



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: 102

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:

Nistem Precision de Mexico S.A. de C.V.
Company whose status as a consolidated subsidiary ceased:

Merged with the Company:

Nitto Matex (Tianjin) Fabricating Co., Ltd.

Liquidated, etc.:

Kyoshin (Hong Kong) Co., Ltd.
and other 2 companies

2. Number of non-consolidated subsidiaries: 6

Major company:

Nitto Denko Technical Corporation

New non-consolidated subsidiaries

Established:

Nitto Denko (Shanghai) Pharmaceutical Consulting Co., Ltd.
and other 1 company

All of the non-consolidated subsidiaries are small, and their total assets, net sales, net income or loss, and retained earnings, 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: 6

Major company:

Nitto Denko Technical Corporation

New non-consolidated subsidiaries subject to equity method

Established:

Nitto Denko (Shanghai) Pharmaceutical Consulting Co., Ltd.
and other 1 company

2. Number of affiliates subject to equity method: 1 Kathyd Technology, LLC

(3) Fiscal year of the consolidated subsidiaries

Number of companies whose fiscal year is the same as that of the Company: 81

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

※For the 21 companies above, a provisional settlement of accounts based on March 31, 2009 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, as of the consolidated balance sheet date. (Valuation adjustments were reported in the net assets section, and selling costs were 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 gross average cost (for balance sheet valuation, in the event that an impairment is determined: impairment write down is calculated based on inventory net realizable value)

(Changes in accounting policies)

From this consolidated fiscal year, the consolidated financial statements conform to the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006).

This change has no impacts on profits.

2. Depreciation method of major depreciable assets

1) Property, plant and equipment

(excluding lease assets):

Mainly the declining-balance method

(Additional information)

In the wake of the revision of the Corporation Tax Law in fiscal 2008, the Company and its domestic consolidated subsidiaries reviewed the economic useful life of machinery, equipment, etc., and changed the useful life thereof beginning in this consolidated fiscal year.

As a result, operating income, ordinary income and income before provision for income taxes are each 508 million yen less than those based on the conventional life.

- 2) Intangible assets (excluding lease assets):
Straight-line method (software for in-house use is depreciated using the straight-line method over its useful life of 5 years)
 - 3) Lease assets:
Lease assets, determined to be finance leases not involving the transfer of ownership of the leased property to the lessee are accounted for using the straight-line method, with the useful life set as the period of the lease contract, with no residual value.
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 directors' bonuses
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 fiscal 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) Provision for directors' retirement benefits
The consolidated subsidiaries in Japan calculate the required amount based on internal regulations in preparation for the 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 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 foreign currency translation adjustment and minority interests.
5. 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, etc.
- 3) Hedge policy
 The Company adopts a policy aimed at averting the risks associated with exchange fluctuations and interest rate fluctuations.
- 4) Method of assessing the effectiveness of the hedges
 The effectiveness is assessed by comparing market change in hedged instruments or cumulative change in its cash flows with market change in hedging instruments or cumulative change in its cash flow to observe a ratio of those changes. However, the assessment of the effectiveness is omitted for interest rate swaps that are handled under special rules.
6. Other important items for compiling consolidated financial statements
 Consumption tax and similar taxes are excluded from the transaction amounts.
- (5) Matters relating to the valuation of the assets and liabilities of consolidated subsidiaries
 Partial fair value method is adopted for valuing assets and liabilities of our consolidated subsidiaries.
- (6) Matters relating to the amortization of goodwill or negative goodwill
 Goodwill or negative goodwill is accounted for by equal amortization over five years. In case of the absence of materiality, it is fully amortized in the consolidated accounting year during which it was incurred.
- (7) Changes in significant items that form the basis of preparation for the consolidated financial statements
 1. Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements
 From this consolidated fiscal year, the consolidated financial statements conform to the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18, May 17, 2006), and necessary amendments for

the consolidation were made.

Accordingly, operating income, ordinary income, and income before income taxes each increased by 412 million yen.

2. Application of "Accounting Standard for Lease Transactions"
 The accounting treatment before the change for finance leases not involving the transfer of ownership of the leased property to the lessee followed the same method as for operating leases. However, because the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 [Business Accounting Council Committee No. 1, June 17, 1993; revised March 30, 2007]) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 [The Japanese Institute of Certified Public Accountants (JICPA) Accounting Standard Committee, January 18, 1994; revised March 30, 2007]) are now applied, and commencing with this consolidated fiscal year, such finance leases follow the method for ordinary purchase and sales transactions.
 Depreciation of lease assets, which are determined to be finance leases not involving the transfer of ownership of the leased property to the lessee are accounted for using the straight-line method, using the lease period as the useful life and assuming no residual value.
 Also, finance leases not involving the transfer of ownership of the leased property to the lessee whose transaction commenced before the first fiscal year in which this accounting standard and its guidance are applied, continue to be accounted for by the same method as for ordinary operating leases.
 This change has immaterial impacts on profits.
3. Changes in presentation of inventories
 In line with the application of the "Cabinet Office Ordinance Partially Revising Regulation for Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No. 50 of August 7 of 2008), "Inventories," which was presented as this in the previous fiscal year, are separately listed as "Merchandise and finished Goods," "Work in process" and "Raw materials and

supplies” from this consolidated fiscal year. “Merchandise and finished Goods,” “Work in process” and “Raw materials and supplies” for the previous fiscal year, which were included in “Inventories,” were 23,877 million yen, 13,120 million yen and 35,405 million yen, respectively.

4. Changes in presentation of software

Software was included in Intangible assets for the purpose of consolidated balance sheet, but is shown as Software from the current consolidated accounting year due to its increased materiality.

5. Changes in presentation of gain on sales of investment securities

Gain on sales of investment securities is included in the ‘Other Extraordinary income’ as its materiality in terms of monetary value diminishes in the current consolidated accounting year.

2. Notes to consolidated balance sheets

- (1) Accumulated depreciation of property, plant and equipment 346,719 million yen
- (2) Pledged assets and secured liabilities
- Pledged assets:
- Investment in securities 14 million yen
- Secured liabilities:
- Accounts payable 4 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 13 million yen

3. 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 20, 2008	Board of Directors meeting held on October 31, 2008	Total
Type of shares	Common stock	Common stock	–
Total dividends (in millions of yen)	6,662	6,663	13,325
Dividend per share (in yen)	40	40	–
Record date	March 31, 2008	September 30, 2008	–
Effective date	June 23, 2008	November 28, 2008	–

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 common stock will be presented for resolution at the General Meeting of Shareholders scheduled on June 19, 2009.

Total dividends 6,663 million yen
 Dividend per share 40 yen
 Record date March 31, 2009
 Effective date June 22, 2009

Dividends are to be paid out of retained earnings.

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 1,262,900 shares

4. Notes on information per share

Net asset per share 2,148.15 yen
 Net income per share 1.61 yen

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