

Message from the President

Operating Environment

In the first half of the year ended March 31, 2005, the Japanese economy reported moderate but steady recovery, backed by improved corporate performances amid increases in exports and capital expenditures. In the second half of the year, signs of a slowdown began to appear due to tighter monetary policies in China and the United States, soaring crude oil prices, and concerns about a rising yen. In general, however, the economy showed a recovery trend.

In response, the Japan Vilene Group strove to increase productivity, cut costs, and aggressively expand sales. Consolidated net sales for the year amounted to ¥49,364 million, up 1.1% from the previous fiscal year. Operating income jumped a solid 36.6%, to ¥2,759 million, owing largely to higher sales of battery separators, improvements in factory productivity, and a decline in employees' retirement benefit expenses. Net income rose 16.8%, to ¥2,379 million, the highest level in the Group's history.

Aggressive Management Stance

The Japan Vilene Group has worked hard to enhance profitability and asset efficiency under its medium-term management plan. As a result, in the year under review we achieved practically all of our targets set for the following fiscal year, ending March 2006. Our efforts to boost efficiency are producing tangible results.

The outlook for the business environment is uncertain. Nevertheless, we have positioned the year ending March 2006 as a period of expansion, highlighted by higher revenue and progress in technological development. We aim to achieve this through ongoing streamlining and rationalization, investing our valuable managerial resources in growth-oriented areas.

Medium-Term Strategies

The Group is committed to developing its business globally, establishing a stable earnings foundation by developing and boosting sales of high-quality, value-added products.

To raise business efficiency and transparency, we will reinforce corporate governance and upgrade our legal and ethical compliance systems. These are important challenges for the management in the future. To tackle these challenges, we will progressively implement the strategies below.

Develop high-quality, high-value-added products

- Identify new applications by developing highly functional nonwoven fabrics
- Expand business by developing function-enhanced battery separators for rechargeable batteries
- Reinforce our business in car cabin air filters

Build global production and sales systems

- Expand our apparel business and develop other businesses in East Asia
- Broaden our car floor mat business in North America and start production in China

Enhance groupwide efficiency

- Target more efficient business development, such as through reorganization of Group companies
- Raise earnings of all Group companies

Reinforce profit structure

- Establish effective production and sales systems and raise cost-competitiveness
- Boost profitability through increased sales of high-value-added products

Nurture employees and improve their skills

- Nurture our future leaders and promote a smooth transition to the next generation
- Create opportunities for employees to fully utilize their intellectual capabilities
- Provide working environments that maximize employee satisfaction

Strengthen environment-related activities

- Expand our business in fibers made from recycled PET bottles
- Increase sales of eco-friendly medium- and high-function air filters, and promote recycling of used air filters

Corporate Governance

As a publicly listed company, we are committed to continuous growth and fulfillment of our social responsibilities. We recognize the importance of corporate governance in this commitment, and we are working to strengthen and upgrade corporate governance accordingly.

Preventing Legal Violations

The “Japan Vilene Code of Conduct” contains basic rules and specific behavioral guidelines for Group Directors and employees to observe. The Code was amended in 2003, clearly outlining the Group's aggressive stance toward total respect for applicable laws and regulations, protecting the environment, and contributing to society. In the same year, we set up a Compliance Committee to ensure that laws, fairness, and ethics are protected.

In addition, the Internal Auditing Department carries out regular audits of the Group's overall activities.

Reinforcing the Board of Directors

Since our foundation in 1960, outside Directors have been dispatched from our three major shareholders to serve on the Board of Directors, ensuring more transparent decision-making and a stronger monitoring function. To fortify the monitoring function of the Board, in 1989 the Group adopted a “Riji” (Deputy Director) system, which essentially functions as a Corporate Executive Officer system. We also set up the Management Committee—consisting of full-time Directors, Corporate Auditors, and Deputy Directors—to discuss and determine important business issues and make prompt decisions.

Our Standing Auditors participate in important business meetings of Japan Vilene and its subsidiaries to monitor and ensure that the decision-making processes and other aspects of management are properly enforced. Following an amendment to the Japanese Commercial Code in 2002,

shareholders at the 2003 Annual General Meeting approved a proposal to increase the number of outside auditors from one to two.

We will continue to study the viability of shifting to a committee-based system of corporate governance, but for the time being we will pursue ongoing reforms of management systems within our current framework, which is based on Directors and Corporate Auditors.

Outlook

For the year ending March 2006, we expect the economy to remain slow as rising oil prices and raw materials costs and other factors prevent full-scale economic recovery.

Under these conditions, we will work to recover our market share by reinforcing our competitiveness and attracting new customers in such areas as car floor mats, building air filters, cold compress base materials, and glass nonwoven fabrics. We will also expand our presence in new businesses, such as highly functional face masks, plaster materials, and chemical filters. In addition, we will address rapidly growing demand for battery separators. Overseas, we commence full-scale operations at our newly established filter company in China, and we will expand our car floor mat factory in North America, with the aim of broadening our overseas business.

We look forward to the support and encouragement of shareholders and other investors in the future.

June 29, 2005



Yutaka Tanaka
President

