

Message from the President

Sales grew for the fifth consecutive year, but net income dropped as a result of reduced equity-method investment returns and impairment loss

During the fiscal year ended March 31, 2008, the economic environment for the Japan Vilene Group was characterized by sound corporate performances during the first half, leading to an underlying trend of mild expansion. However, the second half was difficult, with rising oil and raw material prices and turbulence in the financial markets sparked by the sub-prime loan problem in the United States, which caused concern over the U.S. economy and rendered the path ahead unclear.

Under these conditions, the Group, in the second year of its medium-term management plan, aggressively pursued measures to stay on target toward its business goals. As a result, consolidated net sales increased 4.8%, to ¥59,021 million—the fifth consecutive year of growth. However, operating income edged up only 2.8%, principally constrained by rising raw material costs and greater depreciation and amortization expenses from revisions to Japan's corporate tax code. Moreover, net income for the year declined 16.2% as a result of reduced equity method investment returns and impairment loss.



Photo: Mitsuo Kanno, President

Management Strategies and Progress

Japan Vilene's medium-term management plan—Value—was conceived to carry the Group from April 2006 through March 2009. The plan's primary objective is sustained growth and high profits. In accordance with the plan, we are promoting the business strategies outlined below to propel us toward our targets.

Restructuring Operations

Japan Vilene has classified its operations into four groups: strategic businesses (automotive materials and battery separators); stable income-earning businesses (medical, filter and industrial materials, for which the Company holds high market shares); structural transformation businesses (apparel materials); and newly developing businesses (new technologies, led by nano-fibers). We will gear our activities to respond appropriately to the positioning of each business domain.

Expanding Applications by Raising Performance

The Company aims to differentiate itself from competitors by promoting product development that responds to user needs, boosts the performance of nonwoven materials and aggressively leads to new high-growth fields.

Rationalizing Production

The Company is optimizing its production system for the

global market in response to an intensely competitive operating environment. In Japan, we are shifting our production to high-value-added products and investigating the right-sizing of our manufacturing in pursuit of a rational, highly efficient production and supply system.

Deploying Management Resources Efficiently and Increasing Corporate Value

Through effective promotion of demand-led investment and personnel recruitment, we will boost corporate value and enhance returns to shareholders by expanding operating income and raising capital efficiency.

Promoting thorough Compliance and Internal Control System Improvements

In addition to rigid adherence to corporate ethics, we will endeavor to upgrade our internal control systems.

Some specific examples of measures undertaken and their results are as follows:

- Establishment of Japan VIAM Co., Ltd., and the construction of a supply system with three bases in Japan, the U.S. and China
- Completion of construction expanding the second and third plants of our North American car floor mat operations
- Establishment of an air filter fabrication and sales company

in Thailand

- Arrival at a profitable bottom line for car floor mat operations in China within three years
- The Automotive Materials Department, which handles the car floor mat and headliner business, accounted for a higher proportion of net sales—from 36.8% in the year ended March 31, 2006, to 45.1% in the year ended March 31, 2008
- Increased battery separator sales 9.2% from the year ended March 31, 2006, to the year ended March 31, 2008

Distribution of Profits

Japan Vilene maintains a policy of paying stable dividends, taking into consideration business performance. Accordingly, depending on operating income and cash flows, we aim for an approximate payout of 30% of consolidated net income for the fiscal year.

For the period under review, we declared a year-end dividend of ¥6.00 per share, after evaluating our business performance and the outlook for the operating environment. After adding the ¥6.00 interim dividend, this brings total annual dividends to ¥12.00 per share, which represents a payout ratio of 32.0%.

We will maintain ¥12.00 per share as a stable annual dividend for the immediate future, with a view to increasing dividends, performance permitting, in the future.

Internal Control System

Japan Vilene, like other Japanese companies, is acting in accordance with the Financial Instruments and Exchange Law (the Japanese version of the Sarbanes-Oxley Act). Beginning with the fiscal year ending on March 31, 2009, all listed companies will be required to evaluate and disclose their internal control system in each accounting period. These companies must also submit a report, together with their financial statements, that has been audited by a certified public accountant.

While building an effective internal control system to gain the trust of society, the Japan Vilene Group is raising operational efficiency and enhancing its compliance system. Through such initiatives, we are establishing a foundation that will be integral to reinforcing our business operations.

Compliance Measures

- Promoting improvements to the Group's CSR and compliance systems through a management organization centering on the CSR Committee
- Ensuring compliance with pertinent laws and regulations by publicizing the code of conduct and behavioral standards to be observed by all employees and officers of the Group

- Introducing a hotline to facilitate direct reporting of compliance problems by employees, thus enabling swift problem identification and recurrence prevention measures
- Establishing the Internal Auditing Department as the entity responsible for the internal audit system and to conduct audits in accordance with internal regulations

Risk Management Measures

- Appointing a responsible authority for each risk category based on our risk management system, with the director for CSR taking overall responsibility for companywide risk management under the auspices of the General Affairs Department
- Promoting the formulation of regulations and guidelines, the production and distribution of manuals and other initiatives by the respective subcommittees of the CSR Committee for risks relating to compliance, the environment, disasters, quality, information security, export management and other operational facets
- Deliberating and determining improvements by the CSR Committee and the Board of Directors, with the Auditing Department auditing the risk management status of each department and reporting its findings to the CSR Committee and the Board of Directors

Outlook

The economic forecast is for a slowdown in the U.S. economy and raw material price hikes and intensified competition, with accompanying concerns over falling sales prices. For the Japan Vilene Group, this is manifest in a continued severe operating environment.

Under such pressures, the Group will strive to expand sales in such strategic areas as car floor mats and battery separators for hybrid vehicles. As a result, during the final fiscal year of the Value medium-term management plan to March 2009, we anticipate consolidated net sales of ¥60.0 billion, operating income of ¥4.0 billion and net income of ¥2.6 billion. Although we are expecting our sixth consecutive term of sales gains, cost increases for raw materials and other commodities and the rising yen could limit profits. Nevertheless, we aim to absorb these constraints by raising the efficiency of our production and shifting price hikes on to customers and thus maintain the previous year's income levels.

I look forward to your continued understanding and cooperation.



Mitsuo Kanno
President