

Annual Report 2010

For the year ended March 31, 2010



Profile

Since its establishment in 1960, Japan Vilene Company, Ltd., has been a leader in Japan's nonwoven fabrics industry. Our growth has been driven by global perspectives and a close relationship with Germany's Freudenberg Group, renowned worldwide for its advanced technological expertise in nonwoven fabrics. Today, our products are found in a myriad of everyday situations, from life-related uses to high-tech industrial applications.

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In this annual report, statements other than historical facts are forward-looking statements that reflect the Company's plans and expectations. These forward-looking statements involve risks, uncertainties, and other factors that may cause actual results and achievements to differ from those forecast in these statements.

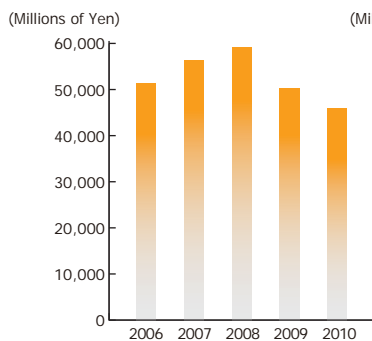
Consolidated Five-Year Summary

Japan Vilene Company, Ltd., and Subsidiaries

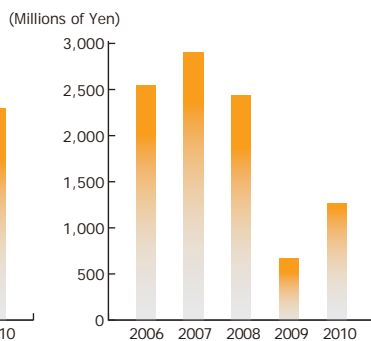
(Years Ended March 31)

	Millions of Yen				Thousands of U.S. Dollars	
	2006	2007	2008	2009	2010	2010
For the year:						
Net sales	¥51,367	¥56,314	¥59,021	¥50,240	¥45,837	\$492,871
Operating income	3,105	3,765	3,869	1,324	1,655	17,796
Net income	2,541	2,906	2,434	672	1,266	13,613
Net cash provided by operating activities	3,414	4,470	4,765	4,083	5,030	54,086
At year end:						
Net property, plant and equipment	¥18,473	¥19,578	¥19,783	¥18,483	¥16,487	\$177,280
Total assets	55,338	58,360	55,789	52,620	50,549	543,538
Total equity	32,738	35,514	36,790	33,824	27,501	295,710
			Yen			U.S. Dollars
Per share amounts:						
Net income	¥38.41	¥44.76	¥37.50	¥10.36	¥20.60	\$0.22
Cash dividends	10.00	12.00	12.00	12.00	10.00	0.11
Shareholders' equity	503.48	542.26	561.81	516.33	551.67	5.93
Ratios:						
Operating income to net sales (%)	6.0%	6.7%	6.6%	2.6%	3.6%	
Net income to net sales (%)	4.9	5.2	4.1	1.3	2.8	
Equity ratio (%)	59.2	60.3	65.4	63.7	54.4	
Return on equity (%)	8.2	8.6	6.8	1.9	4.1	

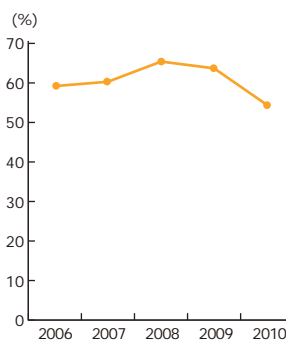
Net Sales



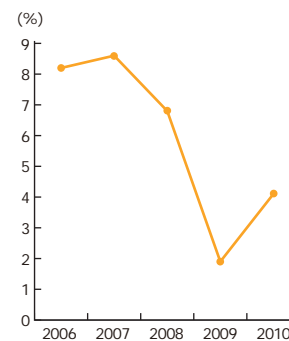
Net Income



Equity Ratio



Return on Equity



Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥93 = US \$1, the approximate rate of exchange prevailing on March 31, 2010, as described in Note 1 of Notes to Consolidated Financial Statements.

Message from the President



The economic environment during the first half of the fiscal year under review was marked by a global recession triggered by the financial crisis that had begun in the fall of 2008. Nonetheless, the worst of the economic problems had passed, thanks to the fiscal stimulus adopted by countries around the world, and a gradual recovery was at hand. In Japan, too, signs of a recovery in business conditions were in evidence, including increasing exports led by growing demand in China and other countries. The future remains uncertain, given factors such as a persistently high unemployment rate, sluggish capital expenditure and deflation. These conditions ensure that the operating environment surrounding the Japan Vilene Group will remain challenging.

In these circumstances, the Group has been tackling essential issues such as the restructuring of businesses, achieving functional advancement and the expansion of applications using new technologies, streamlining its production system, and making efficient use of management resources to increase corporate value. In addition, the Management Reform Committee set up in February last year has led initiatives for urgent actions such as improving operational and cost effectiveness, reducing inventories, enhancing production efficiency, and improving financial strength, all of which seek to bring major changes to our revenue structure and enable continuous earnings. In our sales activities, we took steps to boost orders by identifying customer needs and accelerating product development. As a result, orders increased in the second half of the fiscal year, supported by a partial recovery in the market environment. This, however, was not sufficient to compensate for the declines in the first half, which were associated with inventory adjustment by customers and reduced capital expenditure. Consequently, consolidated net sales fell 8.8% from the previous period, to ¥45,837 million in the period under review. In terms of profit, however, consolidated operating income increased 25.0% year on year, to ¥1,655 million, while consolidated net income rose 88.3%, to ¥1,266 million, primarily because of improvements in the cost of sales ratio resulting from the above initiatives.

Taking the opportunity of the Company's 50th anniversary, the Group has adopted a middle-term management vision titled "*Engineering Fabric Innovation*". We are determined to invent new and highly functional products by integrating our superior raw material technologies, extensive production process, and advanced converting technologies. As a general management policy, we will continue our efforts to improve operating and cost effectiveness, production efficiency, and financial strength, aiming to become a highly profitable company capable of navigating a difficult business environment.

Pending Issues and Management Strategies

Looking ahead, the Japanese economy is expected to achieve a slow recovery facilitated by increased exports by domestic and international economic initiatives. This recovery should be driven by a continuous rise in demand from emerging countries, especially in Asia. Nonetheless, challenges will remain in domestic capital expenditure and employment. Moreover, the risk of a downturn in overseas economies, fluctuations in the financial and capital markets, increased prices of petroleum-related materials, and, in the domestic economy, the risk of deflation ensure that the earnings outlook remains uncertain. As an overall consequence, the business environment surrounding the Group is likely to remain unpredictable.

In these circumstances, the Group established a middle-term management vision to coincide with its 50th anniversary this year. We will begin to build the foundations for the next 50 years, taking a long-term perspective.

To achieve our management goal, we have adopted the following eight basic strategies, and we will begin instituting them this year.

Eight Basic Strategies

Executing the eight basic strategies will put in place the infrastructure needed for the Group to improve its performance and corporate value, while maintaining a consistent return of profits to shareholders.

1. Promoting new businesses
2. Expanding overseas business
3. Rapidly commercializing new developments
4. Setting the direction for existing business
5. Optimizing production sites
6. Improving operating and administrative efficiency
7. Cultivating the necessary talent
8. Committing to CSR and environmental management

Distribution of Profits

We resolved to adopt the following policy for profit distribution at the meeting of Board of Directors on May 15, 2009.

The Company recognizes that returning profits to shareholders is an important managerial issue and has set a certain percentage of consolidated net income as an indicator for dividends, taking into account revenues and cash flows, while pursuing a stable dividend policy.

We will continue to pay stable dividends by taking revenues and cash flows into account, and strive to improve performance, with the aim of paying dividends representing at least 30% of consolidated net income.

As dividends at the end of the fiscal year under review, common dividends of ¥4 per share was declared, given the results of the period and the business outlook, and based on the above dividend policy. The Company was established on June 1, 1960, as Japan's first manufacturer specializing in nonwoven fabric and is celebrating the 50th anniversary this year. As an expression of our gratitude to shareholders for their loyal support, we aimed to add a commemorative dividend of ¥2 per share, a total of ¥6 per share as the year-end dividend.

Outlook (as of June 29, 2010)

By positioning its businesses of secondary battery separators, cold compress base materials, and automotive floor mats — which should continue to generate growing revenues — as important pillars of its existing businesses, the Group aims for a targeted allocation of its resources and aggressive overseas development. On the occasion of our 50th anniversary, we are proactive on "*Engineering Fabric Innovation*" as we invent new and highly functional products by integrating our raw materials technology, production process, and converting technologies.

Our outlook for the next fiscal year includes consolidated sales of ¥48,000 million, operating income of ¥2,000 million, and net income of ¥1,500 million.



Toshio Yoshida
President and Representative Director
Japan Vilene Company, Ltd.

Engineering Fabric Innovation

1 Basic Concept of the Middle-Term Management Vision

Management Philosophy

We will endeavor to enhance the corporate value of the company and make a broad contribution to society by manufacturing products that enable people to live fuller and more comfortable lives, with all employees striving to meet the confidence of customers through sound and fair corporate activities.

Japan Vilene is proactive on

Engineering Fabric Innovation

taking the opportunity of the Company's 50th anniversary.

Engineering Fabrics is the generic name of highly functional products invented by integrating superior raw material technologies, production processes and finishing methods.

Engineering Fabrics responds to the product development needs of our customers.

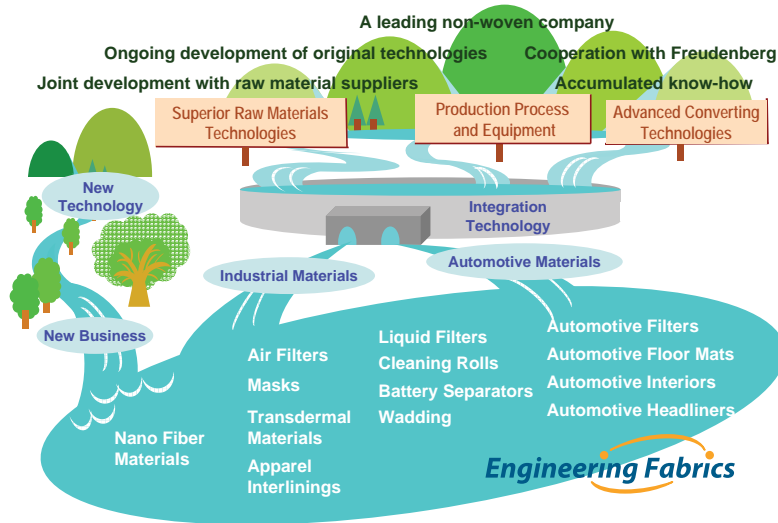
Japan Vilene strives to meet the expectations of our stakeholders through continuous innovations in business model efficiency, quality, cost, organization and operations.

Our Management Vision

On the occasion of the Company's 50th anniversary this year, the Japan Vilene Group has established a new medium-term management vision titled "**Engineering Fabric Innovation**".

The Group has given the new name "**Engineering Fabrics**" to all product lines, including nonwoven fabric, the core business of the Company since its foundation and a material with unlimited potential. The name will also apply to highly functional products, which have been developed with longer-term prospects. The Group promotes innovation in all its operations through global marketing of these products, and serves as the industry leader.

2 Development Process of Engineering Fabrics

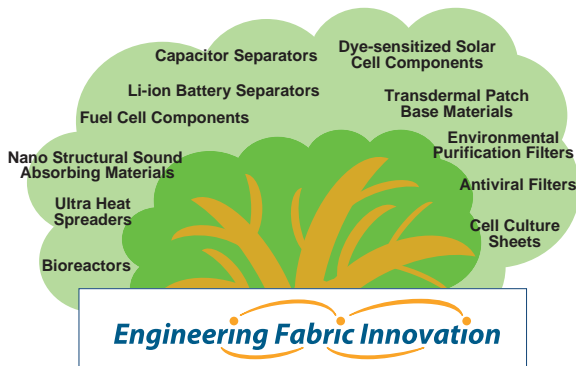


Toward Engineering Fabrics

One strength of the Group is the lines of multifunctional products created from integration of technologies (superior raw materials technologies, production process and equipment, and advanced converting technologies). The Group aspires to expand the functions of nonwoven fabric to evolve it into highly functional material that responds to demand for new applications and the needs of customers.

The Group calls these highly functional fabrics "**Engineering Fabrics**" – an inclusive term for Group products that create new value.

3 Expansion of Engineering Fabrics

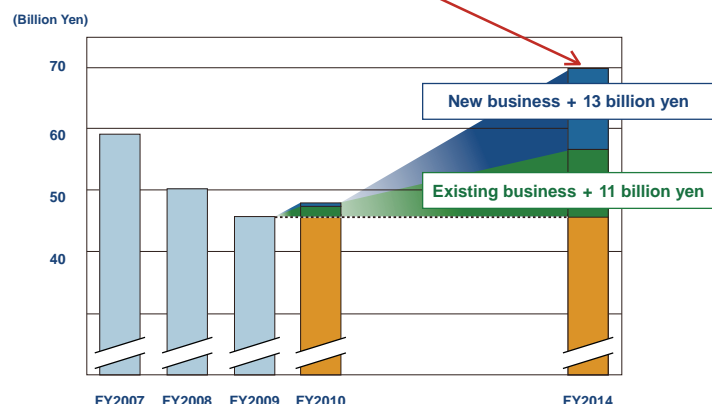


Expansion of Engineering Fabrics

Engineering Fabrics will continue to expand and evolve by developing and providing new products for advanced performance and functions, entering new markets, and upgrading existing products, through driving of new technologies and integration techniques.

4 Sales Target Five Years from Now

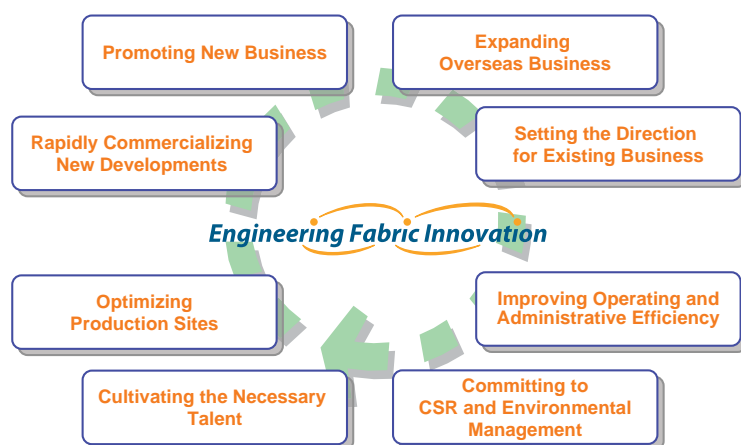
Aim for consolidated sales of 70 billion yen by fiscal 2014



■ Consolidated net sales:	70 billion yen
■ Consolidated ordinary income:	6.5 billion yen
■ Consolidated net income:	3.9 billion yen
■ Return on sales (ROS):	9% or higher
■ Return on assets (ROA):	11% or higher
■ Return on invested capital (ROIC):*	9% or higher

* ROIC (Return on Invested Capital)
 = (Operating income + Equity profit) x (1 - Tax rate 40 %) /
 (Shareholders' equity + Debts with interests)

5 Eight Basic Strategies



*CSR: Corporate Social Responsibility

Eight Basic Strategies

Promoting New Business

The Group aims to achieve total new business sales of 13 billion yen, by the year ending March 2015 by developing new products and by advancing into new markets and regions, targeting the markets for healthcare, ecology and comfort centered on its

Engineering Fabrics

Expanding Overseas Business

The Group is seeking to boost its overseas sales, overseas operating income, and equity income by effectively using its own, and Freudenberg's, global networks to develop its overseas businesses, primarily in North America and China, which are the Company's priority markets.

Rapidly Commercializing New Developments

Based on its integration techniques, the Group uses the management of technology (MOT) method to build new development frameworks and rapidly establish markets for new products.

Setting the Direction for Existing Business

Focusing on profitability, the Group sets the direction for existing businesses, concentrating on core businesses, improving their operations, and reviewing its business models.

Optimizing Production Sites

The Group optimizes its production bases on a global scale in response to the growth of Asian markets and the overseas transfer of customers. The production functions of domestic production plants (Shiga area and Tokyo Plant) will be defined to improve productivity by making effective use of their individual characteristics.

Improving Operating and Administrative Efficiency

Through operational innovation, strengthening supply chain management, and cost restructuring, the Group aims to improve capital and cost efficiency, and to increase cash flows.

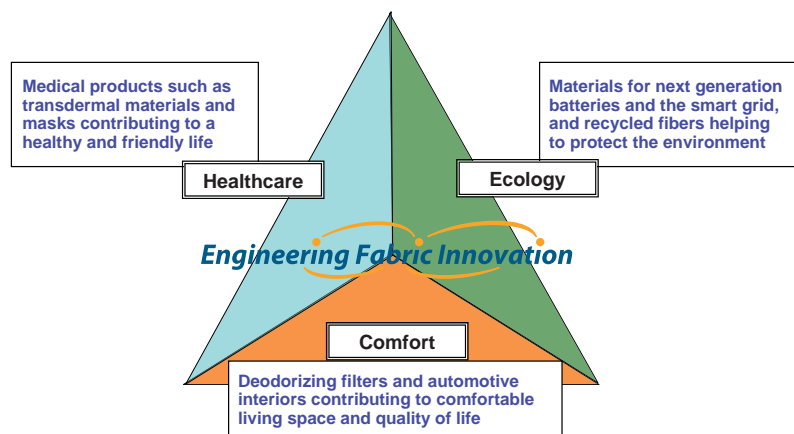
Cultivating the Necessary Talent

To develop necessary talent, the Group introduces human resource development programs, adopts strategic employment, and bolsters its HR management system. In particular, the Group pursues vigorous overseas HR strategies to reflect the rising importance of overseas operations.

Committing to CSR and Environmental Management

With an emphasis on legal compliance, the Group establishes and strengthens its regulatory, control, and compliance systems. The Group also practices environmental management based on its fundamental environmental principles.

6 Promoting New Business



High-Density, Three-Dimensional Cell Culture Scaffold Made Using Silica Nanofiber Nonwoven Fabrics

In a joint research project with Kyushu University and the Biotechnology and Food Research Institute of Fukuoka Industrial Technology Center, Japan Vilene has developed a three-dimensional cell culture scaffold made using silica nanofiber nonwoven fabrics.

This cell culture scaffold is made from nanofiber nonwoven fabrics, which consist only of silica glass created using Japan Vilene's own electrostatic spinning technology. It does not use any organic binder, and so has minimal negative effects on cells.

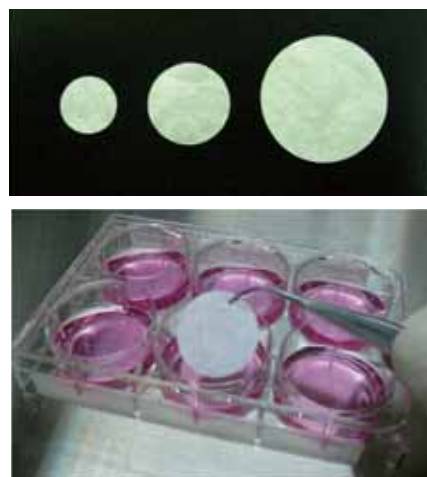
The biocompatibility of silica enables stable culturing, while the pore diameter controlled by a special electrospinning technology has enabled the scaffold to achieve a higher culturing speed and higher culture density ($3.5 \times 10^8/\text{cm}^3$ with CHO-K1 Chinese hamster's ovary cell strain)* than is possible with conventional scaffolds. In addition, because cells are cultured in a three-dimensional structure that is similar to a tissue in a living organism, the expression of superior cell functions is possible (it was confirmed that the IL6 production capacity of transgenic CHO-K1 cell strains was three to five times higher in this scaffold than in commercially available products). Moreover, the transparency of silica facilitates observation of living cells with an optical microscope while the cells are being cultured. (See the photo at right.)

Japan Vilene has been working to commercialize the scaffold, starting with versions of a size compatible with that of culture wells for experiments and research. The new product is expected to contribute to the development of culture research by universities, companies, and other organizations.

Future prospects: Potential future applications of the cell culture scaffold include research into biological functions, the production of protein and pharmaceutical products, tissue engineering materials, drug effect analyses, and test kits. In addition, we will build a bioreactor system incorporating this scaffold and advance research with a view to mass-producing antibody drugs and biotechnology-based pharmaceuticals.

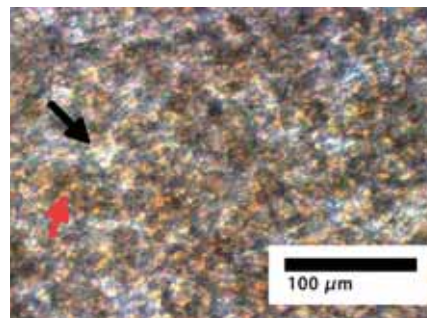
*Data obtained after culturing 5×10^5 cells of initially seeded cells for 14 days

Example applications



Above : From left, culture scaffolds for 24-, 12-, and 6-well plates
Below : A scaffold being used for a 6-well plate

Observation of cells being cultured



The black arrow (→) and red arrow(→) are pointing at a silica fiber and a cell, respectively.
Hepatic cells (HepG2) being cultured in the scaffold
[Observed with an optical microscope]

Japan Vilene is celebrating the 50th anniversary of its foundation in 2010.

Since its establishment, Japan Vilene has been developing nonwoven fabrics, expanding their applications, and contributing to improved quality of life by offering products that meet diverse needs. Our aim is to remain a reliable supplier of high-quality, high-performance products, including battery separators for hybrid vehicles, masks for preventing infection with new influenza, and cabin air filters for keeping air in the car clean.

Year 2010



2000's -

- 2009:** Expansion of production line for battery separators for hybrid vehicles
- 2008:** Release of an N95 particulate respirator
- 2007:** Expansion of car floor mat plant in the U.S.
- 2004:** Establishment of an automotive floor mat manufacturing and sales company in China
- 2004:** Establishment of a joint venture in China for manufacturing and selling automotive filters
- 2001:** Development of a system for recycling used filters



Battery separators for hybrid vehicles

1990's -

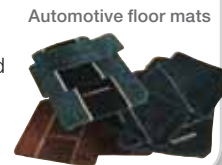
- 1999:** Commencement of mass production of battery separators for hybrid vehicles
- 1998:** Establishment of a joint venture in South Korea for manufacturing and selling nonwoven fabrics
- 1995:** Establishment of a joint venture in China for manufacturing and selling nonwoven fabrics
- 1990:** Opening of the Research & Development Center (Current Central Research Laboratory)

1980's -

- 1988:** Our industrial dust proof particulate respirator passes a national certificate examination, leading to the commencement of full-scale development of high-performance particulate respirators
- 1984:** Listed on the First Section of the Tokyo Stock Exchange
- 1983:** Establishment of automotive floor mats manufacturing and sales company in the United States
- 1980:** Establishment of a joint venture in Hong Kong to sell apparel materials, the first international initiative for the Company



Dust proof particulate respirator



Automotive floor mats

1970's -

- 1973:** Commencement of domestic production of battery separators
Release of automotive floor mats
- 1972:** Completion of Tokyo Plant to respond to growing demand
- 1970:** Listed on the Second Section of the Tokyo Stock Exchange



Battery Separators

1960's -

- 1961:** Completion of Shiga Factory
Commencement of production of interlinings
- 1960:** Establishment of Japan Vilene Co., Ltd.

Review of Operations by Business Segment

Apparel and Medical Materials

(Net sales: ¥10,086 million, a decline of 4.1% year on year)

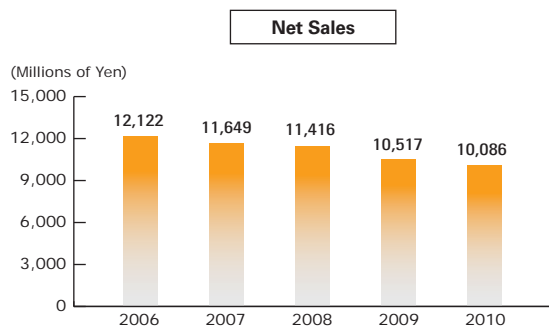
Sales of interlinings were down substantially from the previous period, reflecting increasingly active local procurement of secondary materials by leading apparel manufacturers, decreased quantities sold because of a slowdown in retail sales of clothing, and intensifying price competition. Sales of bonded wadding, notwithstanding strong demand for handcrafts, fell below the level of the previous period, owing to a decrease in sales quantities given sluggish store sales of thermal wear. Sales of cold compress base materials for cataplasm declined from the previous period as a consequence of reduced demand, while sales of cold compress base materials for plaster significantly exceeded the level of the previous period thanks to the growing market and new products.

Sales of industrial dust proof particulate respirators remained on a par with the previous period, as intense promotion activities offset the continued weakness of the manufacturing industry, the product's primary market. Sales of N95 particulate respirators and folding masks for stockpiling at companies and general consumers rose sharply on efforts to respond to Influenza A(H1N1) outbreak, so that overall sales of masks significantly outperformed the level of the previous year.



Main Products and Related Goods

Interlinings, bonded wadding, handcraft materials, clothing materials, cold compress base materials, and cosmetic and cooling sheet base materials, hospital particulate respirators, gowns and drapes, various types of particulate respirators, professional-use dust mops, and food product packing materials, etc.



Industrial and Electrical Materials

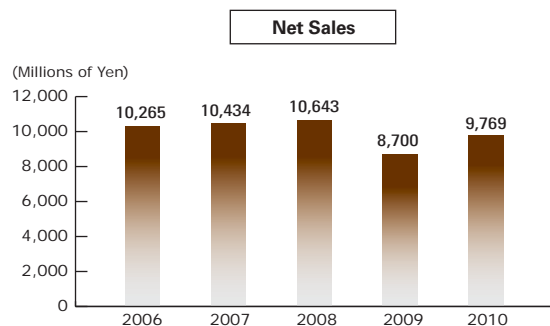
(Net sales: ¥9,769 million, a rise of 12.3% year on year)

Sales of nickel-metal hydride battery separators for hybrid vehicles rose considerably from the previous period, attributable to increased demand for hybrid vehicles, the result of the introduction of domestic eco-friendly car tax benefits and subsidies. Sales of nickel-metal hydride battery separators for general use improved, primarily because of increased demand for use in rechargeable batteries as an alternative for dry cell batteries and emergency power supplies, and a recovery in demand for use in electric tools, resulting in a substantial rise in sales from the previous period. Sales of nickel-cadmium battery separators increased from the previous period, as distribution inventories of electric-tool-related products were cleared and sales of models using low-cost nickel-cadmium batteries moved higher. Sales of photocopier cleaning rolls fell significantly from the previous period, reflecting a decrease in sales of photocopiers as companies cut spending, as well as inventory adjustments of genuine parts. Sales of liquid filters were considerably weaker, given a slowdown in the domestic electronics industry and applications with beverages.

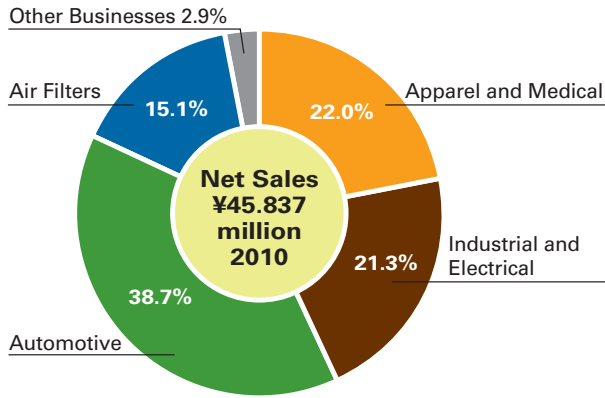


Main Products and Related Goods

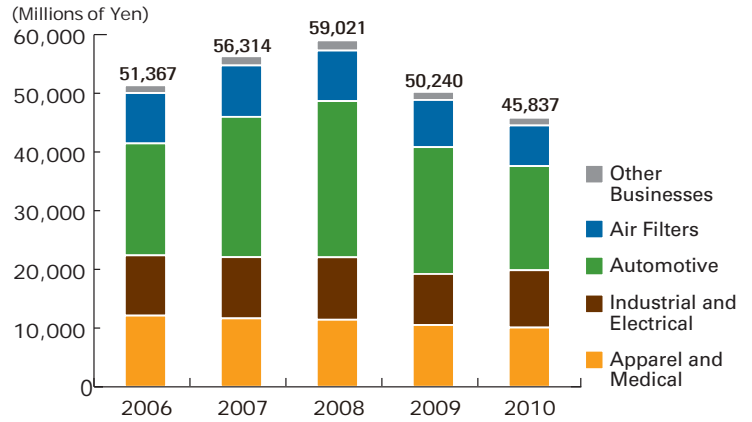
Photocopier cleaning rolls, packing materials for audio equipment, and roll materials for steel production, heat- and flame-resistant materials, liquid filters, printed circuit board bases, secondary battery separators (for nickel-cadmium and nickel-metal hydride batteries), battery electrode base materials and base materials for electric double layer capacitors, etc.



Composition of Sales by Business Segment



Trends in Sales by Business Segment



Automotive Materials

(Net sales: ¥17,745 million, a decline of 17.9% year on year)

Floor mats outperformed the results of the previous period, thanks to a recovery in car sales supported by eco-friendly car tax benefits and subsidies in the domestic market. In North America (January-December), a decline in the number of car sales and a stronger yen produced a marked decrease of floor mats sales from the previous period. The overall business of floor mats weakened as a result of reduced sales in North America. Sales of headliner materials were down sharply, due to a decline of the number of domestic car production with a rapid decline in export cars.



Main Products and Related Goods

Automotive components (headliner and interior materials, engine intake air filters) and automotive accessories (floor mats, wiping cloths, option parts), etc.

Air Filters

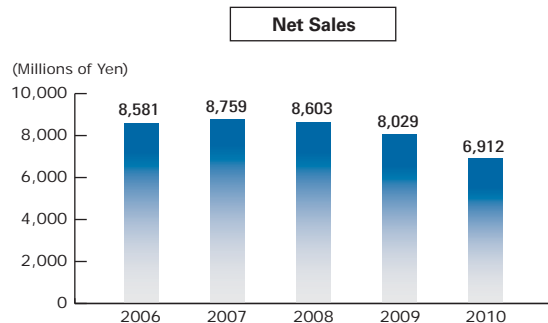
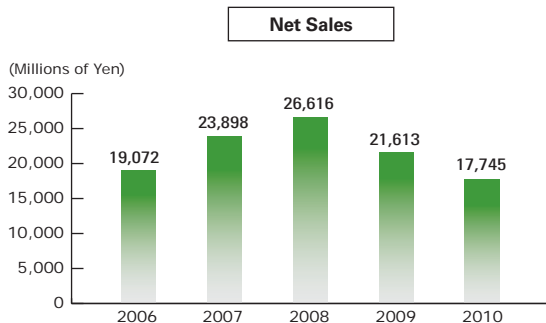
(Net sales: ¥6,912 million, a decline of 13.9% year on year)

Sales of general-use air filters fell far short of the results of the previous period, reflecting prolonged replacement cycles due to users' cost control, as well as a slowdown in sales of paint booth filters for automotive plants. Sales of medium- and high-performance air filters for buildings and industrial applications fell sharply below the results of the previous period, given extended replacement cycles and a decline in new capital expenditure projects, despite some large replacement orders received. Sales of car cabin air filters were down from the previous period, the result of inventory adjustments by customers in the first half of the fiscal year, continuing from the previous period, and the sluggish market for repeat business, which outweighed a rise in orders in the second half of the year as domestic car sales recovered.



Main Products and Related Goods

General-use air filters, medium- and high-performance air filters, automatic roll filters, clean room equipment, equipment filters, car cabin air filters, and dust collectors, etc.



Performance by Region

Since 1960, the Japan Vilene Group has maintained its position as the No.1 domestic manufacturer of nonwoven materials.

In its nonwoven materials operations, the Group has four manufacturing and processing companies in Japan, one sales company and one after-sales service company to run the four businesses described earlier. Overseas, the Group operates an automotive floor mat business in North America and China.

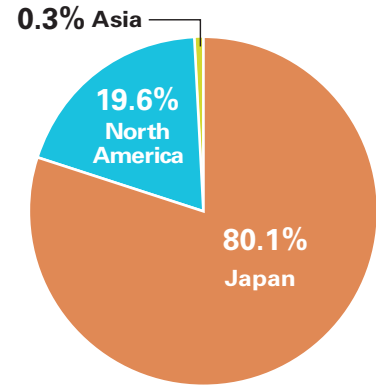
Japan

Sales of nickel-metal hydride battery separators for hybrid vehicles and automotive floor mats remained strong, supported by a recovery in the number of car sales in Japan as a result of the adoption of eco-friendly car tax benefits and subsidies. A number of products, such as masks, also performed well, although this could not compensate for the decline in sales of other products associated with the market slowdown in the first half of the fiscal year. Overall sales consequently declined by 3.3% year on year, to ¥36,699 million. Operating income nonetheless increased by a

factor of 23.5 from the year-ago result, to ¥1,029 million, thanks to factors that included reductions in the cost of materials and expenses and a rapid recovery in sales in the second half of the year.

North America

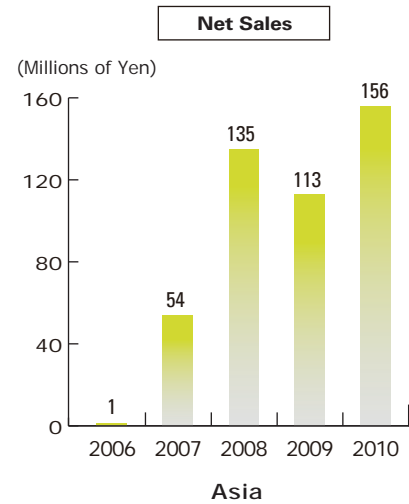
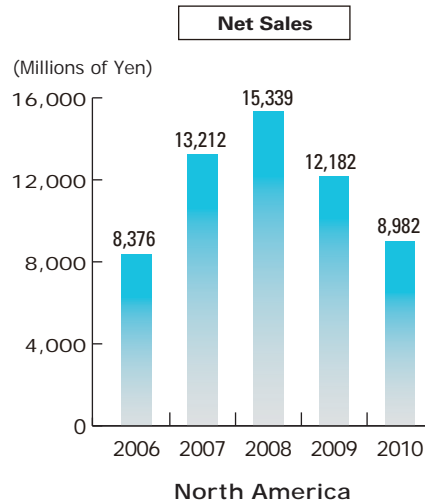
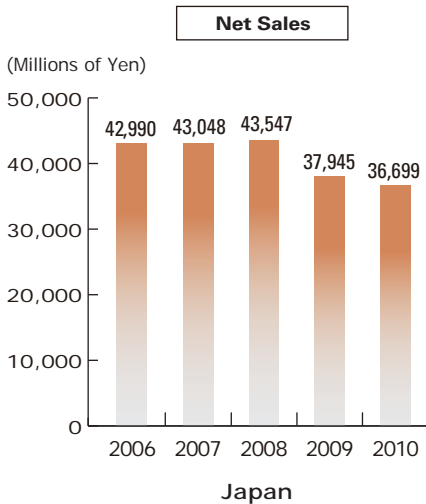
In North America (January-December), a decline in the number of car sales, a stronger yen, and other factors resulted in a fall in sales of automotive floor mats. Sales were down 26.3% year on year, to ¥8,982 million, while operating income fell by 55.5%, to ¥554 million.



Net Sales Breakdown by Region

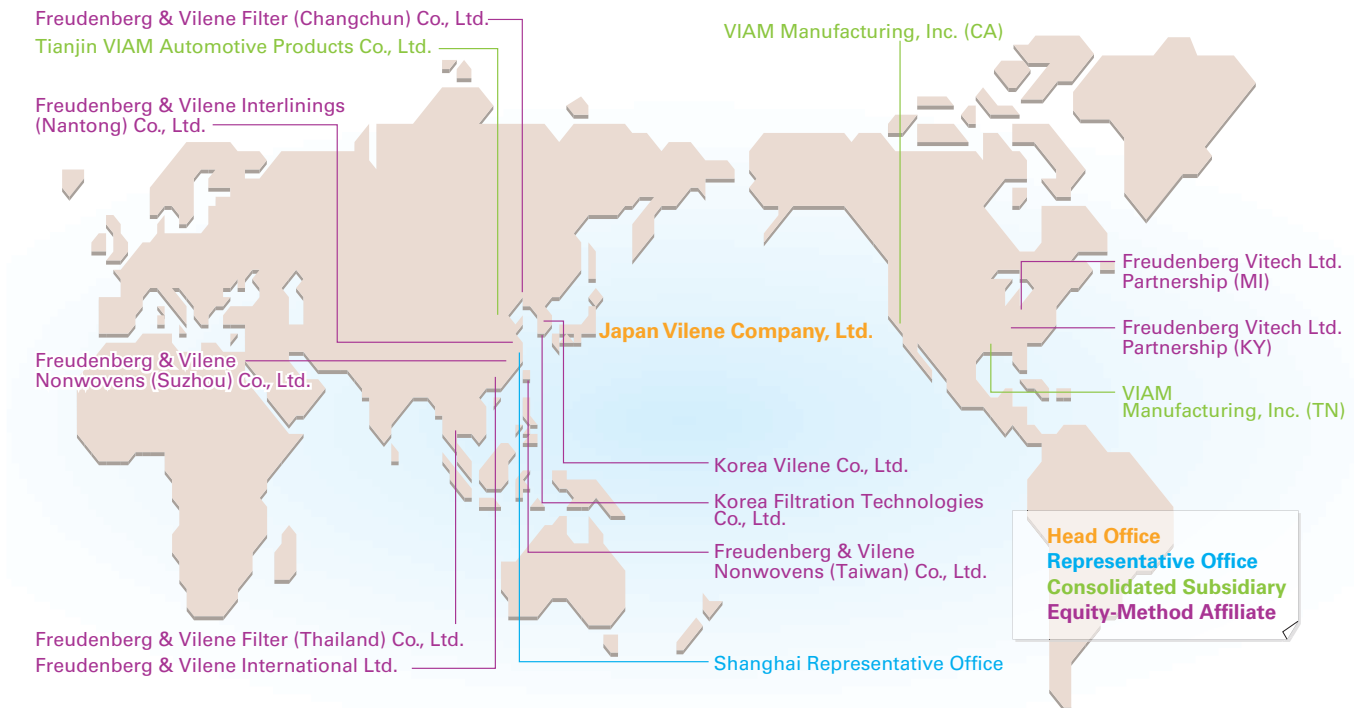
Asia

In Asia, sales of automotive floor mats steadily expanded, mainly attributable to the acquisition of new business, resulting in sales of ¥156 million, up 39.0% from the previous consolidated fiscal year. Operating income increased 10.6%, to ¥57 million.



Overseas Network

Japan Vilene is the leading nonwoven fabrics company in Japan. Overseas, we operate nonwoven fabrics businesses mainly in East Asia, in an alliance with the Freudenberg Group. We also operate an automotive floor mat business independently.



Asia

Cooperating with the Freudenberg Group, Japan Vilene operates a sales company in Hong Kong and production bases in Taiwan, China, and South Korea. Our business in Asia is largely concentrated on the apparel materials segment, although we plan to expand other activities in the future. Initiatives during the year included the establishment of Freudenberg & Vilene Filter (Thailand) Co., Ltd. in partnership with the Freudenberg Group in January 2008, to manufacture and market air filters for automobiles, gas turbines, and other industrial applications in ASEAN countries.

In 2004, we established Tianjin VIAM Automotive Products Co., Ltd., a wholly owned subsidiary in China that manufactures and sells automotive floor mats. The new subsidiary has given us a foothold for our production operations, and we now plan to expand the scale of these operations to improve profitability. In our domestic operations, we established Japan VIAM Co., Ltd. in 2006. With the founding of Japan VIAM, we now have a network of production bases in the United States, China and Japan for our automotive floor mat business.

In April 2009, we signed an agreement with Hikotomi Industrial Co., Ltd. for the transfer of its business to Japan VIAM Co., Ltd., which will assist us in bolstering the automotive floor mat business and consolidating production bases in Japan.

North America

Japan Vilene carried out its U.S. automotive floor mat business through VIAM Manufacturing Inc., a wholly owned subsidiary with two production bases in California and Tennessee. In January 2008, three companies which run the two automotive floor mat plants, were merged into VIAM Manufacturing Incorporated, and the combined entity's head office moved from California to Tennessee. We will continue to expand our operations by supplying products to the Big Three U.S. automakers in addition to Japanese car manufacturers.

In the United States, we have also established Freudenberg Vitech Ltd. Partnership (FVLP), a joint venture with the Freudenberg Group, to operate the automotive headliner business using nonwoven fabrics. Supplying automakers with products from production and sales bases in Kentucky and Michigan, we aim to expand our share in the U.S. market.

Management's Discussion and Analysis of Operations

Performance

Overview

The business environment surrounding the Japan Vilene Group remains challenging.

In response, the Group has been tackling essential issues, including the restructuring of its businesses, advancing product functions using new technologies and expanding applications for those functions, streamlining its production system, and making efficient use of its resources to increase corporate value. In addition, the Management Reform Committee established in February last year has led urgent initiatives such as improving operational and cost effectiveness, reducing inventory, enhancing production efficiency, and bolstering financial strength, aiming to achieve a major change in revenue structure and ensure sustained earnings. In its sales activities, the Group has sought to boost orders by identifying customer needs and rapidly developing products.

Sales

Orders rose in the second half of the fiscal year, supported by a partial recovery in the market environment. Unfortunately, this was not sufficient to compensate for the decline in orders received in the first half, due to inventory adjustment and reduced capital expenditure by customers. Consequently, consolidated sales were down 8.8% from the previous period, to ¥45,837 million in the period under review. In terms of profit, however, consolidated operating income climbed 25.0% year on year, to ¥1,655 million, while consolidated net income surged 88.3%, to ¥1,266 million. These results principally reflected an improvement in the cost of sales ratio resulting from the above measures.

Sales by Operational Segment

1. Apparel and Medical Materials (Net sales: ¥10,086 million, down 4.1% year on year): Sales of interlinings were down substantially from the previous period, reflecting growing local procurement of secondary materials by large apparel manufacturers, among other factors. Sales of bonded wadding decreased, owing to a decline in store sales of thermal wear, resulting in a significant fall from a year ago.

Sales of cold compress base materials declined from the

previous period, while plaster base materials significantly outperformed the year-ago results. Overall sales of masks surged from the previous year.

2. Industrial and Electrical Materials (Net sales: ¥9,769 million, up 12.3% from year on year): Sales of nickel-metal hydride battery separators for hybrid vehicles rose markedly from the previous period, thanks to increased demand for hybrid vehicles. Sales of nickel-metal hydride battery separators for general use improved on the year-ago results. Sales of both photocopier cleaning rolls and liquid filters declined sharply from the previous period.

3. Automotive Materials (Net sales: ¥17,745 million, down 17.9% year on year) Sales of floor mats in Japan surpassed the results of the previous period, thanks to a recovery in car sales. In North America (January-December), a decline in the number of car sales and the appreciation of the yen resulted in a marked decrease from the level of the previous period. Sales of headliner also fell substantially, attributable to a decline in the number of domestic car production.

4. Air Filters (Net sales: ¥6,912 million, down 13.9% year on year): Sales of general-use air filters fell far below the year-ago result, with users opting for longer replacement cycles to reduce costs. Sales of built-in filters fell on restrained purchasing, while demand for clean room equipment declined as a result of limited new corporate capital investment. In addition, sales of car cabin air filters were down on inventory adjustment and a slowdown in the market for repeat users.

Note: The primary exchange rate used to convert the dollar-denominated performance of overseas subsidiaries into yen for the period from January through December 2009 was ¥93.65 = US\$1.00. A rate of ¥103.49 = US\$1.00 was used for the previous year.

Cost of Sales, SG&A and Operating Income

The cost of sales ratio improved 1.3%, to 79.1%. This is a result of reduced prices of raw materials and manufacturing cost.

SG&A expenses decreased by ¥577 million, or 6.8% year on year, to ¥7,945 million, thanks to efforts to reduce operating expenses, including packing and transport expenses.

As a result, operating income increased by ¥331 million, to ¥1,655 million (up 25.0% year on year).

Other Income/Expenses

Equity in earnings of associated companies was ¥243 million, a decrease of ¥94 million from the previous year. While an impairment loss of ¥250 million was reported in the previous period for the apparel material asset groups and for idle property and rental assets, the loss was reduced to ¥23 million this period.

As a result, total other income (net of other expenses) increased by ¥55 million, or 36.3%, to ¥208 million from the previous year.

Income before Income Taxes and Minority Interests/Net Income

Income before income taxes and minority interests grew ¥386 million, or 26.1%, to ¥1,863 million. Net income increased ¥593 million, or 88.3%, to ¥1,266 million.

Earnings per share rose ¥10.24, to ¥20.60, and return on equity (ROE) increased 2.2 percentage points, to 4.1%.

Financial Position and Liquidity

Assets, Liabilities and Shareholder's Equity

Assets

Total assets declined by ¥2,071 million, to ¥50,549 million, from the end of the previous consolidated fiscal year. Total current assets were reduced slightly, falling ¥33 million from a year ago, primarily because of notes and accounts receivable reduced inventories and the purchase of treasury stock, which reduced cash and deposits. Net property, plant and equipment decreased by ¥1,995 million from the end of the previous consolidated fiscal year.

Liabilities

Total liabilities increased by ¥4,253 million, to ¥23,049 million from the end of the previous consolidated fiscal year. The increase in current liabilities (¥1,555 million from the previous consolidated fiscal year) was driven mostly by a rise in notes and accounts payable.

Long-term liabilities rose ¥2,698 million from the end of the previous consolidated fiscal year. This reflected long-term borrowing in response, in large part, to the purchase of treasury stock.

Equity

Equity totaled ¥27,501 million, a decrease of ¥6,324 million from the end of the previous fiscal year. This was related to the repurchase of treasury stock and the exclusion of Hikotomi Industrial Co., Ltd. from consolidation, which eliminated shares held by minority shareholders.

Capital Expenditures and Depreciation

The Group delayed and restricted capital expenditure, which resulted in overall investment of ¥2,032 million, down ¥181 million from the previous period. The majority of capital expenditure was associated with the addition of nonwoven processing facilities at the Tokyo Plant.

Depreciation decreased ¥148 million, or 5.3%, to ¥2,622 million from the previous period.

Cash Flows

Condition of cash flow in the period under review
Consolidated cash and cash equivalents ("Funds") at the end of the consolidated fiscal year under review amounted to ¥6,158 million, down ¥1,143 million from the end of the consolidated fiscal year. Cash flow from each type of activities is as follows:

(Cash flow from operating activities)

Net cash provided by operating activities totaled ¥5,030 million, up ¥948 million from the end of the previous consolidated fiscal year. Principal factors were an increase in accounts receivable, an increase in accounts payable and a decrease in inventories and the income tax burden.

(Cash flow from investing activities)

Net cash used in investing activities decreased by ¥917 million from the previous consolidated fiscal year, to ¥1,477 million. Major factors included a decline in spending for the acquisition of property, plant and equipment, an increase in revenues from the sale of property, plant and equipment, and an increase in the income from the collection of loans.

(Cash flow from financing activities)

While the previous consolidated fiscal year generated cash of ¥3,052 million, in the fiscal year under review the Company used cash of ¥4,694 million. Significant factors included the offer for the Company's own shares made during the year, which increased spending on the repurchase of treasury stock by ¥6,612 million.

Business Risk

The various risks that may potentially affect the business performance and the financial position of the Japan Vilene Group are summarized below. Information contained therein is based on the Group's interpretation of information available at the time of the submission of the annual securities report (June 29, 2010).

Economic Conditions

Sales of nonwoven fabric and nonwoven fabric processed goods, which generate a large part of the Group's operating revenues, are susceptible to the economic conditions of the countries and regions in which the Group sells the products. Similarly, demand for the Group's products—including both the Group's own offerings and the goods of other companies—is affected by the economic conditions of the markets in which the Group sells such products. Accordingly, an economic slowdown in the major markets of the Group, including Japan, North America, and Asia, and a decrease in demand associated with the slowdown may adversely influence the performance and financial position of the Group.

Procurement of raw materials

The Group uses many petroleum products as raw materials and since the prices of such products are affected by international commodity market conditions, depending on market conditions, raw material costs may rise, which may affect the Group's business performance.

Foreign Exchange Fluctuations

The Japan Vilene Group's business includes overseas production and sales operations primarily in North America and Asia. Sales, expenses, assets, and other items relevant to each region that are denominated in local currencies are translated into yen in the course of preparing the Group's consolidated financial statements. Even if the local value of such items does not change, the value after translation into yen may be affected. In general, an appreciating yen has a negative effect on the Group's business, and a depreciating yen has a positive effect. Over the medium and long terms, however, exchange rate fluctuations can make it impossible to undertake procurement, manufacturing, and sales activities exactly as planned. Therefore, exchange rate fluctuations can potentially have a negative influence on the Group's business performance and financial position.

Product Development Capabilities

The Japan Vilene Group is confident of its ability to continue developing innovative and appealing products. However, product development and sales processes, due to their nature and complexity, involve uncertainties and risks. For example: (1) there is no guarantee that the Group can adequately obtain the capital and resources required to invest in new products and technologies; (2) the Group cannot predict

without fail that its new products and technologies will win market support, and also cannot guarantee that the sale of such products will be successful; and (3) rapid technological advances and changes may cause the Group's products to be superseded. The unpredictability of industry and market changes could prevent the Group from developing attractive new products, which could cause future growth and profits to decline. The Group's business performance and financial positions could be adversely affected as a result.

Risks Associated with Overseas Expansion

The Group's production and sales operations also extend outside Japan to such regions as North America and Asia. The Group has consolidated subsidiaries in the United States, China and Hong Kong, as well as equity-method affiliates in the United States, China, Hong Kong, South Korea, Taiwan and Thailand. Establishing operations in overseas markets involves a number of risks: (1) unpredictable changes in laws and other regulations; (2) the impact of discrepancies between the tax systems of the various countries; (3) difficulties in recruiting and retaining staff; (4) aspects of the political system and economy that are different from those in Japan; and (5) social upheaval caused by terrorist and other acts. The Group's business performance and financial position could be affected as a consequence.

Retirement Benefit Obligations

The Group's employee retirement benefit expenses and obligations are calculated based on discount rates and other preconditions for actuarial calculations, as well as expected return on pension assets. Actual results may differ from these preconditions, and the preconditions themselves may have to be changed. The Group's business performance and financial position could be affected as a result.

Impairment Accounting

If the fair value of the Group's assets falls sharply or if business profitability worsens, as a result of impairment accounting, impairment losses on fixed assets may be incurred and the Group's business performance and financial position could be affected as a result.

Action for Damages

An action brought by ITOCHU PLASTICS INC. and another company against the Company and three other companies, seeking damages of ¥704 million in connection with fraud involving a former employee of the Company in past years is pending. The claim for damages being made against the Company in this action is without grounds. The Company plans to fight the claim in court, and at the present stage has estimated the amount of losses that could be incurred in the future and posted a contingent loss reserve for the amount considered necessary. Depending on the outcome, however, losses exceeding the reserve may be incurred.

Board of Directors and Auditors

(As of June 29, 2010)



Chairman
Mitsuo Kanno

President and Representative Director
Toshio Yoshida

Managing Director
Yoshiaki Mizutani



Director
Keiji Abo



Director
Masahiro Kimura



Director
Yasufumi Matsumiya



Director
Masanobu Mizoguchi



Director
Noriyuki Aoki



Director
Yasuji Nakakouji



Director
Thomas Seidel



Director
Shogo Masuda



Standing Auditor
Tsuyoshi Ninomiya



Standing Auditor
Shizuhiko Abe



Standing Auditor
Kunikazu Mochizuki



Auditor
Heinrich Menkhaus



Consolidated Financial Statements

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Japan Vilene Company, Ltd.:

We have audited the accompanying consolidated balance sheets of Japan Vilene Company, Ltd. (the "Company") and subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Vilene Company, Ltd. and subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 11, 2010

Member of
Deloitte Touche Tohmatsu

Japan Vilene Company, Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2010 and 2009

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010		2010	2009	2010
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 8)	¥ 6,158	¥ 7,301	\$ 66,215	Short-term bank loans (Notes 8 and 10)	¥ 5,083	¥ 5,367	\$ 54,656
Time deposits		19		Current portion of long-term debt (Notes 8 and 10)	150	148	1,613
Notes and accounts receivable (Notes 8 and 17):				Notes and accounts payable (Notes 8 and 17):			
Trade notes	3,197	2,497	34,376	Trade notes	823	791	8,849
Trade accounts	7,969	6,404	85,688	Trade accounts	3,418	2,371	36,753
Allowance for doubtful receivables	(5)	(4)	(54)	Other	1,222	1,038	13,140
Inventories (Note 4)	6,156	6,921	66,194	Income taxes payable (Note 11)	351	30	3,774
Deferred tax assets (Note 11)	668	437	7,183	Accrued expenses and other current liabilities	2,168	1,916	23,312
Prepaid expenses and other current assets (Note 17)	1,014	1,614	10,903				
Total current assets	25,157	25,189	270,505	Total current liabilities	13,215	11,661	142,097
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 6)	65,326	67,537	702,430	LONG-TERM LIABILITIES:			
Accumulated depreciation	(48,839)	(49,054)	(525,150)	Long-term debt (Notes 8 and 10)	6,231	3,417	67,000
Net property, plant and equipment	16,487	18,483	177,280	Liability for retirement benefits (Note 12)	2,216	2,250	23,828
INVESTMENTS AND OTHER ASSETS:				Deferred tax liabilities (Note 11)	631	573	6,785
Investment securities (Notes 3 and 8)	976	868	10,494	Long-term guarantee deposited	590	568	6,344
Investments in and advances to associated companies (Note 8)	4,744	4,605	51,011	Other	165	327	1,774
Guarantee deposits	1,028	1,032	11,054	Total long-term liabilities	9,833	7,135	105,731
Deferred tax assets (Note 11)	838	975	9,011	COMMITMENTS AND CONTINGENT LIABILITIES			
Other assets	1,319	1,468	14,183	(Notes 7, 9, 14 and 17)			
Total investments and other assets	8,905	8,948	95,753	EQUITY (Notes 13, 15 and 20):			
TOTAL	¥ 50,549	¥ 52,620	\$ 543,538	Common stock—authorized, 152,713,000 shares; issued, 65,140,945 shares in 2010 and 2009	9,816	9,816	105,548
				Capital surplus	7,492	7,494	80,560
				Stock acquisition rights	6	15	65
				Retained earnings	19,505	19,149	209,731
				Unrealized gain on available-for-sale securities	147	94	1,581
				Deferred loss on derivatives under hedge accounting	(1)	(2)	(11)
				Foreign currency translation adjustments	(2,723)	(2,926)	(29,280)
				Treasury stock—at cost, 15,301,695 shares in 2010 and 266,606 shares in 2009	(6,741)	(129)	(72,484)
				Total	27,501	33,511	295,710
				Minority interests		313	
				Total equity	27,501	33,824	295,710
				TOTAL	¥ 50,549	¥ 52,620	\$ 543,538

See notes to consolidated financial statements.

Japan Vilene Company, Ltd. and Subsidiaries

Consolidated Statements of Income Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
NET SALES (Notes 17 and 19)	¥ 45,837	¥ 50,240	\$ 492,871
COST OF SALES (Notes 5, 7, 12, 17, 18 and 19)	<u>36,237</u>	<u>40,393</u>	<u>389,645</u>
Gross profit	9,600	9,847	103,226
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 5, 7, 12, 18 and 19)	<u>7,945</u>	<u>8,523</u>	<u>85,430</u>
Operating income (Note 19)	<u>1,655</u>	<u>1,324</u>	<u>17,796</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	75	100	806
Interest expense	(106)	(105)	(1,140)
Gain on sales of investment securities (Note 3)		18	
Loss on sales of subsidiaries' stocks	(12)		(129)
Equity in earnings of associated companies	243	337	2,613
Gain on sales of property, plant and equipment	26	21	280
Loss on disposal of property, plant and equipment	(116)	(81)	(1,247)
Foreign exchange gain (loss)	(2)	24	(22)
Loss on impairment of long-lived assets (Note 6)	(23)	(250)	(247)
Other—net	<u>123</u>	<u>89</u>	<u>1,322</u>
Other income—net	<u>208</u>	<u>153</u>	<u>2,236</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>1,863</u>	<u>1,477</u>	<u>20,032</u>
INCOME TAXES (Note 11):			
Current	681	279	7,322
Deferred	<u>(88)</u>	<u>506</u>	<u>(946)</u>
Total income taxes	<u>593</u>	<u>785</u>	<u>6,376</u>
INCOME BEFORE MINORITY INTERESTS	1,270	692	13,656
MINORITY INTERESTS	<u>(4)</u>	<u>(20)</u>	<u>(43)</u>
NET INCOME	<u>¥ 1,266</u>	<u>¥ 672</u>	<u>\$ 13,613</u>

Japan Vilene Company, Ltd. and Subsidiaries

Consolidated Statements of Income Years Ended March 31, 2010 and 2009

	Yen		U.S. Dollars
	<u>2010</u>	<u>2009</u>	<u>2010</u>
PER SHARE AMOUNTS (Note 16):			
Net income	¥ 20.60	¥ 10.36	\$ 0.22
Diluted net income	20.59	10.35	0.22
Cash dividends applicable to the year	10.00	12.00	0.11

See notes to consolidated financial statements.

Japan Vilene Company, Ltd. and Subsidiaries

**Consolidated Statements of Changes in Equity
Years Ended March 31, 2010 and 2009**

	Thousands Number of Shares of Common Stock Outstanding	Millions of Yen										
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain on Available- for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2008	64,911	¥ 9,816	¥ 7,494	¥ 15	¥ 19,256	¥ 212	¥ (2)	¥ (196)	¥ (113)	¥ 36,482	¥ 308	¥ 36,790
Net income					672					672		672
Cash dividends, ¥12 per share					(779)					(779)		(779)
Repurchase of treasury stock	(37)								(16)	(16)		(16)
Net change in the year						(118)		(2,730)		(2,848)	5	(2,843)
BALANCE, MARCH 31, 2009	64,874	9,816	7,494	15	19,149	94	(2)	(2,926)	(129)	33,511	313	33,824
Net income					1,266					1,266		1,266
Cash dividends, ¥10 per share					(649)					(649)		(649)
Decrease due to exclusion of subsidiaries from consolidation					(256)					(256)		(256)
Repurchase of treasury stock	(15,067)								(6,628)	(6,628)		(6,628)
Disposal of treasury stock	32		(7)						16	9		9
Transfer of loss on disposal of treasury stock			5		(5)							
Net change in the year				(9)		53	1	203		248	(313)	(65)
BALANCE, MARCH 31, 2010	<u>49,839</u>	<u>¥ 9,816</u>	<u>¥ 7,492</u>	<u>¥ 6</u>	<u>¥ 19,505</u>	<u>¥ 147</u>	<u>¥ (1)</u>	<u>¥ (2,723)</u>	<u>¥ (6,741)</u>	<u>¥ 27,501</u>		<u>¥ 27,501</u>

	Thousands of U.S. Dollars (Note 1)										
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain on Available- for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2009	\$ 105,548	\$ 80,581	\$ 161	\$ 205,903	\$ 1,011	\$ (22)	\$ (31,462)	\$ (1,387)	\$ 360,333	\$ 3,366	\$ 363,699
Net income				13,613					13,613		13,613
Cash dividends, \$0.11 per share				(6,978)					(6,978)		(6,978)
Decrease due to exclusion of subsidiaries from consolidation				(2,753)					(2,753)		(2,753)
Repurchase of treasury stock								(71,269)	(71,269)		(71,269)
Disposal of treasury stock		(75)						172	97		97
Transfer of loss on disposal of treasury stock		54		(54)							
Net change in the year			(96)		570	11	2,182		2,667	(3,366)	(699)
BALANCE, MARCH 31, 2010	<u>\$ 105,548</u>	<u>\$ 80,560</u>	<u>\$ 65</u>	<u>\$ 209,731</u>	<u>\$ 1,581</u>	<u>\$ (11)</u>	<u>\$ (29,280)</u>	<u>\$ (72,484)</u>	<u>\$ 295,710</u>		<u>\$ 295,710</u>

See notes to consolidated financial statements.

Japan Vilene Company, Ltd. and Subsidiaries

Consolidated Statements of Cash Flows Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2010</u>	<u>2009</u>	<u>2010</u>
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	<u>¥ 1,863</u>	<u>¥ 1,477</u>	<u>\$ 20,032</u>
Adjustments for:			
Income taxes paid	(308)	(996)	(3,312)
Income taxes refund	370		3,978
Depreciation and amortization	2,622	2,770	28,194
Loss on sales and disposal of property, plant and equipment—net	95	60	1,022
Loss on sales of subsidiaries' stocks	12		129
Gain on sales of investment securities		(13)	
Decrease in liability for retirement benefits		(342)	
Increase in provision for contingent loss		83	
Equity in earnings of associated companies, net of dividends received	154	473	1,656
Loss on impairment of long-lived assets	23	250	247
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	(2,349)	3,805	(25,258)
Decrease (increase) in inventories	717	(280)	7,710
Increase (decrease) in trade notes and accounts payable	1,517	(2,968)	16,312
Other—net	314	(236)	3,376
Total adjustments	<u>3,167</u>	<u>2,606</u>	<u>34,054</u>
Net cash provided by operating activities	<u>5,030</u>	<u>4,083</u>	<u>54,086</u>
INVESTING ACTIVITIES:			
Capital expenditures	(2,032)	(2,213)	(21,849)
Proceeds from sales of property, plant and equipment	375	27	4,032
Purchase of investment securities	(19)	(20)	(204)
Proceeds from sales of investment securities		34	
Disbursements for loans	(117)	(285)	(1,258)
Proceeds from repayment of loans	285		3,065
Proceeds from sales of investment in subsidiaries resulting in change in scope of consolidation	37		398
Collection of investments in capital		20	
Other—net	(6)	43	(65)
Net cash used in investing activities	<u>(1,477)</u>	<u>(2,394)</u>	<u>(15,881)</u>
FORWARD	<u>¥ 3,553</u>	<u>¥ 1,689</u>	<u>\$ 38,205</u>

Japan Vilene Company, Ltd. and Subsidiaries

Consolidated Statements of Cash Flows Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2010</u>	<u>2009</u>	<u>2010</u>
FORWARD	<u>¥ 3,553</u>	<u>¥ 1,689</u>	<u>\$ 38,205</u>
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans—net	(285)	1,061	(3,065)
Proceeds from issuance of long-term debt	3,000	2,950	32,258
Repayments of long-term debt	(132)	(149)	(1,419)
Repurchase of treasury stock	(6,628)	(16)	(71,269)
Dividends paid	(649)	(779)	(6,978)
Dividends paid for minority interests		(15)	
Net cash (used in) provided by financing activities	<u>(4,694)</u>	<u>3,052</u>	<u>(50,473)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,141)	4,741	(12,268)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2)	(179)	(22)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,301</u>	<u>2,739</u>	<u>78,505</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 6,158</u>	<u>¥ 7,301</u>	<u>\$ 66,215</u>

See notes to consolidated financial statements.

Japan Vilene Company, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended March 31, 2010 and 2009

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2009 consolidated financial statements to conform to classifications used in 2010.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Japan Vilene Company, Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥93 to \$1, the approximate rate of exchange at March 31, 2010. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation—The consolidated financial statements as of March 31, 2010 include the accounts of the Company and all subsidiaries (together, the "Group").

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 Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in ten associated companies are accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The accounts of foreign subsidiaries are included on the basis of their fiscal year end of December 31. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Group are eliminated.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements— In May 2006, the Accounting Standards Board of Japan ("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." PITF No. 18 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 of America 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: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (e) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and (f) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. There was no effect from this change.

Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

Inventories—Inventories are stated at the lower of cost, determined by the average method, or net selling value. Inventories of subsidiaries are stated principally at the latest purchase cost, or net selling value.

Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned 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.

Property, Plant and Equipment—Property, plant and equipment are stated at cost. Significant renewals and additions are capitalized; maintenance and repairs are charged to income as incurred. Depreciation of property, plant and equipment is principally computed by the declining-balance method except for buildings. The Company uses the straight-line method for depreciation of buildings. The domestic subsidiaries use the straight-line method for depreciation of buildings acquired after March 31, 1998. The declining-balance method was used for buildings acquired prior to April 1, 1998. Depreciation of property, plant and equipment of foreign subsidiaries is principally computed by the straight-line method.

The ranges of the estimated useful lives of the assets used for the computation of depreciation are as follows:

Buildings and structures	38 to 50 years
Machinery and equipment	Principally 7 years

Long-Lived Assets—The Group reviews its 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.

Retirement and Pension Plans—Liabilities for employees' retirement benefits of the Company and its domestic subsidiaries are provided based on the retirement benefit obligations and the fair value of pension plan assets as of the balance sheet date.

Prior service cost is amortized by the straight-line method over stated years that do not exceed the average remaining service period of the eligible employees (five years).

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over stated years that do not exceed the average remaining service period of the eligible employees (ten years).

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

Stock Options—ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance are applicable to stock options granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

The Company applied the accounting standard for stock options to those granted on and after May 1, 2006.

Research and Development Costs—Research and development costs are charged to income as incurred.

Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 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 previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were 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 should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. There was no effect from this change.

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

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.

The Company and certain domestic subsidiaries file a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

Translation of Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rate at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts. Forward exchange contracts are separately accounted for in accordance with the accounting standard for financial instruments.

Translation of Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate at the balance sheet date except for equity, which is translated at the historical rates. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries and associated companies are translated into Japanese yen at the average rates of exchange. The accounts of the consolidated statements of cash flows in foreign currencies are also translated at the average rates of exchange.

Derivatives and Hedging Activities—The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swap contracts are utilized by the Company to reduce foreign currency exchange and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and (2) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposures for export sales and import purchases are measured at fair value and the unrealized gains or losses are recognized in income. Forward contracts designated as hedging forecasted (or committed) transactions are also measured at the fair value but the unrealized gains or losses are deferred until the underlying transactions are completed.

The interest rate swap contracts 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 expense or income.

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, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock.

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

New Accounting Pronouncements

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—The current accounting standard requires to unify accounting policies within the consolidation group. However, the current guidance allows to apply the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and (6) exclusion of minority interests from net income, if contained.

This standard is applicable to equity method of accounting for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations—In March 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Accounting Changes and Error Corrections—In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) *Changes in accounting policies*

When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) *Changes in presentations*

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) *Changes in accounting estimates*

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) *Corrections of prior period errors*

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures—In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. INVESTMENT SECURITIES

Investment securities at March 31, 2010 and 2009, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Non-current:			
Marketable equity securities	¥ 778	¥ 672	\$ 8,366
Non-marketable equity securities	<u>198</u>	<u>196</u>	<u>2,128</u>
Total	<u>¥ 976</u>	<u>¥ 868</u>	<u>\$ 10,494</u>

The cost and aggregate fair values of investment securities at March 31, 2010 and 2009, were as follows:

	<u>Millions of Yen</u>			
	<u>2010</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale equity securities	¥ 488	¥ 333	¥ 43	¥ 778
	<u>Millions of Yen</u>			
	<u>2009</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale equity securities	¥ 474	¥ 248	¥ 50	¥ 672

	Thousands of U.S. Dollars			
	2010			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale equity securities	\$ 5,247	\$ 3,581	\$ 462	\$ 8,366

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 were as follows. The similar information for 2010 is disclosed in Note 8.

	<u>Carrying Amount Millions of Yen 2009</u>
Securities classified as available-for-sale equity securities	¥ 196

Proceeds from sales of available-for-sale equity securities for the year ended March 31, 2009 were ¥34 million. Realized gains on these sales, computed on the moving average cost basis, were ¥18 million for the year ended March 31, 2009.

4. INVENTORIES

Inventories at March 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Merchandise and finished goods	¥ 4,079	¥ 4,665	\$ 43,860
Work in process	725	605	7,796
Raw materials and supplies	<u>1,352</u>	<u>1,651</u>	<u>14,538</u>
Total	<u>¥ 6,156</u>	<u>¥ 6,921</u>	<u>\$ 66,194</u>

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Land	¥ 3,520	¥ 4,076	\$ 37,849
Buildings and structures	21,240	22,014	228,387
Machinery, equipment and vehicles	34,682	35,284	372,925
Tools, furniture and fixtures	5,727	5,938	61,581
Construction in progress	<u>157</u>	<u>225</u>	<u>1,688</u>
Total	<u>¥ 65,326</u>	<u>¥ 67,537</u>	<u>\$ 702,430</u>

Depreciation expense amounted to ¥2,622 million (\$28,194 thousand) and ¥2,770 million for the years ended March 31, 2010 and 2009, respectively.

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2010. As a result, the Group recognized an impairment loss of ¥23 million (\$247 thousand) as loss on impairment of long-lived assets for the assets used for business of apparel materials, idle assets and leased assets due to a decline in market value and the carrying amount of the assets was written down to the recoverable amount. The recoverable amount of the assets was measured at the net selling price determined by an appraisal from a real estate appraiser.

7. LEASES

The Group leases certain office equipment and vehicles under long-term noncancelable lease agreements.

Total rental expense for the years ended March 31, 2010 and 2009, was ¥708 million (\$7,613 thousand) and ¥706 million, respectively, including ¥28 million (\$301 thousand) and ¥31 million of lease payments under finance leases.

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, the ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Company applied the ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis was as follows:

	Millions of Yen					
	2010			2009		
	Machinery and Equipment	Tools, Furniture and Fixtures	Total	Machinery and Equipment	Tools, Furniture and Fixtures	Total
Acquisition cost	¥ 56	¥ 82	¥ 138	¥ 57	¥ 100	¥ 157
Accumulated depreciation	<u>33</u>	<u>51</u>	<u>84</u>	<u>28</u>	<u>48</u>	<u>76</u>
Net leased property	<u>¥ 23</u>	<u>¥ 31</u>	<u>¥ 54</u>	<u>¥ 29</u>	<u>¥ 52</u>	<u>¥ 81</u>
	Thousands of U.S. Dollars					
	2010					
	Machinery and Equipment	Tools, Furniture and Fixtures	Total			
Acquisition cost	\$ 602	\$ 882	\$ 1,484			
Accumulated depreciation	<u>355</u>	<u>548</u>	<u>903</u>			
Net leased property	<u>\$ 247</u>	<u>\$ 334</u>	<u>\$ 581</u>			

Obligations under finance leases:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Due within one year	¥ 25	¥ 27	\$ 269
Due after one year	<u>29</u>	<u>54</u>	<u>312</u>
Total	<u>¥ 54</u>	<u>¥ 81</u>	<u>\$ 581</u>

Depreciation expense which was not reflected in the consolidated statements of income, computed by the straight-line method, was ¥28 million (\$301 thousand) and ¥31 million for the years ended March 31, 2010 and 2009, respectively.

8. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) *Group Policy for Financial Instruments*

Cash surpluses, if any, are limited to be invested in low risk financial assets as short-term deposits. Bank loans are used as funding in the group companies. Securities transactions are not used for speculative purposes.

Derivatives are used, not for speculative purposes, but to evade market risks from changes in variable interest rates on loans or market risks of fluctuation in foreign currency exchange rates.

(2) *Nature and Extent of Risks Arising from Financial Instruments*

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates. The foreign exchange risk is reduced by shortening of term exposed to the foreign exchange risk by negotiation with our customers, and also by using the forward exchange contract.

Though investment securities, mainly of customers and suppliers of the Company, are exposed to the risk of market price fluctuations, we examine the necessity of the appraisal loss and evaluate the marketable securities to the market price every end of the term.

Payment terms of payables, such as trade notes, trade accounts and other accounts payables, are less than one year. Though there are payables in foreign currency such as raw materials on a part of accounts payable, and it is exposed to foreign exchange risk, the ratio that occupies it to the debt is few, the influence is limited.

Long-term debt and short-term bank loans other than the long-term loan of ¥3,000 million procured for the repurchase of treasury stock are the main operating funds. The bank loans are exposed to the market risks from changes in variable interest rates. Such risks of a part of bank loans are mitigated by using interest-rate swap derivatives.

Derivatives mainly include interest-rate swaps and forward foreign currency contracts, which are used to manage exposure to market risks from changes in interest rates of bank loans, and from changes in foreign currency exchange rates of receivables and payables. Please see Note 9 for more detail about derivatives.

The Company guarantees funding from banks and accounts payables of subsidiaries and associates. Though the guarantees are exposed to the credit risk of such subsidiaries and associates, the risk is limited by monitoring their business conditions.

(3) Risk Management for Financial Instruments

Credit risk management (risk of customer's non-performance of contract)

The Company monitors customer's business conditions based on credit exposure management regulation at the time of new dealings and certain period, and is managing the term administration and the balance of each customer. The consolidated subsidiaries also monitor using similar method for management. The Company has dealings only with the major international financial institutions to reduce the counterparty risk when a derivatives transaction is used.

Market risk management (foreign exchange risk and interest rate risk)

The Company and some consolidated subsidiaries are hedging by using the forward foreign currency contracts as a rule for the risk of the exchange of receivables and payables in foreign currencies. The Company is using interest-rate swaps to reduce market risks from changes in interest rates of bank loans.

As for marketable and investment securities, the Company regularly monitors the quotation and the financial situation of the issuer, and the situation is reviewed continuously.

The basic principles of interest-rate swaps have been approved by Board of Directors on an annual basis based on derivatives transaction management regulation. Interest-rate swap transactions are made by the Finance Section in Management & Finance Department according to the principles.

The section executes forward foreign currency contracts in accordance with requests from the department, and it reports on the execution balance to the director in charge monthly. One of the consolidated subsidiaries executes forward foreign currency contracts by itself, and reports the balance to the Company quarterly.

Liquidity risk management (risk that comprises the Company cannot meet its contractual obligations in full on maturity dates)

The Company is managing the liquidity risk by receiving the approval of Board of Directors about annual financial plan made by Finance Section in Management & Finance Department, and by reporting on the financing results and the plan to Board of Directors every month.

As for funding of the domestic consolidated subsidiaries, mutual financing in the Group is executed to adjust their financial surplus or deficit according to the financial plan.

The liquidity risk of the Group is managed by funding within the range of the borrowing frame with the financial institutions approved by the Company's Board of Directors, and by reporting on conditions of financing to the Company every month.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. Also please see Note 9 for the detail of fair value for derivatives.

(a) Fair value of financial instruments

<u>March 31, 2010</u>	Millions of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 6,158	¥ 6,158	
Trade notes and accounts receivable	11,166	11,166	
Investment securities	<u>778</u>	<u>778</u>	<u>—</u>
Total	<u>¥ 18,102</u>	<u>¥ 18,102</u>	<u>—</u>
Short-term bank loans	¥ 5,083	¥ 5,083	
Trade notes and accounts payables	4,241	4,241	
Current portion of long-term debt	150	151	¥ 1
Long-term debt	<u>6,231</u>	<u>6,243</u>	<u>12</u>
Total	<u>¥ 15,705</u>	<u>¥ 15,718</u>	<u>¥ 13</u>

<u>March 31, 2010</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	\$ 66,215	\$ 66,215	
Trade notes and accounts receivable	120,064	120,064	
Investment securities	<u>8,366</u>	<u>8,366</u>	<u>—</u>
Total	<u>\$ 194,645</u>	<u>\$ 194,645</u>	<u>—</u>
Short-term bank loans	\$ 54,656	\$ 54,656	
Trade notes and accounts payables	45,602	45,602	
Current portion of long-term debt	1,613	1,624	\$ 11
Long-term debt	<u>67,000</u>	<u>67,129</u>	<u>129</u>
Total	<u>\$ 168,871</u>	<u>\$ 169,011</u>	<u>\$ 140</u>

Cash and Cash Equivalents, Trade Notes and Accounts Receivable

The carrying values of cash and cash equivalents and trade notes and accounts receivable approximate fair value because of their short maturities.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments. The information of the fair value for the investment securities by classification is included in Note 3.

Trade Notes and Accounts Payables, Short-Term Bank Loans

The carrying values of trade notes and accounts payables and short-term bank loans approximate fair value because of their short maturities.

Current Portion of Long-Term Debt, Long-Term Debt

The fair value of long-term debt is measured by the present value discounted at the interest rate to which the amount of the total of principal and interest money is assumed when a newly similar borrowing is done.

Derivatives

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution. Please see Note 9 for the detail of fair value for derivatives.

(b) *Financial instruments whose fair value cannot be reliably determined*

<u>March 31, 2010</u>	<u>Carrying Amount</u>	
	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥ 3,287	\$ 35,344

(5) *Maturity Analysis for Financial Assets and Securities with Contractual Maturities*

<u>March 31, 2010</u>	<u>Millions of Yen</u>	
	<u>Due in One Year or Less</u>	
Cash and cash equivalents	¥	6,158
Trade notes and accounts receivable		<u>11,166</u>
Total	¥	<u>17,324</u>
<u>March 31, 2010</u>	<u>Thousands of U.S. Dollars</u>	
	<u>Due in One Year or Less</u>	
Cash and cash equivalents	\$	66,215
Trade notes and accounts receivable		<u>120,064</u>
Total	\$	<u>186,279</u>

Please see Note 10 for annual maturities of long-term debt.

9. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap contracts to manage its interest rate exposures 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 Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization.

As noted in Note 8, the Group applied ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

Derivative Transactions to Which Hedge Accounting Is Not Applied at March 31, 2010

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
<u>March 31, 2010</u>				
Foreign currency forward contracts:				
Selling U.S.\$	¥ 166		¥ (4)	¥ (4)
Selling JP¥	<u>60</u>		<u>3</u>	<u>3</u>
Total	<u>¥ 226</u>		<u>¥ (1)</u>	<u>¥ (1)</u>
	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
<u>March 31, 2010</u>				
Foreign currency forward contracts:				
Selling U.S.\$	\$ 1,785		\$ (43)	\$ (43)
Selling JP¥	<u>645</u>		<u>32</u>	<u>32</u>
Total	<u>\$ 2,430</u>		<u>\$ (11)</u>	<u>\$ (11)</u>

Derivative Transactions to Which Hedge Accounting Is Applied at March 31, 2010

		Millions of Yen		
<u>March 31, 2010</u>	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Interest rate swaps—Fixed rate payment, floating rate receipt	Short-term bank loans	¥ 500		¥ (2)

		Thousands of U.S. Dollars		
<u>March 31, 2010</u>	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Interest rate swaps—Fixed rate payment, floating rate receipt	Short-term bank loans	\$ 5,376		\$ (22)

The following is the fair value information for foreign currency forward contracts to which hedge accounting is not applied at March 31, 2009. Foreign currency forward contracts which qualify for hedge accounting are excluded from the information below.

		Millions of Yen		
<u>March 31, 2009</u>		<u>Contract Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Foreign currency forward contracts—Selling U.S.\$		¥ 40	¥ 41	¥ (1)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

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

10. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans represented borrowings under bank overdraft agreements and notes, bearing interest at rates ranging from 0.4% to 1.5% and from 0.8% to 3.4% per annum at March 31, 2010 and 2009, respectively.

Long-term debt at March 31, 2010 and 2009, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
0.9% to 6.7% loans due through 2014:			
Collateralized		¥ 60	
Unsecured	¥ 6,381	3,505	\$ 68,613
Total	6,381	3,565	68,613
Less current portion	(150)	(148)	(1,613)
 Total	 <u>¥ 6,231</u>	 <u>¥ 3,417</u>	 <u>\$ 67,000</u>

Annual maturities of long-term debt at March 31, 2010, were as follows:

<u>Year Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2011	¥ 150	\$ 1,613
2012	3,223	34,656
2013	2,776	29,849
2014	<u>232</u>	<u>2,495</u>
 Total	 <u>¥ 6,381</u>	 <u>\$ 68,613</u>

Note: The assets pledged as collateral for long-term bank loans disappeared because the correspondence debt was paid off in this fiscal year.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.5% for the years ended March 31, 2010 and 2009. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009, are as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Deferred tax assets:			
Accrued bonuses	¥ 368	¥ 244	\$ 3,957
Liability for retirement benefits	892	882	9,591
Loss on write-down of investment securities	140	143	1,505
Loss on revaluation of long-lived assets	96	180	1,032
Loss on write-down of other investments	17	18	183
Tax loss carryforwards	32	27	344
Provision for contingent loss	34	34	366
Loss on retirement of property, plant and equipment	30		323
Other	343	372	3,688
Less valuation allowance	<u>(288)</u>	<u>(363)</u>	<u>(3,097)</u>
Total deferred tax assets	<u>1,664</u>	<u>1,537</u>	<u>17,892</u>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(100)	(63)	(1,075)
Differences on land revaluation	(301)	(301)	(3,237)
Reserve for special depreciation	(19)	(23)	(203)
Reserve for advanced depreciation of non-current assets	(28)	(35)	(301)
Other	<u>(341)</u>	<u>(276)</u>	<u>(3,667)</u>
Total deferred tax liabilities	<u>(789)</u>	<u>(698)</u>	<u>(8,483)</u>
Net deferred tax assets	<u>¥ 875</u>	<u>¥ 839</u>	<u>\$ 9,409</u>

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Normal effective statutory tax rate	40.5%	40.5%
Expense not deductible for tax purposes	0.6	1.4
Accrued bonuses to directors	1.3	1.9
Inhabitant tax—per capita	1.0	1.3
Valuation allowance	(3.5)	8.5
Credit for foreign taxes	(0.9)	(13.0)
Equity in earnings of associated companies	(8.5)	17.0
Dividend from foreign subsidiaries eliminated for consolidation purpose		9.4
Lower income tax rate applicable to income in certain foreign countries	(0.5)	(9.7)
Retained earnings of foreign subsidiaries and affiliates	1.6	
Other—net	<u>0.2</u>	<u>(4.1)</u>
Actual effective tax rate	<u>31.8 %</u>	<u>53.2 %</u>

12. LIABILITY FOR RETIREMENT BENEFITS

The Company adopted a cash balance pension plan and a point-method pension plan.

Some domestic subsidiaries have a tax qualified pension plan and a lump-sum retirement benefit plan as their defined benefit pension plan. A foreign subsidiary has a defined contribution pension plan. In certain instances, the Company pays additional retirement benefits for employees. The cash balance plan adopted by the Company is a hybrid pension plan based on variable interest rates, enabling the Company to flexibly respond to market interest fluctuations. In addition, the Company contributes to the DIC pension funds under the cash balance plan.

The retirement benefits for directors are paid subject to the approval of the shareholders. With respect to the Company, the retirement benefits regulation for directors was abolished at the general shareholders meeting held on June 29, 2005. The accumulated amount to be paid in case of their retirement had been reclassified from "Liability for retirement benefits" into "Long-term liabilities—other" at March 31, 2010 and 2009.

Liability for retirement benefits at March 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Employees' retirement benefit plans	¥ 2,205	¥ 2,183	\$ 23,710
Directors' plan at some of domestic subsidiaries	11	67	118
Total	<u>¥ 2,216</u>	<u>¥ 2,250</u>	<u>\$ 23,828</u>

The liability for employees' retirement benefits at March 31, 2010 and 2009, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Projected benefit obligations	¥ 14,318	¥ 15,058	\$ 153,957
Fair value of plan assets	(9,593)	(9,062)	(103,150)
Unrecognized prior service cost		259	
Unrecognized actuarial loss	<u>(2,520)</u>	<u>(4,072)</u>	<u>(27,097)</u>
Net liability	<u>¥ 2,205</u>	<u>¥ 2,183</u>	<u>\$ 23,710</u>

The components of net periodic benefit costs for the years ended March 31, 2010 and 2009, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Service cost	¥ 473	¥ 562	\$ 5,086
Interest cost	325	309	3,495
Expected return on plan assets	(272)	(334)	(2,925)
Actuarial cost	647	462	6,957
Prior service cost	<u>(260)</u>	<u>(387)</u>	<u>(2,796)</u>
Net periodic benefit costs	<u>¥ 913</u>	<u>¥ 612</u>	<u>\$ 9,817</u>

Assumptions used for the years ended March 31, 2010 and 2009, are set forth as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	2.2%	2.2%
Expected rate of return on plan assets	3.0%	3.0%
Recognition period of actuarial gain or loss	10 years	10 years
Amortization period of prior service cost	5 years	5 years

13. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, 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 the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term 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. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation 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 Companies Act 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 Companies Act 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 Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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 Companies Act 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 Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act 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.

14. COMMITMENTS AND CONTINGENT LIABILITIES

The amount of capital commitments outstanding at March 31, 2010, for purchases of property, plant and equipment for the purpose of renewal or expansion of production and research facilities was ¥4 million (\$43 thousand).

Contingent liabilities at March 31, 2010, are summarized as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Guarantees and items of a similar nature of related parties' and employees' indebtedness	¥ 2,124	\$ 22,839
Trade notes endorsed	11	118
Export drafts discounted	<u>75</u>	<u>806</u>
Total	<u>¥ 2,210</u>	<u>\$ 23,763</u>

An action for damages of ¥704 million (\$7,570 thousand) was brought by ITOCHU PLASTICS INC. and another company relating to the fraudulent transaction in which a former employee of the Company had been involved. Four companies including the Company were accused in that case and the litigation is still in progress.

15. STOCK OPTIONS

The stock options outstanding as of March 31, 2010 are as follows:

<u>Stock Option</u>	<u>Persons Granted</u>	<u>Number of Option Granted</u>	<u>Date of Grant</u>	<u>Exercise Price</u>	<u>Exercise Period</u>
2005 Stock Option	8 directors	37,200 shares	June 29, 2005	¥1 (\$0.01)	From August 1, 2005 to June 29, 2025
2006 Stock Option	7 directors	28,400 shares	September 15, 2006	¥1 (\$0.01)	From September 16, 2006 to June 29, 2026

The stock option activity is as follows:

	<u>2005 Stock Option</u>	<u>2006 Stock Option</u>
	(Shares)	
<u>Year Ended March 31, 2009</u>		
Non-vested:		
March 31, 2008—outstanding		
Granted		
Canceled		
Vested		
March 31, 2009—outstanding		
Vested:		
March 31, 2008—outstanding	28,900	24,100
Vested		
Exercised		
Canceled		
March 31, 2009—outstanding	28,900	24,100
<u>Year Ended March 31, 2010</u>		
Non-vested:		
March 31, 2009—outstanding		
Granted		
Canceled		
Vested		
March 31, 2010—outstanding		
Vested:		
March 31, 2009—outstanding	28,900	24,100
Vested		
Exercised	(17,800)	(14,500)
Canceled		
March 31, 2010—outstanding	11,100	9,600
Exercise price	¥1	¥1
	(\$0.01)	(\$0.01)
Average stock price at exercise	¥495	¥495
	(\$5.32)	(\$5.32)
Fair value price at grant date		¥615
		(\$6.61)

16. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2010 and 2009, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
<u>Year Ended March 31, 2010</u>	<u>Net Income</u>	<u>Weighted-Average Shares</u>		<u>EPS</u>
Basic EPS—Net income available to common shareholders	¥ 1,266	61,423	<u>¥ 20.60</u>	<u>\$ 0.22</u>
Effect of dilutive securities— Stock options	_____	<u>29</u>		
Diluted EPS—Net income for computation	<u>¥ 1,266</u>	<u>61,452</u>	<u>¥ 20.59</u>	<u>\$ 0.22</u>
 <u>Year Ended March 31, 2009</u>				
Basic EPS—Net income available to common shareholders	¥ 672	64,894	<u>¥ 10.36</u>	
Effect of dilutive securities— Stock options	_____	<u>53</u>		
Diluted EPS—Net income for computation	<u>¥ 672</u>	<u>64,947</u>	<u>¥ 10.35</u>	

17. RELATED PARTY DISCLOSURES

Transactions of the Company with associated companies for the years ended March 31, 2010 and 2009, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Sales	¥ 1,510	¥ 1,998	\$ 16,237
Purchases	703	932	7,559

The balances due to or from these associated companies at March 31, 2010 and 2009, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Trade accounts receivable	¥ 280	¥ 229	\$ 3,011
Prepaid expenses and other current assets	160	58	1,720
Trade accounts payable	119	54	1,280

The Company issued a letter of undertaking to provide a guarantee for loan and guarantee for purchase of raw material to certain creditors of Freudenberg & Vilene Nonwovens (Suzhou) Co., Ltd. ("FVC"), an associated company which is accounted for by the equity method. As of March 31, 2010 and 2009, a letter of undertaking to provide a guarantee for loan and guarantee for purchase of raw material, included in contingent liabilities, covered ¥877 million (\$9,430 thousand) and ¥638 million, respectively, of FVC's obligations.

The Company issued a letter of guarantee for loan of Korea Vilene Co., Ltd. ("KVC"), an associated company which is accounted for by the equity method. As of March 31, 2010 and 2009, a letter of guarantee for loan, included in contingent liabilities, covered ¥1,204 million (\$12,946 thousand) and ¥352 million, respectively, of KVC's obligations.

18. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,732 million (\$18,624 thousand) and ¥1,743 million for the years ended March 31, 2010 and 2009, respectively.

19. SEGMENT INFORMATION

(1) Operations by Industry Segment

Information has not been provided because the Group operated principally in the "non-woven fabrics" industry in 2010 and 2009.

(2) Operations by Geographical Segment

Operations of the Group by geographical segment for the years ended March 31, 2010 and 2009, were as follows:

	Millions of Yen					Thousands of U.S. Dollars				
	2010					2010				
	Japan	North America	Asia	Eliminations	Consolidated	Japan	North America	Asia	Eliminations	Consolidated
Sales:										
Sales to customers	¥ 36,699	¥ 8,982	¥ 156		¥ 45,837	\$ 394,613	\$ 96,581	\$ 1,677		\$ 492,871
Intersegment sales	143		702	¥ (845)		1,538		7,548	\$ (9,086)	
Total sales	36,842	8,982	858	(845)	45,837	396,151	96,581	9,225	(9,086)	492,871
Operating cost and expenses	35,813	8,428	801	(860)	44,182	385,086	90,624	8,612	(9,247)	475,075
Operating income	¥ 1,029	¥ 554	¥ 57	¥ 15	¥ 1,655	\$ 11,065	\$ 5,957	\$ 613	\$ 161	\$ 17,796
Assets	¥ 43,761	¥ 5,856	¥ 1,133	¥ (201)	¥ 50,549	\$ 470,548	\$ 62,968	\$ 12,183	\$ (2,161)	\$ 543,538
	Millions of Yen									
	2009									
	Japan	North America	Asia	Eliminations	Consolidated					
Sales:										
Sales to customers	¥ 37,945	¥ 12,182	¥ 113		¥ 50,240					
Intersegment sales	186		961	¥ (1,147)						
Total sales	38,131	12,182	1,074	(1,147)	50,240					
Operating cost and expenses	38,087	10,937	1,023	(1,131)	48,916					
Operating income	¥ 44	¥ 1,245	¥ 51	¥ (16)	¥ 1,324					
Assets	¥ 46,218	¥ 5,560	¥ 972	¥ (130)	¥ 52,620					

(3) *Sales to Foreign Customers*

Sales to foreign customers of the Group for the years ended March 31, 2010 and 2009, were as follows:

	<u>Millions of Yen</u>				<u>Thousands of U.S. Dollars</u>			
	<u>2010</u>				<u>2010</u>			
	<u>North America</u>	<u>Asia</u>	<u>Other</u>	<u>Total</u>	<u>North America</u>	<u>Asia</u>	<u>Other</u>	<u>Total</u>
Sales to foreign customers	¥ 9,268	¥ 4,529	¥ 413	¥ 14,210	\$ 99,656	\$ 48,699	\$ 4,441	\$ 152,796
Consolidated sales				45,837				492,871
Ratio of sales to foreign customers to consolidated sales				31.0%				31.0%

	<u>Millions of Yen</u>			
	<u>2009</u>			
	<u>North America</u>	<u>Asia</u>	<u>Other</u>	<u>Total</u>
Sales to foreign customers	¥ 12,396	¥ 4,454	¥ 335	¥ 17,185
Consolidated sales				50,240
Ratio of sales to foreign customers to consolidated sales				34.2%

20. **SUBSEQUENT EVENTS**

a. Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2010 was approved by the Company's Board of Directors held on May 14, 2010:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Cash dividends, ¥6.0 (\$0.06) per share	¥ 299	\$ 3,215

b. Retirement of Treasury Stock

The Company's Board of Directors held on April 28, 2010 approved to retire the following treasury stock.

- (1) Class of shares: common stock
- (2) Number of shares: 5,000,000 shares
- (3) Date: May 14, 2010
- (4) Number of shares of common stock outstanding after retirement, including treasury stock: 60,140,945 shares

c. Occurrence of Damage due to a Fire

On February 10, 2010, a fire broke out in KVC, an associated company which is accounted for by the equity method (fiscal year ending December 31, 2010). The book value of the burned inventories, plant and equipment were approximately ¥246 million (\$2,645 thousand) and these assets were insured. The actual losses including the recovery cost have not been confirmed at this time.

* * * * *

Management Report on Internal Control

1. Basic Framework for Internal Control Over Financial Reporting

The President of Japan Vilene Company, Ltd., (the “Company”) Toshio Yoshida is responsible for designing and exercising internal control over the Company’s financial reporting, and does this in compliance with the basic framework for internal control provided for in “On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Options)” issued by the Japan Business Accounting Council.

Internal control aims at achieving the objectives to a reasonable extent with the organized and integrated function of the basic individual components of internal control as a whole. Therefore, internal control over financial reporting cannot always be guaranteed to prevent or discover misstatements in the presentation of financial reporting.

2. Scope of Assessment, Assessment Dates and Assessment Procedures

The Company performed an assessment of internal control over financial reporting for its consolidated financial statements as of the end of the fiscal year, March 31, 2010, in accordance with generally accepted assessment standards in Japan for internal control over financial reporting.

We evaluated internal controls that materially affect overall consolidated financial reporting (Company-level controls). Based on these results, we selected specific business process to evaluate, analyzed the selected business process and determined internal control factors that materially affect the reliability of the financial reports. We evaluated the effectiveness of the internal controls by assessing design and operation conditions relating to internal control factors.

We determined the scope of assessment of internal controls over financial reporting from the perspective of their materiality to the reliability of financial reporting by the Company, its consolidated subsidiaries, and affiliated companies accounted for under the equity method. The materiality to the reliability of financial reporting is determined from quantitative and qualitative perspectives, and we reasonably determined the evaluation scope of process-level controls based on the results of an evaluation of company-level control, applied to the Company and eight consolidated subsidiaries. Three consolidated subsidiaries and six equity-method affiliates were determined to be immaterial from quantitative and qualitative perspectives. Therefore, they were excluded from the evaluation of company-level controls.

The scope of assessment of business process-level controls are the business locations/units, whose sales after elimination of inter-company transactions accounted for more than two-thirds of the sum of the consolidated sales recorded in the preceding fiscal year. These business locations/units were determined to be the “significant business locations/units” and two business locations/units were selected. At each selected business location/unit, business processes related to accounting items that have a material impact on corporate operational objectives, including sales, accounts receivable, and inventories were determined to be within the scope of assessment. Other than the selected significant business locations/units, we added to the scope of evaluation business processes relating to important accounting items that present a high possibility of material misstatements, estimates and forecasts, and business processes related to operations or businesses involved in high-risk transactions.

3. Assessment of Results

Based on the results of our assessment, we concluded that as of the end of fiscal year ended March 31, 2010, the internal controls of the Company over financial reporting of the consolidated financial statements were effectively maintained.



Toshio Yoshida
President and Representative Director
Japan Vilene Company, Ltd.

Subsidiaries and Affiliates

Consolidated Subsidiaries

Cumulass Co., Ltd.

Main business: Manufacture and sales of glass fiber nonwoven products

25, Kousai-Shinden, Fuji-shi, Shizuoka
417-0063, Japan
TEL: +81-545-51-2460 FAX: +81-545-53-1262

Japan VIAM Co., Ltd.

Main business: Manufacture and sales of automotive floor mats

1-11, Katsube 4-chome, Moriyama-shi, Shiga
524-0041, Japan
TEL: +81-77-581-0721 FAX: +81-77-581-0728

Oyama Chemical Co., Ltd.

Main business: Manufacture and sales of fiber materials for nonwoven products

295, Oaza Yokokura-Shinden, Oyama-shi, Tochigi
323-0819, Japan
TEL: +81-285-27-1511 FAX: +81-285-27-4529

Pacific Giken Co., Ltd.

Main business: Processing of nonwoven products

1772-8, Yasu, Yasu-shi, Shiga 520-2342, Japan
TEL: +81-77-586-2977 FAX: +81-77-586-2988
<http://www.pgc-ltd.co.jp/>

Vilene Create Co., Ltd.

Main business: Sales of nonwoven products

Vilene Bldg., 14-5, Soto-Kanda 2-chome,
Chiyoda-ku, Tokyo 101-0021, Japan
TEL: +81-3-3258-3348 FAX: +81-3-3258-3340
<http://www.vicre.co.jp/>

VIS Co., Ltd.

Main business: Support services of Japan Vilene's business

Vilene Bldg., 14-5, Soto-Kanda 2-chome,
Chiyoda-ku, Tokyo 101-0021, Japan
TEL: +81-3-3258-6307 FAX: +81-3-3258-6309

Tianjin VIAM Automotive Products Co., Ltd.

Main business: Manufacture and sales of automotive floor mats

No.14, Saida Hui Ya Industrial Park, Xiqing
Economic Development Area, Tianjin 300385,
People's Republic of China
TEL: +86-22-2397-9798 FAX: +86-22-2397-9636

VIAM Manufacturing, Inc. (CA)

Main business: Manufacture and sales of automotive floor mats

9440 Norwalk Boulevard, Santa Fe Springs, CA
90670-1128, U.S.A.
TEL: +1-562-695-0651 FAX: +1-562-695-1043

VIAM Manufacturing, Inc. (TN)

Main business: Manufacture and sales of automotive floor mats

87 Park Tower Drive, Manchester, TN 37355,
U.S.A.
TEL: +1-931-461-2300 FAX: +1-931-461-2334
<http://www.viammfg.com/>

Affiliated Companies by Equity Method

Freudenberg & Vilene Filter (Changchun) Co., Ltd.

Main business: Manufacture and sales of automotive filters

No.3315 Kunshan Road, Economic & Technical
Development Zone, Changchun 130033,
People's Republic of China
TEL: +86-431-461-2319 FAX: +86-431-461-2320

Freudenberg & Vilene Filter (Thailand) Co., Ltd.

Main business: Manufacture, processing and sales of filters in ASEAN

Amata Nakorn Industrial Estate Phase 4
700/427 Moo 7, Tambol Don Hua Roh, Amphur
Muang, Chonburi 20000, Thailand
TEL: +66-38-453-214 FAX: +66-38-453-217

Freudenberg & Vilene Interlinings (Nantong) Co., Ltd.

Main business: Manufacture and sales of woven interlinings for apparel

40 Yaogang Road, Nantong 226006, Jiangsu,
People's Republic of China
TEL: +86-513-8351-6386 FAX: +86-513-8351-3512

Freudenberg & Vilene International Ltd.

Main business: Sales of interlinings and other sewing materials for apparel

8th Floor, Loyal Center, 828 Cheung Sha Wan
Road, Kowloon, Hong Kong
TEL: +852-2786-8368 FAX: +852-2744-1709

Freudenberg & Vilene Nonwovens (Suzhou) Co., Ltd.

Main business: Manufacture and sales of nonwoven products

1588 Bin He Road, Suzhou 215011, People's
Republic of China
TEL: +86-512-6825-1586 FAX: +86-512-6825-1780

Freudenberg & Vilene Nonwovens (Taiwan) Co., Ltd.

Main business: Manufacture and sales of nonwovens

No.40, Min-Fu Road, Section 2, Yang-Mei, Tao-
Yuan, Taiwan, R.O.C.
TEL: +886-3-478-1261~3 FAX: +886-3-478-1260

Freudenberg Vitech Ltd. Partnership (KY)

Main business: Manufacture and sales of automotive headliners

2975 Pembroke Road, Hopkinsville, KY
42240-6802, U.S.A.
TEL: +1-270-886-0204 FAX: +1-270-890-0761

Freudenberg Vitech Ltd. Partnership (MI)

Main business: Manufacture and sales of automotive headliners

Detroit Sales Office
47690 East Anchor Court Plymouth, MI 48170-
2455, U.S.A.
TEL: +1-734-354-5400 FAX: +1-734-451-0125

Korea Filtration Technologies Co., Ltd.

Main business: Manufacture, processing and sales of filters

417-7, Tojin-ri, Cheongbuk-myeon, Pyeongtaek-
si, Gyeonggi-do, Republic of Korea
TEL: +82-31-683-6814 FAX: +82-31-683-6804

Korea Vilene Co., Ltd.

Main business: Manufacture and sales of nonwovens

17th Floor, Kyungam Bldg., 157-27, Samsung-
dong, Kangnam-ku, Seoul, Republic of Korea
TEL: +82-2-2185-0104 FAX: +82-2-2185-0110~2
<http://www.kvilene.co.kr/>

Other Affiliates

Hikotomi Industrial Co., Ltd.

Main business: Manufacture and sales of nonwoven products

771, Hikotomi-cho, Hikone-shi, Shiga
521-1114, Japan
TEL: +81-749-43-6597 FAX: +81-749-43-6900

Shinwa Products Co., Ltd.

Main business: Processing of air filter equipment

433-11, Oaza-Tsuzuranuki-Aza-Nakao,
Moroyama-machi, Iruma-gun, Saitama
350-0445, Japan
TEL: +81-49-295-1565 FAX: +81-49-295-1779

Corporate Data *(As of March 31, 2010)*

Date of Establishment: June 1, 1960

Number of Employees: (consolidated) 1,530, (non-consolidated) 888

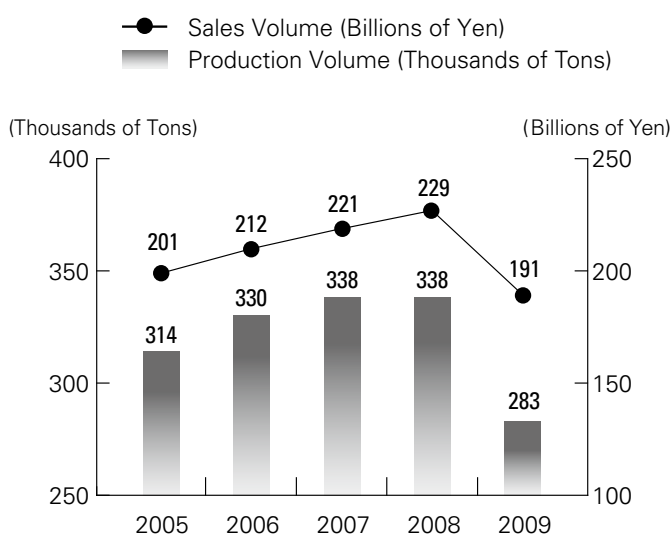
Head Office: Vilene Bldg., 14-5, Soto-Kanda 2-chome, Chiyoda-ku, Tokyo 101-8614, Japan
TEL: +81-3-3258-3333 FAX: +81-3-3258-3325

Branches, Factories, R&D Center and Representative Offices:

Osaka Branch	Osaka DIC Bldg., 5-19, Kyutaro-machi 3-chome, Chuo-ku, Osaka-shi, Osaka 541-0056, Japan TEL: +81-6-6120-3200 FAX: +81-6-6120-3221
Nagoya Branch	NUP Fushimi Bldg., 2-12, Sakae 2-chome, Naka-ku, Nagoya-shi, Aichi 460-0008, Japan TEL: +81-52-203-1461 FAX: +81-52-203-1570
Shiga Factory	1-11, Katsube 4-chome, Moriyama-shi, Shiga 524-0041, Japan TEL: +81-77-583-2512 FAX: +81-77-582-5599
Tokyo Factory	7, Kita-tone, Koga-shi, Ibaraki 306-0213, Japan TEL: +81-280-92-1521 FAX: +81-280-92-2079
Central Research Laboratory	7, Kita-tone, Koga-shi, Ibaraki 306-0213, Japan TEL: +81-280-92-7271 FAX: +81-280-92-7823
Shanghai Representative Office	Rm. 2304, Bldg. A, Far East International Plaza, 319 Xian Xia Road, Shanghai 200051, P.R. of China TEL: +86-21-6235-1013 FAX: +86-21-6235-1007

Market Data

Domestic Nonwoven Production



Source: All Nippon Nonwovens Association (ANNA)

Top Global Companies : Nonwovens Sales (Roll Goods Only)

Ranking in 2008	Company	Nonwovens Sales in 2008 (Millions of U.S. Dollars)	Ranking in 2007
1	Freudenberg (Germany)	1,450	1
2	Dupont (USA)	1,400	2
3	Kimberly-Clark (USA)	1,300	3
3	Ahlstrom (Finland)	1,300	4
5	Polymer Group inc. (USA)	1,150	5
6	Fiberweb (UK)	947	6
7	Johns Manville (USA)	670	7
8	Fibertex (Denmark)	295	8
9	Avgol (Israel)	254	11
10	First Quality Nonwoven (USA)	250	10
16	Companhia Providencia (Brazil)	225	12
17	Japan Vilene (Japan)	222	18
18	Pegas (Czech Republic)	209	22
19	Asahi Kasei (Japan)	195	21
19	Colbond (Netherlands)	195	17

Source: Nonwovens Industry, September 2009

Investor Information *(As of March 31, 2010)*

Common stock:

¥9,816,126,973

Number of Shares Issued:

65,140,945 shares

Stock Listing:

Tokyo Stock Exchange, First Section

Number of Shareholders:

5,451

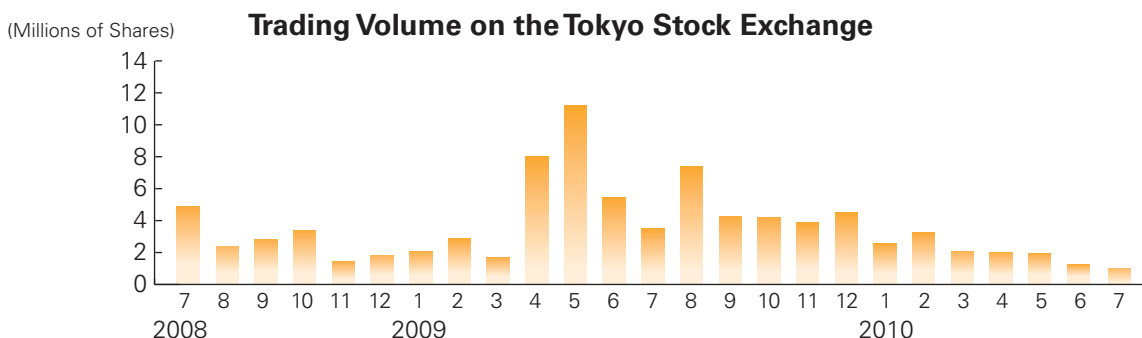
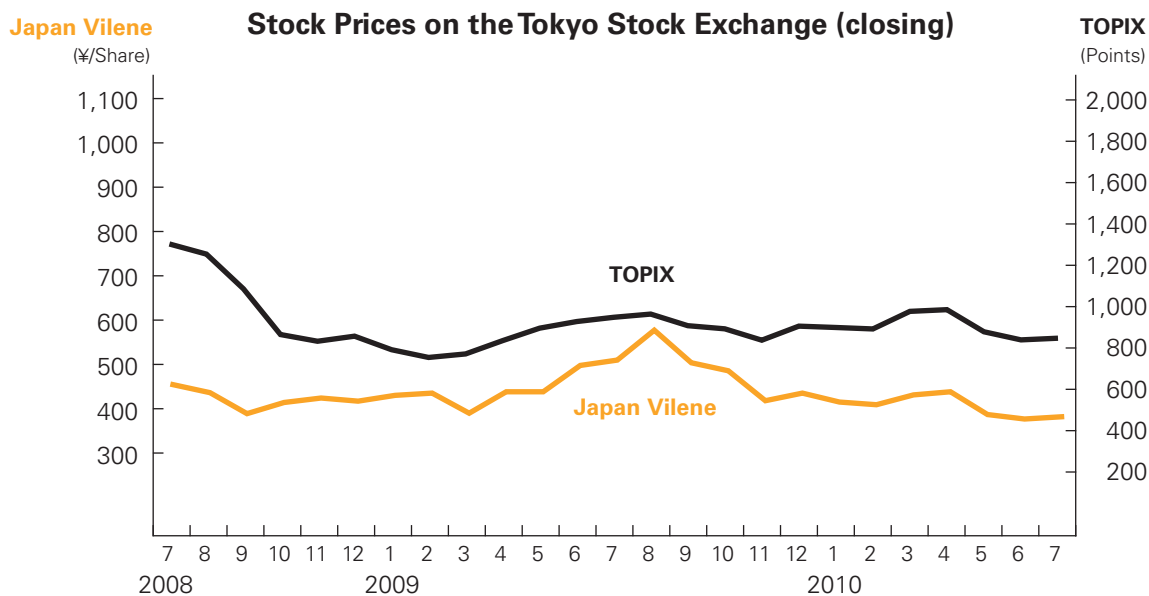
Shareholder Registry Administrator:

Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-0014, Japan

Major Shareholders

	Numbers of shares owned (Thousands of shares)	Percentage of total shares issued (%)
Freudenberg Beteiligungs GmbH	16,347	25.10 *1
Toray Industries, Inc.	7,242	11.12
Japan Trustee Services Bank, Ltd. (Trust Account)	1,814	2.78
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,566	2.40
Japan Vilene Customers' Shareholding Association	1,176	1.81
Nissei Real Estate Co., Ltd.	1,000	1.54
Japan Vilene Employees' Shareholding Association	913	1.40
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	634	0.97
The Dai-ichi Mutual Life Insurance Company	590	0.91
Aioi Insurance Co., Ltd.	365	0.56

*1 Freudenberg Beteiligungs GmbH owns 193,000 shares under the name of Deutsche Bank other than the above listed number of shares.



Japan Vilene Company, Ltd.

Vilene Bldg., 14-5, Soto-Kanda 2-chome, Chiyoda-ku, Tokyo 101-8614, Japan

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<http://www.vilene.co.jp/>



JAPAN VILENE COMPANY, LTD.

