

Message from the President

The Company reported very unintended results for the fiscal year ended March 31, 2009, a reflection of the rapid deterioration in the market environment from the second half. We take this outcome very sincerely and we are united in taking fundamental action, using our response to these challenges as a catalyst for developing a stronger earnings structure.



In the fiscal year ended March 31, 2009, the economic environment for the Japan Vilene Group was characterized by a general slowdown during the first half, reflecting the continuing fallout from the sub-prime loan problems in the United States that surfaced in 2007 and a deterioration in corporate earnings caused by rising oil and raw material prices. In the second half, however, the turmoil in the financial markets spilled over into the real economy worldwide, and major economies—not just the United States and Europe but also major emerging market economies such as China—began slowing rapidly. As a consequence, the global economy plunged into an unprecedented recession. The Japanese economy also slowed, as firms in every industry rapidly reduced production, scaled back investment and cut jobs, rendering the circumstances around the Group much more challenging. Although the Group introduced sweeping structural reforms, under these market conditions, consolidated net sales decreased 14.9%, to ¥50,240 million, operating income fell 65.8%, to ¥1,324 million, and consolidated net income declined 72.4%, to ¥672 million.

Pending Issues and Management Strategies

The downturn is serious and the future business trend is also extremely unclear. To overcome the difficulties posed by this operating environment, the Japan Vilene Group set up the Management Reform Committee, which speedily and continuously introduces initiatives to boost business and cost efficiency, reduce inventory, further improve production efficiency and bolster the Group's financial position. The Group views this crisis as an opportunity to reform its business structure, and aims to build stronger corporate structure and to improve profitability.

We are implementing the strategies outlined below to tackle the above issues.

Restructuring Operations

Japan Vilene has classified its operations into four groups: strategic, stable income-earning, newly developing, and structural transformation. The Company views automotive materials business as a strategic expansion business, given the potential for expansion into overseas markets such as North America and China, and will take steps to grow its share of the global market, rationalize production, and improve earnings. We also position battery separators as a strategic growing business, because it is characterized by rapid technical innovation and strong growth in demand. We plan to turn this into a core business. Some of the medical, filter, and industrial materials, which hold impressive market shares and

high profit margins, are ranked as stable income-earning business. For these businesses, we will maintain our high market shares, seek to improve efficiency, and endeavor to increase profitability. As for newly developing businesses, the Company will aim to develop new nonwoven products and create new businesses, such as applied technologies for nanofibers and technologies for nonwoven fabrics with functional particles. Regarding structural transformation businesses, the Company will restructure business according to a plan in keeping with its direction for each business.

Expanding Applications by Raising Performance

The Company aims to differentiate itself from its competitors by conducting studies into the properties of the material of nonwoven fabrics, developing products that respond to user needs, and boosting the performance of nonwoven materials. We will seek to aggressively advance into new high growth fields.

Rationalizing Production

The Company will optimize its production system for the global market. In Japan, we will shift our production to high value-added products and investigate the right-sizing of our manufacturing in pursuit of a rational, highly efficient production and supply system. Also, with the recent rise in raw materials prices and their subsequent fall, raw material procurement costs have become increasingly unpredictable, and moving forward, in light of market price trends and the sales trend of our products, we will aim to optimize raw material procurement, rationalize production and optimize production costs.

Deploying Management Resources Efficiently and Increasing Corporate Value

Through effective promotion of new business and new product development, demand-led investment and personnel recruitment, we will boost corporate value by expanding operating income and raising capital efficiency.

Promoting thorough Compliance and Internal Control System Improvements

In addition to strict adherence to corporate ethics in accordance with the management philosophy and the CSR Charter, we will endeavor to upgrade the internal control systems provided for by the Corporate Law and the Financial Instrument and Exchange Law.

Distribution of Profits

Japan Vilene positions returns to shareholders as an important managerial issue, and maintains a policy of paying stable dividends, taking business performance into consideration. Accordingly, depending on operating income and cash flows, we have aimed for an approximate payout of 30% of consolidated net income, maintaining a stable annual dividend of ¥12 per share for the time being. For the period under review, we declared a year-end dividend of ¥6.00 per share. After adding the ¥6.00 interim dividend, this brings total annual dividends to ¥12.00 per share again. In the future, we will pay stable dividends, taking into consideration operating income and cash flows, and will aim to improve our performance, targeting a payout of more than 30% of consolidated net income for the fiscal year.

Outlook

The future of the economy is clouded in extreme uncertainty, with worries about the potential for a further decline in corporate earnings, as private consumption remains sluggish amid sluggish labor market conditions. The Group views this operating environment as an opportunity for reform and will seek to improve the Group's performance and enhance corporate value by executing the management strategies outlined above.

In the fiscal year ended March 31, 2010, we anticipate consolidated net sales of ¥46,000 million, operating income of ¥1,100 million, and net income of ¥600 million.

I look forward to your continued support.



Mitsuo Kanno
President
Japan Vilene Company, Ltd.