NISSHINBO

Annual Report 2006

(Year ended March 31, 2006)

The 6 Engines of Sustainable Development

Financial Highlights

(Years ended 31st March)

Consolidated:

	(millions of yen)		(millions of US dollars)
	2006	2005	**2006**
Net Sales	**¥ 278,617**	¥ 243,421	**$ 2,423**
Net Income	**11,183**	8,199	**97**
Shareholders' Equity	**266,434**	222,771	**2,317**

Per Share:

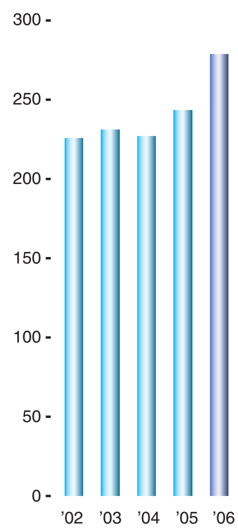
	(yen)		(US dollars)
Net Income	**¥ 53.21**	¥ 39.03	**$ 0.46**
Shareholders' Equity	**1,283.21**	1,072.54	**11.16**
Cash Dividends	**10.00**	10.00	**0.09**

Key Ratio:

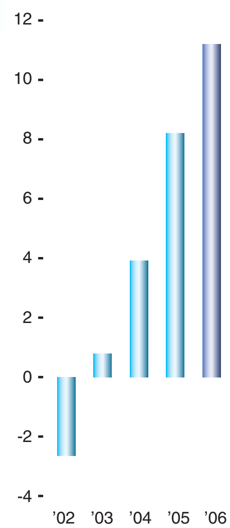
	(%)	
Return on Assets	**2.6**	2.2
Return on Equity	**4.6**	3.8

Note: The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥115=US$1.

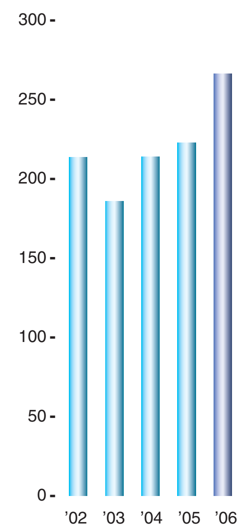
Net Sales
(billions of yen)



Net Income
(billions of yen)



Shareholders' Equity
(billions of yen)



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.

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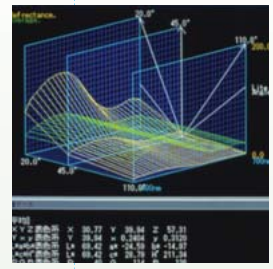
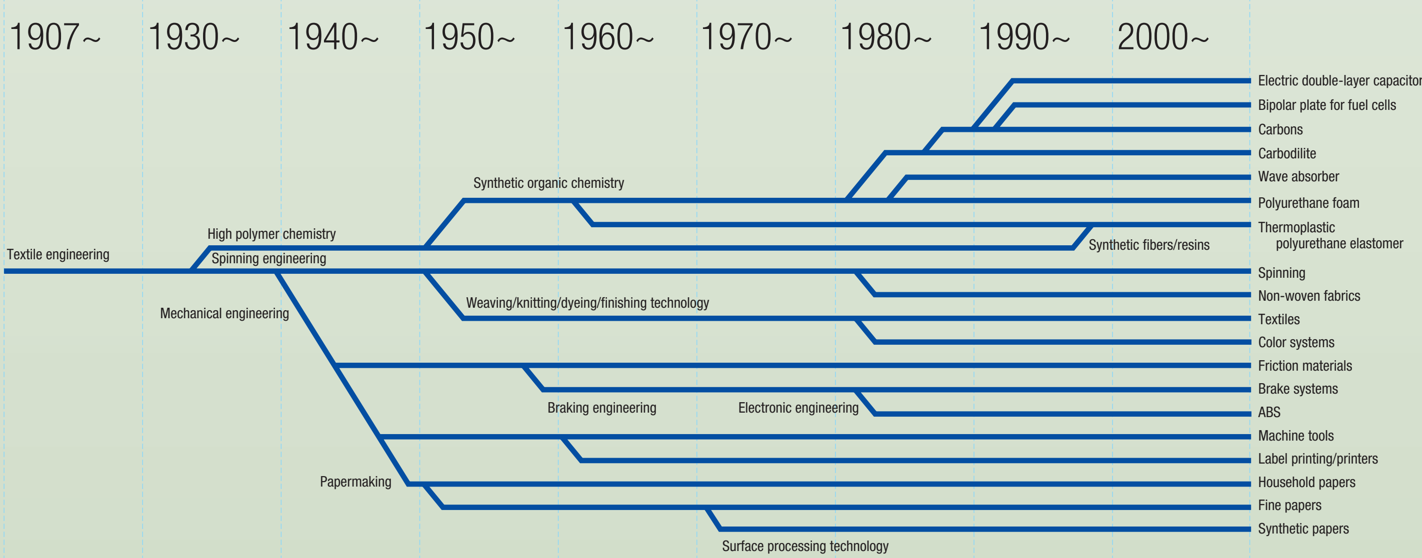
The paper used for this Annual Report is from Nisshinbo's *VENT NOUVEAU* series of fine papers.



Founded in 1907 as a manufacturer of cotton yarns and threads, Nisshinbo Industries, Inc. (the "Company") has been a leading presence in Japan's textile industry for nearly 100 years. Nisshinbo has steadily diversified the scope of its business by applying its proprietary technologies and technological strengths cultivated in its Textiles business. In addition to Textiles, the Company carries out business in a wide range of fields, including Automobile Brakes, Papers, Chemical Products, and Electronics.

Amid the tumultuous times of the 21st century, Nisshinbo Group, centering on the parent company Nisshinbo Industries, is committed to continually meet the challenges for change. Utilizing its strengths and experience accumulated to date, Nisshinbo will pursue sustainable growth and contribute to society through its business activities.

Nisshinbo's Lineage of Products and Technologies



Nisshinbo at a Glance

Textiles

- Textile products have been at the core of our business since our foundation. We continually lead the Japanese textiles industry with our high-quality products and high-level technology.
- We have an integrated structure encompassing functions that range from spinning and weaving to dyeing and finishing, as we pursue high added value.
- We are promoting production in optimal locations worldwide and are also expanding our apparel business.

Main Products

***SUPER SOFT PEACHPHASE* (SSP):** Featuring excellent shrink- and wrinkle-resistance properties, these wrinkle-free shirts were developed with Super Soft Processing (shrink- and wrinkle-resistance properties through liquid ammonia processing).

***NON CARE*:** These 100% cotton, drip-dry (wrinkle-free) shirts with high functionality are based on SSP technologies and eliminate wrinkling of stitched areas caused by washing.

***OIKOS*:** A 100% cotton non-woven fabric. This hygienic and easily disposable environmentally conscious fabric is gentle on both people and the Earth.

***MOBILON*:** An independently developed spandex, *MOBILON* has become a best seller in the pantyhose markets due to its comfortable fit.

***GAIA COT*:** An epoch-making composite material that crystallizes zeolites inside of fibers, *GAIA COT* boasts diverse functions such as deodorizing and anti-bacterial capabilities and has a wide array of applications across a vast range of fields.

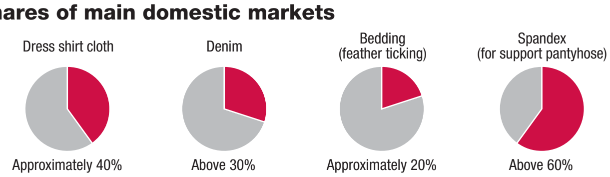
Garments utilizing our high-quality denim

Liquid ammonia denim: This soft high-quality denim uses liquid ammonia processing for deep coloring, gloss, and a unique texture.

***AG Fresh*:** This anti-bacterial and anti-odor material features nano-sized silver particles inlaid into the cloth.

***Dual Clean III*:** This processed material has been provided with water-absorbing and anti-soiling functions using nanotechnologies.

Shares of main domestic markets



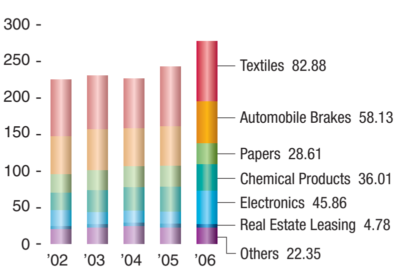
(The above graphs are based on Nisshinbo's internal data)

Apparel: shirts (CHOYA CORP., Naigai Shirts Co., Ltd.), denim (Ocean Link Corporation [non-consolidated subsidiary])

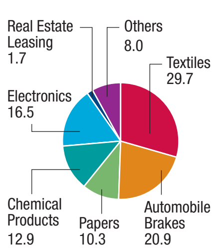
Consolidated basis

Domestic manufacturing bases:	10 plants
Overseas manufacturing bases:	5 bases in Indonesia, Brazil, and China
Overseas sales base:	1 in China (Shanghai)

Consolidated Sales by Segment
(billions of yen)



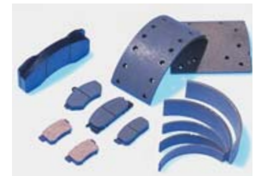
Sales by Segment in Fiscal 2006
(%)



Notes: Chemical Products, previously included in the Others sector, was treated independently from fiscal 2003 due to the growing importance and potential of the sector. Electronics, previously included in the Others sector, was treated independently from fiscal 2006 due to the growing importance and potential of the sector. Figures for previous fiscal years have been adapted to take account of this change.

Automobile Brakes

- Nisshinbo is one of Japan s leading manufacturers of automobile brake systems and friction materials.
- In accordance with the main themes "promoting globalization" and "developing competitive products," we adhere to a policy of overall optimization and strive to undertake unified activities in Japan and overseas.



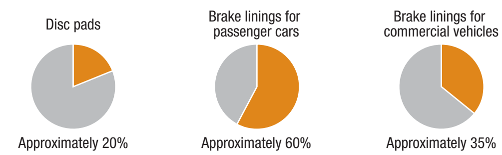
Our brake parts

Main Products

Friction materials: Disc pads, brake linings, clutch facings

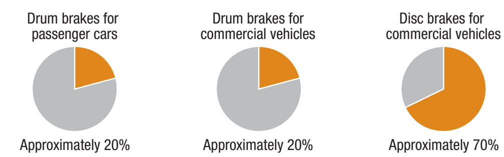
Brake products: Drum brakes for passenger cars and commercial vehicles, disc brakes for commercial vehicles, ABS products (currently being transferred to Continental Teves Corporation)

OE market share of friction materials for domestic automakers (2005)



(The above graphs are based on Nisshinbo's internal data)

OE market share of brake products for domestic automakers (2005)



(The above graphs are based on Nisshinbo's internal data)

Development themes

Development is focused on high coefficient of friction, noise/vibration characteristics, improved performance of brake pad life, "green" products made of environment-friendly materials, and the application of new technologies, production methods and materials to achieve innovative cost reductions.

Consolidated basis

Domestic manufacturing bases:	4 plants
Test courses:	1 domestic base
R&D center:	1 domestic base
Overseas production bases:	5 bases in the United States, Thailand, South Korea, and China

Papers

- We manufacture various types of paper and paper-related products. These include such household papers as tissue paper, toilet paper and kitchen-use paper towels; fine papers used for high-quality printings and documents; synthetic papers for use in electrical decorations as well as printed advertisements, label printers and labels.
- The basis of our Paper business is to develop and provide stable supplies of original, high-quality products that are both environment -and people-friendly.

Main Products

Our household paper products

Household papers:

COTTON FEEL, (tissue paper and toilet paper)

POPLA (toilet paper made from recycled materials)

PEACH (tissue paper, toilet paper and kitchen paper towels)

Fine papers:

VENT NOUVEAU, ARABEL and *MILT GA* high-quality printing paper

Synthetic papers:

Peach Coat (for printing, labels and electrical decorations)

Peach Jet (for ink jet posters and ink jet printings for electrical decorations)

Chemical Products

- This segment provides such products as polyurethane foams, elastomers, carbon products and molded-plastic products.
- We are pursuing business growth based on the themes "insulation" and "global development."

Main Products


N's VIP

Polyurethane basic liquid: Has applications in construction, civil engineering, insulation, plant facilities, and trains.

Rigid-type polyurethane foam: Used for processing of boards and pipe covers.

FRU glass fiber-reinforced polyurethane foam: Widely used in water treatment and construction fields.

***N's VIP* Vacuum Insulation Panels:** Boast six times the performance capabilities of conventional polyurethane insulation materials, the highest level of technology currently available. Used in such applications as household refrigerators and vending machines and are attracting attention in various insulation and energy conservation-related fields.

Polyurethane elastomer *Nisshinbo Mobilon*: Boasts excellent elasticity and water-resistance characteristics and is used in an expanding range of applications that include various types of industrial products and decorative items.

Carbon products: Used mainly in semiconductor production components and other electronics sectors.

Molded plastic products: These include cross-flow fans for air conditioners, automobile components, and others.

Consolidated basis

Domestic Group companies:
Iwao & Co., Ltd. (construction and industrial materials)
Nippon Kohbunshi Co., Ltd. (molded plastic products)
Nisshinbo Postal Chemical Co., Ltd. (polyurethane-related products)
Overseas production bases: 2 bases in Thailand and China

Electronics

- Manufacture and sale of semiconductors and electronic devices.

Business companies

Semiconductor-related: New Japan Radio Co., Ltd.
Electronic device-related: Ueda Japan Radio Co., Ltd.

Main Products

New Japan Radio: Semiconductors, microwave tubes, microwave applied products.

Ueda Japan Radio: Wireless communications equipment, medical-use devices, security systems, measuring devices.


Main office of New Japan Radio, Tokyo

Real Estate Leasing

- Our Real Estate Leasing business involves efficiently utilizing unused land to contribute to earnings.

Main Projects

We operate an office building in Tokyo (built on the site of our former Head Office) and lease out land previously occupied by plants and other facilities for use as shopping centers, residences, and others.


APITA Shimada Shopping Center, Shizuoka Prefecture

Others

Precision Instruments & Machinery

Main products and proprietary technologies

Field	Main product	Proprietary technology
Specialized machinery	Processing machinery for the automobile, housing, construction material, business equipment, and aircraft industries	• Comprehensive engineering capabilities that can respond to various processing methods and types of systems. • Electrical equipment design and software design and development technology capabilities.
Environment-related equipment	Solar photovoltaic module manufacturing equipment	• Laminate technologies and measuring technologies that utilize our know-how and experience gained from having the No.1 domestic share.
General-use machinery	Sheet metal machinery	• Response capabilities for building systems utilizing a track record of 3,000 units sold.
Precision processing	Mass-produced components for ABS and automobiles	• Precision-cut components processing, deburring and washing technologies and facilities development capabilities.

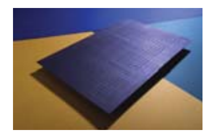
Color Systems

Main product : CCM

Priority technology : Color tone know-how and response capabilities based on internal verifications that reflect our abundant experience in the response field.


Hyper CHOSHOKUSENKA X Series computer color matching system

Bipolar Plates for Fuel Cells


Carbon molded separator (bipolar plate)

Features: This product offers No. 1 performance capabilities, high strength, flexibility and outstanding formability and is lightweight and highly corrosion resistant with good conductivity.

Market acclaim: Nisshinbo is earning acclaim as the world's top manufacturer of bipolar plates. We have delivered these plates to almost all the world's fuel cell manufacturers.

Future potential: Companies are currently competing to develop automobile- and household-use fuel cells. Although it will take at least several years for the market to expand, we aim to achieve profitability in fiscal 2008 and are striving to position our bipolar plates as the industry's product standard.

Functional Chemical Products

Establishing a lineup of *CARBODILITE* (Nisshinbo's proprietary functional polymer based on *Carbodiimide*) and water treatment carrier products.

Features: A highly safe compound that offers top-level anti-hydrolysis stability.

Fields of application: Electronic material adhesives and bio-based plastic components (automobiles and others) and water-based paint.

Market evaluation: Earned high acclaim as cross-linking agent that utilizes the strength of the many functions of plastics.

Growth potential: This is a unique material, and with growing expectations for plant-derived plastics, this has the potential to become a mainstay business. We are aiming to be the world leader in this field and are focusing on achieving profitability in fiscal 2008.

Capital expenditures: In July 2005, a pilot line with a monthly capacity of 100 tons began operation at our Tokushima Plant.

N's CAP Electric Double-Layer Capacitor

Features: This electric power storage device uses Nisshinbo's originally developed ionic liquid and is outstanding in terms of environment friendliness. This capacitor offers the world's highest-class performance capabilities.

Collaboration: Through cooperation with Japan Radio Co., Ltd., Nisshinbo developed a module adapted to large current charge and discharge.

Fields of application: Electric vehicles and others.

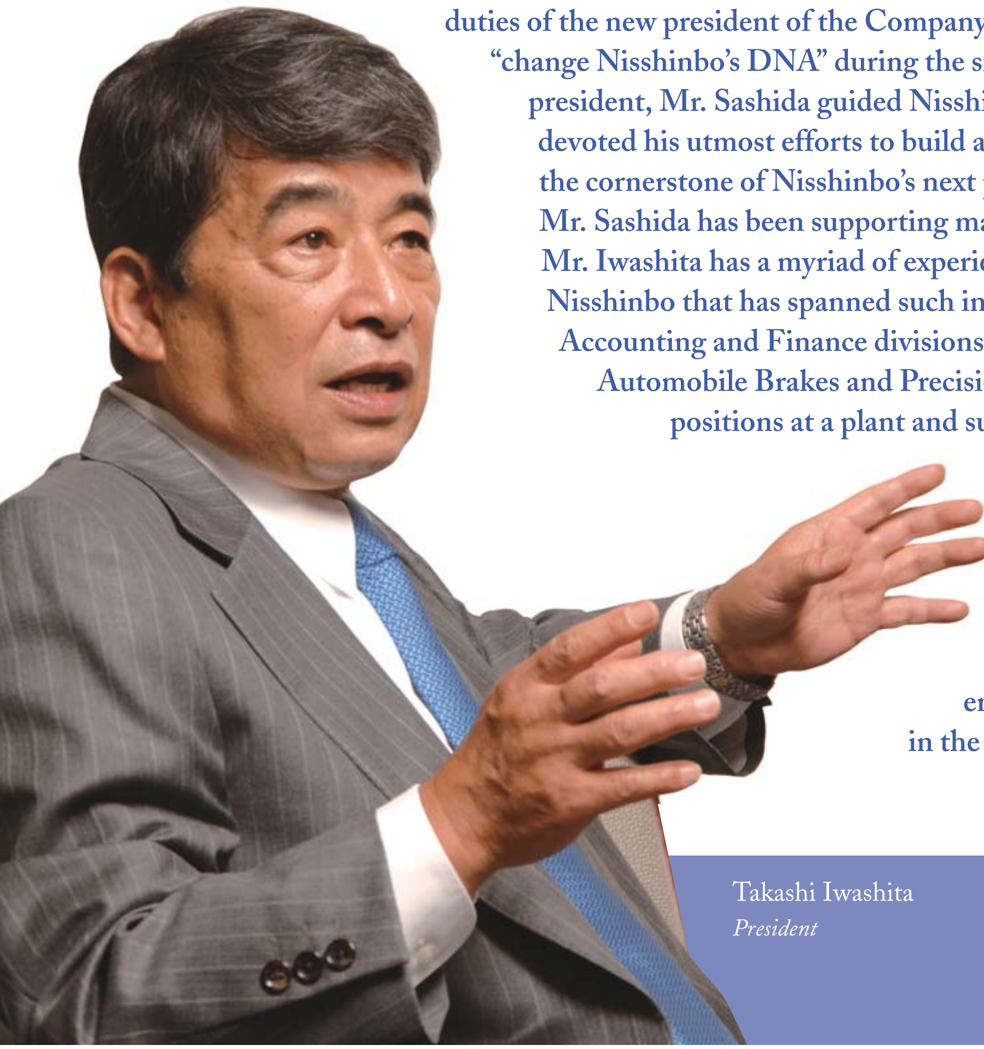
Other R&D Project

Life Science (DNA microarray)


DNA microarray

Features: The combination of large spots enabling visual detection and plastic-based slide allows DNA microarray technology to be handled and analyzed with greater simplicity.

Fields of application: Diagnostics and bio-related research.



We would like to take this opportunity to announce that following the General Meeting of Shareholders on June 29, 2006, Mr. Yoshikazu Sashida stepped down as president of Nisshinbo Industries, Inc. while Mr. Takashi Iwashita assumed the duties of the new president of the Company. Driven by a strong determination to "change Nisshinbo's DNA" during the six fiscal years he served the Company as president, Mr. Sashida guided Nisshinbo's business structural reforms and devoted his utmost efforts to build a solid business foundation to function as the cornerstone of Nisshinbo's next phase of growth. Since stepping down, Mr. Sashida has been supporting management from his position as chairman. Mr. Iwashita has a myriad of experience acquired through a diverse career at Nisshinbo that has spanned such indirect divisions as the General Affairs and Accounting and Finance divisions, business divisions that include the Automobile Brakes and Precision Instruments businesses, as well as positions at a plant and subsidiaries. Utilizing the strong managerial acumen and human networks nurtured during the course of his career, and building on the business foundations established up to now, Mr. Iwashita is resolved to lead the way in promoting speedy group management to ensure Nisshinbo attains sustainable growth in the years ahead.

Takashi Iwashita
President

Three-year Management Plan 2008

Nisshinbo Industries, Inc., has drafted its new medium-term "Three-year Management Plan 2008" covering the period from fiscal 2006 through the fiscal period ending March 31, 2009. The core management policies are as follows:

1) Continue to bring to market unique products with high added value to serve as the foundation for strong quality competitiveness.
2) Reduce lead times and thoroughly emphasize a prompt "customer first" response.
3) Promote collaboration with other companies.
4) Pursue overseas expansion and accelerate localization of production and marketing.
5) Promote amicable M&As.
6) Reorganize and withdraw from businesses with no prospects for profitability.

In addition to these policies, Nisshinbo will implement key measures in order to achieve its consolidated performance targets for the period ending March 31, 2009, including net sales of ¥360,000 million, operating income of ¥25,000 million and net income of ¥16,000 million.

Q1. Could you briefly discuss Nisshinbo's consolidated business results for fiscal 2006, ended March 31, 2006, and touch on the three-year plan concluded during the past fiscal year?

In fiscal 2006, the economic recovery in Japan became readily apparent and this was reflected in the generally favorable performances of Nisshinbo's businesses. Also noteworthy, New Japan Radio Co., Ltd., which engages in semiconductor manufacturing, became a Nisshinbo consolidated subsidiary through an amicable M&A in December 2005. Along with the acquisition of New Japan Radio, medical device manufacturer ALOKA CO., LTD became a Nisshinbo equity-method affiliate, paving the way for Nisshinbo to further broaden the spheres of its businesses.

Regarding our performance, on a consolidated basis net sales surged 14.5% to an all-time high of ¥278,617 million (US$2,423 million), due to favorable results in each business and the addition of New Japan Radio to our consolidated accounts in the last half of the fiscal year. We posted a 9.0% gain in operating income to ¥10,524 million (US$92 million) — the second highest amount ever recorded by Nisshinbo — mirroring improved profitability in the Textiles segment and an expansion of business in the Electronics segment. Net income reached a record high, advancing 36.4% to ¥11,183 million (US$97 million), owing to such factors as a gain on the sale of investment and marketable securities.

Regarding our targets for fiscal 2006, which marked the final fiscal year of the three-year plan, net sales surpassed our target of ¥250,000 million, but operating income failed to reach the plan's target of ¥12,500 million, reflecting sluggishness in Nisshinbo's non-consolidated business results. Our non-consolidated operations include mature businesses, which face difficult prospects for significant growth. As we develop our business in the future, Group operations will be a key focal point in achieving growth.

Q2. What are your aspirations as the new president of Nisshinbo?

I would like to devote my energies to carrying through Nisshinbo's recently launched Three-year Management Plan 2008. Although this plan incorporates a host of numerical targets, let me emphasize that merely reaching these targets alone is insufficient. This plan's essential target is to "respond to the challenges for change." This means proactively and boldly meeting change as we position the Nisshinbo Group on a new growth trajectory with the addition of unprecedented corporate value and growth potential. These are my aspirations as the new president of Nisshinbo.

Today's pace of change is incomparably faster compared with just a decade ago, as societies, economies, technologies and concepts evolve with breathtaking quickness. Within this vortex of change, survival will likely be extremely difficult by merely relying on approaches that adhere to past precedents. Conversely, I believe the sole survivors will be companies embracing and responding to the challenges for change.

Nisshinbo has clearly demonstrated its determination to change. Nevertheless, if a company's changes fail to keep

Restructuring the Research and Development and Business Development Structure

Nisshinbo traditionally divided the roles of R&D aimed at discovering "buds" of new business and the development business for cultivating these buds and carried out these activities within two separate organizations. On April 1, 2006, however, these activities were streamlined into a single unified organization with the aim of accelerating schedules for the launching of new businesses.

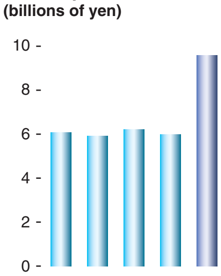
Number of patents at the end of fiscal 2006 (non-consolidated basis)

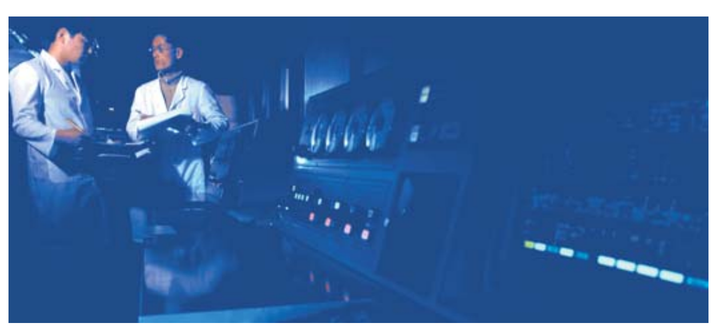
Domestic	279 (750 patent applications currently submitted)
Overseas	479 (414 patent applications currently submitted)

New Organization

- Business Development Division
  - Administration Department
  - Fuel Cell Department
  - Performance Chemicals Department
  - Business Implementing Department

R&D Expenditure
(billions of yen)





pace with the tempo of changes in society and industry, that company will in fact lose ground. Bearing this in mind, our responses to change must be executed with unprecedented speed.

Under our previous three-year plan, we significantly disposed of so-called structural "negative legacies" and took important strides in rebuilding our businesses. In Textiles, for example, we made adjustments to domestic production facilities for general-use and mainstay products, while achieving progress in establishing a global production structure with local bases in optimal geographic locations. By making these moves, we have unshackled our Textiles operations and created an environment that gives us reasonable latitude to respond freely and flexibly. Utilizing this foundation, we must now move ahead by "creating businesses" rather than focusing on "rebuilding businesses." In doing so, it is imperative that we accelerate our responses to change with a variety of measures driven by an entrepreneurial spirit. One feasible approach is to "purchase time" by starting businesses through M&A or by cultivating promising businesses via alliances.

I regard the genuine essence of the Nisshinbo Group as a group of people possessing strong aspirations to contribute to society through our businesses. Although businesses ebb and flow, this aspiration to contribute to society will never wane. Being able to contribute to society hinges on whether a company can provide what is demanded by society. I would like the technologies and corporate culture we have carefully nurtured to be adapted quickly to the drastic changes unfolding today to provide society with value. The next three years will be a period when we begin to meet the challenges for change.

Q3. What are the core management policies and numerical targets of Nisshinbo's new three-year plan?

Under the new plan, we have decided on six core management policies.

- Continue to bring to market unique products with high added value to serve as the foundation for strong quality competitiveness.
- Reduce lead times and thoroughly emphasize a prompt "customer first" response.
- Promote collaboration with other companies.
- Pursue overseas expansion and accelerate localization of production and marketing.
- Promote amicable M&As.
- Recognize and withdraw from businesses with no prospects for profitability.

Based on these policies and implementing action plans for each business, our plan aims for consolidated net sales of ¥360,000 million, operating income of ¥25,000 million, and net income of ¥16,000 million in fiscal 2008 (ending March 31, 2009).

Q4. Could you outline the action plan for implementing your core management policies? Please begin with the policy "continue to bring to market unique products with high added value to serve as the foundation for strong quality competitiveness?"

I should point out that it is generally easier to provide high added value to final products that reach consumers than it

Strong competitiveness of high-value-added textile products evidenced by numbers

Annual sales of 100% cotton *NON CARE* wrinkle-free shirts amounted to approximately **1.5 million** shirts in fiscal 2006. We expect sales to reach 2 million shirts in fiscal 2007.

Annual sales of the Nanoscience series of highly functional materials amounted to approximately **6.5 million** meters in fiscal 2006. Nisshinbo anticipates sales will reach 7.7 million meters in fiscal 2007.

NON CARE

Collaborative Businesses in Textiles — Triangle Project News

Launched in summer 2006, the *Coolish* line of products was planned in response to the central government's "Cool Biz" campaign through collaboration between Nisshinbo, Teijin Fibers Limited, and The Japan Wool Textile Co., Ltd.

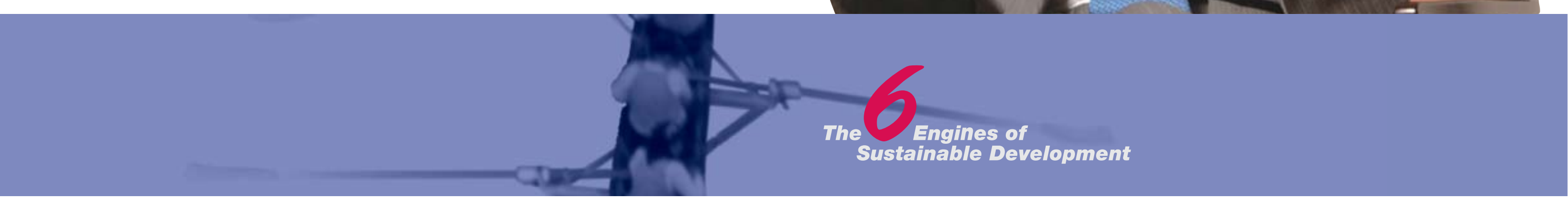
Coolish menswear line launched under the Triangle Project is for materials. Many of Nisshinbo's products are intermediate materials, meaning that we face steep obstacles to providing high added value. With this in mind, the key to providing high added value will be undertaking businesses focused on fields for final products. In Textiles, for example, this means expanding the apparel business. In line with this objective, we welcomed denim company Ocean Link Corporation as a non-consolidated subsidiary to the Nisshinbo Group in fiscal 2006. This followed the conversion of shirt apparel companies CHOYA CORP. and Naigai Shirts Co., Ltd. into subsidiaries the previous fiscal year. We will now work to create new value by combining Ocean Link Corporation's abundant know-how in overseas sewing businesses with Nisshinbo's denim materials expertise. Undertaking our business as a Group through such collaboration will be an effective mechanism for providing high added value.

Q5. Next, could you tell us about your policy "reduce lead times and thoroughly emphasize a prompt 'customer first' response?"

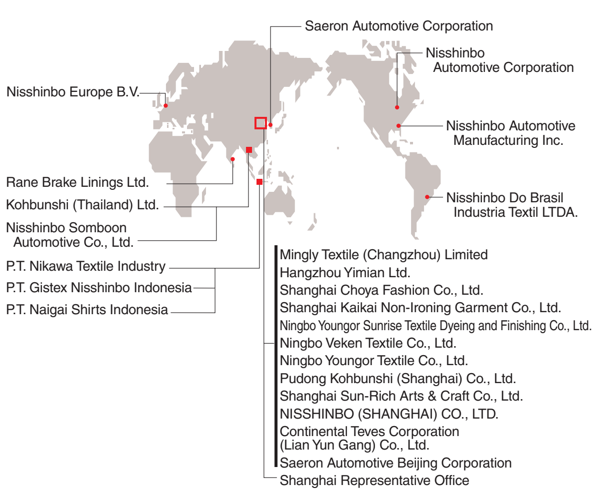
Reducing lead times and making quick responses are the basics of operations for all manufacturers. Since the early days of our operations, we have continually worked to reduce lead times and make quicker responses in undertaking our everyday business activities. Continually keeping in mind the Company's past accomplishments and the demands of our customers, we must make utmost efforts in taking self-initiated approaches in this area. Reducing lead times and making quick responses translate directly to increased customer satisfaction, as well as obviates the need for surplus inventories—highly advantageous from the perspective of our financial strategy—and allows us to prevent inventory obsolescence and maintain a fresh product lineup. Although reducing lead times and making quick responses represent fundamental business activities, their numerous positive benefits are enormous and extend across a wide range. I would like to continue making earnest efforts in this area.

Q6. How will you "promote collaboration with other companies?"

Promoting collaboration with other companies is essential, particularly for reasons related to the current business



Overseas Network



International Technical Agreement

As licensee:
- Taltech Limited of the British Virgin Islands for Pucker Free Seam Technology
- Meritor Heavy Vehicle Systems, LLC of the U.S. for disc brake and drum brake technologies
- Spire Corporation of the U.S., in solar photovoltaic module manufacturing equipment

As licensor:
- Rane Brake Linings Ltd. of India for friction materials technology
- Heng Tong Auto Parts Inc. of Taiwan for friction materials and passenger car disc brake technologies

As cross-licensing partners:
- TMD Friction Beteiligungs GmbH & Co KG of Germany for friction materials technology
- TRW Inc. of the U.K. for drum brake technology

environment and the rapid pace of technological change I alluded to previously. Launching new businesses and creating new business models from the ground up requires significant amounts of up-front investments and time. Then, as the pace of change further accelerates, the amount required for investment rises even more. In the past, Nisshinbo cultivated technologies and developed new businesses on its own, but the hurdles to adhering to such an approach are incomparably higher than in the past.

Cognizant of this situation, we are placing greater focus on methods such as collaborating with other companies to shorten the business-cultivation process and more efficiently nurture new businesses. An excellent example of how we are putting this approach into practice is our new business for electrical double-layer capacitors. Through collaboration with Japan Radio Co., Ltd., we became the first company to commercialize these capacitors, which we have already begun supplying to customers. Tapping the extensive technologies of New Japan Radio, which is now a Nisshinbo consolidated subsidiary, we are striving to establish an even more dominant positioning for our electrical double-layer capacitors business. Our Group strategy thus overlaps with our collaboration strategy. The total sum of the Nisshinbo Group's technologies and markets are immensely large. However, if we pursue collaboration with other companies, I am confident we can create business potential with an aggregate even several times larger than now. I would like to promote initiatives with a Groupwide awareness of the benefits of collaboration.

Q7. Are there any points requiring attention regarding your policy "pursue overseas expansion and accelerate localization of production and marketing?"

One point worth noting is the emergence of the so-called BRICs (the emerging economies of Brazil, Russia, India and China). Up to now, Nisshinbo has not emphasized an aggressive approach to setting up bases in these countries. Now, however, we recognize that in the future it will be important to create various structures in such countries and

Trends in the Automobile Brake Business in Overseas Markets

North America:
Over the past five years, annual automobile production volume has stood at approximately 16 million vehicles, with annual sales amounting to around 20 million vehicles. These market volumes are expected to remain stable for a period time.

Thailand:
Thailand is achieving growth as a Southeast Asian export base for Japanese and U.S. automakers. Production in 2008 is forecast to reach approximately 1,700 thousand units, an increase of about 50% from 2005.

South Korea:
Previously sluggish sales in South Korea are now showing signs of improvement, with exports to Europe and the United States particularly favorable. Production in 2008 is forecast to rise to around 4,700 thousand units, an increase of about 40% from 2005.

Our brake parts

China:
Production in 2008 is forecast to be approximately 7,000 thousand units. Of this amount, South Korean manufacturers that are main customers of Saeron Automotive Beijing Corporation will account for approximately 1,000 thousand units, an approximate gain of around 140% from 2005.

Note: Figures are for calendar years.

regions where markets are achieving rapid growth. For example, we have maintained a presence in India through a company with which we have an alliance. Now, though, the time is ripe for us to contemplate stepping further into the country and establish operations that include production bases. In Automobile Brakes, Japanese and South Korean automakers are already putting efforts into setting up businesses in India. Moving proactively to meet the needs of these customers will be key to advantageously developing business.

Regarding localizing production in the most optimal regions, we must select suitable choices for decentralizing our production upon judging complex country risks. In Textiles, for instance, we presently operate bases in Indonesia and China, but I believe that countries such as Vietnam could conceivably be next choices for establishing production bases.

At the sales level, however, the situation in each business differs and thus each business needs to respond with its own strategic approach. For our Automobile Brake business, Europe represents a missing link in terms of geographic presence. Even though there is a difference in cultural thinking regarding friction materials and territories of companies with which we have alliances, I feel it is essential for us to strengthen our structure in Europe.

Q 8. Could you explain what you mean by "promote amicable M&As?"

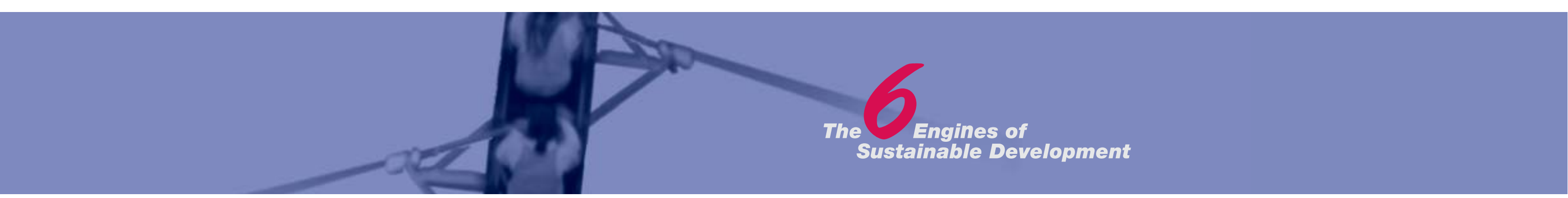
I strongly believe that M&As must be amicable, otherwise chances of success over the long term decline dramatically. By "amicable," I mean that stakeholders in the companies targeted for M&A must be in full consent. This is a key prerequisite for the success of the M&A. It is particularly crucial that main stakeholders involved in undertaking a business, namely employees and customers, wholeheartedly welcome the takeover. This is the style of M&A that Nisshinbo has pursued. Of course, an overarching objective of the M&A is to harvest business-related benefits. Regarding the M&A with New Japan Radio, although Nisshinbo was competing with another company, we earned the approval of employees, who are main stakeholders, and ultimately New Japan Radio became part of the Nisshinbo Group.

In promoting M&As, collaboration and the Group strategies I mentioned previously will be effective in yielding an even broader range of M&A choices in the future. We will undertake M&As that have potential to create synergies and we will continuously draw out growth potential from the funds invested in M&As. Through such a process, we will strive to raise the value of the Nisshinbo Group.

Q 9. What are your views regarding the policy "recognize and withdraw from businesses with no prospects for profitability?"

There is no doubt that being highly selective and thorough in reducing unprofitable businesses is important. When putting this process into practice, however, an additional dimension is paramount: a strong desire to "create new businesses."

Discussion on rebuilding businesses inevitably centers on liquidating unprofitable businesses and concentrating



Network Information for Papers

Point 1
We are expanding shares for household papers by providing such distinctive products as *COTTON FEEL*.

Point 2
The pillars of our fine papers business are such high-quality printing papers as the fine-textured *VENT NOUVEAU* and *MILT GA* series.

Point 3
In synthetic papers, our electrical decoration and inkjet papers are earning high acclaim.

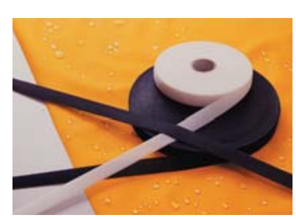
Point 4
We have established tie-ups with Tokai Seishi Co., Ltd., a used paper recycling company, and Nisshinbo Postal Chemical Co., Ltd., a printing and label company. Through Shanghai Sun-Rich Arts & Craft Co., Ltd. (non-consolidated subsidiary), which handles formed-process paper products, we are manufacturing telegram-use paper products. Nisshinbo and Tokai Shikou Co,. Ltd., a non-consolidated subsidiary, have also jointly commenced various new initiatives.

Our high-quality *VENT NOUVEAU* printing paper series

Introducing Applications and Products Utilizing the Nisshinbo Group's Chemical Products

Polyurethane elastomer *Dumplon*
Dumplon is utilized as railway sleepers for *Shinkansen* bullet trains and other trains (developed jointly with the Railway Technical Research Institute).

Polyurethane elastomer *Nisshinbo Mobilon*
Nisshinbo Mobilon leads global markets as a material with applications in apparel, ornaments, medical equipment, and various industries.



the allocation of resources on the remaining businesses. I believe this process needs to be taken one step further to show that reorganizing businesses is merely preparation for creating new business that offers new untapped potential. Employees are also more positively affected because this type of forward-oriented and creative approach imbues them with far greater motivation than when simply retreating from unprofitable sectors.

Our Chemical Products business is an excellent example of how we are putting such a process into practice. Even though we are rebuilding our Chemical Products business by retreating from unprofitable businesses, we are also preparing to realize new visions by "creating new Chemical Products businesses." Nisshinbo's core technologies in Chemical Products are isocynate and carbon technologies, but these are dispersed across a wide range of Nisshinbo's businesses such as Textiles, Chemical Products, and developmental businesses. Each of these businesses undertakes R&D and production separately, an approach that prevents us from fully utilizing our technological dominance. We must demonstrate to stakeholders that we are dismantling these divisional barriers, integrating all divisions involved in isocynate and carbon technologies, clearly positioning these as growth businesses, and creating a solid vision for concentrating management resources on these businesses.

Q10. Looking beyond the next three years, what is your future image of Nisshinbo?

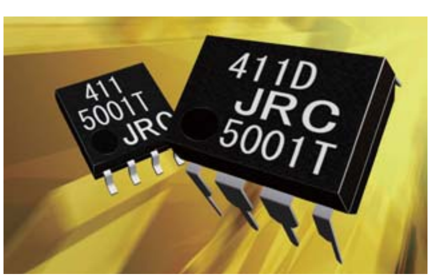
My desire is for Nisshinbo to continue being a company that contributes to society through its businesses and that realizes sustainable growth by doing so. This one point basically sums up the image I envision for Nisshinbo. Business is a means for contributing to society. The ideal image I have of Nisshinbo is that of a corporate group where employees and management continually make their utmost effort to ensure our businesses make timely contributions to society regardless of the vicissitudes of business. To realize this ideal image, CSR management will assume an even greater degree of importance.

Yoshikazu Sashida, Chairman (left) and Takashi Iwashita, President

Cultivating New Electronics Businesses

New Japan Radio is developing products with vehicle applications such as car navigation and audio systems as well as for automobile control equipment and other safety devices for vehicles.

Ueda Japan Radio, a subsidiary, carries out OEM production of radio communications devices and measuring devices.



New Japan Radio's high-performance ICs

A New property in Real Estate Leasing

Pictured here is the *Ario Nishiarai shopping center* scheduled for opening in November 2007 at the site of the former Tokyo Plant in Adachi Ward.

The *Belc Kawagoe Higashitamachi supermarket* opened in Kawagoe City, Saitama Prefecture in June 2005.

Nisshinbo's original management principle "corporations are accountable to the public" and corporate motto "consistent dedication" are solidly in place and remain deeply rooted as part of our unchanging corporate culture. The corporate culture meticulously crafted by our forerunners now serves as the model for Nisshinbo's CSR management. In 2007, Nisshinbo will celebrate the 100th anniversary of its founding. In marking this momentous occasion, in this annual report we have clearly spelled out to stakeholders, including current employees, the thinking embodied in Nisshinbo's corporate culture as an easy-to-understand corporate principle.

We have also instituted a series of steps aimed at upgrading CSR management. These include reducing the number of directors, introducing outside directors, adopting a managing officer system, shortening directors' terms of office and establishing a CSR Management Center. By making these moves, I am confident we can further raise management transparency and accelerate management decision-making capabilities.

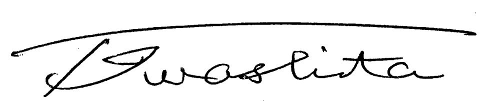
Our management principle and CSR measures are introduced on pages 12-14.

Q11. What are your thoughts regarding measures for returning profits to shareholders? Finally, do you have any message for shareholders and investors?

Nisshinbo's ROE has risen in recent years, but has still not reached a level I consider satisfactory. Our ROE reflects a sizeable accumulation of shareholders' equity, which of course is the denominator. Because low ROE is an operations efficiency (profitability-related) problem, an urgent issue will be to improve ROE. One way this can be achieved is by expanding earnings through growth of our businesses. Additionally, we are considering carrying out buybacks and retiring our own stock as measures for returning profits to shareholders. Through these measures, we will strive to strengthen earnings, which will allow us to reward shareholders with an increase in dividends.

For fiscal 2006, however, we will maintain annual cash dividends per share at ¥10.00 (US$0.09), the same as in the previous fiscal year.

At any rate, the mission incumbent on Nisshinbo's management employees is to march forward focused on raising corporate value. Utilizing our accumulated capital, we will actively implement measures to place Nisshinbo's businesses on a new growth trajectory and raise corporate value. While speedily responding to change, we remain committed to being a company with a continued strong presence in the 21st century. I sincerely hope that our shareholders understand Nisshinbo's approach and ask for your continued support and cooperation in the future.



Takashi Iwashita
President

Initiatives for Cultivating New Markets in Other Businesses

Product	Initiative
Cutting machine for mass-produced aluminum components (Machining Cell)	Nisshinbo is currently developing a cutting machine utilizing the know-how gained through mass-produced component processing. We envision selling these to the manufacturers of mass-produced components for automobiles.
Solar photovoltaic module manufacturing equipment (Assembler)	We are developing a wiring and alignment machine for next-generation solar modules. Nisshinbo is making plans to sell this machine to existing customers in Japan.
Processing machine for new materials	Nisshinbo will enter the industry for processing non-metals materials. We are placing particular focus on undertaking activities to secure orders from aircraft and glass processing industries.

Solar Simulator, solar battery production equipment

Nisshinbo's Approach to CSR

CORPORATE PHILOSOPHY OF THE NISSHINBO GROUP

- We aim to make a widespread contribution to raising the comfort levels of people's lives worldwide.
- We aim to strike a balance between societal and environmental needs and conduct business activities with honesty and integrity based on the belief that companies are public institutions.
- We aim to raise corporate value and become a world-renowned Group in the 21st century.

STRUCTURE FOR PROMOTING CSR ACTIVITIES

In June 2006, Nisshinbo established the CSR Management Center with the aim of strengthening internal control and CSR activities for the entire Nisshinbo Group. Consisting of five departments, the CSR Promotion Center consolidates functions that were previously dispersed among numerous divisions. The respective areas overseen by each department of the CSR Management Center have been designated as follows.

- Corporate Governance Planning Office: Responsible for checking and evaluating corporate governance for the entire Nisshinbo Group.
- Internal Audit Office: Performs audits of the head office, branches, plants, and Group companies.
- Environment and Safety Office: Maintains and monitors environmental management systems as well as carries out Groupwide safety management and environment and safety education.
- Investor Relations and Public Relations Office: Responsible for investor relations and external public affairs.
- Business Planning Office: Prepares medium- and long-term management plans and searches for new business.

CORPORATE GOVERNANCE

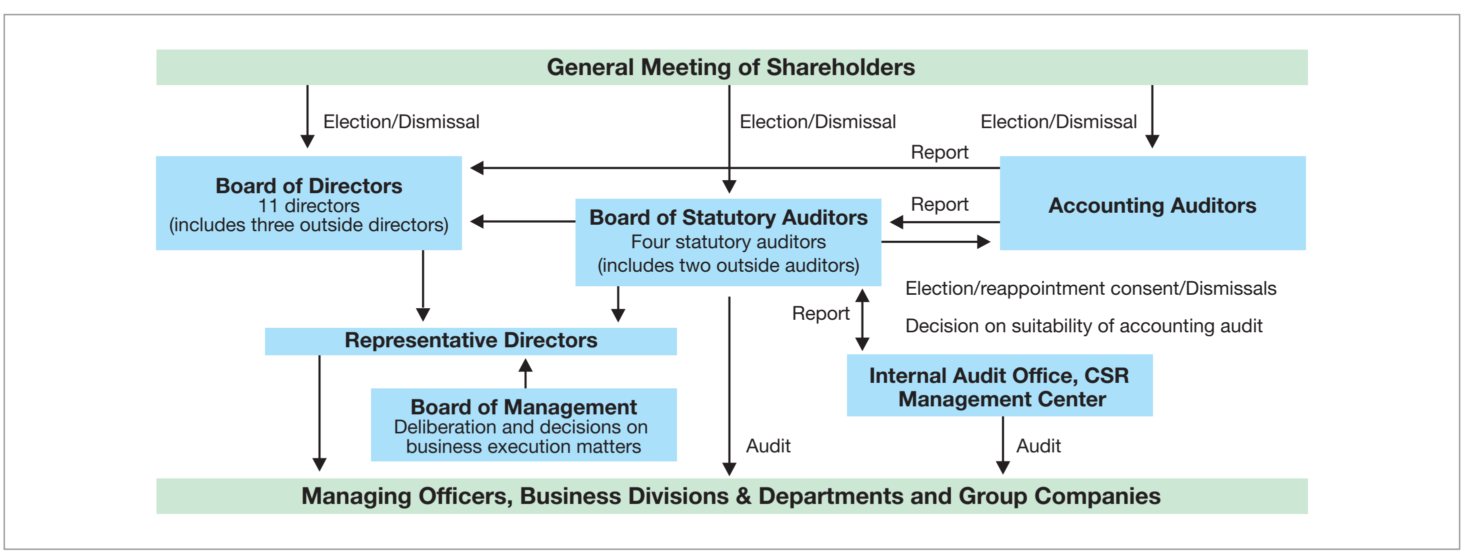
Nisshinbo's corporate governance focuses on raising profits for shareholders, and the Company works to ensure management transparency, strengthen its responsibilities for providing explanations, thoroughly adhere to corporate ethics, and make speedy and accurate management decisions.

Following the 2006 General Meeting of Shareholders, Nisshinbo implemented the following reforms to its corporate governance structure. With the aim of streamlining and reducing the size of the Board of Directors, we reduced the number of directors from 15 to 11. This move will allow us to accelerate decision-making for management strategies and policies, while also strengthening functions for surveillance of the execution of business. We also shortened the term of office for directors from two years to one for the purpose of better clarifying the management responsibilities of directors in each fiscal year. Highlighting our commitment to raising management transparency, we adopted an outside director system that includes three outside directors. Additionally, we introduced a managing officer system that is intended to accelerate judgments and decision-making during the execution of business.

Although it has a simple framework, our surveillance structure, which is centered on the Board of Directors, functions effectively, as it permits mutual deliberations on a variety of issues and allows for fast and accurate decision-making.

The Board of Directors convenes monthly and monitors the execution of business matters by directors based on

Nisshinbo's Corporate Governance Structure



resolutions concerning the establishment, amendment, and abolishment of important regulations as well as medium- and long-term management plans, fiscal year plans and Companywide divisional management plans and revisions to these plans. Three outside directors attend the meeting of the Board of Directors for the entire duration of the meeting and monitor management activities. Two internal auditors and two outside auditors also attend the meeting of the Board of Directors for the entire duration of the meeting and freely offer their suggestions and ascertain and monitor the execution of management duties in a timely manner. At the same time, the auditors perform regular auditing of the Company and its subsidiaries, thereby further upgrading our auditing.

As another important facet of its corporate governance, Nisshinbo also receives management advice from advisory lawyers, has contracted multiple certified public accounting offices and implements strict and fair accounting audits.

The Internal Audit Office, an internal auditing organization, supports auditors in line with efforts to enhance the effectiveness of operational and accounting audits.

COMPLIANCE

Determined to promote thoroughgoing compliance, we have clarified our compliance policies in our Corporate Conduct Charter and are striving to ensure that corporate ethics permeate and become firmly rooted across the Company and strictly prescribe the roles of top management. In addition, our Compliance Action Guidelines more specifically address matters requiring stringent compliance that are paramount in the roles of each manager and regular employee. We also set up the Corporate Ethics Committee to oversee the establishment of systems and various regulations for compliance and educational activities.

Nisshinbo has also established the Corporate Ethics Reporting System, a hotline for the prevention of violations of laws and internal regulations, as well as for the early detection, correction and prevention of any behavior that could conceivably be a violation. Available for use by anyone, not only Company employees, this system allows violations to be reported to external lawyers in addition to the internal Corporate Ethics Committee. Moreover, we are also working to preserve human rights and ensure thorough legal compliance via training that utilizes our easy-to-understand Compliance Action Guidelines.

We are acutely aware of the important social responsibilities of companies involved in the handling of personal information, and have thus formulated and put into practice the Personal Information Protection Charter. Concurrently, we have established the positions of information systems managers in each department headquarters and office as part of a structure for monitoring and surveillance of information assets.

INVESTOR RELATIONS

Maintaining close affiliations with the General Affairs Division and the Accounting and Finance Division, the Investor Relations and Public Relations Office makes utmost efforts to disclose IR and other information and publishes such materials as notifications of resolutions and the convening of the General Meeting of Shareholders, Brief Statement of Financial Results, Business Report, the Securities Report, Annual Reports and press releases. This information is also available on the Company's home page. At analysts' meetings as well, Nisshinbo's president makes self-initiated efforts to explain the Company's results and policies to convey information in a smooth manner.

RISK MANAGEMENT

Nisshinbo has prescribed its Emergency Situation Response Manual and Crisis Management Policies as its policies for responding to the occurrence of any emergency (earthquakes, fires, etc.) and is establishing a framework for responding quickly to such emergencies.

Nisshinbo also undertakes activities to prevent occupational accidents. These include carrying out safety and hygiene activities at each business site and implementing safety and hygiene surveys at all business sites.

Regarding information systems, Nisshinbo is working to build a structure for computer systems that can be restored quickly after disasters and that can operate around the clock year round. These efforts include storing our mail servers and groupware servers in safe and secure locations.

Nisshinbo also adopts a sincere and thorough approach to managing and responding to other risks in accordance with its Corporate Conduct Charter.

Fiscal 2006 Highlights

Demonstrating our commitment to risk management, we formed the Risk Management Promotion Project Team and prepared the Nisshinbo Group Risk Management Regulations and Detailed Rules as well as extracted the management risks for each division. We subsequently appointed a person responsible for risk management in each division and department and designated "legal risk" countermeasures as a priority matter to be undertaken in fiscal 2007 as we implement thorough risk management.

ENVIRONMENTAL MANAGEMENT

As a manufacturer, Nisshinbo recognizes that environment management is an extremely vital management issue. Adhering to the Nisshinbo Environmental Charter, our core policies are to continually implement environment-protection initiatives, effectively utilize resources, reduce the environmental load of our operations, develop environmentally conscious products, and raise environment protection awareness.

Nisshinbo set up the Environmental Affairs Committee as an organization under the direct control of the president, and this committee continually undertakes activities to protect the environment. To the present, the Environmental Affairs Committee has carried out environment impact assessments, environmental monitoring, environmental audits and, above all, has provided support for securing ISO 14001 certification at each worksite. Looking ahead, the committee will focus on invigorating environment protection activities for the entire Nisshinbo Group as well as on undertaking activities for communications with stakeholders.

In June 2006 we set up the Environment and Safety Office within the CSR Management Center. In the future, we plan to carry out environment management centered on the Environment and Safety Office.

ENVIRONMENT FRIENDLY PRODUCTS AND TECHNOLOGIES

The following are examples of Nisshinbo's numerous environment-friendly products and technologies.

Textiles	***Ecologia*:** Ecology fibers that utilize recycled fibers from PET bottles. ***Ecosys 28°C/20°C*:** These shirts promote energy conservation and can be worn even in offices with room temperatures exceeding 28°C in summer and below 20°C in winter. **Banana fibers:** Fiber materials from discarded banana stalks.
Automobile Brakes	**Promoting "green" friction materials:** We developed and supply environment-friendly friction materials that reduce the use of substances harsh on the environment. **Introduction of powder coating:** Nisshinbo introduced a disc pad coating method that uses no organic solvents. **Lead-free electrodeposition coating:** We have completed the switchover to lead-free coating.
Papers	***COTTON FEEL*:** This tissue combines wood pulp with non-wood pulp made from natural cotton fibers. (Available in toilet tissue, boxed tissue, and pocket tissue types.) ***Kenaf 100GA*:** This is a 100% wood-free fine paper made from kenaf.
Chemical Products	***Airlight FRU*:** This is a non-CFC glass fiber polyurethane. ***N's VIP:*** These are Nisshinbo's ultra high-performance vacuum insulation panels.
Mechatronics	**Solar cell manufacturing equipment:** We provide various products that make up solar cell manufacturing equipment.
Others	***APG* and *BCN*:** Our *APG* (Aqua Porous Gel) and *BCN* (Bio Contact N) are microbiological fixed carriers for water treatment, including wastewater treatment.

SOCIAL CONTRIBUTION ACTIVITIES

Adhering to the belief that a company is a public institution, Nisshinbo undertakes a variety of social contribution activities, including initiatives for contributing to local communities, in areas close to where it operates.

Examples of social contribution activities

Cooperation in environmental education (Fuji Plant): Nisshinbo introduces elementary school children to paper recycling methods and extols the importance of recycling.

Cooperation in riverbed clean-up activities in Fujieda city (Fujieda Plant): Nisshinbo employees participate in activities to cleanup riverbeds.

Dispatching of personnel to universities: In response to requests, Nisshinbo dispatches engineers with specialized knowledge as adjunct professors to universities.

HUMAN RESOURCES/EDUCATION

Along with essential CSR education, including environment and risk management-related education, Nisshinbo institutes annual training courses for all employees to raise awareness of human rights.

Nisshinbo is undertaking a host of activities in fulfilling its social responsibilities as a company. These include responding to amendments to the Law for the Stabilization of Employment of the Aged, instituting its Next Generation Cultivation Plan, undertaking mental health initiatives, and responding to the new legislation to support victims of asbestos-related diseases.

Management Discussion and Analysis

Operating Results

During the fiscal year under review, the Japanese economy sustained a mild recovery from the outset of the period, buoyed by growth in private-sector corporate capital investment and an improvement in personal consumption. The rebound gathered steam in the second half of the fiscal year and the Japanese economy, which had been mired in the throes of a deflationary environment over a long period, finally moved onto a full-scale recovery track.

Amid this environment, Nisshinbo carried out Groupwide initiatives based on the slogan "Attain our Three-year Management Plan 2006" during the plan's final year. In parallel, Nisshinbo instituted a number of measures to strengthen the overall Group. In December 2005, Nisshinbo carried out an amicable M&A, making New Japan Radio Co., Ltd., which engages in semiconductor manufacturing, into a consolidated subsidiary. Along with the acquisition of New Japan Radio, medical device manufacturer ALOKA CO., LTD. became a Nisshinbo equity-method affiliate. Both are excellent companies and will engage mainly in the fields of "Information and Electronics" and "Life Science," which are Nisshinbo's new business domains. These two companies add a wealth of new potential to the Nisshinbo Group.

Consolidated net sales rose 14.5% to an all-time high of ¥278,617 million (US$2,423 million). This increase was due to the inclusion of New Japan Radio into our consolidated accounts in the last half of the fiscal year. Further, except for Real Estate Leasing and Others, favorable sales were also recorded in respective segments, including Chemical Products, where overseas subsidiaries posted robust sales.

While cost of sales rose 13.5% to ¥230,120 million (US$2,001 million), cost of sales to net sales declined 0.7 percentage point to 82.6%. Selling, general and administrative expenses jumped 22.4% to ¥37,973 million (US$330 million) and costs and expenses increased 14.7% to ¥268,093 million (US$2,331 million). Consequently, operating income amounted to ¥10,524 million (US$92 million), up 9.0% from the previous fiscal year.

Interest and dividend income rose ¥613 million to ¥2,245 million (US$20 million), reflecting improved corporate earnings along with a recovery in the Japanese economy. On the other hand, interest expenses increased ¥152 million to ¥1,133 million (US$10 million). Equity in earnings of affiliates rose ¥268 million to ¥2,017 million (US$18 million) due to favorable results by equity-method affiliates.

Loss on sale of property, plant and equipment amounted to ¥77 million (US$1 million), a ¥1,505 million difference from gain on the sale of property, plant and equipment in the previous fiscal year. Supported by robust stock markets, gain on sale of securities rose ¥12,098 million to ¥13,732 million (US$119 million), which resulted from the sale of securities to procure funds in preparation for M&A activities carried out during the fiscal year. Moreover, during the fiscal year, there was an absence of a ¥5,279 million gain on exemption from future pension obligations of the governmental program that was recorded in the previous fiscal year. On the other hand, impairment of long lived-assets rose ¥3,058 million to ¥5,415 million (US$47 million). This reflected the respective write-downs of assets to recoverable amounts due to a decision to scrap and dispose of a portion of assets in the Textiles and ABS businesses as part of a scaling down of domestic production facilities in the Textiles business and a transfer of the ABS business and also due to a similar write-down at U.S.-based brake business subsidiary Nisshinbo Automotive Manufacturing Inc., where profitability improvements had lagged and prospects for recovering investments had been dim.

As a result, other income rose ¥6,084 million to ¥9,296 million (US$81 million), prompting income before income taxes and minority interests to rise by ¥6,957 million to ¥19,820 million (US$172 million). After deducting income taxes of ¥7,439 million (US$65 million) and minority interests of ¥1,198 million (US$10 million), net income rose 36.4% to ¥11,183 million (US$97 million). Net income per share was ¥53.21 (US$0.46), a rise of ¥14.18 from the previous year, and ROE was 4.6%, up 0.8 percentage point from the previous fiscal year. Cash dividends per share for the year amounted to ¥10.00 (US$0.09), the same as in the previous year, and total dividends paid for the fiscal year amounted to ¥2,075 million (US$18 million). Taking a long-term perspective, Nisshinbo will redistribute profits to shareholders in accordance with a basic policy of maintaining stable dividends.

Segment Information

In fiscal 2006, the Electronic Device business was separated from the Others segment and set up as an independent Electronics segment. This new business includes a newly consolidated subsidiary.

Textiles

Fiscal 2006 Results

- **Net sales amounted to ¥82,879 million (US$721 million), up 0.9% from the previous fiscal year.**
- **Operating income totaled ¥1,097 million (US$10 million), a jump of 403.4%.**
- **Despite such negative factors as the withdrawal from the dry spandex business and slumping sales of bedding, we recorded an overall increase in sales thanks to growth in sales of shirts, uniforms, and denim jeans. A rise in sales of high-value-added products by overseas subsidiaries made a particularly noteworthy contribution to overall sales.**
- **The increase in operating income was fuelled by a sharp improvement in earnings by CHOYA CORP., a subsidiary engaged in shirt sales, which reflected robust "Cool Biz"-related demand.**

We converted Ocean Link Corporation (non-consolidated subsidiary), which carries out OEM production and sales of jeans, into a subsidiary. We also made important strides in strengthening and expanding our apparel business.

We confirmed that the use of our zeolite compound *GAIACOT* leads to the inactivation of the avian influenza virus under certain conditions. We are proceeding with the commercialization of *GAIACOT* for such applications as masks.

During the fiscal year under review, Japan's apparel market witnessed growth in consumption, centered on department stores. This growth was driven by an overall recovery of the economy, the positive impact of the central government's "Cool Biz" campaign on stimulating demand for summer products, and harsh winter weather, which triggered robust demand for winter products. On the downside, imports of secondary products from overseas countries remained at a high level, while a polarization of prices continued and a conspicuous disparity emerged between strong and weak-selling products, depending on the product sector. Moreover, manufacturers of synthetic and spun materials faced an array of cost-raising factors that included increased prices for raw materials and fuels sparked by soaring crude oil prices.

Under these conditions, Nisshinbo's Textiles segment fortified global competitiveness and strived to expand sales of high-value-added products. In Japan, Nisshinbo Industries, the parent company, strived to increase sales of such products as *NON CARE* 100% cotton wrinkle-free wash-and-wear shirts and the *Nanoscience* series of highly functional materials. By product type, besides the aforementioned highly functional products, we achieved higher sales of uniforms and denim and also posted increased shipments of apparel products. Nonetheless, these sales were unable to compensate for lower sales of bedding, knit products, and spandex. Thus, Textiles sales by parent company Nisshinbo Industries declined. Despite expanded sales of such functional products as shirt materials and cotton non-woven products and efforts to cut SG&A expenses, operating income of Nisshinbo Industries dipped slightly.

Turning to results by domestic subsidiaries, shirt apparel company CHOYA CORP. posted growth in sales, buoyed by increased demand for "Cool Biz"-related products, while significantly reducing the size of its operating loss. Higher sales of sports apparel also contributed to results, and our domestic subsidiaries thus recorded an increase in overall sales and operating income.

Regarding overseas subsidiaries, NISSHINBO (SHANGHAI) CO., LTD., a sales company in China, was added to the scope of consolidation. Indonesia-based P.T. Nikawa Textile Industria and P.T. Gistex Nisshinbo Indonesia as well as Brazil-based Nisshinbo Do Brasil Industria Textil LTDA., all recorded increased sales of high-value-added products. Consequently, total overseas sales increased from the previous fiscal year. On the other hand, total overseas operating income declined, due in part to decreases in operating income at several overseas subsidiaries because of the impact of rising energy prices.

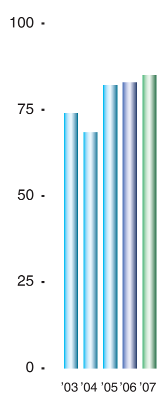
Owing to the aforementioned factors, total sales in the Textiles segment in fiscal 2006 rose from the previous year. This segment posted a sharp jump in operating income due to the contribution made by a conspicuous improvement in profitability at CHOYA.

Nisshinbo's Textiles segment is pursuing two core themes: "strengthen global competitiveness" and "expand business for apparel." As part of these efforts, we are transferring production of

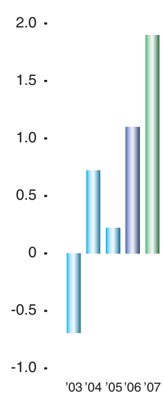
Our *COMFORT PROPOSAL* direct marketing business offers high-value-added products, such as those in our *SUPER SOFT* line

Nanoscience series

Sales of Textiles
(billions of yen)



Operating Income of Textiles
(billions of yen)



general-use products, which are encountering fierce price competition, to overseas locations, while our plants in Japan will specialize in developing proprietary products, value-added products, and quick-response products. Moreover, we will push ahead with the creation of new business models, which involves shifting our orientation from traditional business centered on textiles to our apparel business.

In our domestic textiles business, in March 2006 we withdrew from the dry spandex business and scaled down our production line at the Tokushima Plant. Additionally, we have decided to cease operation of our Toyama Plant in November 2006 and will also scale down sections of our Shimada Plant and Fujieda Plant. By taking these steps, we intend to reduce the scale of our domestic spinning business by nearly half, to approximately the 130,000 spindles.

Highlighting our determination to expand sales of the apparel business, in November 2005, we acquired a 60% share of Ocean Link Corporation, an OEM trading wholesaler, and converted this company into a Nisshinbo subsidiary (non-consolidated). Together with Nisshinbo Industries, (the parent company), Ocean Link will bolster its jeans business, cultivate new business utilizing denim in casual apparel fields, and promote proposals for new products.

Overseas, P.T. Gistex Nisshinbo Indonesia already operates coal boilers and is thus able to minimize the adverse impact of soaring crude oil prices on its operations. Meanwhile, P.T. Nikawa Textile Industry has installed a coal-fired, in-house power generator that will come on stream in fiscal 2007.

In collaboration with Obihiro University of Agriculture and Veterinary Medicine, Nisshinbo has undertaken joint research on the effects of *GAIACOT* anti-bacterial fibers that utilize special zeolites containing copper ions. In December 2005, Nisshinbo announced research that demonstrates *GAIACOT* is effective in destroying 99% of the avian influenza virus after just 10 minutes of contact. Nisshinbo has commercialized this product for use in air-conditioner filters and is currently undertaking test sales. We are also working toward applications in such practical-use products as masks and work apparel.

Outlook and Core Themes in Fiscal 2007

Nisshinbo is forecasting net sales of ¥85,000 million and operating income of ¥1,900 million in the Textiles segment.

Amid a harsh business climate, we anticipate growth in sales and operating income will be driven by several factors. Specifically, we expect that a decline in non-consolidated sales will be halted, CHOYA will attain profitability, denim subsidiaries will improve profitability, and the positive effects of our withdrawal from the dry spandex business will gradually emerge.

The two core policies of our new three-year management plan are "strengthen global competitiveness" and "expand business for apparel." Themes for fiscal 2007 will be to "expand sales of proprietary products by strengthening product development capabilities," "expand exports of yarns and textiles," "upgrade overseas bases, including sewing bases, to expand business for apparel," and "pursue consolidated Group synergies."

Automobile Brakes

Fiscal 2006 Results

- **Net sales of Automobile Brakes amounted to ¥58,130 million (US$505 million), an increase of 7.0% from the previous fiscal year.**
- **Operating income totaled ¥5,463 million (US$48 million), a decline of 12.7%.**
- **Net sales rose due to an increase in domestic automobile production and contributions made by new orders received at domestic and overseas subsidiaries. However, operating income dropped due to the effects of large increases in raw material costs.**

Nisshinbo Automotive Manufacturing Inc., a subsidiary in the United States, posted an impairment loss along with a lagging improvement in profitability.

We are making progress on a project for shifting operations from our Nagoya Plant, where buildings have aged, to the Toyota Plant, and aim to complete this project in the current fiscal year.

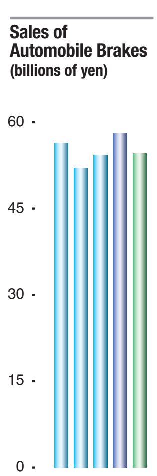
Although domestic sales of automobiles remained at the same level as in the previous fiscal year, the volume of domestic automobile production rose 3% over the previous fiscal year, buoyed by robust exports, and production topped 10,000 units for the fourth year running. Overseas, low performances by the U.S. Big Three contrasted with favorable production by Japanese and South Korean automakers.

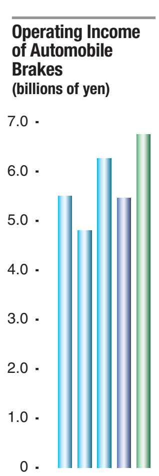
Under these conditions, Nisshinbo's Automobile Brakes segment proceeded smoothly with the transfer of production to a new manufacturing base at the Toyota Plant. Concurrently, we developed products that are competitive in global markets and promoted activities to secure new orders backed by the close cooperation between domestic and overseas bases.

Nisshinbo Industries, the parent company, posted increased sales owing to a rise in domestic production together with new orders for drum brakes and friction materials. On the other hand, operating income shrank due to the adverse impact of price increases for steel, non-ferrous metals, and other raw materials.

In the United States, we operate two manufacturing bases, Nisshinbo Automotive Corporation (NAC), an R&D-oriented, small-lot production plant, and Nisshinbo Automotive Manufacturing Inc. (NAMI), which carries out mass production. NAC is currently operating at full capacity due to orders from Japanese automakers and the U.S. Big Three, while NAMI is involved in the production of friction materials for Japanese automakers, the U.S. Big Three as well as European automakers. Benefiting from an approximately 1.3% year-on-year increase in North American automobile sales, NAC and NAMI each posted higher sales on the back of a rise in orders for new products. Nonetheless, both companies posted operating losses, attributable to the effects of demands from customers for sizeable discounts and delays in passing on higher prices for steel and other raw materials to their own products. In view of dim prospects for recovering our investment at NAMI, where profitability improvements have lagged and operating losses have persisted, Nisshinbo recorded a US$22.5 million impairment loss to write down the book value of assets to a recoverable amount.

Our brake parts





In Thailand, domestic sales of automobiles were favorable and exports were firm. Growth in automobile production exceeded 20% for the third consecutive year. Amid these conditions, Nisshinbo Somboon Automotive Co., Ltd. (NSA) achieved increases in net sales and operating income that were driven by increased demand and higher orders for new products.

In South Korea, automobile production rose 7% from the previous year, as buoyant exports to North America and Europe compensated for sluggish domestic demand. Saeron Automotive Corporation (SAC), a South Korean-based subsidiary, recorded growth in net sales and operating income supported by new orders for friction materials. In October 2005, SAC listed on the Korea Exchange (KRX) for the purposes of procuring funds for responding flexibly to global business development and technological innovations and to expand business opportunities by enhancing trust from society and raising its name recognition.

Saeron Automotive Beijing Corporation (SABC), posted single-year profitability and eliminated its accumulated losses by carrying out production activities targeting Korean automakers. Looking ahead, SABC will also focus on production for Japanese automakers and will further strengthen its business foundation.

Net sales and operating income for the ABS business declined due to the ongoing transfer of this business to equity-method affiliate Continental Teves Corporation (CTC).

As a result of the previous activities, overall sales in the Automobile Brakes segment increased but total operating income declined.

Companies in the automobile components industry are facing strong customer demand for competitiveness at the quality and cost levels and global response capabilities. Adhering to its "customer first" and "continuous improvement" quality policies, the Automobile Brakes segment will focus on developing new products, reducing costs, and developing its overseas business.

To secure advantageous positioning in global competition, we are striving to develop products accepted worldwide and cultivate global human resources, and are placing particular emphasis on strengthening our project management capabilities.

In April 2005, we integrated development and design functions for friction materials and brakes and established a new Brake R&D Center at the Tatebayashi Plant as part of our ongoing efforts to utilize synergies and fortify our development and design technologies.

Outlook and Core Themes in Fiscal 2007

We are forecasting net sales of ¥54, 600 million and operating income of ¥6,750 million in Automobile Brakes.

Despite lower sales accompanying the ongoing shift of ABS production, we expect to record increased operating income due to anticipated profitability of U.S. subsidiaries in the wake of the completion of profit-restoration assistance measures and contributions from other overseas subsidiaries. As a core policy of our new three-year plan, we are positioning friction materials as a mainstay business and pursuing the development of products that yield high customer satisfaction under the "customer first" banner while deepening bonds among domestic and overseas Group companies and strengthening global response capabilities. Main themes in fiscal 2007 are "promoting globalization," "developing competitive products," "completing the project for transferring production to the Toyota Plant," and "securing staffs competent in their field."

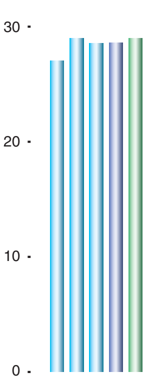
Papers

Fiscal 2006 Results

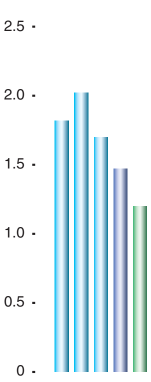
- **Net sales of Papers totaled ¥28, 612 million (US$249 million), up 0.1%.**
- **Operating income amounted to ¥1,474 million (US$13 million), a decline of 13.3%.**
- **Despite firm sales of fine papers and developed synthetic papers, the heavy effects of intensifying low-price competition for household papers restrained growth in sales and caused the decline in operating income.**

In household papers, we undertook initiatives to expand sales of such distinctive products as the *COTTON FEEL* brand of tissue and toilet papers. Nonetheless, our pulp products and recycled paper products encountered difficult conditions amid continued slumping market prices. Although sales volume for household papers rose, sales and operating income for household papers declined.

Sales of Papers
(billions of yen)



Operating Income of Papers
(billions of yen)



Sales of fine papers rose on the back of robust sales of high-quality printing papers. Also contributing to results for fine papers were established products such as ink-jet synthetic papers, while orders for such process papers as telegraph pasteboard were firm. Therefore, overall sales and operating income for fine papers increased.

As a result of the previous factors, net sales in the Papers segment rose, but operating income was down.

COTTON FEEL, our household paper brand

Outlook and Core Themes in Fiscal 2007

The Papers segment expects to record net sales of ¥29,000 million and operating income of ¥1,200 million. We anticipate rises in net sales and operating income for fine papers, but foresee harsh conditions for household papers amid an ongoing decline in prices. In view of these factors, we forecast an overall increase in net sales and a decline in operating income for the Papers segment.

As a core policy of our new three-year plan, we will create environment- and people-friendly products as the basis of our operations, as we strive to attain our targets of offering unique and attractive products by strengthening our technical and development capabilities, while actively entering new peripheral businesses and new fields and carrying out global operations.

In household papers, we will continue to expand sales of such distinctive products as the *COTTON FEEL* brand of tissue and toilet papers while building a structure for new business. In fine papers, we will strengthen existing business domains such as high-quality printing papers as well as fortify peripheral areas of business. Regarding our synthetic papers business, Nisshinbo will review the production structure for ink-jet papers and optimize product composition.

Chemical Products

Fiscal 2006 Results

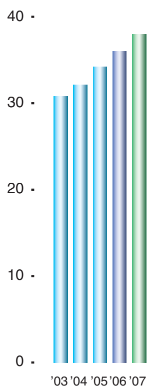
- **Net sales of Chemical Products increased 5.3%, to ¥36,007 million (US$313 million).**
- **Operating income declined 5.1% to ¥780 million (US$7 million).**
- **The rise in net sales mirrors the effects of the streamlining of the polyurethane foam business and favorable results in the plastic products businesses of overseas subsidiaries. However, operating income declined because of costs incurred from restructuring our polyurethane foam business, continued high prices for raw materials, and sluggish market conditions for carbon products.**

In the polyurethane foam business, we are moving toward scaling down and withdrawing from soft-type polyurethane foams. We are currently in the process of transferring the manufacturing line of the Nagoya Plant to the Chiba Plant.

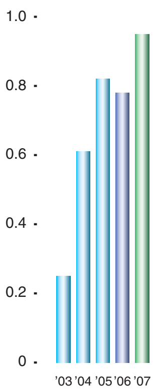
In polyurethane foam products, along with the closing of the Nagoya Plant, we ceased production of soft-type polyurethane foam in September 2005, and focused on shifting toward specializing in rigid-type polyurethane foam, which we have positioned as a core business. We achieved an increase in sales of polyurethane foam products by focusing on securing orders for work and expanding sales of polyurethane foam basic liquid in civil engineering and construction industries. However, operating income in polyurethane

Our polyurethane foams for heat insulation in large-scale projects

Sales of Chemical Products
(billions of yen)



Operating Income of Chemical Products
(billions of yen)



foam products inevitably declined because of costs incurred due to the closing of the Nagoya Plant and continually high raw materials prices.

Sales of elastomers were sluggish owing to intensifying competition in overseas markets for central products used for textile materials, but operating income in elastomers rose due to cost reductions and a shift toward products with high profitability by reevaluating categories of products sold.

In carbon products, we shifted to newly developed products with such applications as semiconductor washing and medical applications. However, sales and operating income for carbon products declined because of sluggish market conditions that included lagging capital investment by main overseas customers.

In molded plastic products, we achieved our initial sales target, as a rise in orders for regular molded products, imposed products, and molds compensated for a decline in OEM products by domestic subsidiary Nippon Kohbunshi Co., Ltd. and a withdrawal from magnesium injection molding. Kohbunshi (Thailand) Ltd. and Pudong Kohbunshi (Shanghai) Co., Ltd., both subsidiaries of Nippon Kohbunshi, expanded their results as business for new products with applications in automobile components got firmly on track while business for traditional consumer electronics oriented products was firm. As a result, we recorded increased sales and operating income in molded plastic products.

Due to the preceding developments, we posted growth in overall sales of Chemical Products, but operating income declined.

Outlook and Core Themes in Fiscal 2007

We expect to record net sales of ¥38,000 million and operating income of ¥950 million.

Despite the harsh conditions facing our polyurethane foam products business, which we are restructuring, we expect that growth in net sales and operating income in Chemical Products will be driven by continued robust growth in the plastic molded processed products businesses at overseas subsidiaries.

A core policy under our new three-year plan will be to continue to globalize and to improve performance. Main themes in fiscal 2007 will be to "raise profitability in our polyurethane foam products business," "expand sales of the elastomers and carbon products businesses," " continue to globalize operations," and " strengthen Group collaboration and utilize synergies." Specifically, in polyurethane foam products, based on the concept of "insulation," we will concentrate the allocation of our management resources on foam basic liquid, rigid-type polyurethane foam, and vacuum insulation panels. For our *N's VIP*, in particular, besides expanding sales of existing products, we will focus on cutting costs and launching new large-scale products, as we quickly develop new markets. Regarding elastomers and carbon products, we have already established structures and sales routes for overseas business and will now further strengthen these businesses.

Electronics

Fiscal 2006 Results

- **Net sales of the Electronics segment soared 172.3%, to ¥45,858 million (US$399 million).**
- **Operating income jumped 434.9% to ¥808 million (US$7 million).**
- **During the fiscal year, New Japan Radio became a Nisshinbo subsidiary and was added to the Company's consolidated accounts in the second half of the fiscal year, which led to the sharp increase in net sales and operating income.**

In December 2005, New Japan Radio, which engages in the manufacture and sale of microwave tubes and microwave application products, as well as its eight subsidiaries, became part of the Nisshinbo Group and were added to the consolidated accounts in the second half of the fiscal year.

Semiconductors account for approximately 85% of the sales of New Japan Radio and its subsidiaries. Although sales of optical semiconductors were favorable, overall sales were soft due to sluggish sales of bipolar and microwave devices for AV equipment. The microwave applied products business posted firm sales of such products as communication satellite components.

A decline in sales of Ueda Japan Radio Co., Ltd., a subsidiary that engages in the electronic device business, resulted from slumping sales in medical-use electronic equipment and security systems. However, this company attained an increase in operating income owing to reductions in fixed costs.

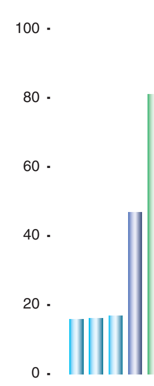
NJU26040 digital signal processor

Outlook and Core Themes in Fiscal 2007

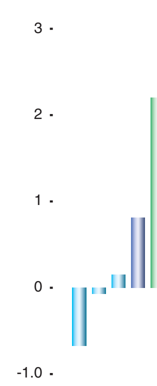
We are forecasting net sales of ¥81,000 million and operating income of ¥2,200 million. We expect that increases in net sales and operating profit will be supported by the full-year contribution from New Japan Radio.

Core policies under the three-year plan will be to position electronics as a strategic

Sales of Electronics
(billions of yen)



Operating Income of Electronics
(billions of yen)



growth field, aggressively expand and strengthen this business, and pursue synergies by promoting intra-Group collaboration. Specific measures are to “employ New Japan Radio’s electronic circuitry technologies in such new businesses as capacitors,” “build a structure under which New Japan Radio handles the development and production of automobile electronic devices for the joint venture Continental Teves Corporation,” and “strengthen collaboration in the medical electronics field between Ueda Japan Radio.”

Real Estate Leasing

Fiscal 2006 Results

- **Net sales in Real Estate Leasing declined 3.3% to ¥4,781 million (US$42 million).**
- **Operating income declined 2.9% to ¥2,657 million (US$23 million).**

Despite sales- and income-boosting factors such as an increase in idle land for lease, net sales and operating income declined along with the sale of condominiums for lease.

Two subsidiaries were merged as we promoted more efficient management.

In fiscal 2006, the real estate market witnessed signs of a nationwide recovery in land prices, but a clear polarization between different geographic regions became apparent.

During the fiscal year, we increased floor space at a shopping center in Nagoya and newly leased a portion of a building at the Toyota Plant as well as part of the grounds of our former Notogawa Plant and idle land at our Miai Plant and Kawagoe Plant. We also undertook negotiations for raising rent for existing properties.

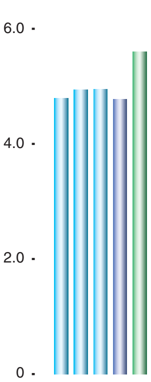
Aeon Okazaki Shopping Center, Aichi Prefecture

Utilizing idle land at the Tokushima Plant, we opened a new franchise outlet, as we strived to expand our franchise business.

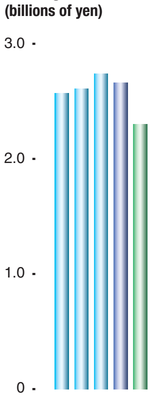
Also during the year, we made important strides in undertaking efficient management by merging the operations of subsidiaries Nisshinbo Urban Development Co., Ltd. and Kansai Nisshinbo Urban Development Co., Ltd.

Net sales declined because of the sale of several small-sized condominiums for lease in Tokyo and the finishing of existing lease contracts accompanying the redevelopment of the site of the former Tokyo Plant. Additionally, we incurred a rise in costs due to the start of preparation for the Nishiarai Shopping Center project in Adachi Ward, Tokyo.

Sales of Real Estate Leasing (billions of yen)



Operating Income of Real Estate Leasing (billions of yen)



As a result of the aforementioned factors, total sales and operating income in Real Estate Leasing declined.

Outlook and Core Themes in Fiscal 2007

We are forecasting net sales of ¥5,600 million and operating income of ¥2,300 million.

In addition to current redevelopment projects at the former Tokyo and Hamamatsu plants, we are progressing with redevelopment plans on the Nagoya Plant, from which operations will be transferred at the end of 2006, and at the Toyama Plant, which will cease operations at the end of 2006. We aim to quickly achieve profitability for this series of projects and will strive for increased sales and operating income as early as possible.

As core policies under the new three-year plan, we will diversify the use of our existing portfolio of real estate assets, also focusing on sales of these assets in addition to long-term land leases. Main themes will be “accelerate our development projects” and “strengthen follow-ups for leased properties.”

Others

Fiscal 2006 Results

- **Net sales of Others totaled ¥22,350 million (US$194 million), down 0.1%.**
- **An operating loss of ¥996 million (US$9 million) was recorded, ¥20 million less than in the previous year.**
- **The decrease in sales was due to our withdrawal from the PDP optical filter business. The shrinking of the size of the operating loss is attributable to such favorable factors as firm results in our Precision Instruments & Machinery business as well as growth in sales of our Fuel Cells business and Functional Chemicals business.**

Through joint development with Japan Radio Co., Ltd., we became the first company to commercialize electrical double-layer capacitors, which are gaining attention as next-generation electric power storage devices.

Precision Instruments & Machinery Business

Supported by active capital investment, we received inquiries from a broad range of industries and secured favorable orders for mechatronics products. We recorded a steady expansion in sales, including of our mainstay solar photovoltaic module manufacturing equipment, as well as of various types of machinery for automobile production lines and aerospace-related facilities. We also achieved growth in precision parts processing that was fueled by buoyant conditions in the automobile industry.

Solar Module Laminator, Solar Battery Production Equipment

Bipolar Plates for Fuel Cells

We supplied commercialized bipolar plates for household-use fuel cells to principal manufacturers of fuel cells. The market for fuel cells is in its initial stage of expansion and we believe more time will be needed before bipolar plates for fuel cells contribute to our business results.

Functional Chemical Products

Our *CARBODILITE* plastic improvement agent and our water treatment carriers are ecology-related products, and we are working toward full-scale commercialization of these businesses. *CARBODILITE* has won high acclaim for its excellent safety and environmental properties and is enjoying increased demand. A new plant within our Toskushima Plant has begun operating and is increasing shipments. However, growth in the market for *CARBODILITE* products is also in its early stages and these products have yet to contribute to our business results.

CARBODILITE

Other Products

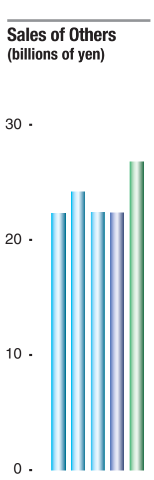
Our electrical double-layer capacitors, which had been in the R&D stage, are expected to find applications as next-generation electric power storage devices. We have carried out joint development of applications for electrical double-layer capacitors with Japan Radio. We were the first company to commercialize these capacitors and have begun supplying high-voltage modules to manufacturers of large-scale component transportation equipment.

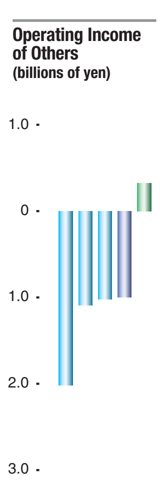
Outlook and Core Themes in Fiscal 2007

We expect to record net sales of ¥26,800 million and operating income of ¥325 million.

In fiscal 2007 we expect to achieve profitability in this segment, with anticipated increases in both sales and operating income being driven by robust orders in mechatronics products accompanying an economic recovery and by the full-fledged mass production of functional chemical products.

Under our new three-year plan, the core policy in the Precision Instruments business will be "concentrate on industrial fields expected to achieve continuous growth" and we will augment marketing functions as well as technological and development capabilities, raise quality, and reduce costs. In fiscal 2007, we will undertake initiatives to expand the content of our business, targeting growth sectors and markets in such industries as solar cells, automobiles, and aerospace. Meanwhile, we will promote the commercialization of other new businesses through the Business Development Division, which was integrated with the Research and Development Division under the new three-year plan. While securing new customers and working toward mass production, we will aim for the quick attainment of profitability.





Production Value

Production in each business segment during fiscal 2006 was as follows:

Business segment	Amount (millions of yen)	Amount (millions of US dollars)	Change from the previous year (%)
Textiles	70,639	614	-3.9
Automobile Brakes	51,550	449	+10.3
Papers	21,184	184	-1.1
Chemical Products	24,370	212	+4.4
Electronics	43,807	381	+182.9
Others	8,280	72	-2.0
Total	219,830	1,912	+16.4

Amounts are computed based on manufacturing costs.
The Real Estate Leasing business does not engage in manufacturing, and therefore, the above table contains no figures for this segment.
The above figures do not include consumption taxes.

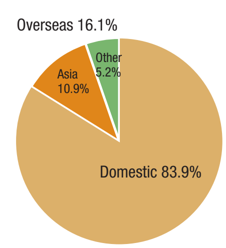
Segment information by geographic region

Sales in Japan rose 10.2% to ¥233,837 million (US$2,033 million) along with the addition of New Japan Radio to Nisshinbo's consolidated accounts. Operating income in Japan decreased 4.6% to ¥7,216 million (US$63 million) due to such factors as the effects of price increases for steel and other raw materials on the Automobile Brakes business.

Sales in Asia jumped 44.0% to ¥30,269 million (US$263 million) due to the addition of NISSHINBO (SHANGHAI) CO., LTD. to Nisshinbo's consolidated accounts. Operating income in Asia advanced 19.4% to ¥3,100 million (US$27 million).

Net sales in other regions rose 41.4% to ¥14,511 million (US$126 million), and operating income was up 8.8% to ¥906 million (US$8 million).

Net Sales by Geographical Segment



Financial Position

Total assets at the end of fiscal 2006 amounted to ¥491,230 million (US$4,272 million), an increase of ¥121,062 million from the previous fiscal year-end. Despite a decline in cash and cash equivalents, current assets expanded ¥29,485 million to ¥172,071 million (US$1,496 million) due to a rise in receivables and inventories that accompanied the addition of New Japan Radio to Nisshinbo's consolidated accounts. Property, plant and equipment rose ¥21,368 million to ¥121,149 million (US$1,053 million) because of increases in buildings and structures as well as in machinery, equipment and tools that also resulted mainly from the addition of New Japan Radio.

Investments and other assets rose ¥70,209 million to ¥198,010 million (US$1,722 million) mainly because of a rise in the valuation of investment securities that reflected buoyant stock markets and due to an increase in investments in and advances to unconsolidated subsidiaries and affiliates as a result of such factors as the acquisition of shares in ALOKA.

Current liabilities expanded ¥28,979 million to ¥109,302 million (US$950 million) owing to rises in short-term bank loans, payables, accrued expenses, and accrued income taxes resulting from the acquisition of New Japan Radio. Despite a decline in long-term debt, long-term liabilities rose ¥32,786 million to ¥94,350 million (US$820 million) because of higher deferred tax liabilities resulting from higher gains arising from the revaluation of marketable securities in stock markets and an increase in accrued severance benefits that resulted from the addition of New Japan Radio to the scope of consolidation. Total liabilities thus increased ¥61,765 million to ¥203,652 million (US$1,771 million).

Minority interests in consolidated subsidiaries rose ¥15,634 million to ¥21,144 million (US$184 million) along with the addition of New Japan Radio to the scope of consolidation.

Shareholders' equity rose ¥43,663 million to ¥266,434 million (US$2,317 million). The shareholders' equity ratio declined 6.0 percentage points to 54.2%. Shareholders' equity per share increased ¥210.67 to ¥1,283.21(US$11.16).

Cash Flows

Cash flows from operating activities

In cash flows from operating activities, Nisshinbo recorded such inflows as ¥19,820 million (US$172 million) in income before income taxes and minority interests, ¥13,835 million (US$120 million) in depreciation and amortization, and ¥5,415 million (US$47 million) in impairment of long lived-assets.

On the other hand, outflows included ¥13,732 million (US$119 million) in gains on sales of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates, ¥2,017 million (US$18 million) in equity in earnings of affiliates, and ¥6,830 million (US$59 million) in income taxes-paid. As a result of the previous factors, net cash provided by operating activities amounted to ¥22,475 million (US$195 million).

Cash flows from investing activities

In net cash flows from investing activities, outflows included ¥14,921 million (US$130 million) in payment for purchase of property, plant and equipment, ¥11,417 million (US$99 million) in payment for purchase of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates, and ¥13,907 million (US$121 million) in cash acquired from newly consolidated subsidiaries, net of payment for purchase of companies. Inflows included ¥20,646 million (US$180 million) in proceeds from sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates and ¥1,088 million (US$9 million) in proceeds from sale of property, plant and equipment. As a result of these activities, net cash used in investing activities amounted to ¥18,846 million (US$164 million).

Cash flows from financing activities

In cash flows from financing activities, inflows included ¥1,352 million (US$12 million) in proceeds from issuance of long-term debt and ¥1,271 million (US$11 million) in proceeds from issuance of new stock, while outflows included ¥4,162 million (US$36 million) in decrease in short-term bank loans and ¥3,031 million (US$26 million) in repayment of long-term debt. As a result, net cash used in financing activities amounted to ¥7,471 million (US$65 million).

Due to the previous activities, cash and cash equivalents at end of year declined ¥2,977 million to ¥28,703 million (US$250 million).

Capital Expenditures

During the fiscal year, capital expenditures amounted to ¥16,548 million (US$144 million). Capital expenditures in the Automobile Brakes business totaled ¥5,177 million (US$45 million) and was primarily for investment at the Toyota Plant, a new production base. Capital expenditures in the Real Estate Leasing business amounted to ¥2,925 million (US$25 million), mainly investment for construction of a shopping center at the site of our former Tokyo Plant. We also invested ¥1,118 million (US$10 million) in our new performance chemicals business for new manufacturing facilities for *CARBODILITE* at the Tokushima Plant.

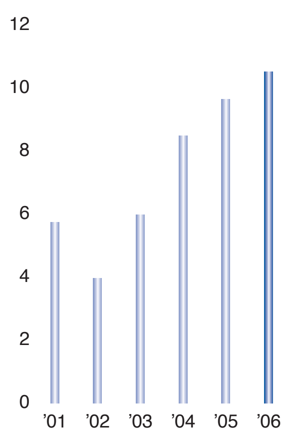
Six-year Summary

(millions of yen)

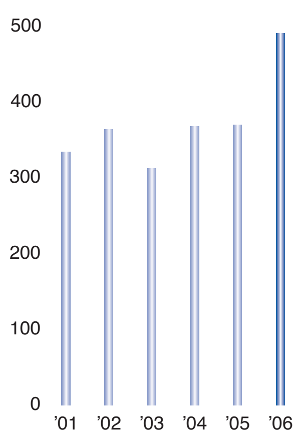
	2001	2002	2003	2004	2005	**2006**
Net Sales	233,535	225,836	231,194	226,883	243,421	**278,617**
Operating Income	5,751	3,968	5,989	8,496	9,651	**10,524**
Net Income	517	-2,649	777	3,919	8,199	**11,183**
Shareholders' Equity	192,331	213,665	186,028	214,132	222,771	**266,434**
Total Assets	334,460	364,161	312,909	368,444	370,168	**491,230**
Shareholders' Equity Ratio (%)	57.5	58.7	59.5	58.1	60.2	**54.2**
Return on Assets (%)	0.2	-0.8	0.2	1.2	2.2	**2.6**
Return on Equity (%)	0.3	-1.3	0.4	2.0	3.8	**4.6**
Payout Ratio (%)*	90.2	53.1	64.3	51.9	28.1	**32.2**
Capital Expenditures	17,093	13,243	9,057	8,989	12,504	**16,548**
Depreciation and Amortization	13,134	13,422	12,758	11,776	11,046	**13,835**
Common Shares Issued	221,743,939	216,580,939	216,580,939	216,580,939	208,198,939	**208,198,939**
Per Share (in yen):						
Net Income	2.32	-12.03	3.18	17.86	39.03	**53.21**
Shareholders' Equity	868.49	988.02	860.52	1,030.98	1,072.54	**1,283.21**
Cash Dividends	7.00	7.00	7.00	7.00	10.00	**10.00**
Number of Employees	8,104	8,456	8,627	9,875	9,505	**12,602**

*Payout Ratio is on a non-consolidated basis.

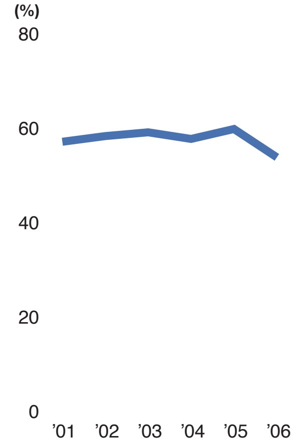
Operating Income
(billions of yen)



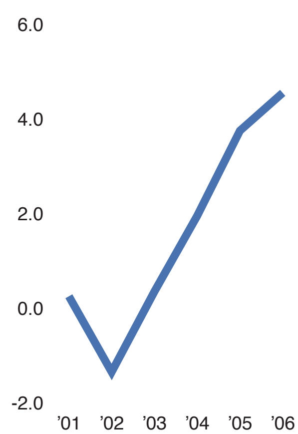
Total Assets
(billions of yen)



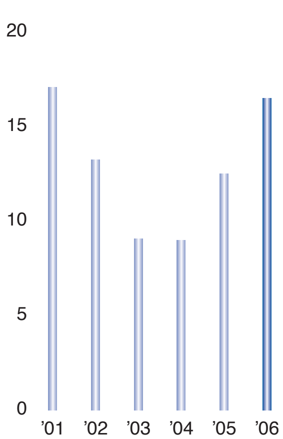
Shareholders' Equity Ratio
(%)



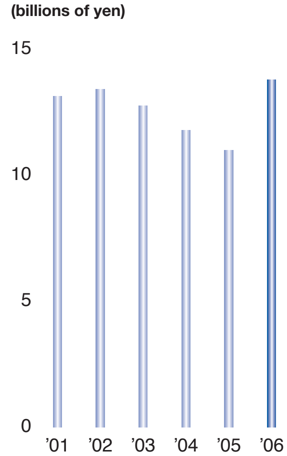
Return on Equity
(%)



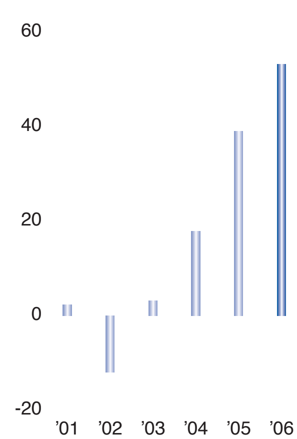
Capital Expenditures
(billions of yen)



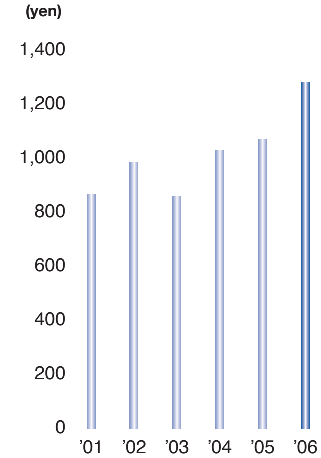
Depreciation and Amortization
(billions of yen)



Net Income per Share
(yen)



Shareholders' Equity per Share
(yen)



Consolidated Balance Sheets

31st March, 2006 and 2005

ASSETS

	(millions of yen)		(thousands of US dollars) (Note 1)
	2006	2005	2006
Current assets:			
Cash and cash equivalents	¥ 28,703	¥ 31,680	$ 249,591
Time deposits	3,215	3,332	27,956
Marketable securities (Note 4)	1,485	962	12,913
Receivables			
Notes receivable, trade	14,356	13,169	124,835
Accounts receivable, trade	60,245	43,762	523,870
Unconsolidated subsidiaries and affiliates	5,085	4,980	44,217
Other	807	294	7,017
	80,493	62,205	699,939
Less allowance for doubtful accounts	(932)	(804)	(8,104)
	79,561	61,401	691,835
Inventories (Note 3)	53,688	41,624	466,852
Deferred tax assets (Note 7)	3,122	1,922	27,148
Other current assets	2,297	1,665	19,974
Total current assets	172,071	142,586	1,496,269
Property, plant and equipment:			
Land	25,541	19,805	222,095
Buildings and structures	125,870	99,493	1,094,522
Machinery, equipment and tools	260,508	190,316	2,265,287
Construction in progress	3,970	1,930	34,522
	415,889	311,544	3,616,426
Less accumulated depreciation	(294,740)	(211,763)	(2,562,956)
	121,149	99,781	1,053,470
Investments and other assets:			
Investment securities (Note 4)	173,802	117,410	1,511,322
Investments in and advances to unconsolidated subsidiaries and affiliates	12,747	7,601	110,843
Deferred tax assets (Note 7)	1,597	100	13,887
Intangibles	3,302	465	28,713
Other	6,562	2,225	57,061
	198,010	127,801	1,721,826
	¥ 491,230	¥ 370,168	$4,271,565

See Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	(millions of yen)		(thousands of US dollars) (Note 1)
	2006	2005	2006
Current liabilities:			
Short-term bank loans (Note 5)	¥ 46,534	¥ 38,195	$ 404,643
Current portion of long-term debt (Note 5)	4,132	2,291	35,931
Payables			
Notes and accounts payable, trade	32,501	24,744	282,617
Unconsolidated subsidiaries and affiliates	575	555	5,000
Other	8,034	4,883	69,861
	41,110	30,182	357,478
Employees' savings deposits	261	267	2,270
Accrued expenses	7,991	3,970	69,487
Accrued income taxes	6,344	3,454	55,165
Deferred tax liabilities (Note 7)	29	0	252
Other current liabilities	2,901	1,964	25,226
Total current liabilities	109,302	80,323	950,452
Long-term liabilities:			
Long-term debt (Note 5)	8,933	9,909	77,678
Accrued severance benefits (Note 6)	29,011	15,604	252,270
Deferred tax liabilities (Note 7)	48,151	27,519	418,704
Other long-term liabilities	8,255	8,532	71,783
	94,350	61,564	820,435
Minority interests in consolidated subsidiaries	21,144	5,510	183,861
Commitments and contingencies (Note 12)			
Shareholders' equity (Notes 10 and 13):			
Common stock:			
Authorized — 371,755,000 shares			
Issued ——— 208,198,939 shares	27,588	27,588	239,896
Capital surplus	20,449	20,447	177,817
Retained earnings	144,086	135,447	1,252,922
Net unrealized gain on available-for-sale securities	74,994	42,691	652,121
Foreign currency translation adjustments	(229)	(3,040)	(1,991)
Less shares in treasury			
2006 — 675,130 shares			
2005 — 585,279 shares	(454)	(362)	(3,948)
	266,434	222,771	2,316,817
	¥ 491,230	¥ 370,168	$4,271,565

Consolidated Statements of Income

Years ended 31st March, 2006 and 2005

	(millions of yen)		(thousands of US dollars) (Note 1)
	2006	2005	**2006**
Net sales	**¥ 278,617**	¥ 243,421	**$ 2,422,757**
Costs and expenses:			
Cost of sales	**230,120**	202,752	**2,001,044**
Selling, general and administrative expenses	**37,973**	31,018	**330,200**
	268,093	233,770	**2,331,244**
Operating income	**10,524**	9,651	**91,513**
Other income (expenses):			
Interest and dividend income	**2,245**	1,632	**19,522**
Interest expenses	**(1,133)**	(981)	**(9,852)**
Equity in earnings of affiliates	**2,017**	1,749	**17,539**
Other, net (Note 11)	**6,167**	812	**53,626**
	9,296	3,212	**80,835**
Income before income taxes and minority interests	**19,820**	12,863	**172,348**
Income taxes (Note 7)			
Current	**9,244**	4,060	**80,383**
Deferred	**(1,805)**	978	**(15,696)**
	7,439	5,038	**64,687**
Income before minority interests	**12,381**	7,825	**107,661**
Minority interests in net income	**(1,198)**	374	**(10,418)**
Net income	**¥ 11,183**	¥ 8,199	**$ 97,243**

	(yen)		(US dollars)
Per share:			
Net income	**¥ 53.21**	¥ 39.03	**$ 0.46**
Cash dividends	**10.00**	10.00	**0.09**

See Notes to Consolidated Financial Statements.

Nisshinbo Industries, Inc. and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity

Years ended 31st March, 2006 and 2005

	(millions of yen)		(thousands of US dollars) (Note 1)
	2006	2005	**2006**
Common stock:			
Balance at beginning of year (2006 — 208,198,939 shares; 2005 — 216,580,939 shares)	**¥ 27,588**	¥ 27,588	**$ 239,896**
Balance at end of year (2006 and 2005 — 208,198,939 shares)	**¥ 27,588**	¥ 27,588	**$ 239,896**
Capital surplus:			
Balance at beginning of year	**¥ 20,447**	¥ 20,401	**$ 177,800**
Gain on sale of treasury stock	**2**	46	**17**
Balance at end of year	**¥ 20,449**	¥ 20,447	**$ 177,817**
Retained earnings:			
Balance at beginning of year	**¥ 135,447**	¥ 133,757	**$1,177,800**
Adjustments due to increase in a consolidated subsidiary	**(42)**	—	**(365)**
Net income	**11,183**	8,199	**97,243**
Cash dividends	**(2,387)**	(1,453)	**(20,757)**
Directors' and statutory auditors' bonuses	**(104)**	(94)	**(904)**
Retirement of treasury stock	**—**	(4,946)	**—**
Other	**(11)**	(16)	**(95)**
Balance at end of year	**¥ 144,086**	¥ 135,447	**$1,252,922**
Net unrealized gain on available-for-sale securities:			
Balance at beginning of year	**¥ 42,691**	¥ 41,194	**$ 371,226**
Net changes	**32,303**	1,497	**280,895**
Balance at end of year	**¥ 74,994**	¥ 42,691	**$ 652,121**
Foreign currency translation adjustments:			
Balance at beginning of year	**¥ (3,040)**	¥ (3,582)	**$ (26,435)**
Net changes	**2,811**	542	**24,444**
Balance at end of year	**¥ (229)**	¥ (3,040)	**$ (1,991)**
Treasury stock at cost:			
Balance at beginning of year	**¥ (362)**	¥ (5,226)	**$ (3,148)**
Add: acquired	**(96)**	(115)	**(835)**
Deduct: sold and retirement	**4**	4,979	**35**
Balance at end of year	**¥ (454)**	¥ (362)	**$ (3,948)**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years ended 31st March, 2006 and 2005

	(millions of yen) 2006	(millions of yen) 2005	(thousands of US dollars) (Note 1) 2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 19,820	¥ 12,863	$ 172,348
Adjustments to reconcile net income to net cash provided by operating activities:			
Income taxes-paid	(6,830)	(2,309)	(59,391)
Depreciation and amortization	13,835	11,046	120,304
Impairment of long lived-assets	5,415	2,357	47,087
Amortization of goodwill	951	1,899	8,269
Equity in earnings of affiliates	(2,017)	(1,749)	(17,539)
Provision for (reversal of) doubtful receivables	(159)	(756)	(1,383)
Provision for accrued pension and severance benefits	3,727	2,969	32,409
Payment of accrued pension and severance benefits	(2,103)	(4,628)	(18,287)
Gain on exemption from future pension obligation of the governmental program	—	(5,279)	—
Directors' and statutory auditors' bonuses paid	(107)	(98)	(931)
(Gain) loss on sale of property, plant and equipment	77	(1,428)	670
Gain on sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	(13,732)	(1,634)	(119,409)
Write-down of investment securities	14	93	122
Loss on plant closures	487	770	4,235
Other	506	(191)	4,400
Changes in operating assets and liabilities:			
Receivables	(637)	4,283	(5,539)
Inventories	4,200	1,478	36,522
Payables	(682)	(1,460)	(5,930)
Other	(290)	(4,110)	(2,522)
Net cash provided by operating activities	22,475	14,116	195,435
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	1,088	4,417	9,461
Proceeds from sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	20,646	5,105	179,530
Payment for purchase of property, plant and equipment	(14,921)	(12,213)	(129,748)
Payment for purchase of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	(11,417)	(4,574)	(99,278)
Decrease in loans receivable	104	63	904
Decrease in time deposits	114	2,991	991
Cash acquired from newly consolidated subsidiaries, net of payment for purchase of companies	(13,907)	—	(120,930)
Other, net	(553)	377	(4,808)
Net cash used in investing activities	(18,846)	(3,834)	(163,878)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	1,352	5,783	11,757
Repayment of long-term debt	(3,031)	(5,655)	(26,357)
Proceed from issuance of new stock	1,271	500	11,052
Increase (decrease) in short-term bank loans	(4,162)	426	(36,191)
Cash dividends paid	(2,387)	(1,453)	(20,757)
Payment for purchase of treasury stock	(99)	(115)	(861)
Other	(415)	43	(3,608)
Net cash used in financing activities	(7,471)	(471)	(64,965)
Effect of exchange rate changes on cash	656	82	5,704
Net increase (decrease) in cash and cash equivalents	(3,186)	9,893	(27,704)
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	209	—	1,817
Cash and cash equivalents at beginning of year	31,680	21,787	275,478
Cash and cash equivalents at end of year	¥ 28,703	¥ 31,680	$ 249,591

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING FINANCIAL STATEMENTS:

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the accompanying footnotes include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

The United States dollar ($) amounts included herein are given solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥115 = $1, the approximate exchange rate at 31st March, 2006. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into United States dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Consolidation

The consolidated financial statements include the accounts of Nisshinbo Industries, Inc. (the "Company") and its significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Parent, 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 unconsolidated subsidiaries and associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and 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.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(b) Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

Investments in and advances to unconsolidated subsidiaries and affiliates in foreign currencies are translated at the historical rates effective at the dates of transaction from which such accounts were originated.

(c) Foreign currency financial statements

The balance sheet accounts, revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

(d) Cash equivalents

Cash equivalents include time deposits which mature or become due within six months of the date of acquisition.

(e) Marketable and investment securities

Marketable and investment securities classified as available-for-sale securities are reported at fair value, with unrealized gain and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

(f) Inventories

Inventories are stated principally at the lower of cost or market, cost being substantially determined by the average cost method.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is computed principally on the declining balance method over their estimated useful lives.

(h) Retirement and pension plans

Under the employees' retirement plans for the Company and certain consolidated subsidiaries, the annual provision for retirement benefits is calculated to state the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

(i) 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.

(j) Derivative financial instruments

The Group uses a variety of derivative financial instruments, including foreign currency forward contracts and interest rate swaps as a means of hedging exposure to foreign currency and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

The foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. These swaps 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.

3. INVENTORIES:

Inventories at 31st March, 2006 and 2005 were as follows:

	(millions of yen)		(thousands of US dollars)
	2006	2005	**2006**
Finished products	**¥ 26,715**	¥ 25,001	**$ 232,304**
Work in process	**14,907**	7,396	**129,626**
Materials and supplies	**12,066**	9,227	**104,922**
	¥ 53,688	¥ 41,624	**$ 466,852**

4. MARKETABLE AND INVESTMENT SECURITIES:

The carrying amounts and aggregate fair value of securities available-for-sale included in marketable and investment securities at 31st March, 2006 and 2005 were as follows:

	(millions of yen)		(thousands of US dollars)
	2006	2005	**2006**
Cost	**¥ 37,239**	¥ 36,010	**$ 323,817**
Unrealized gains	**127,331**	72,397	**1,107,226**
Unrealized losses	**(54)**	(23)	**(469)**
Fair value	**¥ 164,516**	¥ 108,384	**$1,430,574**

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT:

The annual interest rates applicable to the short-term bank loans at 31st March, 2006 and 2005 were 0.6% to 8.8%.

Long-term debt at 31st March, 2006 and 2005 consisted of the following:

	(millions of yen)		(thousands of US dollars)
	2006	2005	**2006**
Long-term debt with collateral:			
Loans from banks maturing serially to 2009, ranging from 1.0% to 2.6%	**¥ 1,285**	¥ 1,399	**$ 11,174**
Long-term debt without collateral:			
Loans from banks maturing serially to 2016, ranging from 0.8% to 4.9%	**4,122**	4,251	**35,844**
Capital lease obligations, due through 2010	**7,658**	6,550	**66,591**
	13,065	12,200	**113,609**
Less current portion	**(4,132)**	(2,291)	**(35,931)**
	¥ 8,933	¥ 9,909	**$ 77,678**

Annual maturities of long-term debt were as follows:

Year ending 31st March,	(millions of yen)	(thousands of US dollars)
2007	¥ 4,132	$ 35,931
2008	3,644	31,687
2009	2,423	21,069
2010	2,202	19,148
2011 and thereafter	664	5,774
	¥ 13,065	$ 113,609

At 31st March, 2006 and 2005, net book value of assets pledged as collateral for short-term bank loans and long-term debt were as follows:

	(millions of yen)		(thousands of US dollars)
	2006	2005	**2006**
Property, plant and equipment	**¥ 10,595**	¥ 7,682	**$ 92,130**

6. RETIREMENT AND PENSION PLANS:

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at termination, years of service and certain other factors.

The Company and certain domestic subsidiaries have two types of pension plans for employees; a non-contributory and a contributory funded defined benefit pension plan. The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on 1st April, 2004.

As a result of this exemption, the Company and certain subsidiaries recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥5,279 million in accordance with a transitional measurement of the accounting standard for employees' retirement benefits.

The liability for retirement benefits for directors and corporate auditors at 31st March, 2006 and 2005 were ¥388 million ($3,374 thousand) and ¥567 million. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at 31st March, 2006 and 2005 consisted of the following:

	(millions of yen)		(thousands of US dollars)
	2006	2005	**2006**
Projected benefit obligation	**¥ 52,401**	¥ 34,971	**$ 455,661**
Fair value of plan assets	**(29,707)**	(17,158)	**(258,322)**
	22,694	17,813	**197,339**
Unrecognized prior service cost	**2,977**	3,211	**25,887**
Unrecognized actuarial loss	**104**	(5,701)	**904**
Unrecognized transitional obligation	**(238)**	(286)	**(2,069)**
	25,537	15,037	**222,061**
Prepaid pension cost	**3,086**	—	**26,835**
Net liability	**¥ 28,623**	¥ 15,037	**$ 248,896**

The components of net periodic benefit costs for the years ended 31st March, 2006 and 2005 were as follows:

	(millions of yen)		(thousands of US dollars)
	2006	2005	**2006**
Service cost	**¥ 2,338**	¥ 1,827	**$ 20,331**
Interest cost	**1,162**	910	**10,104**
Expected return on plan assets	**(319)**	(262)	**(2,774)**
Amortization of prior service cost	**(234)**	(230)	**(2,035)**
Recognized actuarial loss	**634**	515	**5,513**
Amortization of transitional obligation	**48**	57	**418**
Net periodic benefit costs	**¥ 3,629**	¥ 2,817	**$ 31,557**

Assumptions used for the years ended 31st March, 2006 and 2005 were set forth as follows:

	2006	2005
Discount rate	**2.0%~2.5%**	2.0%~2.5%
Expected rate of return on plan assets	**0.5%~4.0%**	0.5%~4.0%
Amortization period of prior service cost	**10~15 years**	10~15 years
Recognition period of actuarial gain / loss	**10~15 years**	10~15 years
Amortization period of transitional obligation	**10 years**	10 years

7. INCOME TAXES:

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at 31st March, 2006 and 2005 were as follows:

	(millions of yen) 2006	(millions of yen) 2005	(thousands of US dollars) 2006
Deferred tax assets:			
Inventories	¥ 435	¥ 632	$ 3,783
Tax loss carryforwards	4,641	6,094	40,356
Allowance for doubtful accounts	111	152	965
Accrued employees' bonuses	1,735	894	15,087
Accrued severance benefits	11,428	7,498	99,374
Impairment of long lived-assets	1,177	876	10,235
Other	2,726	1,889	23,704
Less valuation allowance	(6,193)	(8,259)	(53,852)
	¥ 16,060	¥ 9,776	$ 139,652
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (51,768)	¥ (29,423)	$ (450,156)
Deferred gains on sale of property	(4,253)	(4,536)	(36,982)
Other	(3,500)	(1,314)	(30,435)
	¥ (59,521)	¥ (35,273)	$ (517,573)
Net deferred tax	¥ (43,461)	¥ (25,497)	$ (377,921)

A reconciliation between the normal effective statutory tax rate for the years ended 31st March, 2006 and 2005 and the actual effective tax rates reflected in the accompanying consolidated statement of income was as follows:

	2006	2005
Normal effective statutory tax rate	40.7%	40.7%
Dividend income not taxable	(1.7)	(1.2)
Expenses not deductible for income tax purposes	0.5	0.6
Equity in earnings of affiliates	(4.1)	(5.5)
Lower income tax rates applicable to income in certain foreign countries	(3.1)	(2.1)
Tax benefits not recognized on operating losses of subsidiaries	4.1	4.3
Other	1.1	2.4
Actual effective tax rate	37.5%	39.2%

8. LEASES:

The Group leases certain machinery, computer equipment and other assets.

Total rental expenses for the years ended 31st March, 2006 and 2005 were ¥559 million ($4,861 thousand) and ¥357 million, respectively, including ¥559 million ($4,861 thousand) and ¥357 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended 31st March, 2006 and 2005 was as follows:

	(millions of yen) 2006	(millions of yen) 2005	(thousands of US dollars) 2006
Acquisition cost	¥ 2,604	¥ 1,941	$ 22,643
Accumulated depreciation	(1,416)	(1,010)	(12,313)
Net leased property	¥ 1,188	¥ 931	$ 10,330

Obligations under finance leases:

	(millions of yen) 2006	(millions of yen) 2005	(thousands of US dollars) 2006
Due within one year	¥ 455	¥ 326	$ 3,956
Due after one year	733	605	6,374
Total	¥ 1,188	¥ 931	$ 10,330

Depreciation expense under finance leases:

	(millions of yen)		(thousands of US dollars)
	2006	2005	**2006**
Depreciation expense	**¥ 559**	¥ 357	**$ 4,861**

Depreciation expense, which is not reflected in the accompanying statements of income, is computed by the straight-line method.

9. DERIVATIVES:

The Group enters into foreign currency forward contracts to hedge exchange risk associated with certain assets and liabilities denominated in foreign currencies. Foreign currency forward contracts which qualify for hedge accounting for the years ended 31st March, 2006 and 2005 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheets at 31st March, 2006 and 2005, are excluded from disclosure of market value information.

The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities. Such contracts outstanding at 31st March, 2006 and 2005 were as follows:

	(millions of yen)						(thousands of US dollars)		
	2006			2005			**2006**		
	Contract amount	Fair value	Unrealized loss	Contract amount	Fair value	Unrealized loss	Contract amount	Fair value	Unrealized loss
Interest rate swaps:									
Fixed rate payments, floating rate receipt	**¥ 4,989**	**¥ (243)**	**¥ (243)**	¥ 2,936	¥ (3)	¥ (3)	**$43,383**	**$(2,113)**	**$(2,113)**
Foreign currency forward contracts	**¥ 159**	**¥ 164**	**¥ 5**	¥ 171	¥ 169	¥ (2)	**$ 1,383**	**$ 1,426**	**$ 43**

10. SHAREHOLDERS' EQUITY:

The Japanese Commercial Code provides that an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equal 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividend is applicable. In addition, a semi-annual interim dividend may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Code.

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each fiscal year.

11. OTHER INCOME (EXPENSES) — OTHER, NET:

Other income (expenses) — Other, net consisted of the following:

	(millions of yen)		(thousands of US dollars)
	2006	2005	**2006**
Gain (loss) on sale of property, plant and equipment	**¥ (77)**	¥ 1,428	**$ (670)**
Gain on sale of securities	**13,732**	1,634	**119,409**
Write-down of securities	**(14)**	(93)	**(122)**
Write-off of inventories	**(678)**	(998)	**(5,895)**
Impairment of long lived-assets	**(5,415)**	(2,357)	**(47,087)**
Gain on exemption from future pension obligation of the governmental program	**—**	5,279	**—**
Loss on plant closures	**(487)**	(770)	**(4,235)**
Provision for loss from guarantee of indebtedness of affiliated	**(132)**	—	**(1,148)**
Retirement benefits paid due to restructuring of business operations	**(81)**	(296)	**(704)**
Amortization of goodwill	**(575)**	(1,899)	**(5,000)**
Other, net	**(106)**	(1,116)	**(922)**
	¥ 6,167	¥ 812	**$ 53,626**

12. COMMITMENTS AND CONTINGENCIES:

Contingent liabilities at 31st March, 2006 and 2005 for loans guaranteed amounted to ¥1,998 million ($17,374 thousand) and ¥3,156 million, respectively.

Commitments for capital expenditures outstanding at 31st March, 2006 and 2005 were in the approximate amounts of ¥12,881 million ($112,009 thousand) and ¥4,456 million, respectively.

13. SUBSEQUENT EVENT:

Appropriation of retained earnings

On 29th June, 2006, Nisshinbo's shareholders authorised the appropriation of retained earnings as follows:

	(millions of yen)	(thousands of US dollars)
Cash dividends (¥5.00 per share)	¥ 1,038	$ 9,026
Directors' bonuses	70	609

14. SEGMENT INFORMATION:

Information about industry segments, geographic segments and sales to foreign customers of the Company and its consolidated subsidiaries for the years ended 31st March, 2006 and 2005 were as follows:

(1) Industry Segments

(millions of yen) 2006

	Textiles	Automobile Brakes	Papers	Chemical Products	Electronics	Real Estate Leasing	Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income									
Sales to customers	¥ 82,879	¥ 58,130	¥ 28,612	¥ 36,007	¥ 45,858	¥ 4,781	¥ 22,350	¥ —	¥ 278,617
Intersegment sales	1	—	14	711	1	464	1,188	(2,379)	—
Total sales	82,880	58,130	28,626	36,718	45,859	5,245	23,538	(2,379)	278,617
Operating expenses	81,783	52,667	27,152	35,938	45,051	2,588	24,534	(1,620)	268,093
Operating income (loss)	¥ 1,097	¥ 5,463	¥ 1,474	¥ 780	¥ 808	¥ 2,657	¥ (996)	¥ (759)	¥ 10,524
II. Total Assets, Depreciation and Amortization, Impairment of Long lived-assets and Capital Expenditures									
Total assets	¥ 80,724	¥ 65,093	¥ 19,732	¥ 22,933	¥ 78,137	¥ 19,017	¥ 18,090	¥ 187,504	¥ 491,230
Depreciation and amortization	¥ 3,040	¥ 4,205	¥ 1,365	¥ 981	¥ 2,465	¥ 751	¥ 1,028	¥ —	¥ 13,835
Impairment of long lived-assets	¥ 2,025	¥ 3,390	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 5,415
Capital expenditures	¥ 2,381	¥ 5,177	¥ 810	¥ 739	¥ 1,317	¥ 2,925	¥ 3,199	¥ —	¥ 16,548

(millions of yen) 2005

	Textiles	Automobile Brakes	Papers	Chemical Products	Electronics	Real Estate Leasing	Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income									
Sales to customers	¥ 82,164	¥ 54,306	¥ 28,585	¥ 34,199	¥ 16,843	¥ 4,945	¥ 22,379	¥ —	¥ 243,421
Intersegment sales	7	—	9	708	1	436	1,231	(2,392)	—
Total sales	82,171	54,306	28,594	34,907	16,844	5,381	23,610	(2,392)	243,421
Operating expenses	81,953	48,048	26,893	34,085	16,693	2,644	24,626	(1,172)	233,770
Operating income (loss)	¥ 218	¥ 6,258	¥ 1,701	¥ 822	¥ 151	¥ 2,737	¥ (1,016)	¥ (1,220)	¥ 9,651
II. Total Assets, Depreciation and Amortization, Impairment of Long lived-assets and Capital Expenditures									
Total assets	¥ 83,786	¥ 61,163	¥ 20,193	¥ 23,602	¥ 11,115	¥ 16,029	¥ 19,374	¥ 134,906	¥ 370,168
Depreciation and amortization	¥ 3,193	¥ 3,658	¥ 1,451	¥ 1,000	¥ 176	¥ 793	¥ 775	¥ —	¥ 11,046
Impairment of long lived-assets	¥ 911	¥ —	¥ 71	¥ —	¥ —	¥ 527	¥ 688	¥ 160	¥ 2,357
Capital expenditures	¥ 1,790	¥ 5,290	¥ 2,092	¥ 920	¥ 94	¥ 1,632	¥ 686	¥ —	¥ 12,504

(thousands of US dollars) 2006

	Textiles	Automobile Brakes	Papers	Chemical Products	Electronics	Real Estate Leasing	Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income									
Sales to customers	$ 720,687	$ 505,478	$ 248,800	$ 313,104	$ 398,766	$ 41,574	$ 194,348	$ —	$ 2,422,757
Intersegment sales	9	—	121	6,183	8	4,035	10,331	(20,687)	—
Total sales	720,696	505,478	248,921	319,287	398,774	45,609	204,679	(20,687)	2,422,757
Operating expenses	711,157	457,974	236,104	312,504	391,748	22,505	213,339	(14,087)	2,331,244
Operating income (loss)	$ 9,539	$ 47,504	$ 12,817	$ 6,783	$ 7,026	$ 23,104	$ (8,660)	$ (6,600)	$ 91,513
II. Total Assets, Depreciation and Amortization, Impairment of Long lived-assets and Capital Expenditures									
Total assets	$ 701,948	$ 566,026	$ 171,583	$ 199,417	$ 679,452	$ 165,365	$ 157,304	$ 1,630,470	$ 4,271,565
Depreciation and amortization	$ 26,435	$ 36,565	$ 11,870	$ 8,530	$ 21,435	$ 6,530	$ 8,939	$ —	$ 120,304
Impairment of long lived-assets	$ 17,609	$ 29,478	$ —	$ —	$ —	$ —	$ —	$ —	$ 47,087
Capital expenditures	$ 20,705	$ 45,017	$ 7,044	$ 6,426	$ 11,452	$ 25,435	$ 27,817	$ —	$ 143,896

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended 31st March, 2006 and 2005 were as follows:

	(millions of yen) 2006					(millions of yen) 2005				
	Japan	Asia	Others	Eliminations/ Corporate	Consolidated	Japan	Asia	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 233,837	¥ 30,269	¥ 14,511	¥ —	¥ 278,617	¥212,134	¥ 21,027	¥ 10,260	¥ —	¥243,421
Interarea transfer	7,255	8,907	266	(16,428)	—	4,147	3,603	4	(7,754)	—
Total sales	241,092	39,176	14,777	(16,428)	278,617	216,281	24,630	10,264	(7,754)	243,421
Operating expenses	233,876	36,076	13,871	(15,730)	268,093	208,719	22,033	9,431	(6,413)	233,770
Operating income (loss)	¥ 7,216	¥ 3,100	¥ 906	¥ (698)	¥ 10,524	¥ 7,562	¥ 2,597	¥ 833	¥ (1,341)	¥ 9,651
Total assets	¥ 261,539	¥ 27,031	¥ 18,606	¥ 184,054	¥ 491,230	¥211,686	¥ 15,592	¥ 7,984	¥134,906	¥370,168

	(thousands of US dollars) 2006				
	Japan	Asia	Others	Eliminations/ Corporate	Consolidated
Sales to customers	$2,033,365	$ 263,209	$ 126,183	$ —	$2,422,757
Interarea transfer	63,087	77,452	2,313	(142,852)	—
Total sales	2,096,452	340,661	128,496	(142,852)	2,422,757
Operating expenses	2,033,704	313,704	120,618	(136,782)	2,331,244
Operating income (loss)	$ 62,748	$ 26,957	$ 7,878	$ (6,070)	$ 91,513
Total assets	$2,274,252	$ 235,052	$ 161,791	$1,600,470	$4,271,565

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended 31st March, 2006 and 2005 amounted to ¥55,087 million ($497,017 thousand) and ¥45,448 million, respectively.

Independent Auditors' Report

To the Board of Directors of
Nisshinbo Industries, Inc.

We have audited the consolidated balance sheets of Nisshinbo Industries, Inc. and consolidated subsidiaries as of 31st March, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied 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 financial position of Nisshinbo Industries, Inc. and consolidated subsidiaries as of 31st March, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan.

The United States dollar amounts shown in the consolidated financial statements have been translated solely for convenience. We have reviewed this translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into US dollars on the basis described in Note 1.

E. Nagashima

Etsuko Nagashima
Certified Public Accountant

T. Takubo

Takeshi Takubo
Certified Public Accountant

29th June, 2006
Tokyo, Japan

Nisshinbo History

1907 Nisshin Cotton Spinning Co., Ltd. established.

1908 The former Kameido Head Office Plant began operations.

1920 Office opened in Nihonbashi, and thereafter became the head office of Nisshin Cotton Spinning.
Nisshin Cotton Spinning merged with Okazaki Boseki Co., Ltd. (the present Harisaki Plant).

1921 Nagoya Plant began operations (completely burnt down in 1945 due to the war, restored in 1951).

1924 Nisshin Cotton Spinning merged with Tokyo Boseki Co., Ltd.

1925 Branch office opened in Nagoya (the present Nagoya Branch).
Branch office opened in Osaka (the present Osaka Branch).

1926 Hamamatsu Plant began operations.

1933 Toyama Plant began operations.

1937 Nisshin Cotton Spinning acquired Kawagoe Boseki Co., Ltd. (the present Kawagoe Plant).

1938 Nisshin Cotton Spinning merged with Nisshin Rayon Co., Ltd. (the present Miai Plant).

1940 Toa Jitsugyo Co., Ltd. established (the company name changed to Nissin Toa Inc. in 1990).

1945 Nisshin Cotton Spinning acquired the Meiji Plant of Nanshin Seiki Co., Ltd. (the present Fuji Plant).

1947 Non-textiles Division set up and thereafter expanded operations to include automobile brakes, chemical products, papers and machine tools.

1949 Nihon Postal Franker Co., Ltd. established. (the company name changed to Nisshinbo Postal Chemical Co., Ltd. in 2006)
Nisshin Cotton Spinning listed on the Tokyo Stock Exchange.
Nitto Asbestos Co., Ltd. established (the company name changed to Nisshinbo Brake Sales Co., Ltd. in 1987).

1950 Ueda Japan Radio Co., Ltd. established.

1952 Shimada Plant began operations.

1958 Tokushima Plant began operations.
Nippon Kohbunshikan Co., Ltd. established (the company name changed to Nippon Kohbunshi Co., Ltd. in 1986).

1961 Nisshin Cotton Spinning listed on the first section of the Tokyo Stock Exchange.

1962 Nisshin Cotton Spinning's English company name changed to Nisshin Spinning Co., Ltd.

1966 Fujieda Plant began operations.

1972 Nisshinbo Do Brasil Industria Textil LTDA. (Brazil) established.

1978 Nisshin Spinning acquired Tokai Seishi Kougyou Co., Ltd.

1981 Tatebayashi Chemical Plant (the present Tatebayashi Plant) began operations.

1984 Nisshin Spinning's English company name changed to Nisshinbo Industries, Inc.

1985 Nisshinbo Industries acquired Nisshin Denim Inc.

1986 The Machine Tools Department of the Miai Plant spun off to create the Miai Mechatronics Plant.
Anti-skid Brake System (now ABS) Division set up.

1987 Hamakita Plant began operations.

1989 Kohbunshi (Thailand) Ltd. established.

1992 Chiba Plant began operations.

1993 The head office relocated to its present location in Ningyo-cho, Nihonbashi, Chuo-ku, Tokyo.
Pudong Kohbunshi (Shanghai) Co., Ltd. (China) established.

1995 Nisshinbo Automotive Corporation (U.S.A.) established.
Nisshinbo Urban Development Co., Ltd. established.

1996 Nisshinbo Somboon Automotive Co., Ltd. (Thailand) established.

1997 Nisshinbo Automotive Manufacturing Inc. (U.S.A.) established through complete financing from the subsidiary Nisshinbo Automotive Corporation.

1998 P.T. Gistex Nisshinbo Indonesia established as a joint venture.

1999 Saeron Automotive Corporation (South Korea) established.
Research & Development Center established.

2000 P.T. Nikawa Textile Industry (Indonesia) established as a subsidiary through the additional acquisition of stocks.
Continental Teves Corporation established as a joint venture.

2001 Ningbo Youngor Sunrise Textile Dyeing and Finishing Co., Ltd. (China) established as a joint venture.

2002 Ningbo Veken Textile Co., Ltd. (China) established as a joint venture.
Nisshinbo Industries acquired all shares of Iwao & Co., Ltd.
NISSHINBO (SHANGHAI) CO., LTD. (China) began operations.

2004 Continental Teves Corporation (Lian Yun Gang) Co., Ltd. (China) established.
Nisshinbo Industries acquired additional stock in Naigai Shirts Co., Ltd. and CHOYA CORP.

2005 Toyota Plant established.
Nisshinbo Urban Development Co., Ltd. absorbs Kansai Nisshinbo Urban Development Co., Ltd. by merger.
Saeron Automotive Corporation listed on the Korea Stock Exchange.
Nisshinbo Industries acquired additional stock in New Japan Radio Co., Ltd. and ALOKA CO., LTD.

Nisshinbo Group

The Nisshinbo Group consists of Nisshinbo Industries, Inc., its 61 subsidiaries, and 21 affiliates.

Main Group Companies (As of March 31, 2006)

Consolidated Subsidiaries

Company	Location	Capital	Business
Nisshin Toa Inc.	Tokyo, Japan	¥450 million	Textiles, Papers, Food Ingredients
Ebisu Syokuhu Co., Ltd.	Shizuoka, Japan	¥50 million	Textiles
Nisshinbo Yarn Dyed Co., Ltd.	Aichi, Japan	¥80 millon	Textiles
Nisshin Denim Inc.	Tokushima, Japan	¥200 million	Textiles
Nisshin Tex Co., Ltd.	Osaka, Japan	¥10 million	Textiles
Naigai Shirts Co., Ltd.	Osaka, Japan	¥300 million	Textiles
Nisshinbo Mobix Co., Ltd.	Wakayama, Japan	¥80 millon	Textiles
CHOYA CORP.	Tokyo, Japan	¥4,594 million	Textiles
NISSHINBO (SHANGHAI) CO., LTD.	China	RMB9 million	Textiles
Nisshinbo Do Brasil Industria Textil LTDA.	Brazil	R$20.075 million	Textiles
P.T. Naigai Shirts Indonesia	Indonesia	US$0.85 million	Textiles
Shanghai Choya Fashion Co., Ltd.	China	RMB34 million	Textiles
P.T. Nikawa Textile Industry	Indonesia	US$75 million	Textiles
P.T. Gistex Nisshinbo Indonesia	Indonesia	US$10 million	Textiles
Nisshinbo Brake Sales Co., Ltd.	Tokyo, Japan	¥346 million	Automobile Brakes
Nisshinbo Automotive Corporation	U.S.A.	US$88 million	Automobile Brakes
Nisshinbo Automotive Manufacturing Inc.	U.S.A.	US$15.44 million	Automobile Brakes
Nisshinbo Somboon Automotive Co., Ltd.	Thailand	THB732.6 million	Automobile Brakes
Saeron Automotive Corporation	South Korea	KRW9,600 million	Automobile Brakes
Saeron Automotive Beijing Corporation	China	RMB33 million	Automobile Brakes
Tokai Seishi Co., Ltd.	Shizuoka, Japan	¥300 million	Papers
Nisshinbo Postal Chemical Co., Ltd.*	Tokyo, Japan	¥310 million	Papers, Chemical Products
Nisshinbo Engineering Co., Ltd.	Tokyo, Japan	¥10 million	Chemical Products
Nippon Kohbunshi Co., Ltd.	Tokyo, Japan	¥310 million	Plastic Molded Products
Kohbunshi (Thailand) Ltd.	Thailand	THB100 million	Plastic Molded Products
Pudong Kohbunshi (Shanghai) Co., Ltd.	China	RMB50 million	Plastic Molded Products
Iwao & Co., Ltd.	Osaka, Japan	¥250 million	Textiles, Chemical Products, Real Estate Leasing
Nisshinbo Urban Development Co., Ltd.	Tokyo, Japan	¥480 million	Real Estate Leasing
Nisshinbo Europe B.V.	The Netherlands	€2.165 million	Real Estate Leasing
Nisshinbo Kikai Hanbai Co., Ltd.	Tokyo, Japan	¥30 million	Machine Tools
New Japan Radio Co., Ltd.	Tokyo, Japan	¥5,220 million	Electronics
Ueda Japan Radio Co., Ltd.	Nagano, Japan	¥700 million	Electronics

*Name changed from Nihon Postal Franker Co., Ltd. to Nisshinbo Postal Chemical Co., Ltd. on July 1, 2006.

Subsidiary and Affiliates Accounted for by the Equity Method

Company	Location	Capital	Business
Continental Teves Corporation	Kanagawa, Japan	¥5,000 million	Automobile Brakes
Continental Teves Corporation (Lian Yun Gang) Co., Ltd.	China	RMB60 million	Automobile Brakes
Asahi Chemitech Co., Ltd.	Tokyo, Japan	¥160 million	Chemical Products
ALOKA CO., LTD.	Tokyo, Japan	¥6,465 million	Medical Equipment

Board of Directors and Statutory Auditors

Director, Chairman
Yoshikazu Sashida

*Director**[1]*, President*
Takashi Iwashita

*Director**[1]*, Vice President*
Kunihiro Toda

*[1] Representative director

Director, Senior Executive Managing Officer
Yasuo Takeuchi

Director, Executive Managing Officer
Shizuka Uzawa

Director, Executive Managing Officer
Yoshihito Onda

Director, Senior Managing Officer
Yoshihiro Sakaki

Director, Senior Managing Officer
Masaaki Isobe

*Director**[2]
Tomofumi Akiyama

*Director**[2]
Toshiya Hanawa

*Director**[2]
Koji Kato

*[2] Outside director

Standing Statutory Auditor
Shoichi Hayashi

Statutory Auditor
Kenji Tasaki

*Statutory Auditor**[3]
Yoshikuni Utsunomiya

*Statutory Auditor**[3]
Takehiko Urushihara

*[3] Outside auditor

Managing Officers

President
Takashi Iwashita*

Vice President
Kunihiro Toda*

Senior Executive Managing Officer
Yasuo Takeuchi*

Executive Managing Officers
Shizuka Uzawa*
Yoshihito Onda*

* Board member as well

Senior Managing Officers
Masashi Shinagawa
Seiichiro Tomizawa
Yoshihiro Sakaki*
Masaaki Isobe*
Kazuo Manaka
Yoshio Ide

Managing Officers
Masaya Kawata
Akihiko Ishikawa
Hitoshi Ito
Michihiro Ooga

Corporate Data

(As of March 31, 2006)

Founded: February 5, 1907

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URL: http://www.nisshinbo.co.jp/

Osaka Branch: 2-4-2, Kitakyuhoji-machi, Chuo-ku, Osaka 541-0057, Japan
Tel: 06-6267-5501 Fax: 06-6267-5679

Nagoya Branch: 5-2-38, Sakae, Naka-ku, Nagoya 460-0008, Japan
Tel: 052-261-6151 Fax: 052-263-9480

Employees:

Parent Company	3,049
Subsidiaries	9,553
Total	12,602

Common Stock:

Authorized: 371,755,000 shares

Issued: 208,198,939 shares
¥27,588 million — US$240 million

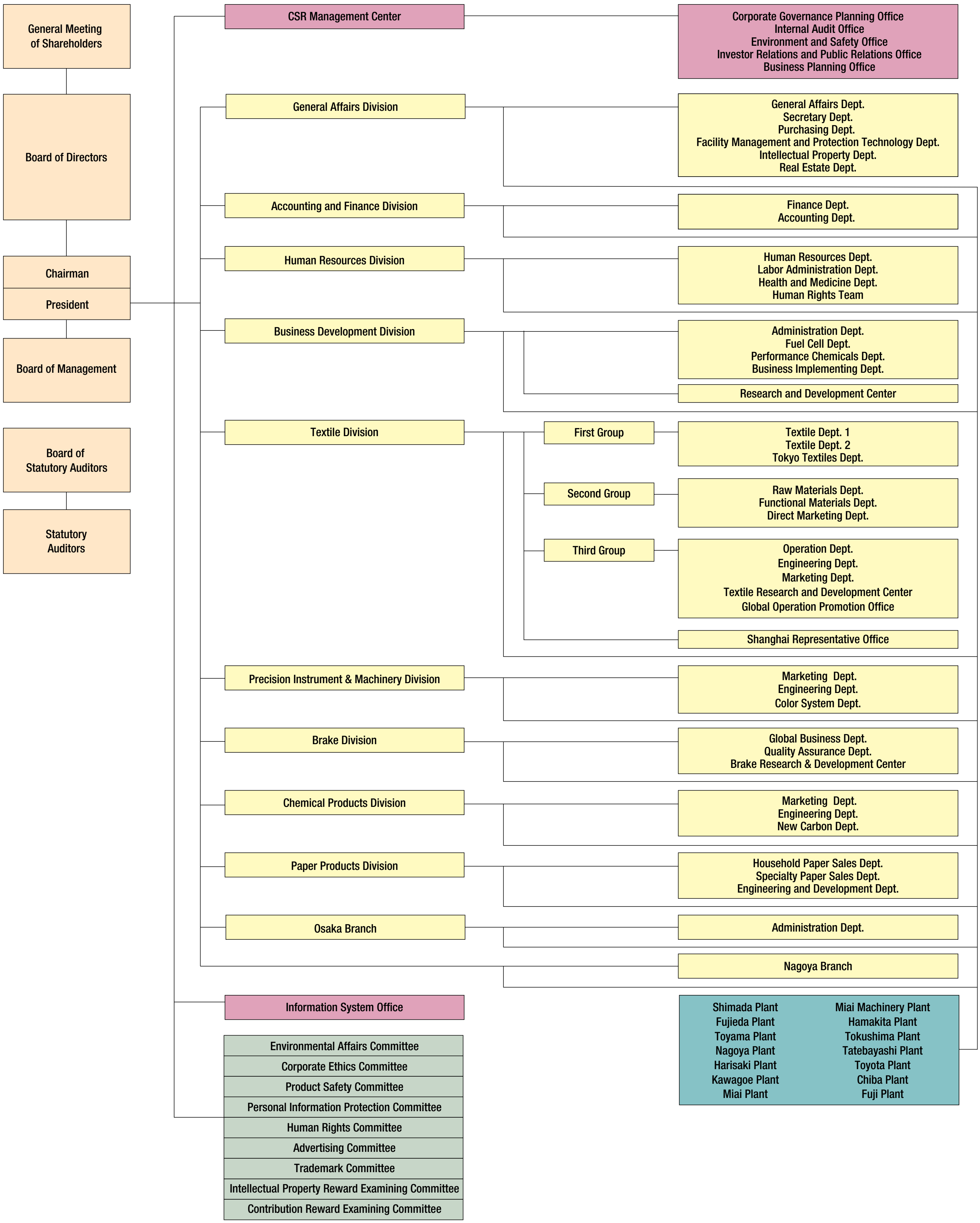
Shareholders: 13,435

Listings: Tokyo, Osaka, Nagoya, Fukuoka and Sapporo

Transfer Agent: Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi, 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Organization Chart

(As of June 29, 2006)



NISSHINBO

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