Consolidated Financial Statements

Notes to Consolidated Financial Statements

1. Notes regarding Significant Accounting Policies for the Preparation of the Consolidated Financial Statements

(1) Scope of consolidation

1. Number of consolidated subsidiaries: 112

Major companies:
Kyoshin Corp. Nissho Corp.
Nitto Denko Matex Corp.
Nitto Europe NV Nitto Americas, Inc.
Nitto Denko (China) Co., Ltd.
Nitto Denko (Suzhou) Co., Ltd.
Taiwan Nitto Optical Co., Ltd.
Korea Nitto Optical Co., Ltd.
Nitto Denko (HK) Co., Ltd.
Shanghai Nitto Optical Co., Ltd.

Newly consolidated subsidiaries:
Established: Shenzhen Nitto Optical Co., Ltd. and other 5 companies
Company whose status as a non-consolidated subsidiary ceased as a result of corporate integration between affiliates:
Nitto Machinery Co., Ltd.

2. Number of non-consolidated subsidiaries: 5

Major company: Korea Nitto Denko Co., Ltd.
Company whose status as a non-consolidated subsidiary ceased as a result of liquidation:
Kyoshin Building Co., Ltd.

All of the non-consolidated subsidiaries are small, and their total net assets, net sales, net profit or loss, and earned surplus, etc., which correspond to holdings under the equity method have little effect on the consolidated financial statements. Hence, these companies are excluded from the scope of consolidation.

(2) Application of equity method

1. Number of non-consolidated subsidiaries subject to equity method: 5

Major company: Korean Nitto Denko Co., Ltd.
Company whose status as a non-consolidated subsidiary ceased as a result of liquidation:
Kyoshin Building Co., Ltd.

2. Number of affiliates subject to equity method: None

Company whose status as an affiliate ceased as a result of sale:
Philippine Advanced Processing Technology, Inc.

(3) Fiscal year of the consolidated subsidiaries

Number of companies whose fiscal year is the same as that of the company: 90

Number of companies whose fiscal year is different from that of the company: 22

※For the 22 companies above, a provisional settlement of accounts based on March 31, 2007 were used.

(4) Accounting policies

1. Valuation basis and methods for principal assets

1) Securities

Other securities:

Securities with available fair value:

Carried at fair value for the consolidated balance sheet date. (Valuation adjustments were reported in the net assets section, and selling cost was calculated using the moving average method.)

Securities with no available fair value:

Stated at cost based on the moving average method

2) Derivatives: Stated at fair value

3) Inventories: Mainly stated at the lower of average cost or market price

2. Depreciation method of major depreciable assets

1) Tangible fixed assets:
Mainly the declining-balance method

2) Intangible fixed assets:
Straight-line method (software for in-house use is depreciated using the straight-line method over its useful life of 5 years)

3. Accounting criteria for major allowances

1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover probable losses on collection. It is the sum of the probable uncollectable amount estimated using the rate of actual collection losses for normal receivables and a review of the individual collectability of the specific receivables.

2) Provision for bonuses to directors

The Company and its domestic consolidated subsidiaries make provisions for the amount of bonuses for directors deemed to accrue during the fiscal year, based on the Company's estimated payment obligation for the current consolidated accounting year.

(Change in accounting policies)

As for the current consolidated fiscal year, the "Accounting Standards for Directors' Bonuses" (Business Accounting Standards No. 4, November 29, 2005) has been applied. As a result, operating income, ordinary income and income before provision for income taxes declined by 498 million yen respectively.

3) Provision for retirement benefits

The Company makes provisions for the necessary amount of allowance for employees' severance and retirement benefits deemed to accrue during the term based on the Company's estimated payment obligation and the balance of the pension fund at the term-end.

Prior service cost of pension plans is amortized from the year in which the gain or loss is recognized by the straight-line method for a given number of years (12 years) within employees' average remaining years of service.

Actuarial gain or loss is amortized from the year following the year in which the gain or loss is recognized by the straight-line method for a given number of years (12 years) within employees' average remaining years of service.

4) Reserve for retirement bonuses to directors and corporate auditors

The consolidated subsidiaries in Japan calculate the required amount based on internal regulations in preparation for payment of retirement allowances to directors and corporate auditors.

4. Conversion criteria of major assets or liabilities in foreign currencies into Japanese yen

Monetary credits and debts in foreign currencies are converted into Japanese yen by using the spot exchange rates on the day of consolidated account settlement, and the difference arising from such conversion is stated as gain or loss. Assets and liabilities of overseas consolidated subsidiaries are converted into yen based on the spot exchange rate on the day of consolidated settlement of accounts, and revenue and expenses are converted into yen by using the average exchange rate during the fiscal year, while the difference arising from the conversion is shown as translation adjustments in net assets and minority interest.

5. Methods of accounting for major leases

Finance leases, excluding those in which the transfer of ownership of the leased property to the lessee are accounted for as ordinary lease transactions.

6. Methods of hedge accounting

1) Method of hedge accounting

Deferred hedging is used for forward exchange contracts applied to forecasted transactions. For currency swaps that qualify for hedge accounting, gain or loss is translated at the exchange rate stipulated in the contract under the allocation process. Interest rate swaps that qualify for hedge accounting and meet specific criteria are not measured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

2) Hedge instruments and targets

Hedge instruments: Forward exchange contracts, Currency swaps, Interest rate swaps

Hedge targets: Foreign currency-denominated receivables and payables

3) Hedge policy

The Company adopts a policy aimed at averting the risks associated with exchange fluctuations and interest rate fluctuations.

7. Other important items for compiling consolidated financial statements

Consumption tax and similar taxes are excluded from the transaction amount.

(5) Evaluation of assets and liabilities of consolidated subsidiaries

The partial market value method is used to evaluate all assets and liabilities of consolidated subsidiaries.

(6) Amortization of consolidation adjustment account

Goodwill and negative goodwill are amortized by the average cost method over a five-year period. If these accounts are less significant, it is fully amortized when accrued.

2. Changes in Significant Accounting Policies regarding the Preparation of Consolidated Financial Statements

(Accounting standards for the presentation of net assets in the consolidated balance sheets)

As of the current consolidated fiscal year, the Company has adopted the "Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Business Accounting Standards No. 5, December 9, 2005) and the "Implementation Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Business Accounting Standards Implementation Guidance No. 8, December 9, 2005). The amount corresponding to the conventional measure of shareholders' equity is 365,018 million yen.

(Accounting standards for business combinations)

As of the current consolidated fiscal year, the Company has adopted the "Accounting Standards for Business Combinations" (Business Accounting Council, October 31, 2003), the "Accounting Standards for Business Divestitures" (Business Accounting Standards No. 7, December 27, 2005), and the "Implementation Guidance on Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures" (Business Accounting Standards Implementation Guidance No. 10, December 27, 2006).

(Accounting standards for stock options)

As of the current consolidated fiscal year, the Company has adopted the "Accounting Standards for Share-based Payment" (Business Accounting Standards No. 8, December 27, 2005) and the "Implementation Guidance on Accounting Standards for Share-based Payment" (Business Accounting Standards Implementation Guidance No. 11, May 31, 2006). As a result, operating income, ordinary income and income before provision for income taxes declined by 484 million yen respectively.

3. Change in Classification

(Consolidated balance sheets)

Balance sheet items "Goodwill" and "Consolidated adjustment accounts" in the previous consolidated fiscal year are presented as "Goodwill" and "Negative goodwill" effective for the current consolidated fiscal year.

4. Notes to Consolidated Balance Sheets

(1) Accumulated depreciation of tangible fixed assets

291,348 million yen

(2) Pledged assets and secured liabilities

Pledged assets:

Investment in securities: 61 million yen

Secured liabilities:

Trade notes and accounts payable: 13 million yen

(3) Guarantees on liabilities and contracts for future guarantees on liabilities (including notes on management guidance, etc.)

The Company extends guarantees on liabilities for its employees' bank loans.

Employees' housing loans: 27 million yen

(4) Endorsed amounts for notes receivable:

657 million yen

5. Notes to Consolidated Statement of Changes in Net Assets

(1) Type and total number of outstanding shares as at the end of the current fiscal year

Common stock: 173,758 thousand shares

(2) Dividends

1. Dividend payments

Resolution	General meeting of shareholders held on June 23, 2006	Board of Directors meeting held on October 27, 2006	Total
Type of shares	Common stock	Common stock	–
Total dividends (in millions of yen)	4,953	5,824	10,777
Dividend per share (in yen)	30	35	–
Record date	March 31, 2006	September 30, 2006	–
Effective date	June 26, 2006	November 29, 2006	–

2. Of the dividends for which the record date falls during the current fiscal year and items for which the effective date arrives during the following fiscal year

The following proposal on dividends for ordinary shares will be presented for resolution at the General Meeting of Shareholders scheduled on June 22, 2007.

Total dividends: 5,826 million yen
Dividend per share: 35 yen
Record date: March 31, 2007
Effective date: June 25, 2007

3. Type and number of shares for the target of warrant (excluding items for which the initial date of the rights exercise period has not arrived) as of the end of the current fiscal year

Common stock: 882,900 shares

6. Notes on Business Combinations

(Kyoshin Corporation becomes a wholly owned subsidiary)

The Company, at its Board of Directors meeting held on June 23, 2006, reached a resolution to make Kyoshin Corporation a wholly owned subsidiary through a share exchange, and concluded the share exchange agreement on the same date.

1. Name and business outline of combined entity

1) Name: Kyoshin Corporation

2) Business:

Sales of industrial products, electronic materials and functional products

3) Purpose of share exchange

The Company has determined to wholly own Kyoshin Corporation as a subsidiary, to enhance the Group's consolidated management through strengthening the fundamental relationship with the Corporation and secure stronger mobility and flexibility while pursuing globalization.

4) Share exchange

With the Company becoming the wholly-own parent of Kyoshin Corporation and Kyoshin becoming a wholly owned subsidiary of the Company, effective September 1, 2006, shares owned by shareholders of Kyoshin Corporation (excluding the Company) were transferred to the Company, while the shareholders of Kyoshin Corporation (excluding the Company) received an allotment of the Company's common stock and became shareholders of the Company.

5) Share exchange ratio

The share exchange ratio was 0.31 common stock of the Company per 1 common stock of Kyoshin Corporation. Instead of issuing new shares, 1,205,900 shares of treasury stock owned by the Company (worth the appraisal value of 4,766 million yen) have been transferred.

2. Accounting treatment

The Company has adopted accounting procedures provided for under the "Accounting Standards for Business Combinations 3-4 Accounting Procedures for Combinations between Mutual Enterprises (2) Accounting for Non-controlling (Minority) Interests."

7. Notes on Information per Share

Net asset value per share:	2,192.29 yen
Net income per share:	248.33 yen

8. Subsequent Events

(Mergers with consolidated subsidiaries)

The Company at its Board of Directors meeting held on April 27, 2007, reached a resolution to merge through absorption, effective July 1, 2007, with Kyoshin Corporation and Nitto Denko Matex Co., both wholly owned subsidiaries engaged in sales of industrial, electronic, and functional products, and concluded a merger agreement with each party as of the meeting date.

1. Purpose of merger

Amid the ongoing globalization in the market, in order for the Nitto Denko Group to establish a system that facilitates the offering of solutions built on the Company's exclusive core technology, the Group is striving to further strengthen its competitiveness as a Group through reforming Group businesses into a simplified structure.

2. Method of merger

The merger will be implemented by way of absorption (simple merger) in which the Company will be the surviving corporation, and Kyoshin Corporation and Nitto Denko Matex Co. will be dissolved.

3. Merger ratio and delivery of money

As Kyoshin Corporation and Nitto Denko Matex Co. are wholly owned subsidiaries of the Company, no issuance of new stock, no capital increase and no delivery of money will be made under the merger.

In consolidated balance sheets, consolidated statements of income and consolidated statement of changes in net assets, figures less than 1 million yen are omitted.