

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: 105

Major companies:

Nissho Corp., Nitto Europe NV,
Nitto Americas, Inc.,
Nitto Denko (China) Investment 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:

Nissho Precision Vietnam Co., Ltd.

Transferred from a non-consolidated subsidiary:

Korea Nitto Denko Co., Ltd.

Company whose status as a consolidated subsidiary ceased:

Merged with the Company:

Kyoshin Co., Ltd., Nitto Denko Matex Corporation

Liquidated, sold, etc.:

Kyoshin Electronics (Shanghai) Co., Ltd.
and other 6 companies

2. Number of non-consolidated subsidiaries: 4

Major company:

Nitto Denko Technical Corporation

Transferred to a consolidated subsidiary:

Korea Nitto Denko 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: 4

Major company:

Nitto Denko Technical Corporation

Transferred to a consolidated subsidiary:

Korea Nitto Denko Co., Ltd.

2. Number of affiliates subject to equity method: 1

Established:

Kathyd Technology, LLC

(3) Fiscal year of the consolidated subsidiaries

Number of companies whose fiscal year is the same as that of the Company: 84

Number of companies whose fiscal year is different from that of the Company: 21

※For the twenty-one companies above, a provisional settlement of accounts based on March 31, 2008 was 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 five years)

(Additional information)

In the wake of the revision of the Corporation Tax Law in fiscal 2007, we reviewed the economic useful life of some facilities, and shortened the useful life from seven years to five years beginning in this consolidated fiscal year. As a result, operating income, ordinary income and income before provision for income taxes were each 2,703 million yen less than those based on the conventional life.

From this consolidated fiscal year, we evenly depreciate the difference between the amount equivalent to 5% of the acquisition value and the memorandum value over a five-year period, starting from the following fiscal year of the consolidated fiscal year when the value of assets reached 5% of the acquisition value. This change has a limited impact.

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.

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 and 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 subsidiaries and others 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 items

Hedge instruments:

Forward exchange contracts, Currency swaps, Interest rate swaps

Hedge items:

Foreign currency-denominated receivables and payables, etc.

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, they are fully amortized when accrued.

2. Notes to consolidated balance sheets

(1) Accumulated depreciation of tangible fixed assets
318,883 million yen

(2) Pledged assets and secured liabilities

Pledged assets:

Investment in securities 18 million yen

Secured liabilities:

Accounts payable 5 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 25 million yen

(4) Endorsed amounts for notes receivable
5 million yen

3. Notes to consolidated statement of changes in net assets

(1) Type and total number of outstanding shares as of 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 22, 2007	Board of Directors meeting held on October 30, 2007	Total
Type of shares	Common stock	Common stock	—
Total dividends (in millions of yen)	5,826	6,659	12,485
Dividend per share (in yen)	35	40	—
Record date	March 31, 2007	September 30, 2007	—
Effective date	June 25, 2007	November 29, 2007	—



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 20, 2008.

Total dividends	6,662 million yen
Dividend per share	40 yen
Record date	March 31, 2008
Effective date	June 23, 2008

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 | 1,127,100 shares |
|--------------|------------------|

4. Notes on business combinations

(Merger with consolidated subsidiaries)

At its Board of Directors meeting held on April 27, 2007, the Company resolved to merge through absorption, effective July 1, 2007, with Kyoshin Co., Ltd. and Nitto Denko Matex Corporation, both wholly owned subsidiaries, and concluded a merger agreement with each party as of the meeting date.

Name and business outline of combined entity

- Name:
Kyoshin Co., Ltd.
Nitto Denko Matex Corporation
- Business:
The above two companies were engaged in the sale of industrial, electronic and functional products.
- Purpose of the 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.

4. Method of the merger

The merger was implemented by way of absorption (simple merger) in which the Company was the surviving company, while Kyoshin Co., Ltd. and Nitto Denko Matex Corporation were dissolved.

5. Merger ratio and delivery of money

As both Kyoshin Co., Ltd. and Nitto Denko Matex Corporation were wholly owned subsidiaries of the Company, no issuance of new shares, no capital increase and no delivery of money were to be made under the merger.

6. Succession of corporate assets

The Company succeeded from the two companies any and all assets, liabilities, rights and obligations on the effective date of the merger.

Assets in total:	26,261 million yen
Liabilities in total:	1,727 million yen

7. Overview of the surviving company

There has been no change in capital or business as a result of the merger.

5. Notes on information per share

Net asset value per share	2,297.12 yen
Net income per share	280.07 yen

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