

NISSHINBO

Getting Ahead by Thinking Afresh

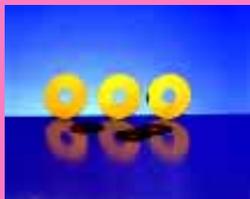
Annual Report 1999

Year ended March 31, 1999

Nisshinbo Industries, Inc. (the “Company”)

was founded in 1907 as a manufacturer of cotton yarns and threads, and quickly assumed a position of leadership in the industry. Our history has been characterized by strategic moves taken in advance of competitors and designed to raise productivity, improve quality and add value. Today, we are a total textiles manufacturer, controlling operations from spinning to finishing. This, together with our accumulated high levels of technology, gives us an advantage in the development of

truly distinctive products and in quality control. Through the application in other fields of technologies and expertise originally developed in the textiles area, we have diversified our operations into the manufacture of automobile brakes, machine tools, chemical products, papers, and others. These non-textile lines have grown steadily, and now account for just under 50% of net sales. We have targeted certain strategic products to form the basis of future growth: High value-added finishing processing and products in the textiles field, including SUPER SOFT and SSP (SUPER SOFT PEACHPHASE), new-generation anti-lock brake systems, CNC machine tools, non-fluorocarbon polyurethane foams, new carbon products, fine papers, and computer color matching systems. Together with our subsidiaries and affiliates, we are focused on steady business development through the harnessing of our collective strengths across our entire business range.



Contents

Financial Highlights	▶ 1
Business Lineup	▶ 2
Getting Ahead by Thinking Afresh	▶ 4
Interview with the President	▶ 4
Special Features	▶ 6
Review of Operations	▶ 10
Financial Review	▶ 14
Six-Year Summary	▶ 15
Financial Section	▶ 16
Board of Directors	▶ 36
Corporate Data	▶ 36
Organization Chart	▶ 37

Financial Highlights

(Years ended 31st March)

Non-Consolidated:

	(millions of yen)		(millions of US dollars)
	1998	1999	1999
Net Sales	¥170,318	¥162,662	\$ 1,356
Net Income	1,808	1,938	16
Shareholders' Equity	166,948	167,170	1,393

Per Share:

	(yen)		(US dollars)
	1998	1999	1999
Net Income	¥ 7.64	¥ 8.19	\$ 0.07
Shareholders' Equity	706.08	707.02	5.89
Cash Dividends	7.00	7.00	0.06

Consolidated:

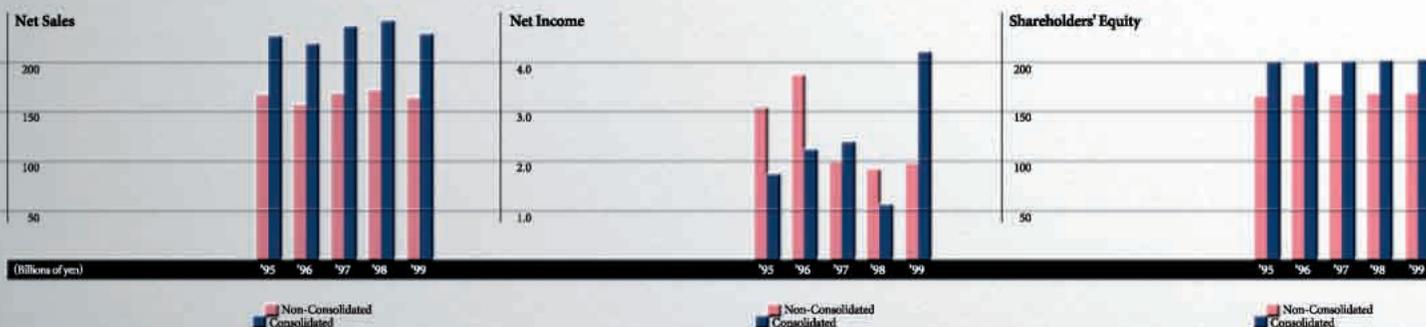
	(millions of yen)		(millions of US dollars)
	1998	1999	1999
Net Sales	¥240,249	¥226,800	\$ 1,890
Net Income	1,087	4,161	35
Shareholders' Equity	199,373	200,779	1,673

Per Share:

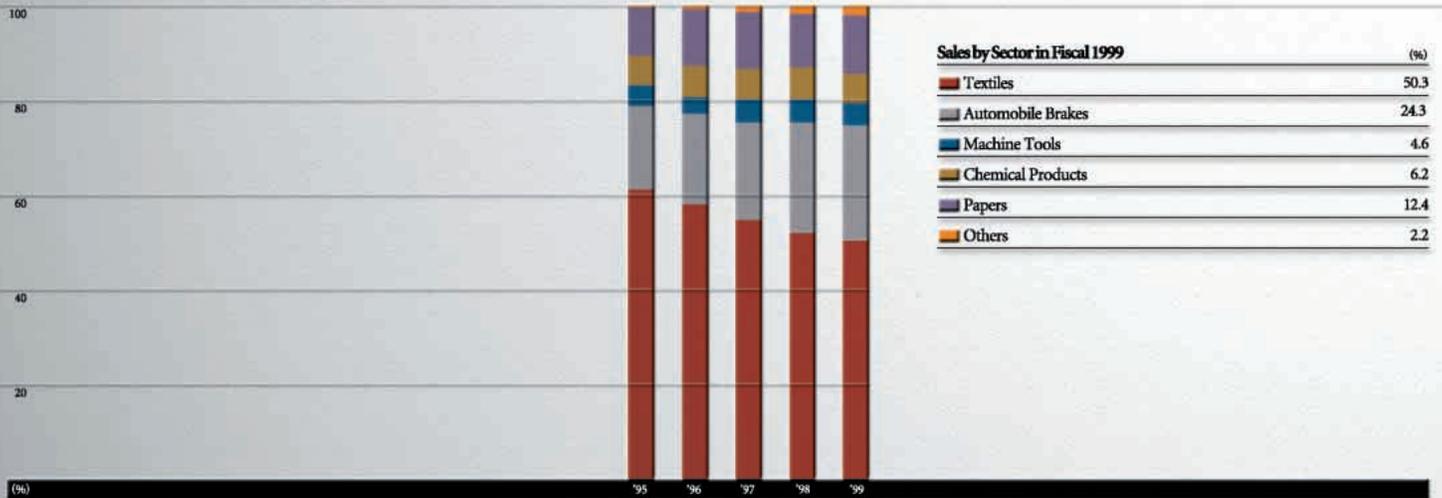
	(yen)		(US dollars)
	1998	1999	1999
Net Income	¥ 4.60	¥ 17.60	\$ 0.15
Shareholders' Equity	843.21	849.16	7.08

Note

The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥120 = US\$1.



Non-Consolidated Sales Composition



Textiles

Textile products have been our mainstay since our foundation. Our products are distinguished by their quality and competitiveness. We have the top share in domestic markets for shirt materials (around 40%), textile sheets for bedding (around 40%), denim (around 40%), Tetron & cotton blended uniform materials (around 35%), and spandex for total-support panty hose (more than 50%). Our state-of-the-art production facilities and unique, comprehensive in-house production system, which includes the finishing process, allow the manufacture of products that overseas makers cannot match for quality. An ability to meet the precise needs of customers is our particular strong point. Our original textile products include *MOBILON* spandex and *OIKOS* non-woven cotton fabrics. The *SUPER SOFT*, *SSP* and *CELTOPIA* finishing processes are also original.



Non-textiles

Automobile Brakes

We are one of Japan's leading makers of automobile brakes and friction materials, and this sector has an important role in our drive to diversification. Our product development emphasis is on asbestos-free friction materials, new concept drum brakes, Anti-lock Brake Systems (ABS) and Stability Control Systems. In the ABS field, we successfully developed the original, compact, low-cost *NT* series, which is targeted at markets worldwide. Stability Control Systems make it easier for the driver to control movement of the car and thus enhance safety, and we have developed such a system.

In parallel with the development of our own technologies, we exchange technologies and collaborate with major overseas brake manufacturers.



Machine Tools

We are an acknowledged specialist in the manufacture and sale of customized machine tools and CNC turret punch presses, laser cutting machines and press brakes. We develop and manufacture modular units for FMS and CNC hardware/software systems for the automotive, electronics and aerospace industries. Through subsidiaries and joint ventures, we are now marketing machine tools overseas as well as in Japan.



Chemical Products

We produce rigid-type polyurethane foams for application as heat-insulation material, and flexible types used as cushion material. Processed products include *AIRLITE-FRU*, a lightweight, high-strength, corrosion-resistant glass fiber-reinforced polyurethane foam widely used in the water treatment and construction industries, and *SETFOAM* for civil engineering applications. We are also a pioneer in the introduction of environment-friendly non-fluorocarbon polyurethane foam for application as heat-insulation material in the construction field. Our original polyurethane elastomer *MOBILON* is used in various industrial products and consumer items. In addition, we offer new carbon products for application in semiconductor production and other electronics fields.

Other materials include *CARBODILITE* and electromagnetic wave shield materials and molded *METTON™* products produced and marketed by Nisshinbo.



Papers

We manufacture a wide range of paper products. These include household papers, such as tissue paper, toilet paper and kitchen-use paper towels, fine papers used in printing, publications and packaging, and synthetic papers. In each of these areas, we occupy a top-ranking position. Our value-added products include *VENT NOUVEAU* natural-feel fine paper for high-quality printing and synthetic papers for ink-jet printing.

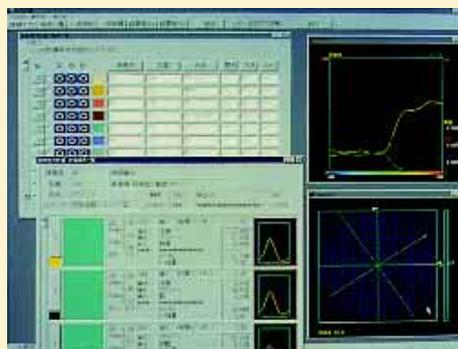
We are also involved in label printing and the manufacture of label printers. Our product lineup in this field includes small-size, high-speed printers and integration software for information processing and printing.



Others

We develop and supply the production systems which integrate the *CHOSHOKU SENKA* fuzzy logic computer color matching (CCM) system, manufacturing process support system and automatic inspection system, all based on original technologies.

We are also engaged in the real estate business for the purpose of efficient utilization of our unused land.



Q. *What were Nisshinbo's results for fiscal 1999, ended March 31, 1999?*

A. First, let me give you our non-consolidated results. In fiscal 1999, net sales totaled ¥162,662 million (US\$1,356 million), down 4.5% from fiscal 1998, ended March 31, 1998. Operating income amounted to ¥652 million (US\$5 million), a decrease of 78.5%. Net income was ¥ 1,938 million (US\$16 million), an increase of 7.2%.

Net income was significantly affected by certain one-off items. Gain on sales of securities amounted to ¥9,153 million (US\$76 million). This more than outweighed loss of ¥5,422 million (US\$45 million) on devaluation of securities, which included an amount of ¥4,631 million (US\$39 million) on equity in Nisshinbo California Inc., a joint venture textile subsidiary in the U.S. that performed poorly.

Sales of textiles totaled ¥81,786 million (US\$682 million), a decrease of 7.6%. Sales of non-textiles amounted to ¥80,876 million (US\$674 million), down 1.2%. The ratio of non-textile sales to total sales was 49.7%, up 1.6 percentage points.

In fiscal 1999, the Japanese economy was marked by continued deflationary pressures. Consumers spent less, product inventories swelled and selling prices generally fell. In these circumstances, our sales and profit for both textiles and non-textiles inevitably decreased.

On a consolidated basis, net sales for fiscal 1999 amounted to ¥226,800 million (US\$1,890 million), a 5.6% decrease from fiscal 1998. Operating income was ¥373 million (US\$3 million), down 90.6%, due to the poor results of both the Company and its subsidiaries. Net income was ¥4,161 million (US\$35 million), up 282.8%, due to gain on sales of securities of ¥9,220 million (US\$77 million).

Q. *Given the continuing difficult market conditions, what is your management strategy?*

A. The fact is that our ability to generate earnings has declined to the point where operating income barely shows a surplus. Improving the profitability of each division is an immediate priority. We must review each business segment in detail and make serious efforts to improve our results. We need to build into our operations a greater flexibility to respond to problems. This steady,

purposeful approach is the surest way to achieve growth.

Under the theme of "Getting Ahead by Thinking Afresh," this annual report describes our efforts to bring about a turnaround in performance. In fiscal 1999, we continued to stress the need to improve management efficiency, actively searched for profit and growth potential, and concentrated our management resources into growth areas and core activities.

We are also strengthening our global customer base, developing high value-added products, promoting promising technical and business developments, and implementing measures that address environmental issues. These efforts will lead to stable, long-term business growth based on solid foundations. We will not chase after a merely temporary hike in results.

Q. *What do you mean exactly by "concentrating management resources?"*

A. Each division is streamlining its business operations. For example, in the textile field we centralized textile development, production and sales operations at the Osaka Branch by moving the Textile Engineering Division from our Head Office, Tokyo, to Osaka. The aim is to commercialize new products and identify sales opportunities more quickly.

We are continuing our shift to value-added products, while also marketing selected basic items within a context of reducing costs without cutting current production capacity. We plan to dissolve non-profit-making subsidiaries and affiliates. We decided to wind up Nisshinbo California Inc., where sales were constantly disappointing, accumulated losses were substantial and the likelihood of improvement seemed remote. Our Mechatronics Division is presently reviewing its product lineup, rationalizing its inventory and reducing its staff complement.

To promote the efficient production of high-quality products, we are rationalizing and updating our production and R&D facilities. We were presented with an ideal opportunity to make progress in this area when the site of our Tokyo Plant became subject to acquisition for an urban redevelopment project. Production operations at the Tokyo Plant are being transferred to other existing plants.

Our real estate leasing business continues to redevelop vacant or underused properties with the aim of reinforcing our profitability.

Getting Ahead by Thinking Afresh



Akihiro Mochizuki, President

Q. What are your policies regarding further globalization?

A. Our high-value products remain competitive internationally. However, certain trends in the global market, such as intensifying competition in the textile industry and cross-border consolidation in the automobile and automobile components industries, have become more pronounced. It is vital, therefore, that we broaden our customer base worldwide. That way, we diversify our revenue streams and are not so susceptible to a downturn in any particular region or sector.

With this goal in mind, we are conducting a fundamental review of our operations, including exports, local production and third-country trade, in order to improve service and become more responsive to change.

Specifically, the Textile Division is creating an infrastructure

for production and sales from a global perspective. In terms of sales, we have identified Asia as a key regional market for high value-added products which have a competitive edge, such as *SUPER SOFT* products.

Our Brake Division, which has manufacturing bases in the U.S. and Asia, is currently emphasizing new product development and cost-reduction efforts in order to remain competitive in a fast-changing industry.

Q. How are you handling the Y2K issue?

A. We have been working toward Y2K compliance since 1996, with the Information Systems Office at the core of related activities within Nisshinbo. In January 1999, we set up the "Committee for Y2K Issues," giving it the responsibility to ensure Y2K compliance on a company-wide basis. We have already checked all Nisshinbo's information systems, automated equipment and so on, and are scheduled to complete all remedial measures by September 1999. In March 1999, we established the "Nisshinbo Y2K Committee" to draw up contingency plans to cope with Y2K-related difficulties and to provide backup to the entire group. This committee completed a comprehensive plan in June 1999.

Q. What is your policy with regard to dividends?

A. Our basic policy is to return profits to shareholders, ideally by increasing dividends in line with earnings. Of course, we must also make judgements about the levels of retained earnings necessary to secure future growth. Because of the adverse business environment, our results for fiscal 1999 were not as we had hoped. Nevertheless, we gave priority to returns to shareholders. The per share dividend for fiscal 1999 is ¥7.00 (US\$0.06), the same as for fiscal 1998.

A. Mochizuki

Akihiro Mochizuki

President

Establishing Solid Foundations

Superior R&D is the core of our strategy. We are currently constructing a state-of-the-art R&D Center in Chiba City, scheduled to be completed in March 2000. The new facility will enhance our existing R&D endeavors, which are aimed at:

- Identifying development themes that are not only original but will also lead to products with competitive strengths and large potential markets
- Creating an information system that allows employees to share ideas on product development effectively and on a global scale
- Securing outstanding research personnel, raising staff awareness of our development needs, and cultivating the appropriate skills to meet those needs

Our R&D expenditure for fiscal 1999 totaled ¥6,396 million (US\$53 million), an increase of 4.7% over fiscal 1998. As of March 31, 1999, the number of patents held by Nisshinbo was 668, while patent applications outstanding totaled 1,724. We are expanding the utilization of such intellectual property through our own development projects or through licensing agreements.

We are determined to be a market leader on a global basis. Today, competition is so intense internationally that companies which aspire to leadership must constantly develop products that have first-class potential. Throughout our business domain, we are using our technological, marketing and management know-how to develop unique, high-quality, high value-added products and position them as pace-setters in markets throughout the world.

Creating a High Value-added Product Lineup

To be a market leader globally, we must keep pace with constant changes in demand, meeting existing requirements more effectively and developing products that satisfy as yet unimagined needs. Japanese companies no longer have a cost advantage in the standardized, mass-produced textiles field. We are rising to this challenge. At Nisshinbo, we have identified our future as lying in the production of superior quality, high value-added products based on the utilization of our accumulated advanced technology.

The Textile Division has long been pursuing such a policy. However, it has recently intensified its efforts to shift to original products with better margins. We have set a target of 60% for the ratio of internally developed, original products against total textile sales.

SUPER SOFT liquid ammonia processing products, originally used for shirts and now also used for casual pants, pajamas, cotton blankets, etc., account for a substantial proportion of these new, unique textile products. We are reinforcing such value-added lines in order to establish them as main pillars within our lineup.

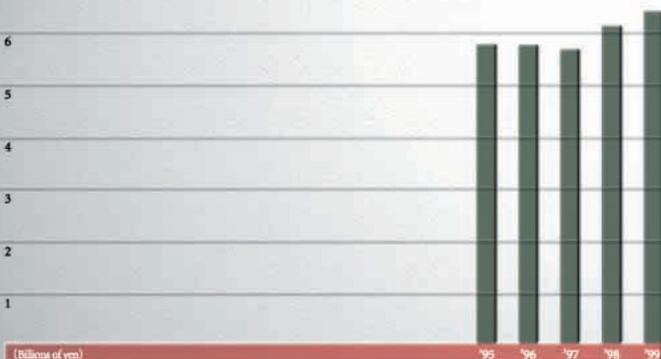
We continue to exploit our technological know-how gained in the non-textile field, developing distinctive, high-end products that are competitive on a

Biotechnology, a new business field with great prospects



Our latest NT20Si ABS, a superior product made even better

R&D Expenditure



global basis.

In the automobile brakes segment, increased usage of ABS has led to intensified competition. We had already identified this as a fast-growing market and in fiscal 1999 we launched two new products in the successful *NT* series. The *NT-Pi*, a compact ABS ideal for mini cars, and the *NT-Z1*, with excellent stability control, have already proven popular among automakers.

In the carbon products field, we are reducing our dependency on the semiconductor business by developing new applications that capitalize on carbon's many advantageous properties. They include applications for liquid crystal flat panels and certain medical devices.

In the machine tools segment, we launched a new compact press brake, the *NSB50-1200*. This machine has bending capabilities equivalent to those of medium and large machines, and meets the rigorous safety standards required by the E.U.

Leading in Technology – Computer Color Matching Systems

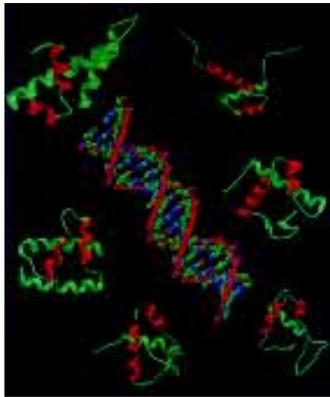
In July 1998, we established a new division to develop our CCM systems business. The potential for this business is immense. CCM systems have a seemingly infinite number of applications in many fields, including textiles, printing, cosmetics, paints, electronics and

automobiles. This business is still in its infancy and there are many as yet untapped fields. We will pursue rapid growth through intensive product development and finely-tuned marketing strategies.

Recent new products include the *CM-3800d*, developed jointly with MINOLTA Inc., which allows high-precision analysis of fluorescent dyes and pigments, and its fuzzy logic management system, the *CHOSHOKU SENKA FCM*. Another new product, the compact *Hyper-CHOSHOKU SENKA PX* paint CCM and automatic dispensing system, was produced through a technical tie-up with DROMONT S.p.A., the noted Italian manufacturer of mixing machines. In February 1999, the CCM Division opened a service center in Tokyo to offer improved after-sales support to customers. The division is also increasing its number of contracted sales companies.

Rationalizing Our Production Infrastructure, Investing in R&D

The Tokyo Plant in Adachi Ward has been in operation for over 75 years, producing mainly non-textile products. Adjacent to the plant is the Tokyo Research Center, our core facility for the development of new materials and products. We have decided to relocate the facilities at the plant, and this relocation offers an excel-



Our "DNA Oligomer" is used in DNA analysis



Artist's impression of our new R&D Center

Getting Ahead by Thinking Afresh

The Keyword is Ecology (1)

We are constantly developing processes and products that make a contribution to the conservation of the natural environment. One such product is the *ECOSYS 28°C* summer shirts line. Jointly developed with TEIJIN LIMITED and made mainly from *SSP* material, these shirts have an excellent water-absorption capability. Wearing these shirts in humid climates, one feels fresh and comfortable, even when the air-conditioning is set at a moderate 28°C.

For the fall and winter seasons, we developed *ECOSYS 20°C* in cooperation with TEIJIN LIMITED and The Japan Wool Textile Co., Ltd. The heat-retention capability of this material has been increased so the apparel can be comfortably worn in a temperature of 20°C, the same temperature as a mildly-heated office.

In these ways, we help to cut energy usage and harmful emissions all year round.



lent opportunity to rationalize our production facilities and improve our R&D capabilities.

Our decision to relocate was prompted by Adachi Ward's designation of the Tokyo Plant site and its surroundings as the location for a new urban planning project, which will include housing and open space for use in the case of natural disasters. This part of Adachi Ward is already quite urbanized, so expanding the Tokyo Plant would have been difficult in any case. We have sold 115,000m² of the 153,000m² site for approximately ¥27.5 billion, and we expect to spend the same amount on relocating.

Some of the production work currently undertaken at the Tokyo Plant, excluding work done by subsidiaries and affiliates, will be transferred to other plants as appropriate. Relocation of the main production operations to other plants will be completed by September 2002. This new system will be more efficient than the present arrangements. We will cut costs, carry out related manufacturing operations at the same site, and take this opportunity to introduce the latest in manufacturing equipment. We also anticipate that the relocation will make it easier for us to move from the development stage to mass production of products as a result.

By September 2002, the Tatebayashi Plant will be our main base for the production of brake friction materials, and by March 2000

the Chiba Plant will be our main base for the production of polyurethane foams.

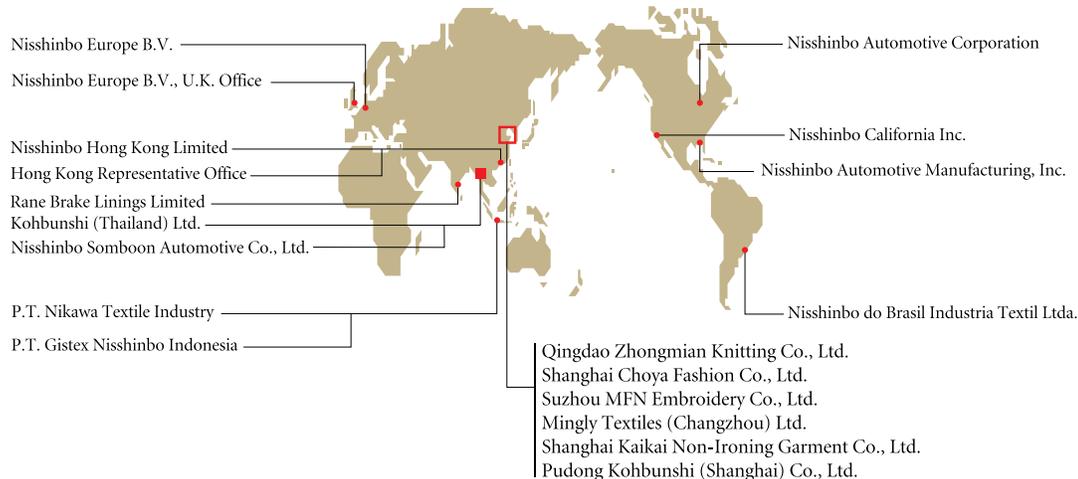
We are now building a state-of-the-art R&D center at Chiba Toke Midori-no-Mori Industrial Park (Green Tech. Chiba). Completion is scheduled for March 2000. It will be our main research facility. Conducting research across traditional product and divisional boundaries will enhance our creative capabilities.

Working as One

In January 1999, the Textile Engineering Division moved from Tokyo to Osaka, where textile sales operations are based. This enhanced the coordination of different functions from development through to production and sales. We have also accelerated decision-making and the formulation of business strategies. In addition, in the textile field we have introduced a more adaptable system for the placement of production personnel. If necessary, staff can now be transferred to any one of a number of plants or offices.

As a result, we can now respond much more flexibly to market demand. Our particular goal is to be able to manufacture a wider diversity of products, including those with relatively short production runs. We can also get new products to market much quicker. These new arrangements ensure that we can capitalize

International Network



International Technical Agreements

As licensee:

- Cluett, Peabody & Co., Inc. of the U.S.A. for textiles finishing technology
- Meritor Heavy Vehicle Systems, LLC of the U.K. for commercial vehicle disc brake technology
- Continental Teves AG & Co. oHG of Germany for MK60 ABS, TCS and ESP technologies

As licensor:

- Rane Brake Linings Limited of India for friction materials technology
- Heng Tong Machinery Co., Ltd. of Taiwan for friction materials and passenger car disc brake technologies

As cross-licensing partners:

- BBA GROUP PLC of the U.K. for friction materials technology
- Lucas Varsity PLC (TRW) of the U.K. for drum brake technology
- Meritor Heavy Vehicle Systems, LLC of the U.K. for drum brake technology
- Continental Teves AG & Co. oHG of Germany for passenger car disc brake technology
- Continental Teves AG & Co. oHG of Germany for NT20/MK20 ABS and TCS technologies

on the increasing number of products we are developing in-house.

Taking a Global View of Growth

The global market is our “home ground.” As part of our business strategy to provide superior products worldwide, we manufacture overseas, not only to serve the local market but also to sell to third countries.

For example, together with Nisshinbo Hong Kong Limited, we sell processed textile products manufactured in our Chinese and Indonesian plants throughout Asia, Europe and the U.S.

In fiscal 2000, production volume of SSP shirts at Shanghai Kaikai Non-Ironing Garment Co., Ltd. will be increased from 340,000 to 500,000 units. As well as being sold locally, these shirts will be exported to Japan, the U.S. and Europe.

In December 1998, P.T. Gistex Nisshinbo Indonesia began operations at its new dye processing facility. This new plant allows the entire processing and finishing of textiles to be performed in Indonesia, strengthening the global production infrastructure of the Nisshinbo group.

Great changes are taking place in the automobile and automobile components industries, such as cross-border consolidation, and our automobile brakes operation has been quick to respond.

We are cultivating the U.S. and Asian markets in particular. In the U.S., our high-quality brakes are prized for their stability and low-noise characteristics. We have received sales inquiries from the “Big Three” automobile manufacturers and others in the U.S., and we are confident that we can expand our client base. In February 1998, Nisshinbo Automotive Corporation (NAC) won an order from GM for T-800 friction materials for use in trucks. NAC’s T-800 mass-production plant has begun full operations. In March 1999, Nisshinbo Automotive Manufacturing, Inc. stepped up production of disk pads and other parts in response to a large new order from Volkswagen.

In July 1998, Nisshinbo Somboon Automotive Co., Ltd. (NSA) in Thailand began full-scale operations. Because of the uncertain business environment in that country, we have reinforced NSA’s financial structure by increasing our equity stake to 97%. NSA will eventually become a manufacturing base of friction materials for the entire Southeast Asian region.

In April 1999, we established a technology tie-up with Continental Teves AG & Co. oHG of Germany, under which we will manufacture MK60 ABS using technology under license from the German company. We are discussing with Continental Teves the potential for further cooperation between our two companies.



A diverse product lineup is one of our strengths



Nisshinbo Somboon Automotive Co., Ltd.



Our shirt materials are popular worldwide

Getting Ahead by Thinking Afresh

The Keyword is Ecology (2)

In May 1998, the Miai Plant gained ISO14001 certification, the widely respected international standard for environmental management systems. In January 1999, the Tokushima Plant, a highly complex facility that is the production arm for six different business fields, received ISO14001 for all its production operations. It is rare for a plant that manufactures so many diverse products to acquire simultaneous certification for all categories. We continue to expand our environmental management activities with a view to obtaining ISO14001 for all our plants and offices.