Total assets	¥ 161,549	¥ 174,103	\$ 1,528,520

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 4)	¥ 16,650	¥ 22,613	\$ 157,540
Current portion of long-term debt (Note 5)	3,279	8,891	31,026
Payables—Trade and others:			
Notes and accounts	22,795	22,927	215,674
Non-consolidated subsidiaries and affiliates	497	570	4,707
Income taxes payable (Note 9)	1,977	2,268	18,701
Deferred tax liabilities (Note 9)	19	8	181
Accrued expenses and other current liabilities	6,090	6,619	57,623
Total current liabilities	51,307	63,896	485,452
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	23,583	19,567	223,137
Accrued retirement benefits (Note 6)	11,681	10,683	110,527
Deferred tax liabilities (Note 9)	1,757	654	16,621
Other long-term liabilities	10,665	18,054	100,906
Total long-term liabilities	47,686	48,958	451,191
Minority interests in consolidated subsidiaries	1,486	1,417	14,056
Contingent liabilities (Note 7)			
Shareholders' equity (Notes 8 and 11):			
Common stock, no par value in 2004 and 2003:			
Authorized—400,000,000 shares			
Issued: 2004 and 2003—247,677,560 shares	19,699	19,699	186,388
Additional paid-in capital	23,058	23,058	218,170
Retained earnings	15,377	16,495	145,488
Unrealized gain on securities	3,956	967	37,431
Foreign currency translation adjustments	(996)	(369)	(9,423)
Less: Treasury stock, at cost	(24)	(19)	(233)
Total shareholders' equity	61,070	59,832	577,821
Total liabilities and shareholders' equity	¥ 161,549	¥ 174,103	\$ 1,528,520

Consolidated Statements of Income

Nitto Boseki Co., Ltd., and Consolidated Subsidiaries For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales	¥ 127,312	¥ 127,950	\$ 1,204,578
Cost of goods sold	99,923	101,805	945,437
Gross profit	27,389	26,145	259,141
Selling, general and administrative expenses	24,138	24,502	228,381
Operating income	3,251	1,643	30,760
Other income (expenses):			
Interest and dividend income	112	240	1,063
Interest expenses	(898)	(1,068)	(8,501)
Gain on sale of tangible fixed assets, net	344	3,705	3,258
Equity in earnings of affiliates	(15)	167	(146)
Others, net	371	(2,371)	3,508
	(86)	673	(818)
Income before income taxes and minority interests	3,165	2,316	29,942
Income taxes (Note 9):			
Current	3,010	3,035	28,475
Deferred	(1,833)	(1,032)	(17,344)
	1,177	2,003	11,131
Income before minority interests	1,988	313	18,811
Minority interests	118	94	1,118
Net income	¥ 1,870	¥ 219	\$ 17,693
Per share of common stock:			
Net income	¥ 7.56	¥ 0.88	\$ 0.072
Cash dividends applicable to earnings for the year	3.00	3.00	0.028

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Nitto Boseki Co., Ltd., and Consolidated Subsidiaries For the years ended March 31, 2004 and 2003

	Millions of yen						
	Issued shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on securities	Foreign currency translation adjustments	Treasury stock
Balance as of March 31, 2002	247,678	¥ 19,699	¥ 23,058	¥ 17,022	¥ 1,092	¥ 142	¥ (2)
Net income	—	—	—	219	—	—	—
Cash dividends	—	—	—	(744)	—	—	—
Others—net	—	—	—	(2)	(125)	(511)	(17)
Balance as of March 31, 2003	247,678	¥ 19,699	¥ 23,058	¥ 16,495	¥ 967	¥ (369)	¥(19)
Net income	—	—	—	1,870	—	—	—
Cash dividends	—	—	—	(743)	—	—	—
Total retained earnings from companies not handled under the equity method	—	—	—	(1,793)	—	—	—
Total retained earnings accruing from additions to the number of companies handled under the equity method	—	—	—	(452)	—	—	—
Others—net	—	—	—	—	2,989	(627)	(5)
Balance as of March 31, 2004	247,678	¥ 19,699	¥ 23,058	¥ 15,377	¥ 3,956	¥ (996)	¥ (24)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on securities	Foreign currency translation adjustments	Treasury stock
Balance as of March 31, 2003	\$ 186,388	\$ 218,170	\$ 156,074	\$ 9,149	\$ (3,492)	\$ (179)
Net income	—	—	17,693	—	—	—
Cash dividends	—	—	(7,025)	—	—	—
Total retained earnings from companies not handled under the equity method	—	—	(16,975)	—	—	—
Total retained earnings accruing from additions to the number of companies handled under the equity method	—	—	(4,279)	—	—	—
Others—net	—	—	—	28,282	(5,931)	(54)
Balance as of March 31, 2004	\$ 186,388	\$ 218,170	\$ 145,488	\$ 37,431	\$ (9,423)	\$ (233)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Nitto Boseki Co., Ltd., and Consolidated Subsidiaries For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash flows from operating activities:			
Income (loss) before income taxes	¥ 3,165	¥ 2,316	\$ 29,942
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	6,224	7,581	58,892
Interest and dividend income	(112)	(240)	(1,063)
Interest expenses	899	1,068	8,501
Loss (gain) on sales or write-down on securities	(938)	1,802	(8,879)
Loss (gain) on sales and disposal of tangible and intangible assets	4,446	(3,706)	42,064
Decrease in trade receivables	381	3,171	3,608
Decrease in inventories	1,633	947	15,452
Decrease in trade payables	(557)	(3,539)	(5,266)
Increase in retirement benefits	998	1,362	9,447
Others	(8,176)	88	(77,361)
Interest and dividend income received	205	610	1,937
Interest expenses paid	(894)	(1,079)	(8,454)
Income taxes paid	(3,251)	(1,274)	(30,756)
Net cash provided by operating activities	4,023	9,107	38,064
Cash flows from investing activities:			
Decrease in time deposit	569	646	5,386
Decrease (increase) in marketable securities	0	(0)	6
Capital expenditure	(2,258)	(2,805)	(21,366)
Proceeds from sale of properties	2,166	3,218	20,497
Purchase of investment securities	(520)	(1,010)	(4,923)
Proceeds from sale of investment securities	1,783	1,194	16,872
Others	723	(386)	6,840
Net cash provided by investing activities	2,463	857	23,312
Cash flows from financing activities:			
(Decrease) in short-term bank loans	(5,823)	(6,192)	(55,093)
Proceeds from long-term debt	8,000	11,069	75,693
Repayments on long-term debt	(9,575)	(11,874)	(90,599)
Cash dividends	(792)	(822)	(7,498)
Others	(6)	(13)	(54)
Net cash (used in) financing activities	(8,196)	(7,832)	(77,551)
Effect of exchange rate changes on cash and cash equivalents	(33)	(22)	(317)
Net (decrease) increase in cash equivalents	(1,743)	2,110	(16,492)
Cash and cash equivalents at beginning of year	23,067	20,957	218,256
Cash and cash equivalents at end of year	¥ 21,324	¥ 23,067	\$ 201,764

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Note 1: Basis of presenting financial statements

(a) The accompanying consolidated financial statements have been prepared from accounting records maintained by Nitto Boseki Co., Ltd. (the "Company") and its consolidated subsidiaries in conformity with the Securities and Exchange Laws of Japan and accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. However, in order to facilitate the understanding of readers outside Japan, certain reclassifications are given to the consolidated financial statements prepared for domestic purposes.

(b) U.S. dollar amounts presented in the accompanying consolidated financial statements are included solely for convenience and should not be construed as representations that Japanese yen amounts have been or could in the future be converted into U.S. dollars. The rate of ¥105.69 to US\$1, prevailing on March 31, 2004, has been used for translation into U.S. dollar amounts in the accompanying consolidated financial statements.

All amounts are in millions of yen, rounded to the nearest whole unit.

Note 2: Significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and the following 26 significant subsidiaries (the "Companies"):

Nitto Glass Fiber Manufacturing Co., Ltd.	Nittobo Medical Co., Ltd.	Sansys Bottle Co., Ltd.
Paramount Glass Manufacturing Co., Ltd.	Nitto Foods Ltd.	International Immunology Corporation Japan
Nittobo Materials Co., Ltd.	NTB Technology Co., Ltd.	Nippon Haskell Co., Ltd.
Soyo Co., Ltd.	Sansei Kogyo Co., Ltd.	Nittobo Taiwan Co., Ltd.
Shinwa Denzai Co., Ltd.	Nitto Hanbaisho Co., Ltd.	Nittobo America Inc.
Kwansai Soyo Co., Ltd.	Nittobo FRP Laboratory Co., Ltd.	International Immunology Corporation
Nittobo Acoustic Engineering Co., Ltd.	Nitto Glasstex Co., Ltd.	Midland Bio Products Corporation
Nittobo Togan Co., Ltd.	Nitto Allied Service Co., Ltd.	Nittobo (China) Co., Ltd.
Fuji Fiber Glass Co., Ltd.	Nitto Beverage Co., Ltd.	Nittobo Macau Glass Weaving Co., Ltd.

Kwansai Soyo Co., Ltd. has been excluded as a subsidiary company from the scope of consolidation following its merger with Soyo Co., Ltd. on October 1, 2002. Consolidated subsidiary, NTB Technology Co., Ltd., changed its name to Nittobo Techno Co., Ltd. on January 1, 2004.

All significant intercompany balances and transactions have been eliminated in consolidation. The excess of the Company's investment cost in domestic consolidated subsidiaries over its equity in net assets at the dates of acquisition is being amortized over a period of five years.

Investments in two affiliates are accounted for by the equity method. Decolanitto corp. was included in the Company's scope of consolidation as an equity-method affiliate owing to the increasing importance of its operations.

Ube-Nitto Kasei Co., Ltd. was excluded from the Company's scope of consolidation as an equity-method affiliate following the exchange of all of its shares with Ube Industries, Ltd. 17 non-consolidated subsidiaries and eight affiliated companies to which the equity method does not apply have been removed from the Company's scope of consolidation because the income and retained earnings of each company has an immaterial effect on the Company's overall operations. Investments in non-consolidated subsidiaries and other affiliates are carried at moving-average cost. Cash dividends from these companies are recorded in the Company's books when cash dividends are approved at the general meetings of shareholders.

Concerning the translation of foreign currency financial statements of consolidated foreign subsidiaries, such statements are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity. The revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the annual average exchange rate. Translation differences resulting therefrom are reflected in the accompanying balance sheets as "Foreign currency translation adjustments" in the "Shareholders' equity" section and included in "Minority interests in consolidated subsidiaries" in the balance sheet.

(b) Sales recognition

Net sales of goods are recognized when the goods are shipped to customers.

(c) Foreign currency translation

All monetary assets and liabilities in foreign currencies of the Company and six consolidated subsidiaries are translated into Japanese yen at the current rates except for those hedged by forward exchange contracts.

(d) Cash and cash equivalents

Cash and cash equivalents comprise mainly short-term investments, primarily those liquid investments with a maturity of three months or less from purchase which are readily convertible into cash. In addition, there is only an insignificant risk, as any fluctuations in value are minor.

For purposes of the consolidated statements of cash flows, cash and cash equivalents comprise the following balance-sheet accounts.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash and cash equivalents	¥21,524	¥23,838	\$203,653
Less—time deposits with maturities over three months	(200)	(771)	(1,889)
Add—short-term investments with original maturities within three months	—	—	—
Total	¥21,324	¥23,067	\$201,764

(e) Marketable securities and investments in securities

Investments in subsidiaries and affiliates are carried at moving average cost. Other securities with market prices are carried at market value based on market price on the settlement date, while other securities without market price are carried at cost by the moving average method.

(f) Derivatives

Derivatives are carried at market value method.

(g) Inventories

Finished goods, work in process, raw materials and supplies are carried principally at moving average cost.

(h) Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation is computed principally on the declining-balance method at rates based on the estimated useful lives of assets except for the following buildings. Depreciation of the buildings purchased from April 1, 1998, is computed on the straight-line method based on the estimated useful lives of the buildings.

Representative useful lives are as follows:

Property, plant and equipment	3–50 years
Machinery and equipment	3–22 years

(i) Accrued retirement benefits and pension plan

To facilitate the payment of retirement benefits to employees, the Company makes provisions to the allowance for retirement benefits based on the estimated total benefit payments and pension plan assets at the end of the current fiscal year. The prior service cost is amortized over a 15-year period, which is within the average remaining service period of employees. A transitional obligation is amortized by the Company in equal installments over 15 years. Recognized actuarial gain/loss is amortized from the next fiscal year, over the average employee's remaining service period when the actuarial difference was incurred (15–17 years).

The Company and some subsidiaries adopted the reserve for retirement payment for directors and corporate auditors based on the Companies' regulations.

(j) Interperiod tax allocation

Interperiod tax allocation is recorded for timing differences between taxable income and income recorded in the books.

(k) Net income and dividends per share of common stock

The computation of net income per share of common stock has been based on the average number of issued shares (excluding treasury stock) during each fiscal year. Cash dividends per share of common stock represent dividends per share applicable to earnings for the year.

Note 3: Inventories

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Finished goods	¥ 9,907	¥ 11,013	\$ 93,736
Work in process	3,185	3,409	30,132
Raw materials and supplies	9,437	9,902	89,295
	<u>¥22,529</u>	<u>¥24,324</u>	<u>\$ 213,163</u>

Note 4: Short-term bank loans

The weighted average interest rates on these loans were 1.51% and 1.33% as of March 31, 2004 and 2003, respectively.

To provide for effective and speedy short-term financing arrangements, the Company made credit line commitments with three banks.

The outstanding balances as of March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Total amount of credit lines	¥ 7,000	\$ 66,231
Total outstanding balance of the loans	—	—
Total unused lines amount	<u>¥ 7,000</u>	<u>\$ 66,231</u>

Note 5: Long-term debt and pledged assets

(a) Long-term debt

Long-term debt as of March 31, 2004 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Loans principally from banks due 2004–2010, partially secured	¥26,862	¥28,458	\$ 254,163
Total	26,862	28,458	254,163
Less: Amount due within one year	3,279	8,891	31,026
Total	<u>¥23,583</u>	<u>¥19,567</u>	<u>\$ 223,137</u>

The annual maturities of long-term debt outstanding as of March 31, 2004 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2004	2004
2005	¥3,279	\$ 31,026
2006	7,006	66,289
2007	4,892	46,282
2008	8,119	76,823
2009 and thereafter	<u>3,566</u>	<u>33,743</u>

(b) Pledged assets

A summary of assets pledged as collateral for long-term debt as of March 31, 2004 and 2003, is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Property, plant and equipment (net book value)	¥ 8,007	¥ 14,313	\$ 75,755

Note 6: Pension plan

The Company and its domestic consolidated subsidiaries have contributory funded defined benefit pension plans, such as contributory pension plans, qualified pension plans and lump-sum severance indemnity plans. As of March 31, 2004, the lump-sum severance indemnity plans are applied by the Company and 10 subsidiaries, and the qualified pension plans are applied by the Company and eight subsidiaries. Only the Company applies contributory funded defined benefit pension plans.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2004	2004
Projected benefit obligation	¥28,586		\$270,474
Fair value of plan assets	(6,244)		(59,082)
Unrecognized transitional obligation	(6,248)		(59,117)
Unrecognized actuarial loss	(5,388)		(50,983)
Unrecognized prior service cost	976		9,235
Prepaid pension cost	—		—
Net liability for retirement benefits	¥ 11,682		\$ 110,527

The components of net periodic benefit costs for the year ended March 31, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2004	2004
Service cost	¥1,032		\$ 9,759
Interest cost	681		6,445
Expected return on plan assets	(123)		(1,167)
Amortization of prior cost (credit)	(20)		(189)
Recognized actuarial loss	679		6,425
Amortization of transitional obligation	656		6,209
Net periodic benefit costs	¥2,905		\$27,482

Assumptions used for the year ended March 31, 2004 are set forth as follows:

Discount rate	2.5%–3.0%
Expected rate of return on plan assets	3.0%
Recognition period of actuarial gain/loss	15–17 years
Amortization period of transitional obligation	15 years

Note 7: Contingent liabilities

As of March 31, 2004 and 2003, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Notes discounted with banks	¥545	¥697	\$5,156
Notes endorsed for payment	—	—	—
Guarantees of loans:			
Non-consolidated subsidiaries	—	260	—
Other companies	4	4	34
Employees' housing loans	42	54	398

Note 8: Shareholders' equity

The Company is subject to the Japanese Commercial Code (the "Code"). The Code requires that the issue price of shares issued and outstanding be designated as stated capital. The Code also requires at least 50% of the issue price of new shares to be apportioned to stated capital.

The Code also provides that an amount at least equal to 10% of the aggregate amount of payments, which are made as an appropriation of retained earnings applicable to each fiscal period, shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital.

Moreover, the Code allows companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors. Requests from shareholders to purchase the Company's treasury stock may be accepted without a resolution of shareholders at the general shareholders' meeting, according to stipulations in the Code.

Year-end dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable.

Note 9: Income taxes

Income taxes applicable to the Companies comprise (1) corporate tax (2) enterprise tax and (3) inhabitants' tax, which, in the fiscal year ended March 31, 2003, was 41.8% and 40.5% in the fiscal year ended March 31, 2004.

The effective income tax rate of the Companies differs from the statutory tax rate for the following reasons:

Statutory income tax rate	2004
Reconciliation:	40.5%
Permanent differences of entertainment expenses not deductible, etc.	3.9%
Inhabitant tax equalization	2.1%
Dividend excluded from income	(3.3)%
Unrecognized net operating loss of consolidated subsidiary	10.2%
Effect on deferred tax assets and liabilities of tax rate changes	1.9%
Tax loss carryforwards	(22.7)%
Other	4.6%
Effective income tax rate	37.2%

The significant components of deferred tax assets and deferred tax liabilities recorded on the consolidated balance sheets as of March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2004	2004
Gross deferred tax assets:		
Accrued bonuses	¥ 815	\$ 7,715
Accrued retirement benefits	4,261	40,314
Special repair reserve	1,002	9,481
Loss on evaluation of securities	1,142	10,810
Tax loss carryforward	775	7,333
Other	665	6,291
	8,660	81,944
Valuation allowance for deferred tax assets	(863)	(8,169)
Deferred tax assets	7,797	73,775
Gross deferred tax liabilities:		
Reserve for property, plant and equipment to use taxable merits by Japanese tax law	4,118	38,964
Unrealized gain on securities	2,693	25,484
Other	33	315
Deferred tax liabilities	6,844	64,763
Net deferred tax assets	¥ 953	\$ 9,012

Note 10: Segment information

Information by industry segment

The Company and its subsidiaries operate principally in five industry segments: textiles, building materials, glass fiber products, real estate utilization and other operations.

Operations in the textiles segment involve the production and sale of cotton yarn and textile products. Operations in the building materials segment involve the production and sale of floor materials, noncombustible acoustic ceiling panels, rock wool insulation, and FRP lighting panels. Operations in the glass fiber products segment involve the production and sale of glass fiber and fiberglass fabric. Operations in the real estate utilization segment involve a rental building operation and a fitness center operation. Operations in the other segments involve the production and sale of engineering, medical and specialty chemicals.

	Millions of yen						Consolidated
	Textiles	Building Materials	Glass Fiber Products	Real Estate Utilization	Other Operations	Corporate Expenses or Assets or Eliminations	
Year ended March 31, 2003							
Net sales							
Unaffiliated customers	¥17,546	¥49,281	¥42,297	¥ 3,011	¥ 15,815	¥ —	¥127,950
Intersegment	106	412	726	—	621	1,865	—
Total	17,652	49,693	43,023	3,011	16,436	1,865	127,950
Operating cost and expenses	17,617	49,098	43,090	2,059	15,264	821	126,307
Operating income (loss)	35	595	(67)	952	1,172	1,044	1,643
Identifiable assets	23,079	43,938	50,724	15,216	15,279	25,867	174,103
Depreciation expenses	642	1,824	3,630	788	419	193	7,496
Capital expenditure	258	1,242	911	32	182	148	2,773
Year ended March 31, 2004							
Net sales							
Unaffiliated customers	¥18,320	¥50,031	¥ 41,117	¥ 2,610	¥15,234	¥ —	¥127,312
Intersegment	73	289	911	—	420	1,693	—
Total	18,393	50,320	42,028	2,610	15,654	1,693	127,312
Operating cost and expenses	18,336	49,627	40,877	1,747	14,538	1,064	124,061
Operating income (loss)	57	693	1,151	863	1,116	629	3,251
Identifiable assets	19,133	42,948	47,970	10,305	10,679	30,514	161,549
Depreciation expenses	463	1,533	2,846	611	355	417	6,225
Capital expenditure	126	1,442	1,299	16	207	199	3,289

Year ended March 31, 2004	Thousands of U.S. dollars (Note 1)						Consolidated
	Textiles	Building Materials	Glass Fiber Products	Real Estate Utilization	Other Operations	Corporate Expenses or Assets or Eliminations	
Net sales							
Unaffiliated customers	\$173,340	\$473,379	\$389,037	\$ 24,692	\$ 144,130	\$ —	\$1,204,578
Intersegment	691	2,731	8,617	—	3,973	16,012	—
Total	174,031	476,110	397,654	24,692	148,103	16,012	1,204,578
Operating cost and expenses	173,484	469,548	386,766	16,525	137,544	10,049	1,173,818
Operating income (loss)	547	6,562	10,888	8,167	10,559	5,963	30,760
Identifiable assets	181,026	406,363	453,874	97,498	101,044	288,715	1,528,520
Depreciation expenses	4,377	14,508	26,923	5,779	3,356	3,950	58,893
Capital expenditure	1,193	13,642	12,293	148	1,956	1,883	31,115

Note 11: Subsequent event

At the annual shareholders' meeting, which was held by the Company on June 29, 2004, the following appropriation of retained earnings existing as of March 31, 2004 was duly approved.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2004	2004
Appropriations:		
Cash dividends	¥742	\$7,024
Total	¥742	\$7,024

Report of Independent Public Accountants

The Board of Directors of
Nitto Boseki Co., Ltd.

We have audited the accompanying consolidated balance sheets of Nitto Boseki Co., Ltd. and its consolidated 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 all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial position of Nitto Boseki Co., Ltd. and its consolidated subsidiaries as of March 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles in Japan.

Amounts expressed in U.S. dollars have been translated on the basis stated in Note 1 to the consolidated financial statements.

Tokyo, Japan
June 29, 2004

Shin Nihon & Co.

Shin Nihon & Co.

CORPORATE DATA/INVESTOR INFORMATION

(As of March 31, 2004)

Corporate Name Nittobo (Registered as Nitto Boseki Co., Ltd.)
Main Branch Aza Higashi 1, Gonome, Fukushima 960-8161, Japan
Headquarters 4-1-28, Kudankita, Chiyoda-Ku, Tokyo 102-0073, Japan
 Tel: +81-3-3514-8675, 3238-4524
 Fax: +81-3-3514-8681
 URL: <http://www.nittobo.co.jp/>

Date of Establishment April 22, 1918 Fukushima Seiren Seishi K.K.
 April 1, 1923 Company name changed to Nitto Boseki Co., Ltd.
Paid-in Capital ¥19.6 billion
Employees 1,993 (Nonconsolidated)
 4,018 (Consolidated)

Main Offices and Factories

- Osaka Branch 4-3-10, Koraibashi, Chuo-ku, Osaka 541-0043, Japan (Nissei Fushimicho Building New Building)
- Nagoya Branch 1-17-13, Nishiki, Naka-ku, Nagoya, Aichi 460-0003, Japan (Meiko Building)
- Fukushima Factory Aza Higashi 1, Gonome, Fukushima 960-8161, Japan
- Fukuyama Enterprise Center Aza Shiojima 1, Fukuhara, Fukuyamacho, Koriyama-shi, Fukushima 903-8061, Japan
- Niigata Factory 6-50, Higashi Shinmachi, Niigata 950-0065, Japan
- Tomari Enterprise Center Hirayanagi 500, Asahi-cho, Shimoniikawa-gun, Toyama 939-0744, Japan
- Itami Production Center 1-6-1, Kuwazu, Itami-shi, Hyogo 664-0834, Japan
- Chiba Factory Roppo-cho 210, Inage-ku, Chiba 263-0004, Japan
- Wakayama Factory Oaza Hiro 898, Hirokawa-cho, Arida-gun, Wakayama 643-0071, Japan
- Glassfiber Developing Research Center (located in Fukushima Factory)
- Biochemical Research Center (located in Fukuyama Enterprise Center)

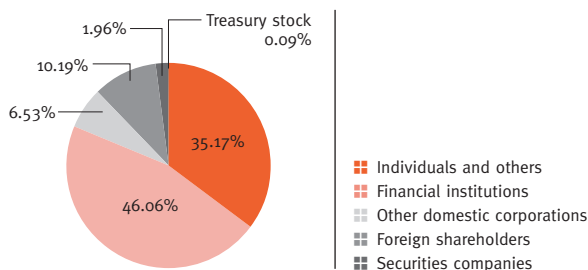
Consolidated Subsidiaries

- Nittobo Materials Co., Ltd.
 - Paramount Glass Manufacturing Co., Ltd.
 - Soyo Co., Ltd.
 - Nitto Glass Fiber Manufacturing Co., Ltd.
 - Nittobo Acoustic Engineering Co., Ltd.
 - Nittobo Togan Co., Ltd.
 - Fuji Fiber Glass Co., Ltd.
 - Nittobo Medical Co., Ltd.
 - NTB TECHNOLOGY CO., LTD.
 - Nittobo (China) Co., Ltd.
 - Nitto Beverage Co., Ltd.
 - Nittobo Macau Glass Weaving Co., Ltd.
- and 14 other companies

Share Information

Total Number of Shares Issued 247,677,560
 Number of Shareholders 29,132

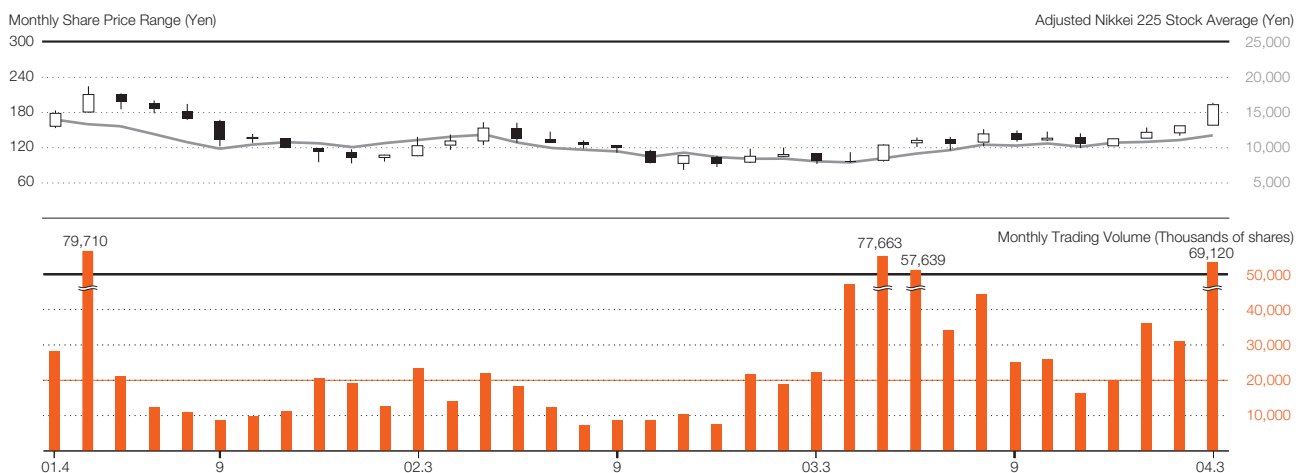
Shareholder Type



Major Shareholders

Name	Number of Shares Held (Thousands of shares)	Percentage of Voting Rights (%)
Japan Trustee Services Bank, Ltd. (Trust accounts)	21,751	8.86
The Master Trust Bank of Japan, Ltd. (Trust accounts)	14,379	5.86
Mizuho Corporate Bank, Ltd.	11,958	4.87
The Chuo Mitsui Trust and Banking Co., Ltd.	9,163	3.73
Nippon Life Insurance Company	9,121	3.72
UFJ Bank Limited	8,291	3.38
The Dai-ichi Mutual Life Insurance Company	6,580	2.68
Sumitomo Life Insurance Company	5,412	2.21
Aioi Insurance Co., Ltd.	4,799	1.96
Nitto Boseki Employee Shareholder Association	3,739	1.52

Share Price Range and Trading Volume



Nittobo

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