



## Annual Report 2000

Year ended March 31, 2000

The background of the lower half of the page features a series of overlapping, semi-transparent triangles in shades of light blue and grey, creating a geometric pattern.

THE POWER  
TO CHANGE, THE PASSION  
FOR QUALITY

# 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, papers, machine tools, chemical products, and others. These non-textile lines have grown steadily, and now account for over 60% of consolidated 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)*, next-generation



electronic braking systems, high heat-insulation panels and fuel battery-related materials.

The Company and its consolidated subsidiaries and affiliates (together, “Nisshinbo”) are all fully focused on steady business development through the harnessing of our collective strengths across our entire business range.

## C O N T E N T S

Financial Highlights	1
Business Lineup	2
The Power to Change, The Passion for Quality	4
Interview with the Management	4
Special Features	6
NISSHINBO Group	10
Review of Operations	12
Financial Review	16
Six-Year Summary	17
Financial Section	18
Board of Directors	28
Corporate Data	28
Organization Chart	29

The paper used for this Annual Report is from Nisshinbo’s *FLEUVE* series of fine papers.

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

# FINANCIAL HIGHLIGHTS

(Years ended 31st March)

## Consolidated:

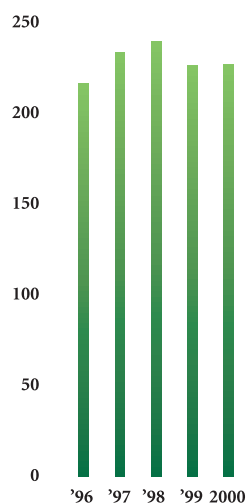
	(millions of yen)		(millions of US dollars)
	1999	2000	2000
Net Sales	¥ 226,800	¥ 227,452	\$ 2,166
Net Income	4,161	2,648	25
Shareholders' Equity	200,779	200,126	1,906

## Per Share:

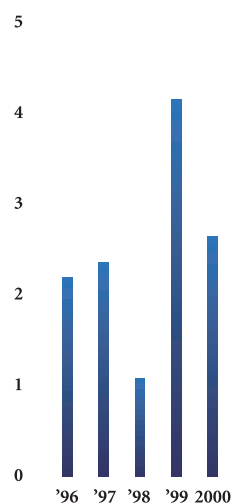
	(Yen)		(US dollars)
	Net Income	¥ 17.60	¥ 11.36
Shareholders' Equity	843.17	881.01	8.39
Cash Dividends	7.00	7.00	0.07

Note: The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥105=US\$1.

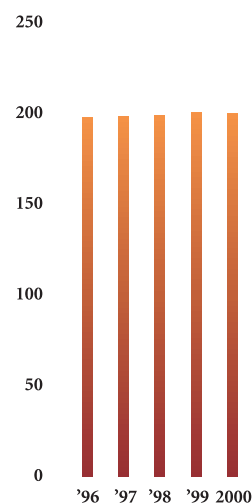
Net Sales  
(Billions of yen)



Net Income  
(Billions of yen)



Shareholders' Equity  
(Billions of yen)



# BUSINESS LINEUP

## 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 35%), denim (around 40%), Tetron and cotton blended uniform materials (around 35%), and spandex for total-support pantyhose (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

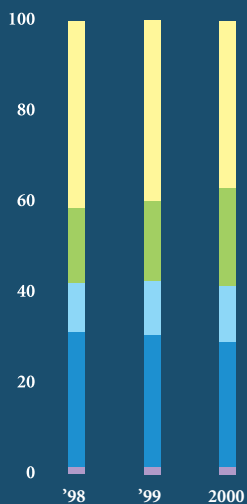
### AUTOMOBILE BRAKES

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 high-performance, environment-friendly 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 establish joint ventures, exchange technologies and collaborate with major overseas brake manufacturers.



Consolidated Sales Composition (%)



Sales by Segment in Fiscal 2000 (%)

Textiles	36.8
Automobile Brakes	21.7
Papers	12.2
Other Products	27.7
Real Estate	1.6

## P A P E R S

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. Our value-added products include *VENT NOUVEAU* and *FLEUVE* natural-feel fine papers 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.



## O T H E R P R O D U C T S

### *M a c h i n e T o o l s*

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. We are now marketing machine tools through three sales channels overseas as well as in Japan.



### *C h e m i c a l P r o d u c t s*

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. We also produce cross-flow fans for air conditioners for the Southeast Asian and other markets.

### *O t h e r s*

We develop and supply the production systems which integrate the *CHOSHOKU SENKA* fuzzy logic computer color matching (CCM) system, automatic dispensing system, manufacturing process support system and automatic inspection system, all based on original technologies. We also produce electronics products such as wireless communication terminals.



## R E A L E S T A T E

We conduct real estate business to utilize efficiently land that otherwise would be vacant. We lease an office building on the site of our former headquarters, and lease land previously occupied by factory facilities for use as shopping centers and model houses.



## Q1. What were Nisshinbo Industries, Inc.'s consolidated results for fiscal 2000, ended March 31, 2000?

Let me first announce that there has been a change in the Company's management. In June 2000, Mr. Akihiro Mochizuki, former president, was appointed chairman of the board, and Mr. Yoshikazu Sashida, former executive director, assumed the office of president. During his term, Mr. Mochizuki demonstrated strong leadership under extremely difficult business conditions and made a significant contribution to laying the foundations for Nisshinbo's future growth.

Consolidated net sales of Nisshinbo Industries, Inc. for fiscal 2000 amounted to ¥227,452 million (US\$2,166 million), an increase of 0.3% over fiscal 1999, ended March 31, 1999. Operating income was ¥4,140 million (US\$39 million), an increase of ¥3,767 million over fiscal 1999 due mainly to a recovery in profitability of textiles, automobile brakes and papers. Loss on the liquidation of Nisshinbo California Inc. (NCI), together with a decrease of gain on securities, produced a 36.4% decrease in net income to ¥2,648 million (US\$25 million).

By business segment, sales of textiles decreased 7.1% to ¥83,804 million (US\$798 million), while sales of non-textiles increased 5.2% to ¥143,648 million (US\$1,368 million). The ratio of non-textiles sales to total sales was 63.2%, up 3.0 percentage points.

During fiscal 2000, the Japanese economy veered between periods of low

growth and continued depression. Despite further massive pump-priming measures by the government, a reduction in concerns about the health of the country's financial institutions, and signs of renewed vigor in some industries, stagnant consumer spending and corporate capital investment prevented any sustained growth of the economy.

Sales in the textiles segment suffered from consumers' reluctance to spend. Segment results were also adversely affected by the liquidation of NCI. However, cost-down activities in both procurement of raw materials and operations led to increased profit. The non-textiles segment performed well overall, registering increases in sales and operating income.

THE POWER  
TO CHANGE, THE PASSION  
FOR QUALITY



Akihiro Mochizuki, Chairman (left) and Yoshikazu Sashida, President

## Q2. How do you see your future business prospects?

Although economic conditions will remain difficult, the rapid growth of several industries, particularly the information technology (IT) industry, has begun to generate a number of business opportunities. Over the next few years, the increasingly "borderless" nature of the global economy, progress in deregulation, and advances in IT will effect a rapid and fundamental change in the country's industrial structure.

For several years, while frankly struggling in a very difficult business environment, we have made strong efforts to establish a firm foundation for Nisshinbo's future growth. We have sharpened our focus on customer satisfaction and emphasized rapid response in what is a fast-changing environment. We are now in a much better position to respond to market and other changes more quickly and more flexibly. In fiscal 2001, we have begun a three-year management plan designed to put us among the top players in a fast-developing marketplace. In the past, our medium-term management plans usually spanned five years; from now on, we will adopt three-year plans in order to allow more rapid adjustments.

We will continue to create products based on prognoses of customer demands and, avoiding any complacency arising from our business performance and market shares in the past, seek to retain a position of leadership in the market.

## Q3. Can you give us an outline of your new three-year management plan?

Our ultimate aim is to increase our corporate value by expanding our business scale and improving profitability. Specifically, we will work to reinforce our capabilities to develop new products, establish a sound operating system for each product sector, and adjust our business structure to global standards. Within these basic themes, we will develop divisional strategies and plans to improve management efficiency and make better use of management resources. In all these efforts, we will utilize advanced IT to ensure maximum efficiency.

By the end of the current three-year management plan (fiscal 2003), we plan to have increased consolidated sales to the ¥300,000 million level, and operating income to the ¥13,000 million level. In the fast-growing non-textiles segment, we are looking to create a diverse range of core businesses and raise the ratio of non-textiles sales to total sales to 70%.

In order to accomplish these goals, it is important to enhance our group strengths. We plan to improve the management capabilities of each subsidiary and affiliate and promote business restructuring based on the characteristics of each business field. With a view to improving our global business development capability and competitiveness, we remain open to the establishment of close ties with major companies in each industry.

#### **Q4. What are the divisional targets?**

In the textiles segment, our plans include reform of our profit-making structure through an integration of manufacturing and sales operations, rationalization of our domestic production facilities, strategic development of overseas business operations centered on our production base in Indonesia, maintenance of our competitive edge in the domestic market by making optimum capital investments, and promotion of high value-added products.

In the non-textiles segment, we are strengthening our business base in the field of automobile brakes by establishing tie-ups with overseas manufacturers. In the papers field we intend to improve profitability by concentrating on environment-friendly and information-related products. In the chemical products field, which has strong growth potential, we have identified carbon products and high heat-insulation panels as our next business pillars, and will promote these businesses through the establishment of stronger ties among group companies and enhancement of production facilities. In addition, we will accelerate the commercialization of products in the fields of biotechnology and high-function fine chemical materials, place increased focus on the electronics field, and introduce energy and environment-related product lines such as secondary batteries, solar batteries and fuel battery-related materials. In the real estate field, we will expand leasing of our unused land and promote the creation of value-added business lines.

#### **Q5. What measures are you going to take to improve management efficiency?**

First, we will adjust our business structure in order to operate in accordance with global standards. This includes changing our accounting standards to bring them in line with international standards. In order to achieve a level of return on assets appropriate for a company operating on a global basis, we will reconfigure the composition of total assets and reduce interest-bearing debt. We will also implement more sophisticated investor and public relations programs.

Another important task is to fulfill our responsibilities relating to protection of the environment. We will adhere rigidly to the action policies laid down in the "Nisshinbo Environment Charter" announced in April 2000. Four of our plants have obtained ISO14001 certification, and we continue to seek such certification for all our plants and offices.

In terms of personnel management, we will introduce a new, performance-based evaluation system, taking into consideration recent changes in employment practices in Japan. As a first step, we will operate a two-year experimental system under which the amount of bonus is determined in proportion to increases or decreases in operating income.

#### **Q6. How will you proceed with efficient allocation of management resources?**

On a non-consolidated basis, we have already developed a concrete plan. This includes a ¥2,000 million increase in capital investment over the next three years compared with the total for the previous three, bringing it up to ¥34,000 million. Of this amount, ¥15,000 million will be allocated to the development of new products and enhancement of production facilities. We will make significant investments in fast-growing business fields, such as chemical and paper products.

Our annual R&D expenditure will exceed ¥7,000 million. We will invest an additional ¥2,000 million in our new R&D Center in order to ensure that facilities and staff training are the very best. This will allow the R&D Center to become the key base for the development of new businesses.

#### **Q7. What is your policy regarding dividends?**

Our basic policy is to return profits to shareholders, ideally by increasing dividends in line with earnings. We must also make judgements about the levels of retained earnings necessary to secure future growth.

Owing to the adverse business environment, our results for fiscal 2000 were not as we had hoped. Nevertheless, we have retained the per share dividend for fiscal 2000 at ¥7.00 (US\$0.07), the same as for fiscal 1999.

During fiscal 2000, we bought back a total of nine million shares of the Company for an amount of ¥4,575 million and cancelled them. The purpose was to improve shareholders' value.



Akihiro Mochizuki  
Chairman



Yoshikazu Sashida  
President