

## Consolidated Six-Year Summary

Nitto Boseki Co., Ltd. and Consolidated Subsidiaries

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2005	2004	2003	2008
<b>Years ended March 31</b>							
Net sales	¥136,537	¥138,776	¥130,442	¥130,292	¥127,312	¥127,950	\$1,362,782
Cost of sales	101,818	103,582	98,552	99,528	99,923	101,805	1,016,246
Selling, general and administrative expenses	24,448	23,815	24,406	23,856	24,138	24,502	244,020
Operating income	10,271	11,379	7,484	6,908	3,251	1,643	102,516
Income before income taxes and minority interests	9,210	8,007	5,390	6,471	3,165	2,316	91,926
Income taxes	3,044	3,247	1,747	3,187	1,177	2,003	30,381
Net income	5,928	4,615	3,471	3,158	1,870	219	59,166
Total assets	156,149	164,911	159,311	162,904	161,549	174,103	1,558,525
Total equity	75,929	72,025	67,200	62,128	61,070	59,832	757,849
Capital expenditures	5,932	6,799	7,629	9,994	3,289	2,773	59,212
Depreciation expense	5,795	5,337	5,359	5,457	6,225	7,496	57,841
Per share data:							
Net income (Yen/U.S. dollars)	¥ 23.98	¥ 18.66	¥ 14.03	¥ 12.76	¥ 7.56	¥ 0.88	\$ 0.239
Cash dividend (Yen/U.S. dollars)	4.00	3.00	3.00	3.00	3.00	3.00	0.040
Shareholders' equity ratio (%)	47.3	42.5	42.2	38.1	37.8	34.4	
Return on equity (%)	8.2	6.7	5.4	5.1	3.1	0.4	
Number of employees (Person)	3,615	3,647	3,804	3,908	4,018	4,101	

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥100.19=US\$1.

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

3. According to a new accounting standard for presentation of equity, which is effective for fiscal years ending on or after May 1, 2006, stock acquisition rights, minority interests and any deferred gain or loss on derivatives under hedge accounting are now presented as components of equity. Accordingly the amounts of equity as of March 31, 2008 and 2007 are not directly comparable to shareholders' equity of prior years, stated above.

## Consolidated Financial Review

### SCOPE OF CONSOLIDATION

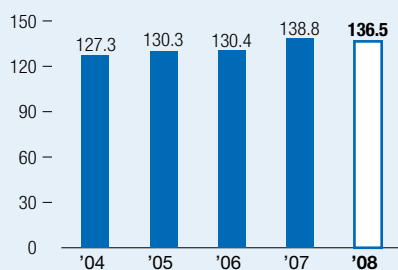
The accompanying consolidated financial statements have been prepared from accounting records maintained by Nitto Boseki Co., Ltd. (“Nittobo” or “the Company”), its 27 consolidated subsidiaries and two affiliates using the equity method and encompass the Group’s activities in Textiles, Building Materials, Glass Fiber Products and Other operations. From fiscal 2008, the fiscal year ended March 31, 2008, engineering operations, previously recorded in other operations, have been transferred to the Company’s Building Materials Division, FRP panels, previously recorded in Building Materials, to the Glass Fiber Products Division, and real estate utilization businesses to Other Operations. Segment information for the fiscal year ended March 31, 2007 has been restated for comparative purposes.

### NET SALES

Consolidated net sales for the fiscal year under review amounted to ¥136,537 million, a slight decrease of ¥2,239 million, or 1.6%, compared with the previous fiscal year. While sales of IT-, automobile- and home electronics-related glass fiber products remained steady throughout the year, results in the construction and home appliance fields were weak, reflecting a drop in construction starts following the implementation of revisions to the Building Standards Law. In the Building Materials Division, sales volumes of ceiling materials for office buildings increased. This was offset by a downturn in thermal insulation materials mainly in the residential construction category due again to the impact of revisions of the Building Standards Law. Buffeted by unseasonable weather conditions, purchases of apparel products in the Textiles Division were soft. Amid a lengthy period of harsh operating conditions, sales in this segment were essentially unchanged from the previous fiscal year. Turning to the Group’s Other Operations, results were generally steady throughout the fiscal year under review.

Net Sales

(Billions of yen)



### SEGMENT INFORMATION

#### Glass Fiber Products Division

Market conditions for glass fiber yarn and fabric for printed circuit board (PCB) substrates were firm throughout fiscal 2008. Buoyed by successful efforts to promote product lineup optimization through the shift to high-value-added products, the Company recorded sales growth in such products as fine glass fiber yarn and thin glass fiber fabric.

Sales volumes of glass fiber for fiber reinforced plastic (FRP) and fiber reinforced thermoplastic (FRTP) contracted due to the drop in housing starts. Buoyed by stable demand in the automobile and home electronics categories and positive price revisions in the second half of 2007, sales increased year on year.

Overall sales of industrial-use fabrics were held to a slight decline on the back of new product sales and increased activity in diverse fields. This was despite the impact of a drop in construction starts resulting in lower sales for building interior use.

In the FRP panels business, overall sales were down. This was mainly attributed to product lineup streamlining measures as part of the Company’s review of its production, sales and marketing structure.

Taking the aforementioned into consideration, sales in the Glass Fiber Products Division edged down 0.2% compared with the previous fiscal year to ¥56,699 million. On the earnings front, Nittobo benefited from an improvement in profit margins reflecting increased sales of high-value-added products. Operating income, on the other hand, declined 1.0% year on year to ¥7,528 million due mainly to the sharp rise in crude oil and other fuel prices and appreciation in the value of the yen.

#### Building Materials Division

Sales of thermal insulation materials including rock wool and glass wool dropped in the residential construction category due to the decrease in the number of housing starts on the back of the revisions to the Building Standards Law.

In the interior materials business, sales of the Company’s mainstay fireproof acoustic ceiling panels grew, reflecting the acceptance of the large-scale redevelopment of buildings in the Tokyo metropolitan area. On the other hand, Nittobo ceased the production of flooring tiles as of the end of the fiscal year under review in view of the prospect of stagnant future demand.

Sales of asbestos removal work carried out as a part of the Company’s environmental operations declined due to the decreased number of work orders, reflecting the bottoming out of demand as well as the intensified competition caused by the rapid increase in the number of construction companies.

In the Engineering Operations business, the number of orders received for production machinery work increased. However, the overall sales in this business declined due to the decrease in the number of large-scale projects for acoustic-related construction projects.

As a result, sales in the Building Materials Division declined 5.3% year on year to ¥54,018 million, while operating income fell 49.6% to ¥1,363 million due to various factors including escalating prices of crude oil, fuel and raw materials.

### Textiles Division

In core yarn and stretch fabric C-S-Y®, the Company endeavored to boost its apparel products marketing activities as well as to expand exports of textiles amid weakening demand. Despite such efforts, sales declined during the fiscal year under review.

Sales of garment interlinings expanded. This was attributable to the increased domestic sales of distinctive new products amid the stagnant apparel product market, while Nittobo (China) Co., Ltd. offset the weak performance of its key customers—Japanese apparel companies—with increased exports to Europe.

As a result, sales in the Textile Division remained nearly on par with the previous fiscal year at ¥12,115 million, while operating income jumped 93.5% year on year to ¥566 million due to the ongoing efforts to improve production and distribution.

### Other Operations

#### Medical Operations

In the Medical Operations, which mainly handle clinical diagnostic reagents, sales expanded due to the Company's efforts to acquire new customers and pioneer new clinical testing fields, as well as an increase in exports.

#### Specialty Chemicals Operations

In the functional-polymer products category of our Specialty Chemicals Operations, the Company recorded increased sales due to strong exports of dye fixative, and raw materials for household products.

#### Beverage Operations

Sales in Beverage Operations grew steadily, owing to the reinforcement of production systems in response to the strengthening of production capacity as well as an increase in new customers and products.

Other businesses, including real estate services, remained robust.

As a result, sales of Other Operations rose 6.8% from the previous fiscal year to ¥13,705 million, while operating income edged up 0.4% year on year to ¥1,603 million.

## OPERATING EXPENSES, OPERATING INCOME

The cost of sales for fiscal 2008 amounted to ¥101,818 million, a decrease of ¥1,764 million compared with the previous fiscal year, while gross profit declined ¥475 million year on year to ¥34,719 million. As a result, operating income fell ¥1,108 million to ¥10,271 million in the fiscal year under review.

## OTHER INCOME (EXPENSES), INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS

In fiscal 2008, the Company recorded a ¥706 million gain on the sale of property, plant and equipment, which contributed to ¥1,179 million in other income. At the same time, Nittobo incurred other expenses totaling ¥2,206 million, which included a loss on business exit of ¥1,207 million.

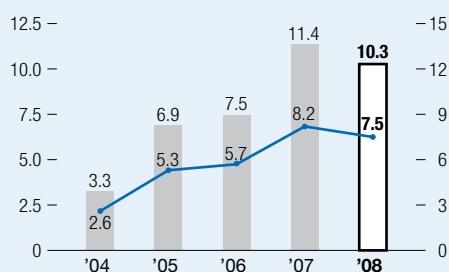
Accounting for the aforementioned factors, income before income taxes and minority interests amounted to ¥9,210 million, an increase of 15.0%, or ¥1,203 million, compared with the previous fiscal year.

## NET INCOME

Corporate, enterprise and inhabitants' tax, together with the application of tax-effect accounting and consideration of deferred income taxes, resulted in a tax expense of ¥3,044 million, a ¥202 million decrease from the previous fiscal year. This represented a ratio of tax expenses to income before income taxes and minority interests of 33.0%, as compared with 40.5% in fiscal 2007. On this basis, net income for the period under review increased 28.4%, or ¥1,313 million, year on year to ¥5,928 million.

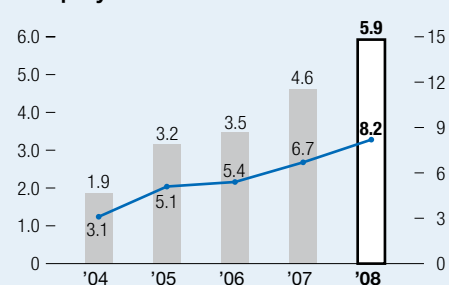
### Operating Income and Operating Margin

(Billions of yen; %)



### Net Income and Return on Equity

(Billions of yen; %)



## DIVIDEND POLICIES

Nittobo recognizes returning profits to its shareholders as one of the paramount issues of management. By giving full consideration to the Company's profit trends and retained earnings, in order to strengthen its business base, Nittobo is working to achieve stable dividend payouts over the long term.

Retained earnings will be utilized for aggressive investment to accelerate the development of high-value-added products for a more optimal product portfolio and the launching of new businesses. Creating new value through these endeavors, the Company will channel the monetary reserve into the implementation of initiatives that directly lead to improved productivity and product quality.

Based on these policies, and taking into consideration the Company's fiscal 2008 performance, as well as future operating conditions, Nittobo decided on a total annual cash dividend for the fiscal year under review of ¥4 per share, an increase of ¥1 per share compared with the previous fiscal year.

## FINANCIAL POSITION

As of March 31, 2008, total assets stood at ¥156,149 million, a decrease of ¥8,762 million from the end of fiscal 2007.

Current assets contracted ¥6,774 million to ¥88,455 million, the major contributory factors of which were a ¥1,335 million decrease in cash and bank deposits and a ¥6,345 million drop in trade notes and accounts receivable. Net property, plant and equipment and total investments and other assets amounted to ¥67,693 million, down ¥1,988 million compared with the end of the previous fiscal year. This was mainly attributable to a decline in investment securities totaling ¥1,186 million.

The total of current liabilities and long-term liabilities stood at ¥80,220 million at the end of fiscal 2008, down ¥12,666 million from the end of fiscal 2007.

Current liabilities declined ¥10,366 million to ¥45,627 million, due mainly to a decrease of ¥6,187 million in long-term debt and payables. Long-term liabilities were down ¥2,300 million at the end of fiscal 2008 to ¥34,593 million. This was primarily due to a decrease of ¥3,293 million in the current portion of long-term debt.

The interest-bearing debt ratio, which represents the ratio of interest-bearing debt to total assets, dropped from 20.6% as of the end of fiscal 2008 to 16.9% due to a decrease in the current portion of long-term debt.

## CASH FLOWS

### Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥13,273 million, recording a year-on-year increase from ¥9,760 million in fiscal 2007. Major components included income before income taxes and minority interests of ¥9,210 million (an annual increase of ¥1,203 million) and depreciation expenses of ¥5,795 million (an annual increase of ¥459 million).

### Cash Flows from Investing Activities

Net cash used in investing activities stood at ¥6,548 million, showing a year-on-year increase from ¥3,851 million in fiscal 2007. This was mainly attributable to the purchase of property, plant and equipment of ¥6,191 million (an annual increase of ¥1,421 million).

### Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥8,416 million, a ¥6,372 million increase from a year earlier. Primary factors included the repayment of long-term debt of ¥10,306 million (an annual increase of ¥4,114 million) and a net decrease in short-term bank loans of ¥1,459 million (an annual increase of ¥1,003 million).

## R&D EXPENDITURE, PATENTS

Nittobo allows each Division to take initiatives in the development of new products and technologies and the upgrading of product quality. At the same time, the Company is undertaking cross-divisional R&D projects on fundamental and core technologies and next-generation products. The NEXT Committee, which was established in July 2007, is controlling three R&D institutes in Fukushima, Chiba and Itami and engaging in cross-divisional R&D activities for the future.

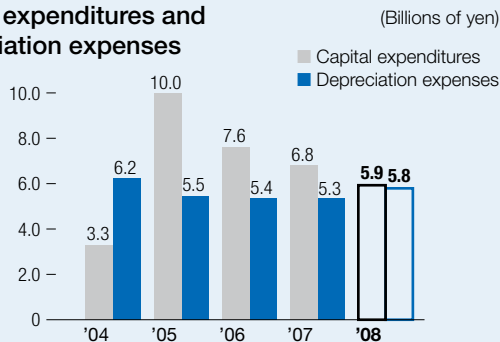
As of March 31, 2008, the number of patents held in Japan and overseas by the Company totaled 507, and the Company made a total of 54 patent applications in Japan and overseas during fiscal 2008. During fiscal 2008, Nittobo spent ¥1,662 million on its R&D activities.

## CAPITAL EXPENDITURES, DEPRECIATION EXPENSES

Capital expenditure by each Division during fiscal 2008 was channeled into the maintenance and upgrading of their facilities, the strengthening of production capacity and the optimization of the product lineup by shifting to high-value-added products. As a result, the Company's capital expenditure for the period amounted to ¥5,932 million. A breakdown of this figure by division shows: the Textiles Division spent ¥266 million for the construction of new garment interlining manufacturing facilities and plants and the maintenance and upgrading of existing facilities; the Building Materials Division spent ¥1,587 million to boost rock wool and glass wool production capacity and renovate related facilities; the Glass Fiber Products Division invested ¥2,876 million to expand glass fiber production capacity, streamline the product lineup with more high-value-added glass fiber products and upgrade its existing glass fiber fabric manufacturing facilities; and Other Operations invested ¥737 million mainly for the maintenance and upgrading of beverage production facilities.

Depreciation expenses for the period totaled ¥5,795 million, up ¥459 million from fiscal 2007.

### Capital expenditures and Depreciation expenses



## BUSINESS RISKS

Risks that may have a significant impact on the Company's performance and financial standing include the following (as of March 31, 2008).

### Risks Associated with Fluctuations in IT-related Demand

The Glass Fiber Products Division, Nittobo's mainstay business, handles glass fiber yarn and fabrics for IT-use PCB substrates, which are susceptible to dynamic market fluctuations. The Company is advancing its restructuring to focus on areas where such fluctuations are of a relatively smaller scale. However, should such fluctuations grow to a considerable level, the Company's performance and financial results may be materially affected.

### Risks Associated with Fluctuations in Exchange Rates

The Glass Fiber Products Division, which sustains high overseas sales ratios, is constantly working to minimize its exposure to foreign exchange-rate-related risks by carefully observing rate fluctuations and effectively utilizing forward-exchange contracts. However, it is not possible to completely avert the negative impact of rate fluctuations, and accordingly, the Company's performance and financial results may be adversely affected in such circumstances.

In addition, Nittobo is endeavoring to differentiate its products in individual Divisions in terms of quality, functionality and services. The Company acknowledges that some products manufactured by overseas companies are competitive enough to replace Nittobo products, depending on the conditions in the foreign exchange market. Should the foreign exchange market turn favorable to these competitors, the Company's products may lose their price competitiveness against imported products in the Japanese market, and this may negatively impact the Company's performance and financial results.

### Risks Associated with Raw Materials and Fuel Prices

Nittobo consumes a great amount of crude oil and other fuels in the manufacture of its mainstay products—namely, glass fiber, rock wool and glass wool. Because of the nature of its business, the Company may be exposed to risks associated with fluctuations in the price of crude oil, fuels and other raw materials. Despite the Company's efforts to shift to more inexpensive fuels and promote energy saving, a sharp rise in crude oil prices and consequent surge in prices of other fuels and raw materials may have an adverse effect on the Company's performance and financial results.

## Consolidated Financial Data

### Consolidated Balance Sheets

Nitto Boseki Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>ASSETS</b>			
Current assets:			
Cash and bank deposits	¥ 19,085	¥ 20,419	\$ 190,483
Receivables:			
Notes and accounts—trade	38,047	46,109	379,746
Non-consolidated subsidiaries and affiliates	2,192	472	21,882
Other	961	1,025	9,595
Less: Allowance for doubtful accounts	(116)	(138)	(1,161)
Inventories (Note 3)	25,335	24,880	252,874
Deferred tax assets (Note 11)	2,253	2,051	22,483
Prepaid expenses and other current assets	698	412	6,973
Total current assets	<u>88,455</u>	<u>95,230</u>	<u>882,875</u>
Property, plant and equipment (Notes 4 and 6):			
Land	18,030	17,673	179,954
Buildings and structures	49,956	49,294	498,610
Machinery and equipment	109,799	106,864	1,095,905
Construction in progress	980	700	9,785
Less: Accumulated depreciation	(129,473)	(124,374)	(1,292,264)
Net property, plant and equipment	<u>49,292</u>	<u>50,157</u>	<u>491,990</u>
Investments and other assets:			
Investment securities (Note 7)	8,129	9,021	81,134
Investments in and advances to unconsolidated subsidiaries and affiliates	2,981	3,282	29,747
Deferred tax assets (Note 11)	4,127	2,374	41,192
Other assets	3,165	4,847	31,587
Total investments and other assets	<u>18,402</u>	<u>19,524</u>	<u>183,660</u>
Total assets	<u>¥156,149</u>	<u>¥164,911</u>	<u>\$1,558,525</u>

The accompanying notes are an integral part of these consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 4,681	¥ 6,127	\$ 46,719
Current portion of long-term debt (Note 6)	7,242	10,105	72,281
Payables:			
Notes and accounts—trade	19,088	27,260	190,521
Unconsolidated subsidiaries and affiliates	2,162	57	21,576
Other	2,739	3,007	27,341
Income taxes payable (Note 11)	2,790	2,763	27,845
Deferred tax liabilities (Note 11)	58	37	579
Accrued expenses and other current liabilities	6,867	6,637	68,539
Total current liabilities	45,627	55,993	455,401
Long-term liabilities:			
Long-term debt (Note 6)	14,404	17,697	143,767
Liability for retirement benefits (Note 8)	13,011	12,432	129,865
Retirement allowances for directors and corporate auditors	367	347	3,668
Reserve for rebuilding furnaces	3,990	3,950	39,823
Deferred tax liabilities (Note 11)	170	41	1,695
Other long-term liabilities	2,651	2,426	26,457
Total long-term liabilities	34,593	36,893	345,275
Total liabilities	80,220	96,886	800,676
Commitments and Contingent liabilities (Notes 9, 14 and 15)			
Equity (Notes 10 and 17):			
Common stock, authorized, 400,000,000 shares; issued, 247,677,560 shares in 2008 and 2007	19,699	19,699	196,619
Capital surplus	23,062	23,062	230,189
Retained earnings	29,524	24,307	294,679
Unrealized gain on available-for-sale securities	1,704	3,175	17,008
Foreign currency translation adjustments	(14)	(19)	(147)
Treasury stock, at cost 516,963 shares in 2008 and 456,494 shares in 2007	(116)	(92)	(1,156)
Total	73,859	70,132	737,192
Minority interests	2,070	1,893	20,657
Total equity	75,929	72,025	757,849
Total liabilities and equity	¥156,149	¥164,911	\$1,558,525

## Consolidated Statements of Income

Nitto Boseki Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales	¥136,537	¥138,776	\$1,362,782
Cost of sales	101,818	103,582	1,016,246
Gross profit	34,719	35,194	346,536
Selling, general and administrative expenses	24,448	23,815	244,020
Operating income	10,271	11,379	102,516
Other income (expenses):			
Interest and dividend income	248	241	2,476
Interest expense	(611)	(643)	(6,103)
Amortization of transition obligation for retirement benefit cost	(578)	(578)	(5,767)
Gain on sale of investment securities		615	
Loss on impairment of long-lived assets (Note 4)		(181)	
Loss on revaluation of inventories		(744)	
Restructuring cost		(2,711)	
Foreign exchange gain (loss)	(517)	178	(5,163)
Environmental treatment expenses	(499)		(4,978)
Loss on business withdrawal (Note 4)	(1,207)		(12,045)
Gain on sale of property, plant and equipment	706	13	7,045
Equity in earnings of affiliates	730	731	7,282
Other—net	667	(293)	6,663
Other income (expenses)—net	(1,061)	(3,372)	(10,590)
Income before income taxes and minority interests	9,210	8,007	91,926
Income taxes (Note 11):			
Current	3,945	3,347	39,375
Deferred	(901)	(100)	(8,994)
Total income taxes	3,044	3,247	30,381
Minority interests in net income	238	145	2,379
Net income	¥ 5,928	¥ 4,615	\$ 59,166
		Yen	U.S. dollars (Note 1)
Per share of common stock:			
Net income	¥ 23.98	¥ 18.66	\$ 0.239
Cash dividends applicable to the year	4.00	3.00	0.040

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

Nitto Boseki Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2008 and 2007

	Millions of yen								
	Outstanding Number of Shares of Common Stock (thousands)	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Minority Interests	Total Equity
Balance as of April 1, 2006	247,294	¥19,699	¥23,062	¥20,455	¥4,181	¥ (133)	¥(64)		¥67,200
Reclassified balance as of March 31, 2006 (Note 2. m)								1,742	1,742
Adjustment of retained earnings for newly consolidated subsidiaries				(21)					(21)
Net income				4,615					4,615
Cash dividends, ¥3.00 per share				(742)					(742)
Purchase of treasury stock	(73)						(28)		(28)
Net change in the year					(1,006)	114		151	(741)
Balance as of March 31, 2007	247,221	¥19,699	¥23,062	¥24,307	¥3,175	¥ (19)	¥(92)	¥1,893	¥72,025
Increase in retained earnings for merger of unconsolidated subsidiaries				31					31
Net income				5,928					5,928
Cash dividends, ¥3.00 per share				(742)					(742)
Purchase of treasury stock	(60)						(24)		(24)
Net change in the year					(1,471)	5		177	(1,289)
Balance as of March 31, 2008	247,161	¥19,699	¥23,062	¥29,524	¥1,704	¥ (14)	¥(116)	¥2,070	¥75,929

	Thousands of U.S. dollars (Note 1)								
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Minority Interests	Total Equity	
Balance as of March 31, 2007	\$196,619	\$230,189	\$242,609	\$31,692	\$ (198)	\$(919)	\$18,893	\$718,885	
Increase in retained earnings for merger of unconsolidated subsidiaries			307					307	
Net income			59,166					59,166	
Cash dividends, \$0.024 per share			(7,403)					(7,403)	
Purchase of treasury stock						(237)		(237)	
Net change in the year				(14,684)	51		1,764	(12,869)	
Balance as of March 31, 2008	\$196,619	\$230,189	\$294,679	\$17,008	\$(147)	\$(1,156)	\$20,657	\$757,849	

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Cash Flows

Nitto Boseki Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 9,210	¥ 8,007	\$ 91,926
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Income taxes paid	(4,045)	(3,037)	(40,373)
Depreciation and amortization	5,795	5,337	57,841
Loss on impairment of long-lived assets		181	
Loss (gain) on sale and devaluation of securities—net	18	(612)	178
Loss (gain) on sale and disposal of tangible and intangible assets—net	(356)	277	(3,554)
Restructuring cost		2,711	
Loss on business withdrawal	1,207		12,045
Equity in earnings of affiliates	(730)	(731)	(7,282)
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Decrease (increase) in trade receivables	6,355	(3,413)	63,428
Decrease (increase) in inventories	(495)	151	(4,944)
Increase (decrease) in trade payables	(6,067)	3,736	(60,558)
Increase (decrease) in liability for retirement benefits	567	(131)	5,657
Payments for restructuring	(258)	(2,668)	(2,572)
Other—net	2,072	(48)	20,683
Net cash provided by operating activities	13,273	9,760	132,475
Cash flows from investing activities			
Decrease (increase) in time deposits—net	(200)	105	(1,993)
Purchases of property, plant and equipment	(6,191)	(4,770)	(61,789)
Proceeds from sale of property, plant and equipment	823	33	8,217
Purchases of investment securities	(1,537)	(11)	(15,336)
Proceeds from sale of investment securities	1	724	8
Other—net	556	68	5,538
Net cash used in investing activities	(6,548)	(3,851)	(65,355)
Cash flows from financing activities:			
Decrease in short-term bank loans-net	(1,459)	(457)	(14,565)
Proceeds from long-term debt	4,150	5,400	41,421
Repayments of long-term debt	(10,306)	(6,192)	(102,864)
Dividends paid	(742)	(744)	(7,408)
Other—net	(59)	(51)	(587)
Net cash used in financing activities	(8,416)	(2,044)	(84,003)
Foreign currency translation adjustments on cash and cash equivalents	107	55	1,073
Net increase (decrease) in cash and cash equivalents	(1,584)	3,920	(15,810)
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year		52	
Cash and cash equivalents increased by merger of unconsolidated subsidiaries by consolidated subsidiaries	54		537
Cash and cash equivalents, beginning of year	20,371	16,399	203,321
Cash and cash equivalents, end of year	¥ 18,841	¥ 20,371	\$ 188,048

The accompanying notes are an integral part of these consolidated financial statements.

## Notes to Consolidated Financial Statements

### Note 1: Basis of presenting consolidated 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 accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting 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. In addition, certain reclassifications have been made in the 2007 financial statements to conform to the classifications used in 2008. All amounts are in millions of yen, rounded to the nearest whole unit.

(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 ¥100.19 to US\$1, prevailing on March 31, 2008, has been used for translation into U.S. dollar amounts in the accompanying consolidated financial statements.

### Note 2: Significant accounting policies

#### (a) Consolidation

The consolidated financial statements as of March 31, 2008 include the accounts of the Company and its 27 significant (27 in 2007) subsidiaries (the "Companies").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

The equity method is being applied to two affiliates, namely Decolanitto Corporation and NITTOBO ASCO Glass Fiber Co., Ltd. Twelve unconsolidated subsidiaries and eight affiliates 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 unconsolidated 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 equity, which is translated at the historical rate. 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" and "Minority interests" in the "Equity" section.

#### (b) Business combination

In October 2003, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No.7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No.10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." These new accounting pronouncements were effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

## (c) Sales recognition

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

## (d) Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement.

## (e) 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)
	2008	2007	2008
Cash and bank deposits	¥19,085	¥20,419	\$190,483
Less: time deposits with maturities over three months	(244)	(48)	(2,435)
Total: cash and cash equivalents	¥18,841	¥20,371	\$188,048

## (f) Marketable and investment securities

Marketable and investment securities are classified and accounted for as follows:

All securities are classified as available-for-sale securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

## (g) Inventories

Finished goods, work in process, raw materials, and supplies are stated principally at cost determined by the moving average method.

## (h) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed principally by the declining-balance method based on the estimated useful lives of the assets. Depreciation of all property, plant and equipment of consolidated foreign subsidiaries is computed by the straight-line method based on the estimated useful lives of the assets.

Property, plant and equipment of the Company and its consolidated domestic subsidiaries acquired on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised Japanese Corporate Tax Law, which is effective April 1, 2007. The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥ 146 million (\$ 1,453 thousand).

Property, plant and equipment of the Company and its consolidated domestic subsidiaries had been depreciated up to 95% of the acquisition cost with 5% of residual value carried until previous fiscal years. However, such 5% portion of property, plant and equipment is systematically amortized over 5 years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of the acquisition cost in accordance with the revised Japanese Corporate Tax Law, which is effective for fiscal years beginning on and after April 1, 2007. The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥ 450 million (\$ 4,495 thousand).

Representative useful lives are as follows:

Buildings and structures	3–50 years
Machinery and equipment	3–22 years

(Additional Information)

From the fiscal year ended March 31, 2008, in accordance with the revised Japanese corporate tax code, Nittobo and its domestic consolidated subsidiaries are applying the depreciation method for tangible fixed assets acquired on and before March 31, 2007. When the depreciated value of a tangible fixed asset reaches 5% of its acquisition cost (under the depreciation method applicable before revision) in a certain fiscal year, such residual value (5% of acquisition cost) is depreciated in an equal amount over five years from the following fiscal year. This amount is included in depreciation expenses.

As a result of this change, operating income and income before income taxes and minority interests each decreased for ¥450 million (\$4,495 thousand).

The effect of this change on segment information is given in the relevant section.

(i) Long-lived assets

The Companies review their long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(j) Liability for 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).

(k) Retirement allowances for directors and corporate auditors

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

(l) Reserve for rebuilding furnaces

Reserve for rebuilding furnaces is provided for based on estimated costs to be incurred at the next periodic repair works on its facilities over the service period until the next repair works.

(m) Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

(n) Leases

Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. All other leases are accounted for as operating leases.

(o) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(p) Derivatives and hedging activities

The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

The foreign currency forward contracts employed to hedge foreign exchange exposures for export sales are measured at the fair value and the unrealized gains/losses are recognized in income.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

(q) Bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

(r) Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because the Companies have nothing which might dilute the per share information for the year ended March 31, 2008 and 2007.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

(s) New accounting pronouncements

**Measurement of Inventories**

Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

**Lease Accounting**

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

**Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**

Under Japanese GAAP, a company currently can use the financial statements of its foreign subsidiaries which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new standard prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements; 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process; 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for the fiscal years beginning on or after April 1, 2008 with early adoption permitted.

### Note 3: Inventories

Inventories as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Finished goods	¥10,361	¥11,161	\$103,415
Work in process	3,449	3,219	34,428
Raw materials and supplies	11,525	10,500	115,031
	¥25,335	¥24,880	\$252,874

### Note 4: Long-lived assets

The Companies recognized an impairment loss on the following fixed assets as of the end of the fiscal year 2008 and 2007. Concerning the Companies' calculation of impairment loss, assets will be divided into business-use assets, lease assets, idle assets and common-use assets, with business-use assets being further grouped by individual property.

In fiscal 2008, the Company decided to withdraw from the melamine decorative panels business. As a result of this, the book value of certain business-use assets at the Suzuka Enterprise Center facilities that had limited term of use was reduced to recoverable value. The recoverable value was measured through value in use based on the future cash flows. As a result, the Company recorded an impairment loss of ¥247 million (\$2,464 thousand), which was included in the loss on business withdrawal of ¥1,207 million (\$12,045 thousand) for the year ended March 31, 2008.

In fiscal 2007, in regard to business-use assets, the Company decided to dispose of certain building material manufacturing equipment at the Chiba Plant during the fiscal year. As a result of this, the book value of these assets was reduced to recoverable value. In addition, although recoverable value is measured through value in use, discount calculations were not conducted because future cash flows were negative.

In regard to idle assets, the future use of certain glass fiber manufacturing equipment at the Fukushima plant and certain equipment at the Wakayama plant was uncertain due to a change in their use. Therefore, their book value was reduced to recoverable value. Recoverable value is primarily measured through net sales value based on a transfer agreement. As a result, the Companies recorded impairment losses of ¥724 million (\$6,133 thousand), of which ¥543 million (\$4,600 thousand) was included in the restructuring cost of ¥2,711 million (\$22,962 thousand) for the year ended March 31, 2007 as these expenses were associated with the Company's initiative to strengthen its business structure.

## Note 5: Short-term bank loans

The weighted average interest rates on these loans were 1.80% and 1.78% as of March 31, 2008 and 2007, respectively.

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

The balance of credit line commitments as of March 31, 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Total amount of credit lines	¥10,000		\$99,810
Total outstanding balance of the loans			
Total unused lines amount	¥10,000		\$99,810

## Note 6: Long-term debt and pledged assets

### (a) Long-term debt

Long-term debt as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Loans from banks and other financial institutions, due serially to 2013 with interest rates ranging from 1.10% to 3.08% (2008) and from 1.10% to 3.08% (2007)			
Collateralized	¥ 5,563	¥ 4,750	\$ 55,520
Unsecured	16,083	23,052	160,528
Total	21,646	27,802	216,048
Less current portion: Amount due within one year	7,242	10,105	72,281
Total	¥14,404	¥17,697	\$143,767

The annual maturities of long-term debt outstanding as of March 31, 2008 were as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
2009	¥ 7,242		\$ 72,281
2010	4,848		48,387
2011	4,635		46,265
2012	4,126		41,182
2013 and thereafter	795		7,933
Total	¥21,646		\$216,048

### (b) Pledged assets

A summary of assets pledged as collateral for long-term debt as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Property, plant and equipment (net of accumulated depreciation)	¥ 4,804	¥4,806	\$ 47,951

## Note 7: Marketable and investment securities

Marketable and investment securities as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Non-current:			
Marketable equity securities	¥ 6,827	¥ 7,753	\$68,139
Other	1,302	1,268	12,995
Total	¥ 8,129	¥ 9,021	\$81,134

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
<b>March 31, 2008</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥4,133	¥3,164	¥470	¥6,827
<b>March 31, 2007</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,641	¥5,200	¥88	¥7,753

	Thousands of U.S. dollars (Note 1)			
	Cost	Unrealized gains	Unrealized losses	Fair value
<b>March 31, 2008</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	\$41,255	\$31,582	\$4,698	\$68,139

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Available-for-sale:			
Equity securities	¥1,302	¥1,268	\$12,995

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥1 million (\$8 thousand) and ¥724 million, respectively. Gross realized gain on these sales, computed on the moving-average cost basis, was ¥615 million for the year ended March 31, 2007.

## Note 8: 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, 2008, the lump-sum severance indemnity plans are applied by the Company and 15 subsidiaries, and the qualified pension plans are applied by the Company and eight subsidiaries. Only the Company applies contributory funded defined benefit pension plans.

The liability for retirement benefits as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Projected benefit obligation	¥26,312	¥26,441	\$262,620
Fair value of plan assets	(7,160)	(7,942)	(71,465)
Unrecognized transitional obligation	(4,003)	(4,606)	(39,949)
Unrecognized actuarial loss	(2,842)	(2,423)	(28,367)
Unrecognized prior service cost	703	768	7,018
Prepaid pension cost	1	194	8
Net liability for retirement benefits	¥13,011	¥12,432	\$129,865

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Service cost	¥ 1,181	¥1,106	\$ 11,784
Interest cost	534	576	5,326
Expected return on plan assets	(172)	(180)	(1,716)
Amortization of prior service cost	(65)	(33)	(646)
Recognized actuarial loss	344	456	3,438
Amortization of transitional obligation	575	578	5,743
Net periodic benefit costs	¥ 2,397	¥2,503	\$ 23,929

Assumptions used for the years ended March 31, 2008 and 2007 were set forth as follows:

	2008	2007
Discount rate	2.5 %	2.5 %
Expected rate of return on plan assets	3.0 %	3.0 %
Recognition period of actuarial gain/loss	15–17 years	15–17 years
Amortization period of transitional obligation	15 years	15 years
Amortization period of prior service cost	15 years	15 years

## Note 9: Contingent liabilities

As of March 31, 2008 and 2007, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Notes endorsed for payment	¥18	¥145	\$181
Guarantees of loans:			
Other companies	3	4	36
Employees' housing loans	5	10	47
Total	¥ 8	¥ 14	\$ 83

## Note 10: Equity

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

**(a) Dividends**

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having a Board of Directors; (2) having independent auditors; (3) having a Board of Corporate Auditors; and (4) the term of service of the directors is prescribed as one year rather than two years by its articles of incorporation. The Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company can not do so because it does not meet all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

**(b) Increases / decreases and transfer of common stock, reserve and surplus**

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

**(c) Treasury stock and treasury stock acquisition rights**

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

**Note 11: Income taxes**

Income taxes applicable to the Companies comprise (1) corporate tax, (2) enterprise tax, and (3) inhabitants' tax, and the normal effective statutory tax rate was 40.5% for the fiscal years ended March 31, 2008 and 2007, respectively.

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

	2008	2007
Normal effective statutory tax rate	40.5 %	40.5 %
Reconciliation:		
Expenses not deductible for income tax purposes	1.0 %	1.1 %
Per capita portion of inhabitants taxes	0.4 %	0.9 %
Non-taxable dividend income	(3.1) %	(2.0) %
Dividends from consolidated subsidiaries eliminated for consolidation purposes	6.3 %	1.8 %
Lower income tax rates applicable to income in certain foreign countries	(1.5) %	(1.3) %
Valuation allowance	0.7 %	4.3 %
Equity in earnings of associated companies	(3.2) %	(3.7) %
Income taxes—prior year	(2.6) %	
Recognition of temporary differences on sales of equity method affiliate	(3.9) %	
Other—net	(1.6) %	(1.1) %
Actual effective tax rate	33.0 %	40.5 %

The significant components of deferred tax assets and deferred tax liabilities recorded on the consolidated balance sheets as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Gross deferred tax assets:			
Accrued bonuses	¥ 912	¥ 895	\$ 9,108
Liability for retirement benefits	5,228	4,991	52,180
Special repair reserve	1,003	960	10,012
Loss on evaluation of securities	501	399	5,003
Tax loss carryforwards	168	210	1,673
Impairment loss of long-lived assets	598	670	5,971
Other	1,988	1,489	19,839
	10,398	9,614	103,786
Valuation allowance	(930)	(1,076)	(9,282)
Deferred tax assets	9,468	8,538	94,504
Gross deferred tax liabilities:			
Reserve for reduction of value in property, plant and equipment including amortization and other reserves	(2,274)	(2,149)	(22,696)
Unrealized gain on securities	(984)	(1,922)	(9,825)
Other	(58)	(120)	(582)
Deferred tax liabilities	(3,316)	(4,191)	(33,103)
Net deferred tax assets	¥ 6,152	¥ 4,347	\$61,401

## Note 12: Segment information

### (a) Information about industry segment

The Companies operate principally in four industry segments: textiles, building materials, glass fiber products 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 panels, noncombustible acoustic ceiling panels, rock wool insulation and related engineering operations. Operations in the Glass Fiber Products segment involve the production and sale of glass fiber and fiberglass fabric. Operations in the Other Operations segment involve medical, specialty chemicals, beverage and rental building operations.

The Companies plan to expand their business by seamlessly integrating operations with additional products that are closely connected in terms of operational management. In tandem with this business expansion, the Companies have in their sights the development of new business that transcend divisional boundaries and enhancements to their structure to promote growth. From fiscal 2008, to achieve these aims, the Companies have reclassified certain products included in the above industry segments as follows.

- \* Certain interlining products that had been included in the Textiles segment have been reviewed in light of their relationship to Textile segment products and placed in the Other Operations segment for cultivation as a new business.
- \* FRP panels that had been included in the Building Materials segment have been placed in the Glass Fiber Products segment to develop new applications as Glass Fiber Products.
- \* Engineering Operations, formerly included in the Other Operations segment, have been placed in the Building Materials segment to expand sales through commoditization of construction properties and for the development of new products and new applications using technological know-how in this field.

The former Real Estate Utilization segment has been integrated into the Other Operations segment on account of declining scale of operations, which is due mainly to the sale of commercial facilities for lease.

Fiscal 2007 segment information was restated, based on the revised segmentation.

Additionally, as stated in Note 2 (h), the Companies have changed their method of depreciation. In accordance with this change, compared to the previous method, in fiscal 2008, the Textiles segment operating income decreased by ¥43 million (\$424 thousand); the Building Materials segment by ¥163 million (\$1,625 thousand); the Glass Fiber segment by ¥335 million (\$3,346 thousand); the Other Operations segment by ¥30 million (\$303 thousand); and Eliminations/Corporate, by ¥25 million (\$251 thousand), respectively.

Year ended March 31, 2008	Millions of yen					Consolidated
	Textiles	Building Materials	Glass Fiber Products	Other Operations	Eliminations/Corporate	
Net sales						
Unaffiliated customers	¥12,115	¥54,018	¥56,699	¥13,705	¥	¥136,537
Intersegment	51	681	719	523	(1,974)	
Total	12,166	54,699	57,18	14,228	(1,974)	136,537
Operating expenses	11,600	53,336	49,890	12,625	(1,185)	126,266
Operating income	¥ 566	¥ 1,363	¥ 7,528	¥ 1,603	¥ (789)	¥ 10,271
Total assets	¥17,004	¥37,319	¥59,426	¥18,076	¥24,324	¥156,149
Depreciation expense	472	1,330	3,074	628	291	5,795
Loss on impairment of long-lived assets					247	247
Capital expenditures	266	1,587	2,876	737	466	5,932
Year ended March 31, 2007						
Net sales						
Unaffiliated customers	¥12,114	¥57,026	¥56,808	¥12,828	¥	¥138,776
Intersegment	55	353	729	490	(1,627)	
Total	12,169	57,379	57,537	13,318	(1,627)	138,776
Operating expenses	11,876	54,672	49,932	11,721	(804)	127,397
Operating income	¥ 293	¥ 2,707	¥ 7,605	¥ 1,597	¥ (823)	¥ 11,379
Total assets	¥17,204	¥44,733	¥60,499	¥18,522	¥23,953	¥164,911
Depreciation expense	496	1,185	2,679	627	350	5,337
Loss on impairment of long-lived assets	2	139	39		544	724
Capital expenditures	1,005	1,859	3,506	188	241	6,799

Year ended March 31, 2008	Thousands of U.S. dollars (Note 1)					Consolidated
	Textiles	Building Materials	Glass Fiber Products	Other Operations	Eliminations/Corporate	
Net sales						
Unaffiliated customers	\$120,917	\$539,158	\$565,918	\$136,789	\$	\$1,362,782
Intersegment	509	6,800	7,170	5,222	(19,701)	
Total	121,426	545,958	573,088	142,011	(19,701)	1,362,782
Operating expenses	115,776	532,350	497,951	126,015	(11,826)	1,260,266
Operating income	\$ 5,650	\$ 13,608	\$ 75,137	\$ 15,996	\$ (7,875)	\$ 102,516
Total assets	\$169,712	\$372,486	\$593,131	\$180,417	\$242,779	\$1,558,525
Depreciation expense	4,716	13,271	30,684	6,270	2,900	57,841
Loss on impairment of long-lived assets					2,464	2,464
Capital expenditures	2,657	15,838	28,707	7,355	4,655	59,212

Sales to foreign customers for the years ended March 31, 2008 and 2007 amounted to ¥23,791 million (\$237,460 thousand) and ¥22,441 million, respectively.

(b) Information about geographic segment

Japan net sales and total assets of the Company and its domestic subsidiaries for the fiscal years ended March 31, 2008 and 2007 represented more than 90% of the consolidated net sales and total assets of the respective years. Accordingly, information about geographic segment is not disclosed.

### Note 13: Research and development costs

Research and development costs charged to income for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
	¥1,662	¥1,381	\$16,583

## Note 14: Leases

The Companies lease certain machinery, equipment and other assets.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance lease, depreciation expense, interest expense, and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008 and 2007 was as follows:

### (a) Acquisition cost and accumulated depreciation of finance leases

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2008			2007			2008		
	Machinery and Equipment	Other Assets	Total	Machinery and Equipment	Other Assets	Total	Machinery and Equipment	Other Assets	Total
Acquisition cost	¥83	¥1,793	¥1,876	¥94	¥1,951	¥2,045	\$832	\$17,894	\$18,726
Accumulated depreciation	51	1,094	1,145	55	1,052	1,107	513	10,915	11,428
Net leased property	¥32	¥699	¥731	¥39	¥899	¥938	\$319	\$6,979	\$7,298

### (b) Obligations under finance leases

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Due within one year	¥346	¥379	\$3,454
Due after one year:	409	594	4,080
Total	¥755	¥973	\$7,534

### (c) Depreciation expense, interest expense, and other information under finance leases

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Depreciation expense	¥393	¥434	\$3,930
Interest expense	17	20	166
Total	¥410	¥454	\$4,096
Lease payments	¥412	¥454	\$4,109

Depreciation expense and interest expense, which are not reflected in the accompanying statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancellable operating leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Due within one year	¥7	¥18	\$67
Due after one year	174	203	1,744
Total	¥181	¥221	\$1,811

## Note 15: Derivatives

The Companies enter into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets denominated in foreign currencies. The Companies also enter into interest rate swap contracts to manage its interest rate ex-

posures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Companies have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The Companies had the following derivatives contracts outstanding at March 31, 2008 and 2007:

	Millions of yen					
	2008			2007		
	Contract Amount	Fair Value	Unrealized Gain / (Loss)	Contract Amount	Fair Value	Unrealized Gain / (Loss)
Foreign currency forward contracts: Selling U.S.\$	¥862	¥836	¥26	¥710	¥708	¥2

	Thousands of U.S. Dollars (Note 1)		
	2008		
	Contract Amount	Fair Value	Unrealized Gain / (Loss)
Foreign currency forward contracts: Selling U.S.\$	\$8,599	\$8,339	\$260

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria for the years ended March 31, 2008 and 2007 are excluded from the disclosure of market value information.

The contract amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

## Note 16: Net income per share

Basis of computation of basic net income per share ("EPS") for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen	Thousands of shares Weighted average shares	Yen	U.S. dollars (Note 1)
	Net income		EPS	
<b>Year ended March 31, 2008</b>				
Basic EPS				
Net income available to common shareholders	¥5,928	247,184	¥23.98	\$0.239
<b>Year ended March 31, 2007</b>				
Basic EPS				
Net income available to common shareholders	¥4,615	247,258	¥18.66	

## Note 17: Subsequent event

The following appropriation of retained earnings at March 31, 2008 was approved at the company's annual shareholders' meeting held on June 27, 2008.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2008	2008
Appropriations of retained earnings:		
Cash dividends	¥989	\$9,868
Total	¥989	\$9,868

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2008.9-TIR750 Printed in Japan

\*This report is printed on FSC-certified paper (mixed sources) using soy ink to minimize the impact on the environment.