NISSHINBO

Annual Report 2007

(Year ended March 31, 2007)

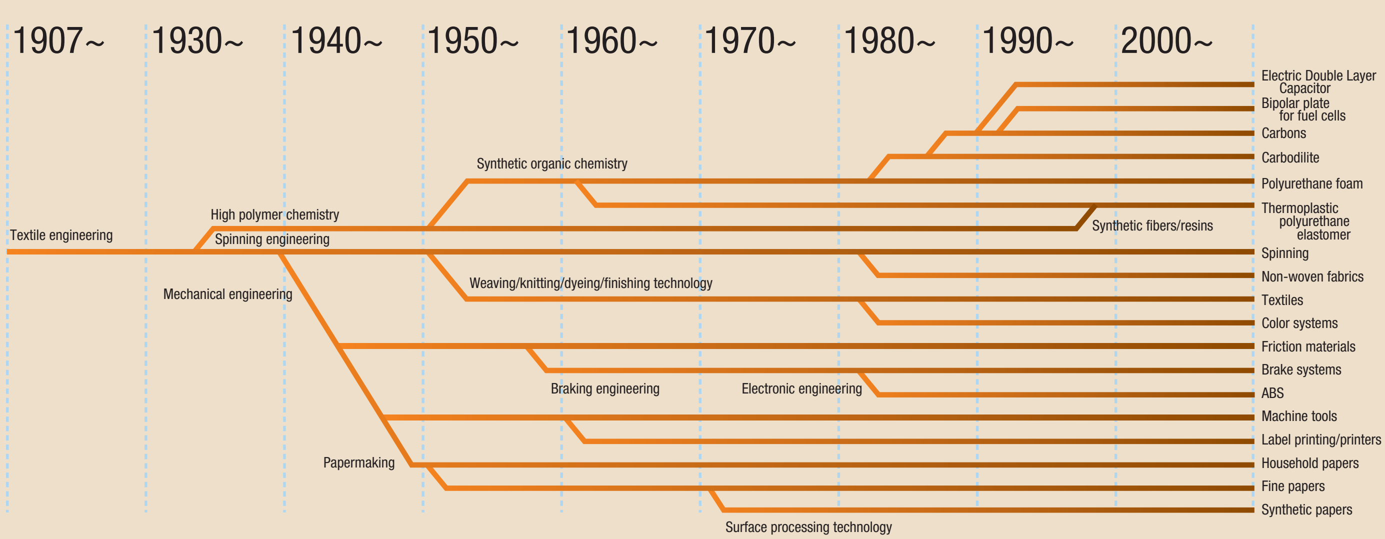
Nisshinbo Industries, Inc. (the "Company") was founded 100 years ago in 1907 as a manufacturer of cotton yarns and threads. While playing an important role as part of Japan's basic industry, Nisshinbo has broadened the scope of its business in response to the evolving needs of the times, and has currently built a solid position as a automobile brake manufacturer. Nisshinbo is preparing for the full-scale start up of businesses in new growth domains that are aligned with the emerging needs of contemporary society, including in environmental and telecommunications fields. Utilizing its overall capabilities and based on the slogan "reform and growth," Nisshinbo is contributing to society through its business activities to raise its corporate value.

CONTENTS

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.

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

Nisshinbo's Lineage of Products and Technologies



Financial Highlights

(Years ended 31st March)

Consolidated:

	(millions of yen)					(millions of US dollars)
	2007	2006	2005	2004	2003	**2007**
Net Sales	**¥ 312,825**	¥ 278,617	¥ 243,421	¥ 226,883	¥ 231,194	**$ 2,651**
Textiles	**82,243**	82,879	82,164	68,403	74,034	**697**
Automobile Brakes	**61,764**	58,130	54,306	52,076	56,353	**523**
Papers	**29,908**	28,612	28,585	29,010	27,024	**253**
Chemical Products	**35,850**	36,007	34,199	32,098	30,778	**304**
Electronics	**76,068**	45,858	16,843	16,176	15,936	**645**
Real Estate Leasing	**4,788**	4,781	4,945	4,941	4,785	**41**
Others	**22,204**	22,350	22,379	24,179	22,284	**188**
Operating Income	**11,551**	10,524	9,651	8,496	5,989	**98**
Net Income	**15,107**	11,183	8,199	3,919	777	**128**
Equity	**282,015**	266,434	222,771	214,132	186,028	**2,390**

Per Share:

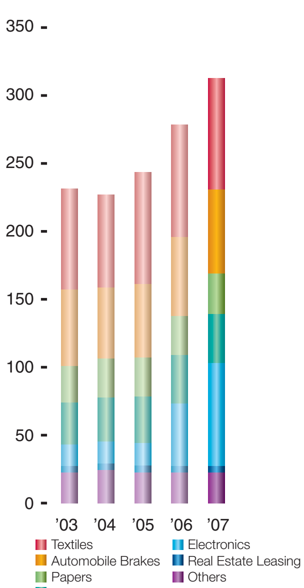
	(yen)					(US dollars)
Net Income	**¥ 74.19**	¥ 53.21	¥ 39.03	¥ 17.86	¥ 3.18	**$ 0.63**
Shareholders' Equity	**1,301.14**	1,283.21	1,072.54	1,030.98	860.52	**11.03**
Cash Dividends	**15.00**	10.00	10.00	7.00	7.00	**0.13**

Key Ratio:

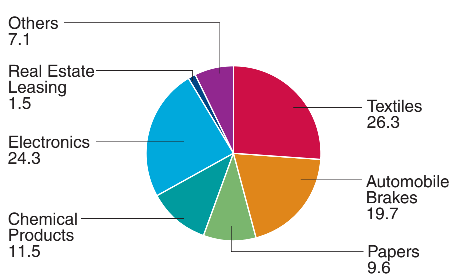
	(%)				
Return on Assets	**3.1**	2.6	2.2	1.2	0.2
Return on Equity	**5.7**	4.6	3.8	2.0	0.4

Note: The United States dollar amounts in this report are given for convenience only and represent translations of Japanese yen at the rate of ¥118 = US$1.

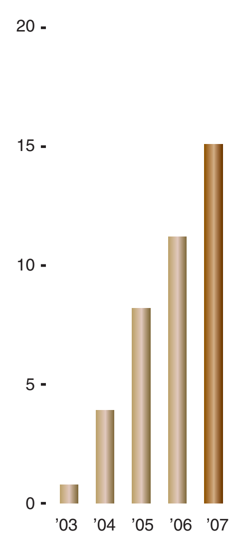
Consolidated Net Sales by Segment
(billions of yen)



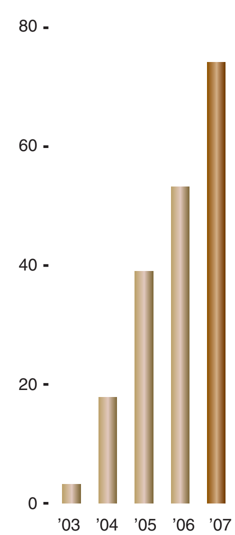
Net Sales Composition by Segment in Fiscal 2007
(%)



Net Income
(billions of yen)



Net Income per Share
(yen)



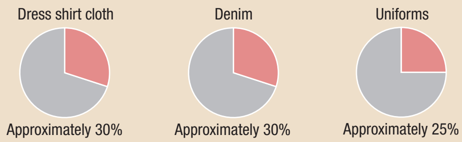
Note: Electronics, previously included in the Other Products sector, was treated independently from fiscal 2006 due to the growing importance and potential of the sector. Figures for previous fiscal years have been adapted to take account of this change.

Nisshinbo at a Glance

TEXTILES

- **Since Nisshinbo's founding in 1907, we have continually been a leader in Japan's textiles industry with our high-quality products and high-level technologies.**
- **While promoting production in optimal locations, we are implementing selection and concentration in our businesses, with no business domains off-limits.**

Shares of main domestic markets (2006)



(The above graphs were prepared based on Nisshinbo's internal data.)

NON CARE

Main Products

Dress shirt cloth, denim, uniforms, spandex, non-woven fabrics, sleepwear

Main Product Fields

Wrinkle-free materials:
Utilizing our technologies for *NON CARE* 100% cotton, drip-dry (wrinkle-free) shirts as well as our technologies for *PURE TWIST* specialized twisted yarn, we offer a wide range of wrinkle-free products that range from dress shirts to jackets and pants.

Functional processed materials:
In addition to Nisshinbo's *Nanoscience* brand, which features a diversity of functions (softness, water-repellency, anti-staining, skin care, silver-based anti-bacterial and deodorizing functions and wrinkle-free functions), we offer a lineup of anti-bacterial, deodorizing, and anti-soiling materials that utilize photocatalytic oxidized titanium; materials with transparency-blocking functions; and materials that promote good sleep.

GAIACOT:
An epoch-making nano-technology material with excellent anti-bacterial and deodorizing functions. In addition to commencing sales of masks for medical hygiene fields, we are also developing applications for industrial and agricultural fields.

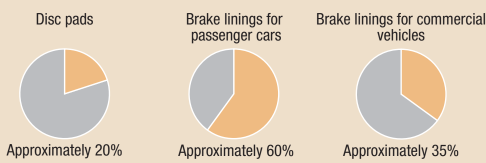
Apparel:
Shirts (CHOYA CORP., Naigai Shirts Co., Ltd.), denim (Ocean Link Corporation)

Domestic
Manufacturing plants: 9
Overseas
Manufacturing plants: 5 plants in China, Indonesia, and Brazil
Sales base: 1 in China (Shanghai)

AUTOMOBILE BRAKES

- **Since entering the business for automobile friction materials in 1944, Nisshinbo has continually refined its technologies and achieved growth to become one of Japan's premier manufacturers of automobile brake systems and friction materials.**
- **In accordance with the main themes of "promoting globalization" and "developing competitive products," we adhere to a policy of overall optimization and strive to undertake unified activities in Japan and overseas.**

OE market share of friction materials for domestic automakers (2006)



(The above graphs were prepared based on Nisshinbo's internal data.)

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)

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.

Domestic
Manufacturing plants: 2
Test courses: 1
R&D center: 1
Overseas
Manufacturing plants: 5 plants in the United States (2), Thailand (1), South Korea (1), and China (1)

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 back-lighting displays printed advertisements, 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

Household papers:
COTTON FEEL (tissue paper and toilet paper)
SHOWER ROLL (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 back-lighting displays)
Peach Jet (for ink jet posters and ink jet printings for back-lighting displays)

Household paper products

Newly Cultivated Businesses

Nisshinbo entered the market for packaging when Daiwa Shiko Co., Ltd., a packaging processing company, became part of the Nisshinbo Group. In synthetic papers, we are also working to create a new film business using plant-derived resins.

Domestic
Manufacturing plants: 6

CHEMICAL

- **We are working to cultivate new growth businesses centered on the three businesses of electric double layer capacitors, bipolar plates for fuel cells, and *CARBODILITE* functional chemicals.**
- **We are accelerating selection and concentration in existing businesses. While withdrawing from unprofitable businesses, we will streamline our operations into heat insulation materials, elastomers, and carbon products, and concentrate the allocation of management resources on these fields.**

NEW BUSINESSES

Electric Double Layer Capacitor (N's CAP)

Electric double layer capacitor *(N's CAP)*

Features:
These capacitors use Nisshinbo's originally developed ionic liquid and boast the world's highest level of power density. Compared with traditional batteries, these have superior features such as ultra-quick, highly efficient charging and discharging capabilities as well as long life. Nisshinbo is progressing with commercialization with a particular focus on high-power applications.

Fields of application:
We are currently carrying out development with a view toward vehicle/vehicle-mounted applications. We are steadily building on our record of supplying these as power sources for transportation equipment.

Market acclaim:
This is the first capacitor to be commercialized for power applications. We are targeting promising power-assisted applications.

Collaboration:
We are establishing a support structure comprising Group companies that includes using the circuit design technologies of Japan Radio Co., Ltd. and the semiconductor technologies of New Japan Radio Co., Ltd., which is looking toward future chipmaking.

Production capacity:
In fall 2007, we will gear up for the operation of mass production facilities. In the future, we plan to produce 50,000 cells per month.

Bipolar Plates for Fuel Cells


Mold carbon bipolar plate

Features:
Boasting the world's No. 1 performance capabilities, these have such characteristics as "high strength," "thinness," "flexibility and outstanding formability," "lightness and high-corrosion resistance," "good conductivity, and "good handling properties."

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 residential-use fuel cells.

Automobile use:
We have already responded to automobile specifications. Demonstration testing of fuel cell vehicles is progressing. A key to market expansion is progress in establishing a social infrastructure system that includes hydrogen stations.

Residential use:
Led by the Japanese Government, demonstration testing is taking place and the introduction of fuel cells is progressing. Full-fledged expansion is expected from 2009 upon the completion of this project.

Functional Chemical Products (CARBODILITE)


CARBODILITE

We offer *CARBODILITE* (NISSHINBO's proprietary functional polymer based on *Carbodiimide*) and water treatment carrier products.

Features & Fields of application:
"Improvement agent of the Bio-plastic (Polylactic acids)" and "Crosslinker of water-based paint / ink / adhesive." It is used to give a high function to resin for decreasing burdens on the environment.

Market acclaim:
Our product has achieved top acclaim worldwide as a PLA improvement agent. Also, low toxicity to the human body gives this product overwhelming superiority.

Growth potential:
There is expected to be a further tightening of regulations, including regulations on CO_2 emissions and VOC release, aimed at environmental protection. Along with these tighter regulations, the role of *CARBODILITE* is expected to increase dramatically.

Production capabilities:
At present, a production line with a monthly capacity of 100 tons is operating at our Tokushima Plant. We are considering increasing and strengthening production facilities.

EXISTING MAIN BUSINESSES

Rigid-type polyurethane foam:
We are promoting applications as heat insulation materials.

Elastomers:
Our *Nisshinbo Mobilon* line of products has gained recognition worldwide. Unlike rubber, this product does not contain sulfur or plasticizers and is therefore unlikely to trigger any allergies. *Nisshinbo Mobilon* is a trailblazing elastomer product. Applications span a wide range from apparel materials to industrial materials.

Carbon products:
Used mainly in semiconductor production components and other electronics sectors. Also used in electrodes for plastic matching during the semiconductor manufacturing process.

Molded plastic products:
The Nippon Kohbunshi Group offers cross-flow fans for air conditioners, automobile components, and others.

Domestic
Manufacturing plants: 3
Overseas
Manufacturing plants: 2 plants in Thailand and China

ELECTRONICS

- **Through consolidated subsidiaries and equity-method affiliates, we engage in the manufacture and sale of semiconductors and electronic devices and are involved in the information/telecommunications business.**
- **We are focusing on cultivating new businesses, targeting the automobile field.**

Business Companies:

Consolidated:

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

Equity-method affiliates:

Japan Radio Co., Ltd.
Nagano Japan Radio Co., Ltd.

Main Products

Semiconductor devices, microwave tubes and radar components, microwave application products, Wireless communications equipment, medical-use devices, measuring devices

NJU26040 digital signal processor

Main Product Fields

Analog semiconductors:
Possesses superiority in analog semiconductor technologies, beginning with operational amplifiers.

Microelectronics and microwave technologies:
Have applied technologies for information communication and audio-visual fields by combining information processing semiconductor technologies and information transmission microwave technologies.

REAL ESTATE LEASING

- **Our Real Estate Leasing business involves efficiently utilizing unused land to contribute to earnings.**
- **As a large-scale project, a shopping center currently under construction at the former Tokyo Plant is scheduled to open in November 2007.**

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.

Ario Nishiarai shopping center (scheduled for opening in November 2007)

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 (more than a 50% share for laminators and more than a 90% share for simulators).
General-use machinery	Sheet metal machinery	• Response capabilities in building systems using our sales achievements
Precision processing	Mass-produced components for ABS and automobiles	• Precision-cut components processing, deburring and washing technologies and facilities development capabilities

Solar Simulator solar battery production equipment

Hyper CHOSHOKUSENKA X Series computer color matching system

Color Systems

Main product: CCM (computer color matching system)
Priority technology: Color tone know-how and response capabilities based on internal verifications that reflect our abundant experience in the response field.

Interview with the President

Takashi Iwashita
President

On February 5, 2007, Nisshinbo Industries, Inc. celebrated the 100th anniversary of its founding. During the past century, Nisshinbo has continued to steadily carry out its operations thanks to the support of shareholders, the loyal patronage of customers, the dedicated efforts of employees, including our predecessors, the understanding of residents of the local communities near our plants and business offices, and the cooperation of all our stakeholders. I would like to express my deepest gratitude to everyone for your support. Reaching the 100-year milestone is certainly an achievement representing a long journey in terms of a person's lifetime, but for a company this merely marks a transit point. To drive further growth, a company must continually retain its youthfulness and be brimming with strength and vigor.

Rather than a time for reflecting on the past, we regard our 100th anniversary as an ideal opportunity for renewing our commitment to achieving fresh growth. During the same year we celebrate our centennial, we are preparing to once again set sail on a new course of significant growth and aim to reward shareholders with the fruits of these efforts. I believe that achieving growth is the best means of repaying everybody for their loyal support to the present. This is our firm resolution as we look to the future.

Reforms for Driving Growth

Q 1. Could you briefly explain the initiatives you implemented and talk about your consolidated business results in fiscal 2007, ended March 31, 2007?

Fiscal 2007 was a year that saw Nisshinbo make steady strides in solidifying our foundation for achieving new growth as we start our 101st year of business. To this end, the Nisshinbo Group ambitiously promoted a host of initiatives based on “selection and concentration” and “promotion of amicable M&As,” which are core management policies of our “Three-Year Management Plan 2008” launched in April 2006.

Let me give you a few examples of these initiatives. In our Textiles business, we ceased operations at our Toyama Plant and withdrew from low-profit commodities in the domestic market, and have now completed the restructuring of our business for spun and woven products. From fiscal 2008, we intend to tailor our processing facilities for small-lot, multi-product production. Additionally, we will significantly scale-down unprofitable product categories and businesses and execute sweeping reforms to raise profitability, as part of structural reforms that will allow us to specialize in high value-added products. In Automobile Brakes, we finally attained profitability at U.S. subsidiaries that had continually posted losses since their establishment, thereby creating a solid structure capable of generating steady earnings in North America in the future. Regarding the Chemical business, we withdrew from such unprofitable businesses as soft-type polyurethane foam, *Airlight* FRU (glass fiber-reinforced urethane), and *“N’s VIP”* (vacuum insulation panels). At the same time, we re-directed the allocation of management resources toward three new pillars of business with high growth potential: electric double layer capacitors, bipolar plates for fuel cells, and *CARBODILITE*, Nisshinbo’s proprietary functional polymer based on *Carbodiimide*. We also integrated our Business Development Division with the Chemical Products Division to form the new Chemical Division as part of important organizational reforms to overhaul our structure for effectively cultivating new businesses. In the Electronics business, Japan Radio Co., Ltd. and Nagano Japan Radio Co., Ltd. became part of the Nisshinbo Group as equity-method affiliates. With the addition of these two companies, we have built a support structure for business for electric double layer capacitors in preparation for the start-up of mass production in fall 2007. At the same time, we have formed a framework within the Group for doing business in such growth domains as information and wireless communications.

I feel that the series of measures we have implemented is already having a positive impact. However, rather than yielding immediate benefits, it could take several years or in some cases even longer for our reforms to truly bear fruit. I have always considered reforms as the only real means of achieving growth and will thus continue to vigorously promote reforms in the future. Thanks to these reforms, as well as the favorable turnaround in the business environment, as underscored by an overall rebound in the Japanese economy, Nisshinbo achieved steady growth in consolidated business results in fiscal 2007. Consolidated net sales increased 12.3% from the previous year to ¥312,825 million (US$2,651 million). Operating income rose 9.8% to ¥11,551 million (US$98 million),

Three-year Management Plan 2008

Nisshinbo Industries, Inc., has drafted its new medium-term “Three-year Management Plan 2008” covering the period from April 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.

underpinned by improved earnings of a U.S. subsidiary in the Automobile Brakes business. Net income soared 35.1% to ¥15,107 million (US$128 million).

Q 2. Could you bring us up to date on the progress of Nisshinbo's new three-year management plan and your priority tasks in fiscal 2008, ending March 31, 2008?

We are transitioning from stock-type management, which emphasizes utilizing assets to achieve growth, to flow-type management, which stresses profits in each fiscal year. Through our three-year management plan, we are making our utmost efforts to further advance our reforms and undertake activities that spur further growth.

Although our actual business results might give the impression that progress in attaining the numerical targets of the three-year plan is slightly lagging, I foresee these reforms picking up speed during the second year as we work to attain our targets. As a crucial core policy in promoting our business, we will resolutely execute "selection and concentration," and strive to raise ROE.

Let me now describe some of the specific measures we will take in each business. In the Textiles business, we will reevaluate the contents of our business, introduce cutting-edge processing facilities, and strengthen our development structure. In our Automobile Brakes business, we will proceed with the preparation of plans for advancing into India, a market with the potential to serve as a new pillar of growth. Looking at our Chemical business, in November 2007 we will start operating a new plant for mass production of electric double layer capacitors. At the same time, we have created a conceptual framework for supporting investments in facilities in the run-up to mass production of bipolar plates for fuel cells. We will also strive to achieve profitability for *CARBODILITE* products by expanding sales in this business.

One factor hindering the progress of our three-year plan has been slumping the inability of New Japan Radio Co., Ltd. to reach its targets in the Electronics business. We recognize this situation mirrors inadequacies in developing products matched to market needs. However, I am pleased to report that the product development situation has recently brightened, and that in fiscal 2007 New Japan Radio attained certification for ISO/TS16949, an international quality assurance standard for the automobile industry. New Japan Radio has now firmly put into place a structure for supplying products to the automobile industry, Japan's largest industry. Thanks to its involvement in automobile brakes and ABS, the Nisshinbo Group is well positioned with a solid customer base of automakers and components manufacturers. In the future, we expect to expand business by guiding New Japan Radio's business toward these customers, which is an excellent example of how we are utilizing Group synergies.

Q 3. How would you assess growth potential for your three new Chemical businesses?

Given that actual markets for these three businesses—electric double layer capacitors, bipolar plates for fuel cells, and *CARBODILITE*—are still in embryonic stages, it is difficult to make any categorical forecasts. We anticipate that the automobile industry will be the main target market for these three businesses. As you are well aware, the automobile sector is enormous. With this in mind, even based on our most-conservative estimates, the full-scale use of these products would likely have the impact of doubling Nisshinbo's current non-consolidated sales. Numerically speaking, the value of sales could thus conceivably rise from around ¥137,000 million to nearly ¥300,000 million.

Also, because these three businesses are closely aligned with the value of "global environment protection," for which there are extensive needs in contemporary society, we envision particularly rich future potential for these businesses. Each of these three products is particularly well matched to the wide-ranging environmental protection needs of human society. Specifically, our electric double layer capacitors have applications in energy conservation, while bipolar plates have uses in clean energy and residential-use fuel cells and *CARBODILITE* can be used as an additive for plant-derived plastic components.

My own pet theory is that businesses in fields closely attuned to the essential needs of humans and their aspirations will definitely achieve growth, even if there are twists and turns along the way. As we remain vigilant of the needs of human society, when deciding whether to fully launch a business, a paramount consideration must be whether we possess proprietary and unique technologies that cannot be emulated by competitors. If a misjudgment is made, then a business will end up being an empty dream with no viability and will be easily overtaken by competitors.

Fortunately, our three new business pillars are founded on Nisshinbo's highly original technologies, making it difficult for any competitor to catch up to Nisshinbo. Our technologies are clearly in the vanguard of the times and have the potential to become the de facto standard globally.

Q 4. Could you describe how you are proceeding with M&As, which represent one effective growth strategy?

An inherent feature of M&As is the purchase of both business domains and time. For Nisshinbo, M&As are not a means of achieving the end result of temporarily increasing sales and earnings. Similarly, Nisshinbo believes M&As offer no value unless this course of action brings sustainable growth. Additionally, Nisshinbo believes that M&As must be amicable. However, the most crucial aspect of M&As is not whether target companies can actually be purchased, but whether these

FOCUS 1

Role of the New Chemical Division

A division for cultivating growth businesses that utilize proprietary technologies

As a growth measure embodying "selection and concentration," we integrated the Business Development Division and the Chemical Products Division to form the new Chemical Division. The establishment of this division has two broad aims.

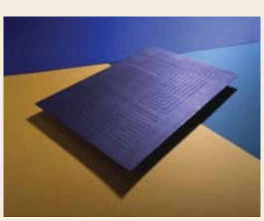
1) Establish a structure for new businesses that have entered the full-fledged business development stage.

In each of our new growth businesses of electric double layer capacitors, bipolar plates for fuel cells, and *CARBODILITE* functional chemicals, we aim to establish structures that integrate sales, development, and manufacturing as well as to raise business development speed and efficiency. Moreover, we will concentrate the allocation of human, financial, and other management resources toward these fields while also realizing quick decision-making capabilities.

2) Reevaluate existing businesses

We have been striving to reevaluate and carry out selection and concentration in our existing businesses from the perspectives of profitability and future potential. To this end, we withdrew from such sectors as *Airlight* FRU (fiber-glass reinforced urethane), in which Nisshinbo's competitiveness was weak, and streamlined our business into the three fields of heat insulation materials, elastomers, and carbon.

By taking these steps, we have dismantled divisional barriers and consolidated our isocyanate (a main raw material of urethane) and carbon technologies, which functioned as core technologies cultivated over many years in our chemical products business. These measures will also allow us to concentrate the reallocation of assets toward growth business fields.



Mold carbon bipolar plate

CARBODILITE

companies can be skillfully managed and bring benefits to the Nisshinbo Group after acquisition. Hostile takeovers inevitably lead to unequal superior-subordinate relationships and generate no positive benefits. With this in mind, Nisshinbo's policy is to pursue only amicable M&As and avoid hostile acquisitions. A main challenge in pursuing M&As is the difficulty in finding a suitable target company. In our own M&A activities, Nisshinbo was able to smoothly incorporate Japan Radio, New Japan Radio, and Nagano Japan Radio into the Nisshinbo Group, mainly because Nisshinbo and these companies shared the common trait of being manufacturers and because we had forged relationships of trust through long years of business transactions, which formed a solid base for undertaking these M&As.

Our M&As have yielded a host of benefits. In our electric double layer capacitors business, under the direction of Nisshinbo, we have created a technology support structure and built a foundation for generating synergies while also securing a solid position in a new growth domain. We now stand at the threshold of the so-called ubiquitous society, an advanced information-intensive society. The national government is thus devoting great efforts to nurturing information-based and ubiquitous-related businesses. Making the Japan Radio Group a member of the Nisshinbo Group was particularly significant because this provides the Nisshinbo Group with access to the unlimited growth potential of the information and telecommunications fields.

M&As have also played a key role in the Textiles business as well. Determined to secure a new pillar of growth, we carried out M&As as a springboard for launching a full-scale foray into downstream businesses, where Nisshinbo previously had virtually no presence. One such company acquired was CHOYA CORP., a shirtmaker. During fiscal 2007, CHOYA posted a sizeable loss amid sluggish business results. Nonetheless, we have identified the problems underlying this poor performance and have introduced a new management team capable of solving these issues. Conversely, this sluggish performance has provided valuable experience that we will utilize to achieve growth in the future. Having entered downstream sectors with a sufficient awareness of the inherent risks, I am confident we can utilize the lessons learned to develop capabilities for achieving

FOCUS 2

Electric Double Layer Capacitor

Realizing Group synergies to unlock new potentials

Among our three new business pillars, our electric double layer capacitors business is making particularly noteworthy progress in its commercialization schedule, and demonstrates strong promise for rapid growth.

Electric double layer capacitors are electric power storage devices capable of storing direct currents and do not utilize a chemical reaction such as with batteries. Because of their small electric power storage capacities, up until now limited applications of these devices have included circuits. However, advances in technologies have enabled large storage capacities, opening the door to new applications such as motors and other high-power applications.

The main characteristics of electric double layer capacitors are that compared with batteries, these capacitors can be charged and discharged in extremely short times and they have long life that can be aptly described as semi-permanent. Moreover, these capacitors are environment-friendly products because they contain no heavy metals and help reduce waste material because of their long life. The market for electric double layer capacitors is expected to experience large growth as the use of environment-friendly energy gains momentum. There are also high hopes that electric double layer capacitors will find important applications in hybrid and other vehicles. On the other hand, there are still several remaining challenges to market growth, which include increasing the volume of electricity once it has been stored and further lowering costs.

Offered under the *N's CAP* brand name, our electric double layer capacitors were developed utilizing Nisshinbo's originally developed ionic liquid while amalgamating Japan Radio's unique equalizing circuit design technologies. Our electric double layer capacitors boast the world's highest-level capacity, with high-output charge and discharge capabilities.


Electric double layer capacitor


Electric double layer capacitor *(N's CAP)*

We are already achieving growth in business for electric double layer capacitors used as power sources for transportation equipment, and from the beginning of the year we have experienced a surge in new inquiries for applications in automobiles. In view of these factors, we will start the operation of mass-production facilities in November 2007.

Our electric double layer capacitors business symbolizes the Nisshinbo Group's synergies. Specifically, Nisshinbo handles manufacturing of capacitor cells, which function as the backbone, while Japan Radio handles unique equalizing circuit design technologies. Meanwhile, New Japan Radio undertakes chip making, while Nagano Japan Radio is responsible for modularization. In 2005 New Japan Radio became a Nisshinbo subsidiary, followed by Japan Radio and Nagano Japan Radio becoming equity-method affiliates in 2006. As a result, we have now established a foundation for our collaborative structure. By actively promoting personnel interchanges as well as accelerating decision-making, we aim to speed up commercialization and believe that we will further raise our competitiveness by bolstering confidentiality.

true growth in downstream sectors, as we remain undaunted in meeting the challenges of these businesses.

Q 5. What is the central focus of your growth strategy?

Although I have repeated this frequently, I cannot overstate the importance of "selection and concentration." This is one of our main approaches to cultivating new businesses, but as I explained earlier, it is not our only approach. Many of our existing businesses can be characterized as mature businesses. Nonetheless, within these businesses, I believe there is definitely room for growth in domains closely related to the needs of human society. From this perspective, the implementation of "selection and concentration" is indispensable.

FOCUS 3

New Domains within the Textiles Business

Generating growth in mature businesses

Undoubtedly, there are growth domains even within the mature textiles industry. To firmly seize such growth opportunities, Nisshinbo continuously implements its policy of "selection and concentration."

The current textiles market is characterized by the two major trends of polarization between lower-priced products and distinctive high value-added products and rising environmental consciousness. Regarding market polarization, we believe there are areas for growth in the domains of health and comfort. A crucial key to capturing markets is to develop high value-added products and technologies that match consumer needs. Accordingly, we have developed an abundance of proprietary technologies that utilize nanotechnologies. These include *AG Fresh* with anti-bacterial and deodorizing functions, and *Dual Clean*, possessing water-absorbing and anti-soiling functions. We are also focusing on downstream strategies for a wide-ranging application of technologies, including technology tie-ups with other companies. Prime examples of collaboration include *NON CARE* wrinkle-free shirts that utilize anti-puckering technologies of Taltech Limited, as well as jeans that apply the resin processing technologies of the Chemical Division.

Regarding rising environmental consciousness, we are developing and expanding sales of natural fiber textiles such as bamboo fibers and banana fibers as well as developing "Cool Biz" and "Warm Biz" products.

At the production level as well, we have transferred domestic production of general-use products to overseas locations and have now completed this transfer with the closing of the Fuji Plant in fiscal 2007. By taking such initiatives, Nisshinbo has completely ceased production of commodities in Japan and is now concentrating on high value-added processed products.

Nanoscience series

Ecosys 28°C shirts keep wearers cool in summer

As specific examples, in our Textiles business we have developed the highly functional composite material, *GAIACOT*, which has anti-bacterial and deodorizing functions, as well as appealing new functions such as the ability to effectively inactivate the avian influenza virus under certain conditions. In precision equipment, we lead the Japanese market in providing manufacturing and testing facilities for solar energy devices and modules, which have attracted widespread attention as a promising source of clean energy. The three new businesses that I have discussed are all well suited to address society's most-pressing needs, such as global environmental protection, as well as people's desire for long and healthy lives.

Next I would like to talk about the meaning of "grow our businesses," which basically entails orienting our business domains to the needs of human society. I believe this is truly the high road to growth. Such efforts to "grow our businesses" must also be based on "pursuit of CSR" in addition to "selection and concentration." We must also focus on ensuring harmony with all stakeholders. If we extend these efforts to encompass shareholders, customers, employees, residents of local communities and, by extension, people throughout Japan and the world, then ultimately we will earn acclaim from humankind.

In starting a new stage of growth as we begin our 101st year of operation, we must reevaluate our founding corporate moral principle of "companies are public organs" and our corporate creed of "consistent integrity."

Although Nisshinbo exists as a private company that pursues profits, our corporate moral principle of "companies are public organs" also implies that Nisshinbo has an essential role in contributing to human society through activities that transcend the attainment of profits. Our corporate creed of "consistent integrity" emphasizes honest and humble conduct in undertaking our business activities, always keeping in mind corporate and human ethics. In this context, our corporate moral principle and corporate creed represent the starting point of CSR. Taking the high road to growth thus closely overlaps with our management principle of "contributing to society through corporate activities."

The corporate principle and corporate creed we have resolutely adhered to for the past 100 years will remain unchanged. Losing sight of these and turning our attention only to the pursuit of short-term profits would likely prevent Nisshinbo from realizing sustainable growth and prosperity.

Q 6. Could you describe some of the specific measures you are implementing in "pursuing CSR"?

During the past 100 years, we have continually carried out our operations without becoming involved in any type of scandalous conduct, which I attribute to our corporate principle and corporate creed having deeply permeated the entire Nisshinbo Group as Nisshinbo's corporate culture. As we begin our 101st year of operation, it will be extremely crucial to once again demonstrate our firm stance in promoting the corporate principle and corporate creed.

As one concrete measure, in fiscal 2007 we launched the CSR Management Center as an organization under the direct control of the President. Although specific details are explained in Nisshinbo's Approach to CSR (pages 13-15), the following are the principal functions handled by the CSR Management Center.

- Arranges regulations prescribing our corporate governance and continually checks to ensure these regulations are obeyed.
- Strengthens auditing to guarantee the fairness and accuracy of financial documents.
- Contributes to global environmental protection through business activities and focuses on occupational safety in creating workplaces where employees can work with peace of mind.
- Promotes two-way communication with stakeholders.

Nisshinbo operates the CSR Management Center as a core organization within our CSR framework.

Further bolstering our CSR efforts, we also set up a system that allows persons inside or outside the Nisshinbo Group to report any activities they believe do not conform to our CSR stance. Under this system, the privacy of the reporting party is completely protected and the Corporate Ethics Committee, which is under the direct authority of the President, investigates reports, considers countermeasures, and promptly corrects any deficiencies.

We also regard management-related reforms as a crucial element of CSR. As examples of such reforms, we have introduced outside directors on our Board of Directors and shortened the terms of office of directors to one year.

Looking ahead, if we can continually refocus on our origins, namely contributing to humankind, then I am confident we can avoid any type of ethical impropriety. As we are in an age where priority is placed on earning profits,

taking every opportunity to ensure a thorough awareness of our origins becomes even more important.

Q 7. Could you give us your thoughts regarding measures for returning profits to shareholders? Finally, do you have any message for shareholders and investors?

I believe it is essential to achieve growth to raise corporate value, earn high acclaim from investors and the market, and ultimately increase our share price. This is the essence of returning profits to shareholders.

In fiscal 2007, we paid annual cash dividends per share of ¥15.00 (US$0.13), an increase of ¥5.00 from the previous year. This ¥5.00 increase was paid in the form of a special dividend to commemorate our centennial. From fiscal 2008, but will strive to further return profits to shareholders, which includes raising dividends, depending on improvements in profits.

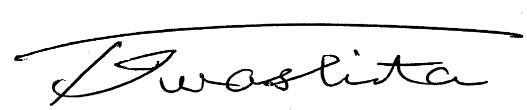
As another means of returning profits to shareholders, we also buy back our own shares as needed. In fiscal 2007, we paid annual

dividends totaling approximately ¥3,000 million, repurchased our own shares for approximately ¥7,200 million (5,850 thousand shares, or 2.8% of outstanding shares issued) based on a resolution by the Board of Directors, and retired 6,500 thousand shares. The total redistribution ratio (total payout ratio), which is the total amount of dividends and own shares repurchased as a proportion of consolidated net income, thus amounted to 67.5%. Considering that the average corresponding payout ratio for listed Japanese companies during the same period was 55.0%, we take pride in our considerable redistribution to shareholders.

We aim to distribute around the same amount to shareholders in the fiscal year ending March 31, 2008. Regarding share buybacks, any time Nisshinbo's further growth demands stepped-up investments, we will consider the benefits and drawbacks of share buybacks upon considering whether corporate value can best be raised by investments or by dividend payments.

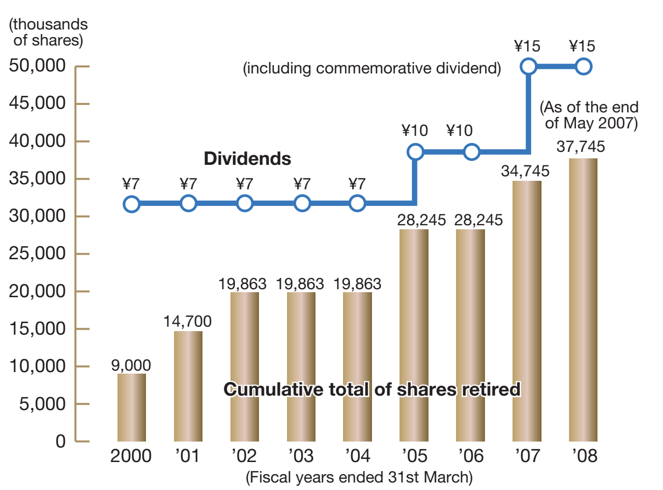
I believe that an important mission has been entrusted to me as president of Nisshinbo. I recognize that my duty is to once again place a reinvigorated Nisshinbo on a new growth track. The only means of realizing this growth is to earnestly undertake reforms. There is no denying that reforms also bring pain, and there is no assurance such reforms will even bear fruit during my tenure as president. Reforms are never easy. However, I hope to reward shareholders by forging a path that will allow Nisshinbo to become a corporate Group that attains growth over the long term.

I ask for your understanding of the approach we are taking as well as for your continued support over the medium and long terms.



Takashi Iwashita
President

Yearly Changes in Annual Dividends and Shares Retired



Nisshinbo's Approach to CSR

CORPORATE PHILOSOPHY OF THE NISSHINBO GROUP

- We shall contribute broadly toward enhancing the comfortable lifestyles and cultures of people around the world.
- We aim to achieve harmony with society and the global environment and conduct business activities with honesty and integrity based on the belief that companies are public organs.
- We aim to raise corporate value and become a corporate group with a strong presence in the 21st century.

STRUCTURE FOR PROMOTING CSR ACTIVITIES

The Nisshinbo Group's basic policy is to promote CSR activities on a comprehensive basis throughout the entire Group. 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

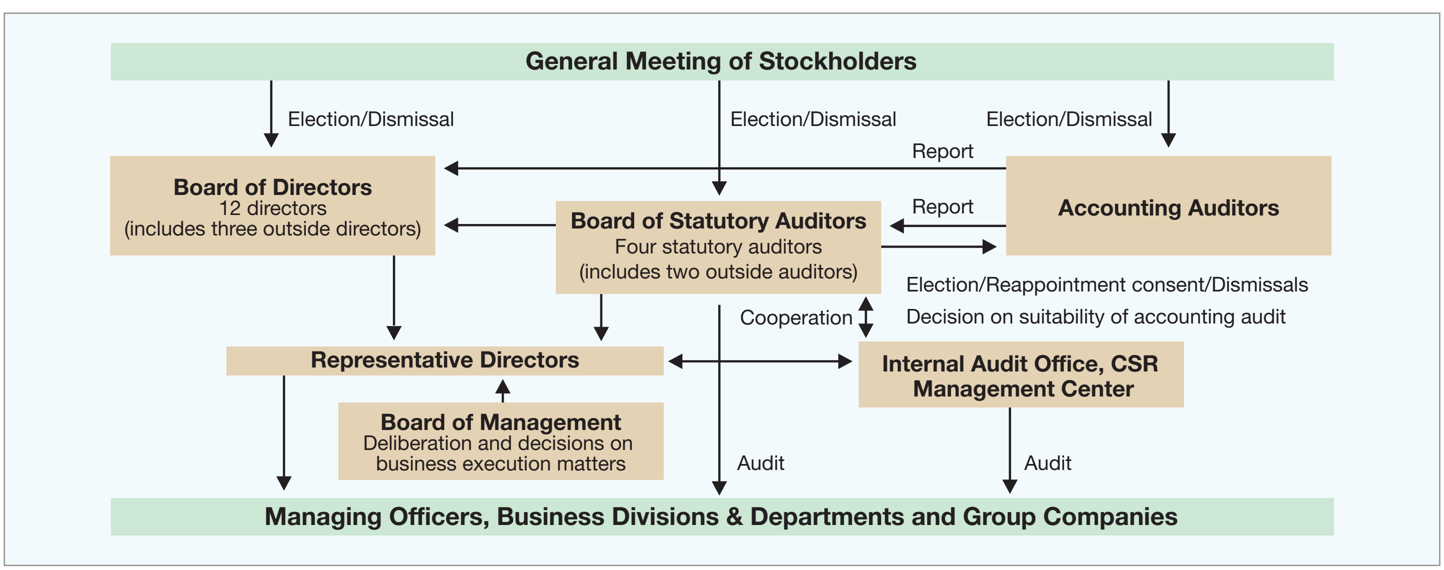
Nisshinbo's corporate governance focuses on raising profits for shareholders, and the Company works to ensure management transparency, strengthen its responsibilities for providing explanations, thoroughly adhere to corporate ethics, and make speedy and accurate management decisions.

Nisshinbo is strengthening its corporate governance under the management structure described below. With a Board of Directors consisting of 12 members (including three outside directors), we are ensuring quick decision-making for management strategies and policies, while also strengthening functions for surveillance of the execution of business. Also, the term of office for directors is now just one year, which allows us to better clarify the management responsibilities of directors in each fiscal year. As part of efforts to further raise management transparency, we adopted an outside director system that includes three outside directors. Additionally, we introduced a managing officer system aimed at vitalizing the Board of Directors by separating management decision-making and business execution functions.

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 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. Extraordinary meetings of the Board of Directors are also convened when necessary. Three outside directors attend the meeting of the Board of Directors for the entire duration of the meeting and monitor management activities. Four auditors

Nisshinbo's Corporate Governance Structure



(including 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 improving our auditing.

As another important facet of its corporate governance, Nisshinbo also receives management advice from legal counsel, has concluded auditing agreements with several certified public accounting offices and thoroughly 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

Companies are also members of society and thus have an obligation to strictly adhere to the laws and ordinances of society. The business and economic activities of companies must also be carried out in accordance with the rules and common practices of society. All Nisshinbo employees must maintain a strong awareness of the need for adhering to the laws, ordinances, and common practices of society. It is also essential that Nisshinbo's officers and managers take the self-initiative in strictly obeying laws while providing guidance and oversight for regular employees in this area.

Determined to promote thoroughgoing compliance, we have clarified our compliance policies in our Corporate Code of Conduct 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 express specific matters requiring stringent compliance and that are essential in the respective roles and work responsibilities of all members of management and general employees. 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 Privacy Policy. 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 Ordinary Meeting of Shareholders, financial results, securities reports, 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

Response to Risk in Business Activities

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 Code of Conduct.

Response to Risk in Carrying Out Group Operations

Nisshinbo operates a Risk Management System that allows for the use of rational and optimal risk management methods from the perspective of the whole Nisshinbo Group, thereby enabling Nisshinbo to raise corporate value. The president of Nisshinbo (parent company) is the person in charge of the Risk Management System and appoints Nisshinbo directors to oversee risk management for the entire Group as well as persons responsible for risk management in each division.

Nisshinbo has designated each individual risk management category—including risks related to the protection of personal information, monitoring confidential management information, and ensuring environmental protection and quality in accordance with ISO—as subsystems of its Risk Management System.

Additionally, Nisshinbo has designated various committees, including the Corporate Ethics, Human Rights, Environmental Affairs, Product Safety, Intellectual Property, and Safety and Hygiene committees, as sub units of its Risk Management System.

In fiscal 2007, Nisshinbo also positioned Legal Risk countermeasures as a priority risk management category. In doing so, Nisshinbo has identified 11 laws and ordinances (including related laws and ordinances) with a significant impact on management or the operation of businesses. Nisshinbo is implementing inspections using check sheets at its headquarters and business offices to ensure adherence to these laws and ordinances. In fiscal 2008 as well, we will continue to focus on Legal Risk countermeasures as a priority risk management category and will expand our inspections to the entire Nisshinbo Group.

Anti-takeover Measures

At the General Meeting of Shareholders held in June 2006, a resolution was approved for a policy to respond to any purchase of Nisshinbo stock for the purpose of giving a specific shareholder more than a 20% proportion of voting rights or to any purchase of Nisshinbo stock ultimately resulting in a specific shareholder holding more than a 20% proportion of voting rights. It was resolved that this anti-takeover measure be adopted at the first Board of Directors Meeting convened after the conclusion of the General Meeting of Shareholders. Please visit our home page at http://www.nisshinbo.co.jp/english/ for specific details on the anti-takeover plan.

ENVIRONMENTAL MANAGEMENT

As a manufacturer, Nisshinbo recognizes that environmental management is an extremely vital management issue. Adhering to the Environment Charter, our core policies are to continually implement environmental protection initiatives, effectively utilize resources, reduce the environmental load of our operations, develop environmentally conscious products, and raise environmental protection awareness, with these efforts centered on the Environment and Safety Office. Moreover, we are also placing high importance on "providing the world with products that contribute to environmental preservation."

We provide information on the details of these products and related activities on our home page.

In autumn 2008, we plan to issue an Environmental Report as part of our commitment to providing information to stakeholders.

Environment-friendly Products and Technologies

Chemical Products	**Electric double layer capacitors** *(N's CAP):* These capacitors offer energy-saving performance. **Bipolar plates for fuel cells:** These have clean energy-related applications. *CARBODILITE:* These products have applications as an improvement agent of the Bio-plastic (Polylactic acids).
Mechatronics	**Solar Photovoltaic Manufacturing Equipment:** We provide manufacturing equipments that makes up solar photovoltaic modules.
Textiles	**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 that are harsh on the environment. **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. *Kenaf 100GA:* This is a 100% wood-free fine paper made from kenaf. *POPLA:* Toilet paper made from recycled materials.

SOCIAL CONTRIBUTION ACTIVITIES

Adhering to the belief that companies are public organs, 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.

Promoting clean-up activities within local communities:
The Miai and Fujieda plants participated in riverbed clean-up activities, the Toyota Plant was involved in the "Industrial Region Clean Walk," and the Osaka Branch participated in "Clean Osaka."

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

HUMAN RESOURCES/EDUCATION

Nisshinbo provides mandatory education and training for all employees covering the areas of risk, personal information protection, monitoring of confidential management information (response to the Unfair Competition Prevention Law), and various management systems for environmental protection.

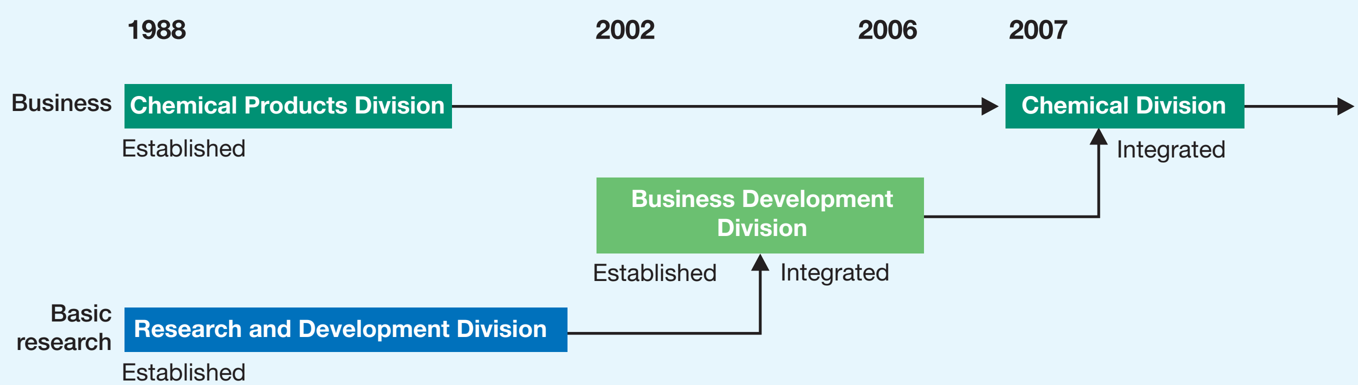
Nisshinbo has set up the Human Rights Team, and implements human rights enlightenment training every year for all employees. Additionally, we have established consultation counters at every business site for dealing with all types of harassment, as we actively implement measures for responding to and preventing various problems.

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.

NISSHINBO'S R&D AND NEW BUSINESS DEVELOPMENT

Nisshinbo's R&D has progressed from the basic research phase and has now entered the stage of commercialization. In other words, we have moved beyond the period for planting the seeds for future business to a period in which we will harvest these businesses. In looking back at the transition of our R&D organization, the changes undergone by this organization have particularly accelerated since 2000.

History of Nisshinbo's R&D Structure

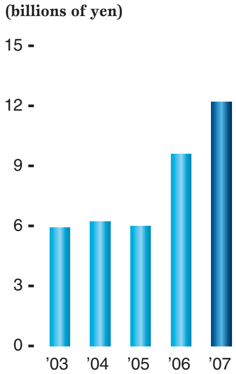


R&D POLICIES

- Progress with R&D, mainly in growth fields that consider the needs of human society.
- Raise the level of our core technologies.
- Launch unique products that cannot be duplicated by competitors.
- Refine our original technologies and strive to secure No.1 positions that cannot be matched by competitors while working toward continual technological improvements.

Research and Development Center

R&D Expenditure
(billions of yen)



Number of patents at the end of fiscal 2007 (non-consolidated basis)		
Domestic	202	(632 patent applications currently submitted)
Overseas	472	(406 patent applications currently submitted)

International Technical Agreements

As licensee:
- Taltech Limited of the British Virgin Islands for Pucker Free Seam Technology
- Meritor Heavy Vehicle Braking Systems (UK) Limited of the U.K. 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 (Negotiations in progress regarding change in line with expiration of contract)

Each of our next-generation growth products—electric double layer capacitors, *CARBODILITE* functional chemicals, and bipolar plates for fuel cells—was developed in accordance with the above R&D policies. In addition, we are striving to find applications for these products in the creation of various products for protecting the environment, which is an issue shared by all humankind. Our new growth products are expected to find uses in a wide range of domains that include power assists for hybrid cars, reformers for realizing high performance in Bio-plastic (Polylactic acids), and residential-use fuel cells (cogeneration systems), as well as for installation in fuel cell vehicles of the future. From a global perspective as well, these products represent truly unique technologies.

The Research and Development Center serves as a company-wide incubator for new businesses while also handling development functions for the chemicals business. Additionally, our other business divisions each possess their own respective R&D organizations.

AUTOMOBILE BRAKES BUSINESS

• Brake Research & Development Center (Tatebayashi Plant, Gunma Prefecture)

This center focuses on satisfying customer performance requirements and developing so-called green materials that contain no harmful substances as a response to protecting the Earth’s environment.

TEXTILE BUSINESS

• Textile Research and Development Center (Miai Plant, Aichi Prefecture)

This center strives to further raise our highly advanced textile processing technologies. Our highly functional material, *GAIACOT*, which has outstanding anti-bacterial and deodorizing functions, has been recognized for its effectiveness in deactivating the avian influenza virus under certain conditions. We are progressing with R&D focused not only on applications for *GAIACOT* in apparel but also in medical, industrial, and agricultural fields.

PAPER PRODUCTS BUSINESS

• Product Development Center (Fuji Plant, Shizuoka Prefecture)

This center undertakes original research based on the theme of creating people- and environment-friendly products. The center aims to create a film business using plant-derived resin basic materials that utilize coating technologies.

Management Discussion and Analysis

Operating Results

Overview

During the fiscal year under review, the recovery of the Japanese economy continued, fueled by private-sector demand, as improvements in employment and income amid favorable corporate earnings spread to the household sector.

Amid this environment, Nisshinbo implemented a host a measures based on “selection and concentration” and “promotion of amicable M&As,” which are the core management policies of the Three-Year Management Plan 2008, our new medium-term management plan. In line with these policies, we withdrew from unprofitable chemicals products businesses while working to cultivate our three new businesses, namely electrical double-layer capacitors, bipolar plates for fuel cells, and *CARBODILITE*.

In December 2006, we added Japan Radio Co., Ltd. and Nagano Japan Radio Co., Ltd. to the Nisshinbo Group as equity-method affiliates, thereby further progressing with an expansion of our business domains in such high-growth-potential businesses as the information/ telecommunications and electronics businesses.

Results of Operations for Fiscal 2007 Compared with Fiscal 2006

During fiscal 2007, we recorded an increase in sales, due mainly to the full-year contribution of business results from New Japan Radio Co., Ltd., which became a consolidated subsidiary in the second half of fiscal 2006, and increased orders in Automobile Brakes, which reflected robust automobile production from Japanese and Korean automakers. Accordingly, we posted a 12.3% rise in consolidated net sales to ¥312,825 million (US$2,651 million), thus breaking our previous all-time high for net sales recorded in fiscal 2006.

Cost of sales rose 12.0% from the previous fiscal year to ¥257,665 million (US$2,184 million), but cost of sales to net sales declined 0.2 percentage point to 82.4%. Selling, general and administrative expenses rose 14.8% to ¥43,609 million (US$370 million) and costs and expenses increased 12.4% to ¥301,274 million (US$2,553 million). As a result, operating income amounted to ¥11,551 million (US$98 million), an increase of 9.8%.

Interest and dividend income rose ¥500 million to ¥2,745 million (US$23 million), reflecting improved corporate earnings along with the continued recovery in the Japanese economy. On the other hand, interest expenses increased ¥96 million to ¥1,229 million (US$10 million). Equity in earnings of affiliates rose ¥2,161 million to ¥4,178 million (US$35 million), owing to such factors as contributions made by the addition of Japan Radio Co., Ltd. and Nagano Japan Radio Co., Ltd. to the Nisshinbo Group as equity-method affiliates.

We recorded a gain of ¥831 million (US$7 million) on the sale of property, plant and equipment, a ¥908 million difference compared with a loss recorded in the previous fiscal year. Gain on sale of securities declined ¥3,064 million to ¥10,668 million (US$90 million). On the other hand, impairment of long lived-assets declined ¥4,087 million to ¥1,328 million (US$11 million). The recording of impairment of assets reflected the respective write-downs of assets to recoverable amounts, due to a decision to scrap and dispose of a portion of assets along with a rebuilding of domestic production facilities in the Textiles business and a restructuring of the Chemical Products business, and because of the unlikelihood of utilizing idle assets of the former Nagoya Plant in the immediate future. The amount of these impairments was also less than recorded in the previous fiscal year at which time a portion of assets in the Textiles and ABS businesses and at a U.S.-based Automobile Brake business subsidiary were written down.

Loss on plant closures increased ¥2,162 million to ¥2,649 million (US$22 million) accompanying the closure of the Toyama Plant and the transfer of facilities from the Nagoya Plant. Also, retirement benefits paid due to restructuring of business operations increased ¥1,888 million to ¥1,969 million (US$17 million).

As a result, other income increased ¥2,238 million to ¥11,534 million (US$98 million), leading to an increase of ¥3,265 million in income before income taxes and minority interests to ¥23,085 million (US$196 million). After deducting income taxes of ¥6,289 million (US$53 million) and minority interests in net income of ¥1,689 million (US$14 million), net income jumped 35.1% to ¥15,107 million (US$128 million). Net income per share was ¥74.19 (US$0.63), a rise of ¥20.98 from the previous year, and ROE was 5.7%, up 1.1 percentage points from the previous fiscal year.

Dividends

Cash dividends per share for the year amounted to ¥15.00 (US$0.13), and included a special ¥5.00 commemorative dividend marking the Company’s 100th anniversary. Total dividends paid for the fiscal year amounted to ¥3,033 million (US$26 million). Taking a long-term perspective, Nisshinbo will follow a basic policy of maintaining stable dividends, while implementing diverse measures to redistribute profits to shareholders.

Segment Information

On April 1, 2007, we integrated the Business Development Division and the Chemical Products Division to newly form the Chemical Division. Along with this reorganization, the business scope of the Chemical Products and the Others segments have changed significantly in the fiscal year ending March 31, 2008. In this annual report, we have compiled forecasts taking these changes into consideration.

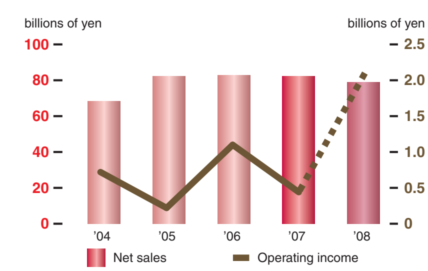
Textiles

Fiscal 2007 Results

- **Despite such positive factors as favorable sales of jeans and uniforms and expanded exports of fabrics to the Middle East, overall net sales and operating income in this segment declined owing to the reorganization of our Spandex business as well as sluggish results by CHOYA CORP., a subsidiary engaged in shirt sales.**

We closed our Toyama Plant, reorganized our domestic spinning and weaving facilities, and promoted production in optimal locations.

2007 **Net sales** ↓**0.8%** **Operating income** ↓**60.0%**



Figures for fiscal years 2004-2007 are actual amounts and figures for fiscal 2008 are estimates.

Fiscal 2007 Results

Japan's textile market was plagued by difficult conditions throughout the year that included an unavoidable rise in production costs resulting from high prices for raw cotton and energy.

In Japan, we recorded robust sales of uniforms and denim and posted increased exports of fabrics for use in ethnic apparel in the Middle East. Nonetheless, domestic net sales and operating income declined due to our withdrawal from the *Mobilon* dry spandex business in addition to a loss by CHOYA CORP. that reflected sluggish sales of "Cool Biz"-related products.

Regarding overseas subsidiaries, NISSHINBO (SHANGHAI) CO., LTD., a sales company in China, achieved sharp rises in sales and operating income on the back of favorable sales of raw yarn to Japan and yarn-dyed shirts to the United Kingdom. Additionally, Indonesia-based P.T. Nikawa Textile Industry, which possesses a stable customer base, also posted increases in sales and operating income, mirroring the effects of increased and strengthened production capabilities and the implementation of energy-reduction measures. Conversely, P.T. Gistex Nisshinbo Indonesia reported sluggish results due to soaring energy and other costs while Nisshinbo Do Brasil Industria Textil LTDA. unavoidably suffered declines in sales and operating income owing to falling product prices. As a result, overseas sales rose but operating income declined.

NON CARE

Due to the aforementioned factors, the Textiles segment posted declines in total sales and operating profit in fiscal 2007.

Business Performance and Initiatives

In general-use products, we ceased all domestic production while actively expanding this business overseas, including in Indonesia and China. On the other hand, in Japan we focused on raising our development capabilities and production technologies for creating high value-added products as we strive to respond to a polarization in consumer markets between low-priced items and distinctive high value-added products. We also strengthened our core businesses of shirts, denim, and uniforms while progressing with selection and concentration, with no business domains off-limits.

Business Development for Principal Products and Future Issues

In shirt fabrics, in addition to our technologies in *NON CARE* 100% cotton wrinkle-free wash-and-wear shirts, we will also raise our technologies in special twisted yarns, as we strive to develop our business for advanced wrinkle-free materials. In the future as well, we will progress with the development of proprietary materials that enhance ease-of-fit and comfort functions.

In denim, we will develop such functional products as stretch denim as well as materials that incorporate a sense of fashion. We will also progress with our own novel technology applications that include "non-fade jeans" that utilize chemical processing technologies. To further strengthen development capabilities and competitiveness, we plan to close our Harisaki Plant and consolidate all denim yarn production facilities into our Fujieda Plant.

In uniforms, we are developing and expanding sales of *Clean Tecta* highly advanced anti-soiling materials that utilize photocatalytic oxidized titanium. In the future, we will focus on developing and expanding sales of such new materials as composite materials and environment-related materials. Additionally, we are actively responding to new sales channels in such fields as medical and service fields.

One of our new fields is *GAIACOT*, an epoch-making nano-technology material with excellent anti-bacterial and deodorizing functions that include effectiveness in deactivating the avian influenza virus under certain conditions. We are currently developing applications for medical, industrial, and agricultural fields. We recently developed masks for medical hygiene fields and sales of

Highly functional masks utilizing *GAIACOT* these masks were commenced in February 2007 by ALOKA CO., LTD, a Nisshinbo Group company that manufactures and sells medical devices.

Automobile Brakes

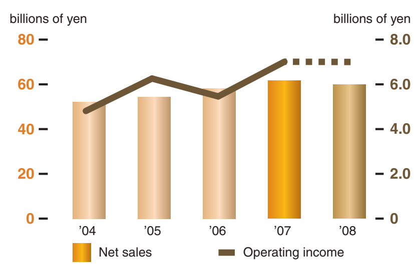
Fiscal 2007 Results

- **Net sales and operating income rose on the back of favorable business performance supported by a rise in the volume of domestic and overseas automobile production.**

Our two U.S.-based consolidated subsidiaries (Nisshinbo Automotive Corporation (NAC) and Nisshinbo Automotive Manufacturing Inc. (NAMI)) achieved profitability for the first time.

We completed the shifting of Automobile Brake operations from our Nagoya Plant to the Toyota Plant. We are currently progressing with initiatives for realizing efficient operation and raising efficiency.

2007 **Net sales** ↑ 6.3% **Operating income** ↑ 28.3%



Fiscal 2007 Results

Although the volume of domestic sales of automobiles declined from the previous fiscal year, the volume of domestic automobile production rose 5.6% to 11.50 million units amid favorable exports, enabling Japan to become the world's top vehicle manufacturer for the first time in 13 years. Overseas, Japanese and Korean automakers recorded robust local production. Under these circumstances, our core themes in Automobile Brakes in fiscal 2007 were "promoting globalization" "developing competitive products," "completing the project for transferring production to the Toyota Plant," and "securing staff competent in their field."

Nisshinbo Industries, the parent company, recorded an increase in sales due to new orders for friction materials in addition to an increase in domestic automobile production. However, operating income declined due to higher expenses for moving to the Toyota Plant as well as the effects of price hikes for steel, non-ferrous metals, and other raw materials.

In 2006, production and sales of automobiles in North America, excluding trucks, dipped 2.6% from the previous year to 16.56 million. Amid this environment, despite sluggish orders from the U.S. Big Three and European automakers,


Brake parts


Toyota Plant

attributable to soaring crude oil prices, Nisshinbo Automotive Corporation (NAC) and Nisshinbo Automotive Manufacturing Inc. (NAMI) posted increases in sales due to growth in orders from locally based Japanese automakers, which posted favorable results. NAC and NAMI also recorded their first operating profits due to an increase in net sales and the passing on of rising prices for steel and other raw material prices to product prices.

In Thailand, domestic sales of automobiles and exports were both favorable, and automobile production in 2006 rose approximately 6.3% from the previous fiscal year to 1.19 million units. Against this background, Nisshinbo Somboon Automotive Co., Ltd. posted an increase in net sales owing to a rise in orders in addition to orders for new products. On the other hand, operating income declined due to a steep rise in raw materials expenses.

In Korea, despite the effects of the appreciation of the Korean won, automobile production increased 3.9% to 3.84 million units from the previous year, underpinned by robust exports to North America and Europe. Saeron Automotive Corporation (SAC), a Korean-based subsidiary, achieved increases in net sales and operating income due to an increase in new orders for friction materials.

Saeron Automotive Beijing Corporation (SABC), a subsidiary of SAC in China, manufactures sintered products and friction materials for Chinese subsidiaries of Korean automakers. Amid an approximately 26.8% year-on-year leap in automobile production in China to 7.23 million, production and sales at SABC got firmly on track and net sales and operating income rose sharply.

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

Due to the previous activities, overall sales and operating income in the Automobile Brakes segment increased.

Business Performance and Initiatives

With friction materials as a core business, we will progress with the development of products that ensure a high level of customer satisfaction while proceeding with various global responses. Specifically, the Automobile Brakes segment is strengthening its product development capabilities, global response capabilities, and competitiveness of domestic bases, which will lead to an expansion in sales. In addition, we are bolstering our framework for responding quickly to shifts in demand and will push ahead with our cost-reduction activities.

Looking at global markets, automobile production in China and India is expected to grow in the future. In the Chinese market, SABC is responding to this trend and steadily increasing its business. In India as well, Rane Brake Linings

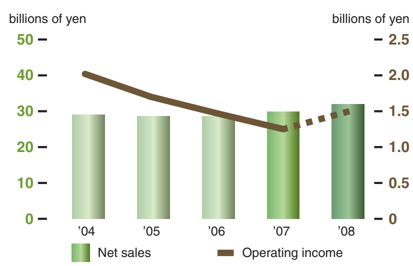
Ltd., in which Nisshinbo holds a 10% equity share, is steadily building on its achievements, which include the securing of a 50% share for friction materials for compact vehicles in the market for locally assembled new vehicles. In the future, while looking at trends among our automaker customers, we will focus on flexible responses, including collaboration with other companies and establishing local subsidiaries, as we efficiently expand and upgrade our global supply structure.

Papers

Fiscal 2007 Results

- **Although net sales rose amid robust sales of household papers, fine papers, and developed synthetic papers, the severe impact of sharply rising raw material and fuel prices dragged down operating income.**

2007 **Net sales** ↑ **4.5%** **Operating income** ↓ **15.2%**



Fiscal 2007 Results

In household papers, we recorded increases in sales volume and net sales due to expanded sales of distinctive products as well as to last-minute demand following price hike announcements by major paper manufacturers. However, operating income for household papers declined owing to rising costs triggered by soaring raw material and energy expenses, in addition to the slow permeation of product price increases.

In the speciality paper field, sales of such high-quality printing papers as *VENT NOUVEAU* and *ARABEL* remained firm, while sales of plastic card products, such synthetic papers as back-lighting displays, and telegraph-related papers all recorded steady sales increases. Additionally, consolidated subsidiary Nisshinbo Postal Chemical Co., Ltd. recorded robust sales of software and thermal ribbon, among others. These favorable results compensated for the effects of rising raw material and energy expenses and supported increases in net sales and operating income in the speciality paper field.

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

Business Performance and Initiatives

In household papers, we are undertaking initiatives for strengthening our business for such distinctive products as our *COTTON FEEL* and *SHOWER ROLL* brands. We are also strengthening our brand capabilities by launching *COTTON FEEL FINE*, a higher-grade product category compared with previous products, and by offering *SHOWER ROLL* toilet paper in a greater variety in terms of the number of rolls.

High-quality *VENT NOUVEAU* printing paper series

At the production level, we are bolstering facilities at our Shimada Plant and at Tokai Seishi Co., Ltd. On the other hand, we expect raw material and fuel costs to rise sharply in the short term, and we will thus work to improve profitability by making price revisions that reflect these higher costs.

In the speciality paper field, we will secure a solid earnings base by expanding sales and developing new products in high-quality printing papers and achieve further growth in such fields of strength as plastic card products and back-lighting displays while also expanding our business domains through cooperation with other companies. As part of these efforts, in June 2007 we carried out an amicable M&A with packaging processing company Daiwa Shiko Co., Ltd., and made this company a consolidated subsidiary. This acquisition was aimed at attaining synergies and further developing our operations in the packaging market. In synthetic papers, we are creating new film businesses that utilize plant-derived resins as basic materials.

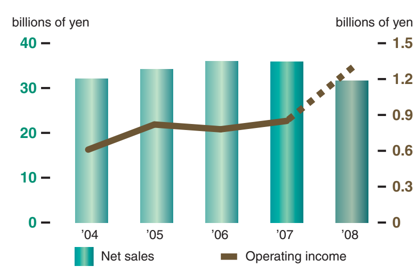
Chemical

Fiscal 2007 Results

- **Although net sales declined because of our emphasis on "selection and concentration" in the polyurethane foam business, operating income rose because of the effects of business streamlining and favorable results in elastomers and carbon products.**

During the year, we announced the integration of the Business Development Division and Chemical Products Division to newly form the Chemical Division.

2007 **Net sales** ↓ **0.4%** **Operating income** ↑ **8.6%**



Forecasts for 2008 are values for the Chemical Division. (Expenses for full-scale commercialization in new business fields are incorporated.)

Fiscal 2007 Results

In the polyurethane foam business, we improved our profit structure by consolidating production into the Chiba Plant and streamlining our business for foam basic liquid and rigid-type polyurethane foam.

In elastomers, we achieved increased net sales and operating income by expanding sales of *MOBILON TAPE*.

In carbon products, where we are promoting a shift to newly developed products with such applications as semiconductor washing and medical usage, we recorded increased sales and operating income owing to growth in sales of developed products amid a buoyant semiconductor market.

We recorded growth in sales of molded plastic products—a business carried out through domestic subsidiary NIPPON KOHBUNSHI CO., LTD. and overseas subsidiaries Kohbunshi (Thailand) Ltd. and Pudong Kohbunshi (Shanghai) Co., Ltd.—owing to an increase in air conditioner-related orders by our overseas subsidiaries. However, operating income declined because of the effects of price competition and steep increases in raw material prices.

Due to the preceding developments, while we posted a decrease in overall sales of the Chemical segment, operating income rose.

Polyurethane elastomer *Nisshinbo Mobilon*

Cross-flow fans for air conditioners, automobile components, and others

Initiatives in Fiscal 2007

Nisshinbo integrated its Business Development Division and Chemical Products Division, and in April 2007 the newly merged entity initiated operations as the Chemical Division. Through this reorganization, Nisshinbo has consolidated its isocyanate and carbon-related chemicals businesses, technology domains that spanned both former divisions and in which we possess independently cultivated technological superiority. The new Chemical Division will serve as a strategic division for cultivating new businesses. Within the Chemical Division, we have added three businesses that we are striving to position as new pillars of growth, namely electric double layer capacitors, bipolar plates for fuel cells, and *CARBODILITE*. (Please refer to Focus 1 on page 8)

Business Development for Principal Products and Future Outlook

In electric double layer capacitors, we have continued to compile a solid record of deliveries to manufacturers of transportation equipment. We are steadily expanding our customer base thanks to demand for sample shipments for applications in construction machinery and automobiles. We plan to begin operating mass-production facilities at the Chiba Plant in November 2007, as we gear up for full-fledged production. In the future the new production facilities will give us a fivefold increase in production to 50,000 cells per month. With the support of Group companies Japan Radio, New Japan Radio, and Nagano Japan Radio, we will strive to secure technologies for electric double layer capacitors while promoting the development of products that bring synergies.

Nisshinbo is the world's leading manufacturer of bipolar plates for fuel cells, a core component of fuel cells, both in terms of quality and volume. Compared with products of competitors, Nisshinbo's bipolar plates for fuel cells offer superior strength and flexibility. We are currently working to create technologies and maintain our share to establish an overwhelmingly dominant position in the domestic market for bipolar plates for residential fuel cells, which are rapidly approaching a period of full-scale diffusion. Although some time will be needed before the widespread use of fuel-cell vehicles, we are working to develop bipolar plates with applications in automobiles, a market that is expected to grow sharply once demand gets on track.

CARBODILITE is Nisshinbo's proprietary functional polymer. Thanks to its characteristic of being the only low-toxicity additive for realizing high performance in plastics, *CARBODILITE* is well positioned to address the trend toward a worldwide tightening of regulations for various chemical substances. We are promoting applications in product fields where there is a need for reducing the environmental load, including as an additive indispensable for commercializing plant-derived resins as well as cross-linking agents of water-based paints.

We will also accelerate "selection and concentration" in our existing businesses. In heat-insulation products, we offer a lineup of high value-added products and technologies, including non-fluorocarbon technologies, as well as polyurethane foam basic liquid, for which demand is expected to expand. In elastomers, we are working to expand sales through the development of new technologies, for example, tapes usable for non-sewing garments, and super soft elastomer tapes. In carbon products, we will continue to develop semiconductor-related products while realizing high performance for our coating technologies, which have earned widespread acclaim.

In molded plastic products, the air conditioner industry is a primary market for our products. Nonetheless, we are also making efforts to expand sales of molded plastic products for automobiles and general applications by utilizing our solid rotation production technologies as well as our molding technologies in engineering plastics.

Additionally, we will build various types of collaborative relationships both internally and externally and uncover the seeds of new business through such collaboration.

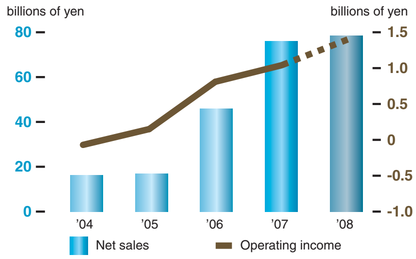
Electronics

Fiscal 2007 Results

- **Net sales and operating income rose thanks to the whole-year contribution to consolidated results made by New Japan Radio.**
- **Japan Radio and Nagano Japan Radio also became part of the Nisshinbo Group as equity-method affiliates.**

Main office of New Japan Radio, Tokyo

2007 **Net sales** ↑ **65.9%** **Operating income** ↑ **28.8%**



Fiscal 2007 Results

During the fiscal year, New Japan Radio recorded brisk sales of microwave application products, including satellite communications components. In semiconductor devices, which account for over 80 % of its sales, New Japan Radio posted firm sales in microwave & optoelectronic devices, while sales of bipolar ICs remained on par with those of the previous year. On the other hand, sales of metal oxide semiconductor (MOS) ICs fell. Thus, net sales and operating income in semiconductors were down slightly from the previous year. Consequently, business results by New Japan Radio were virtually the same as in the previous year.

This full-year contribution of New Japan Radio, which became a consolidated subsidiary in the second half of the previous fiscal year, was yet another factor supporting performance in the Electronics segment.

Despite firm sales of wireless devices for use in civilian aircraft, net sales and operating income of Ueda Japan Radio Co., Ltd., a subsidiary that engages in the electronic device business, declined owing to decreased sales in fields for mobile communications terminals.

As a result of the previous, the Electronics segment recorded overall increases in net sales and operating income.

Business Development for Principal Products and Future Outlook

Regarding semiconductor products, in bipolar IC fields New Japan Radio will focus on power-supply ICs for digital cameras and other products. In MOS ICs, New Japan Radio will develop new digital signal processors for audio equipment and flat-screen TVs.

In microwave & optoelectronic devices, efforts to promote selection and concentration and enhance earnings power will include focusing on GaAsICs for mobile phone one-segment TV broadcasts and game devices.

In March 2007, New Japan Radio received certification for ISO/TS16949, a quality management system for the automobile industry. New Japan Radio is working to expand business for various types of vehicle-mounted products, including car navigation systems, car audio systems, control equipment, and safety devices.

The Nisshinbo Group is pursuing an array of synergies. These include utilizing the advanced circuit design technologies of New Japan Radio and Japan Radio in our capacitor business as well as in the development and manufacturing of car-mounted devices by affiliate CTC.

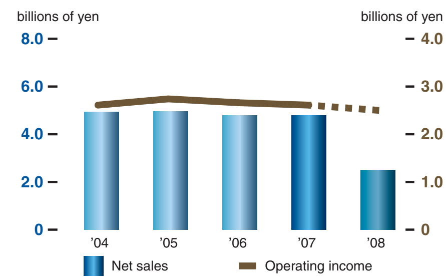
Real Estate Leasing

Fiscal 2007 Results

- Despite factors in increasing sales and income such as the addition of leased real estate, we recorded costs associated with the redevelopment of our former Tokyo Plant as well as a rise repair expenses. As a result, net sales rose slightly but operating income declined.

We started construction on a large-scale shopping center at the site of our former Tokyo Plant.

2007 **Net sales** ↑ **0.1%** **Operating income** ↓ **1.8%**



Fiscal 2007 Results

During the year, we achieved a slight increase in net sales by leasing a portion of a building at our Toyota Plant while increasing the area of leased idle land at our Fujieada and Miai plants and at our former Notogawa Plant. On the other hand, operating income declined slightly due to the start of construction on a large-scale shopping center scheduled to open in November 2007 at our former Tokyo Plant in addition to incurring an increase in repair expenses on existing lease properties.

Nisshinbo Urban Development Co., Ltd., a subsidiary, recorded a rise in net sales owing to the large effects of the merging of operations with Kansai Nisshinbo Urban Development Co., Ltd. in 2005 and the establishment of an Osaka branch in addition to generally favorable results in its real estate and indoor tennis businesses. On the other hand, its franchise business posted sluggish results and several outlets

Current plans for utilizing idle land at plants

Hamamatsu Plant:	Schedule determined for construction of commercial facilities; preparations underway for start of construction in autumn 2007; infrastructure being established in the surrounding area in preparation for the opening of stores in autumn 2008.
Toyama Plant:	Decision made to sell all land, with handover scheduled for winter 2007.
Nagoya Plant:	Considering direction of redevelopment.
Harisaki Plant:	Redevelopment plan to be formulated during current fiscal year.

Ario Nishiarai shopping center (scheduled for opening in November 2007)

were inevitably closed, which led to a decline in operating income.

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

Future Business Development and Initiatives

As a large-scale project, we plan to open the *Ario Nishiarai* shopping center, currently under construction at the site of the former Tokyo Plant. We expect a slight decline in operating income because of a temporary rise in initial-period expenses.

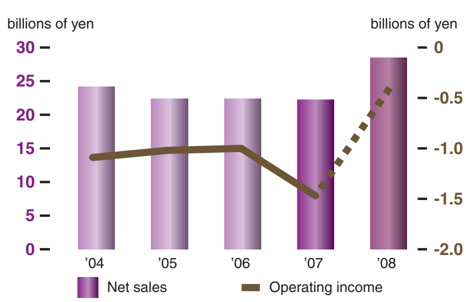
Others

Fiscal 2007 Results

- **Despite an expansion in the new businesses of electric double layer capacitors, bipolar plates for fuel cells, and functional chemicals, the operating loss widened due to investments for business commercialization and a decline in sales in the Precision Instruments & Machinery business.**

Along with the start of the Chemical Division in April 2007, we decided to transfer the above-mentioned three new businesses to the new Chemical Division.

2007 **Net sales** ↓0.7% **Operating loss** ↓¥0.48billion



Fiscal 2007 Results

Precision Instruments & Machinery Business

Despite steady growth in OEM business such as precision components for automobiles, net sales and operating income declined owing to sluggish orders for facilities due to a temporary lull in capital investments in the automobile industry as well as to a delay in investments for solar photovoltaic module production equipment due to a shortage of silicon.

New Business (electric double layer capacitors, bipolar plates for fuel cells, functional chemicals)

We commenced supplies of electric double layer capacitors to makers of large-scale transportation equipment, which led to an increase in inquiries for other applications. We are supplying bipolar plates for fuel cells, mainly bipolar plates for residential-use fuel cells, to major manufacturers of fuel cells, as we steadily expand the scale of this business. Sales of functional chemical products are continuing to expand thanks to their excellent safety and environmental properties. Each of these three businesses is registering steady growth. However, upfront expenses in gearing up for full-scale commercialization constricted profitability in fiscal 2007.

Business Development for Principal Products and Future Outlook

The Precision Instruments & Machinery business will continue to carry out business for aircraft assembly and manufacturing equipment. In the domestic market for solar photovoltaic module manufacturing equipment, we hold a more than 50% share for laminators and over 90% share for simulators. We are accelerating our business in Asia, mainly for our solar photovoltaic module manufacturing equipment. In OEM business, we will strive to expand orders for such products as precision components for automobiles and develop manufacturing equipment for use in leading-edge domains. We are undertaking various initiatives to establish our recently initiated Chemical Division as a future earnings pillar.

Solar module laminator for solar battery production equipment

Production Value

Production in each business segment during fiscal 2007 was as follows.

Business segment	Amount (millions of yen)	Amount (millions of US dollars)	Change from the previous year (%)
Textiles	67,221	570	-4.8
Automobile Brakes	54,089	458	+4.9
Papers	23,002	195	+8.6
Chemical Products	23,814	202	-2.3
Electronics	73,622	624	+68.1
Others	8,870	75	+7.1
Total	250,618	2,124	+14.0

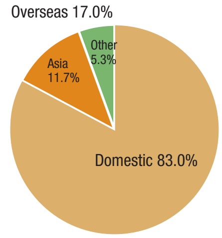
Amounts are computed based on manufacturing costs.
The Real Estate Leasing business does not engage in manufacturing, and therefore, the above table contains no figures for this segment.
The above figures do not include consumption taxes.

Segment Information by Geographic Region

Sales in Japan rose 11.1% to ¥259,752 million (US$2,201 million) mainly because of the full-year contribution made by New Japan Radio to Nisshinbo's consolidated accounts. Operating income in Japan decreased 7.3% to ¥6,690 million (US$57 million) due to the effects of price increases for raw materials and sluggish results by consolidated subsidiaries in the Textiles business.

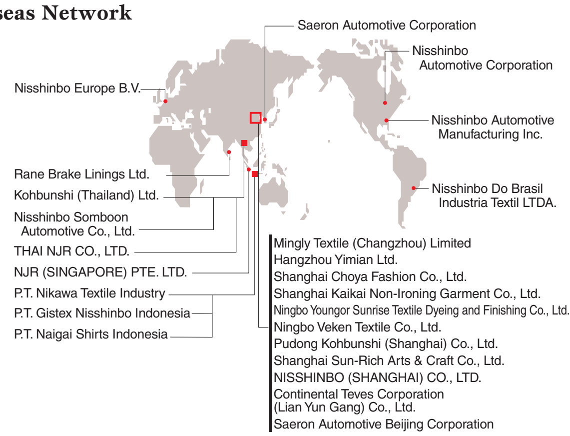
Sales in Asia advanced 21.0 % to ¥36,616 million (US$310 million) due to the addition of New Japan Radio to Nisshinbo's consolidated accounts. Operating income in Asia rose 7.3 % to ¥3,326 million (US$28 million) along with favorable results of overseas subsidiaries in the Automobile Brakes business.

Net Sales by Geographical Segment



Similarly, net sales in other regions rose 13.4 % to ¥16,457 million (US$139 million) due to the addition of New Japan Radio to Nisshinbo's consolidated accounts, while operating income was up 87.9 % to ¥1,702 million (US$14 million) due to the recording of profits by a U.S. subsidiary in the Automobile Brakes business.

Overseas Network



Financial Position

Total assets at the end of fiscal 2007 amounted to ¥472,670 million (US$4,006 million), down ¥18,560 million from the previous fiscal year-end. Current assets declined ¥3,187 million to ¥168,884 million (US$1,431 million). Although buildings and structures, and machinery, equipment and tools declined, property, plant and equipment increased ¥756 million to ¥121,905 million (US$1,033 million) due to increases in land and construction in progress. Despite a rise in investments in and advances to unconsolidated subsidiaries and affiliates resulting from investments in Japan Radio and Nagano Japan Radio, investments and other assets fell ¥16,129 million to ¥181,881 million (US$1,541 million) due to the significant effects of a decline in valuation of investment securities owing to a fall in market prices.

On the liabilities side, despite a rise in payables, current liabilities declined ¥4,173 million to ¥105,129 million (US$891 million) owing to decreases in short-term bank loans and accrued income taxes. Long-term liabilities declined ¥8,824 million to ¥85,526 million (US$725 million), owing to decreases in long-term debt, deferred tax liabilities, and accrued severance benefits. Total liabilities thus declined ¥12,997 million to ¥190,655 million (US$1,616 million).

For the fiscal year under review, minority interests in consolidated subsidiaries is reported as a separated component of equity due to a change in accounting method* along with the introduction of the new Corporate Law. The item previously recorded as shareholders' equity is now expressed as equity. Equity rose ¥15,581 million to ¥282,015 million (US$2,390 million) and includes the addition of minority interest of ¥20,780 million (US$176 million), deferred gain on derivatives under hedge accounting of ¥68 million (US$1 million), and stock acquisition rights of ¥16 million (US$0 million) to previous shareholders' equity. The shareholders' equity ratio rose 1.1 percentage points to 55.3 %, and shareholders' equity per share increased ¥17.93 to ¥1,301.14 (US$11.03).

* For a detailed explanation, please refer to note "10. EQUITY" in the Notes to the Consolidated Financial Statements.

Cash Flows

Cash flows from operating activities

In cash flows from operating activities, Nisshinbo recorded such inflows as ¥23,085 million (US$196 million) in income before income taxes and minority interests, ¥14,984 million (US$127 million) in depreciation and amortization, ¥2,649 million (US$22 million) in loss on plant closure, and ¥3,334 million (US$28 million) in increase in payables.

On the other hand, outflows included ¥10,668 million (US$90 million) in gain on sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates, ¥7,841 million (US$66 million) in income taxes-paid, ¥4,178 million (US$35 million) in equity in earnings of affiliates, and ¥3,631 million (US$31 million) in payment of accrued pension and severance benefits. As a result of the previous factors, net cash provided by operating activities amounted to ¥19,352 million (US$164 million).

Cash flows from investing activities

In net cash flows from investing activities, outflows included ¥18,629 million (US$158 million) in payment for purchase of property, plant and equipment and ¥9,497 million (US$80 million) in payment for purchase of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates. On the other hand, inflows included ¥14,364 million (US$122 million) in proceeds from sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates, ¥2,918 million (US$25 million) in proceeds from sale of property, plant and equipment, and ¥1,642 million (US$14 million) in decrease in time deposits. As a result of these activities, net cash used in investing activities amounted to ¥10,109 million (US$86 million).

Cash flows from financing activities

In cash flows from financing activities, inflows included ¥3,476 million (US$29 million) arising from an increase in other long-term liabilities and ¥1,072 million (US$9 million) in proceeds from issuance of long-term debt, while outflows included ¥7,302 million (US$62 million) in payment for purchase of treasury stock, ¥4,369 million (US$37 million) in repayment of long-term debt, and ¥3,658 million (US$31 million) in decrease in short-term bank loans. As a result, net cash used in financing activities amounted to ¥13,231 million (US$112 million).

Due to the previous activities, cash and cash equivalents at end of year declined ¥2,939 million to ¥25,764 million (US$218 million).

Risk Information

New Business Risk

New businesses have numerous uncertainties, and factors such as lack of progress in developing attractive products or in creating new markets in accordance with expectations could result in a delay in or an inability to recover investments.

Risk of Fluctuations in the Value of Investment Securities

Marketable securities held by the Company are marked to market in accordance with accounting standards for financial products and Nisshinbo implements impairment accounting based on even more stringent internal standards for a portion its securities. Under current legal provisions, the Company's overall securities acquisition costs are low, and thus there is little probability of an impairment having an impact on the Company's Statements of Income. However, a future change in accounting standards requiring the effects of such a change to be reflected in the Statements of Income could cause a significant increase or decrease in profits for the fiscal year.

The Company implements a policy of selling marketable securities to cover investments for M&A, investments for overseas business development, and capital investment, thereby curtailing the incurrence of interest-bearing debt. However, there could be unforeseen scenarios resulting from a misalignment in timing between selling and investments.

The Company made a trust contribution amounting ¥14.7 billion in response to a loss resulting from a change in accounting standards for employee retirement benefits in 2000. In fiscal 2007, the Company realized a valuation gain of ¥4.6 billion on the contributed portion. Although the Company amortizes retirement benefits evenly over an average of 15 years of employee service, retirement benefit expenses affected by fluctuations in stock prices could have an impact on profits for the fiscal year. The effects of current valuations of stocks in trust are reflected in the Statements of Income. Nonetheless, because profit and loss for each fiscal year is averaged over a period of 15 years, the impact on profits for a fiscal year is not believed to be significant.

Utilization of Idle Land Risk

As part of its utilization of idle land assets, the Company also focuses on selling a portion of this land. However, falling land prices could result in a decline in profit on the sale of this land. In carrying out the redevelopment of this land, there is a possibility that the Company will incur expenses for the purification of the land or that revisions to laws could impede redevelopment.

Product Quality Risk

Most of the Nisshinbo Group's products are manufactured in accordance with international quality management standards. However, there is no assurance that a quality-related problem will not arise in the future. The Company is covered by product liability insurance. However, the incurrence of a large indemnity amount could have an adverse impact on the Company's business results.

Risk from Market Shifts Related to Product Sales Prices and Raw Materials Procurement

The Nisshinbo Group's products are significantly affected by fluctuations in market prices accompanying competition with other companies and trends in market conditions. The Company operates under a structure whereby sales prices for textiles and paper products are easily affected by these factors while in procurement these factors have an impact on the procurement of raw cotton, pulp, and steel materials. Raw cotton and pulp are imported raw materials and thus the effects of exchange rate fluctuations are unavoidable.

Electronics Products Business Risk

Consolidated subsidiary New Japan Radio's core business is analog semiconductors, a stable business. However, there is a possibility of fluctuations in earnings due to demands for price decreases and changes in semiconductor market conditions. New Japan Radio generates approximately 50% of its consolidated sales overseas and thus exchange rate fluctuations could have an impact on its business results.

Also, the burden of investments for future earnings opportunities, mainly for strengthening the advance into car electronics fields, could be a factor in a temporary constriction of profits.

Overseas Business Development Risk

The Nisshinbo Group's overseas production bases are exposed to the inherent risk of unforeseen changes in laws and regulations, disadvantageous political and economic factors, or social unrest.

Risk of Fluctuation in the Business Results of Customers

The Automobile Brake business' customers are auto manufacturers who carry out their operations globally. However, factors that are beyond control of the Nisshinbo Group, such as unforeseen contract dissolutions and requests for large price reductions resulting from fluctuations in the business results of these corporate customers, could have an adverse impact on business results.

Capital Expenditures

During the fiscal year, capital expenditures amounted to ¥18,306 million (US$155 million). Capital expenditures in the Automobile Brakes business totaled ¥4,568 million (US$39 million) and were primarily for investment at the Toyota Plant, a new production base, and for production facilities for friction materials at the existing Tatebayashi Plant. Capital expenditures in the Real Estate Leasing business amounted to ¥3,492 million (US$30 million) mainly for investment for construction of a shopping center at the site of our former Tokyo Plant. In our Electronics Business, we invested ¥3,762 million (US$32 million) primarily for investments for semiconductor manufacturing facilities by consolidated subsidiary New Japan Radio.

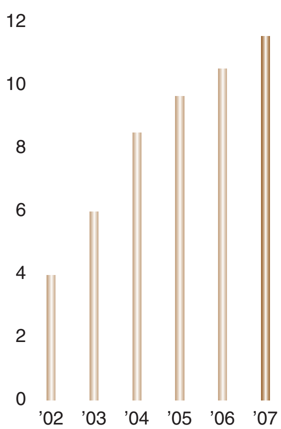
Six-year Summary

(millions of yen)

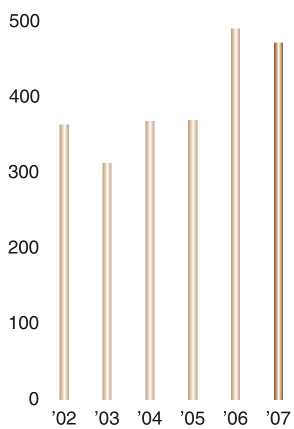
	2002	2003	2004	2005	2006	**2007**
Net Sales	225,836	231,194	226,883	243,421	278,617	**312,825**
Operating Income	3,968	5,989	8,496	9,651	10,524	**11,551**
Net Income	-2,649	777	3,919	8,199	11,183	**15,107**
Equity	213,665	186,028	214,132	222,771	266,434	**282,015**
Total Assets	364,161	312,909	368,444	370,168	491,230	**472,670**
Shareholders' Equity Ratio (%)	58.7	59.5	58.1	60.2	54.2	**55.3**
Return on Assets (%)	-0.8	0.2	1.2	2.2	2.6	**3.1**
Return on Equity (%)	-1.3	0.4	2.0	3.8	4.6	**5.7**
Payout Ratio (%)*	53.1	64.3	51.9	28.1	32.2	**35.6**
Capital Expenditures	13,243	9,057	8,989	12,504	16,548	**18,306**
Depreciation and Amortization	13,422	12,758	11,776	11,046	13,835	**14,984**
Common Shares Issued	216,580,939	216,580,939	216,580,939	208,198,939	208,198,939	**201,698,939**
Per Share (in yen):						
Net Income	-12.03	3.18	17.86	39.03	53.21	**74.19**
Shareholders' Equity	988.02	860.52	1,030.98	1,072.54	1,283.21	**1,301.14**
Cash Dividends	7.00	7.00	7.00	10.00	10.00	**15.00**
Number of Employees	8,456	8,627	9,875	9,505	12,602	**12,744**

*Payout Ratio is on a non-consolidated basis.

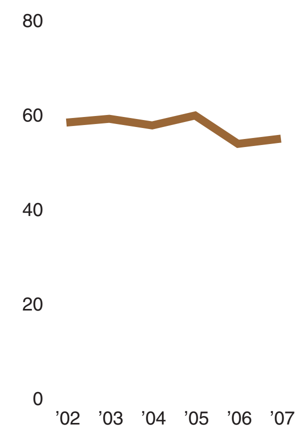
Operating Income
(billions of yen)



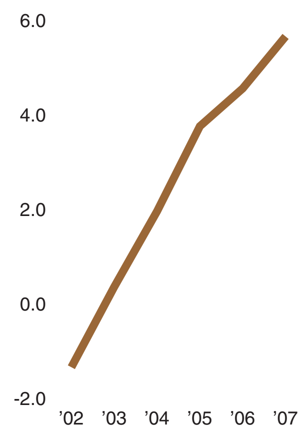
Total Assets
(billions of yen)



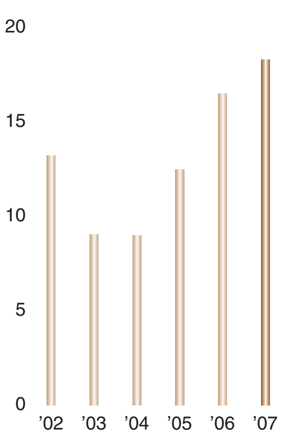
Shareholders' Equity Ratio
(%)



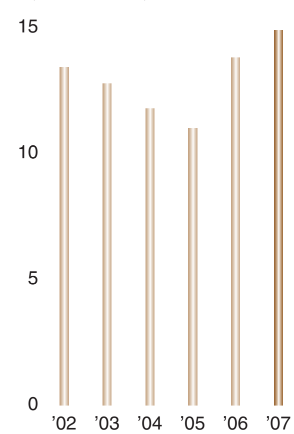
Return on Equity
(%)



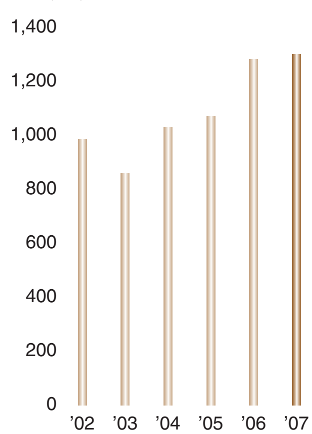
Capital Expenditures
(billions of yen)



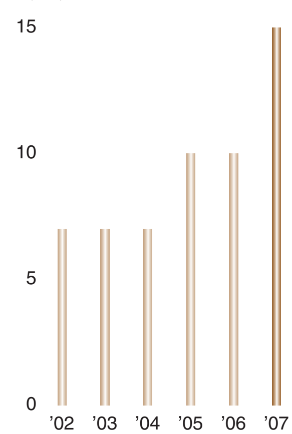
Depreciation and Amortization
(billions of yen)



Shareholders' Equity per Share
(yen)



Cash Dividends per Share
(yen)



Nisshinbo Industries, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets

31st March, 2007 and 2006

ASSETS

	(millions of yen) 2007	(millions of yen) 2006	(thousands of US dollars) (Note 1) 2007
Current assets:			
Cash and cash equivalents	¥ 25,764	¥ 28,703	$ 218,339
Time deposits (Note 5)	1,916	3,215	16,237
Marketable securities (Note 4)	1,727	1,485	14,636
Receivables			
Notes receivable, trade	13,241	14,356	112,212
Accounts receivable, trade	59,638	60,245	505,407
Unconsolidated subsidiaries and affiliates	8,497	5,085	72,008
Other	492	807	4,169
	81,868	80,493	693,796
Less allowance for doubtful accounts	(1,497)	(932)	(12,686)
	80,371	79,561	681,110
Inventories (Note 3)	53,779	53,688	455,754
Deferred tax assets (Note 7)	2,790	3,122	23,644
Other current assets	2,537	2,297	21,500
Total current assets	168,884	172,071	1,431,220
Property, plant and equipment (Note 5):			
Land	26,950	25,541	228,390
Buildings and structures	123,062	125,870	1,042,898
Machinery, equipment and tools	250,767	260,508	2,125,144
Construction in progress	4,952	3,970	41,966
	405,731	415,889	3,438,398
Less accumulated depreciation	(283,826)	(294,740)	(2,405,305)
	121,905	121,149	1,033,093
Investments and other assets:			
Investment securities (Notes 4 and 5)	144,534	173,802	1,224,865
Investments in and advances to unconsolidated subsidiaries and affiliates	25,104	12,747	212,746
Deferred tax assets (Note 7)	1,701	1,597	14,415
Goodwill	3,236	3,302	27,424
Other	7,306	6,562	61,915
	181,881	198,010	1,541,365
	¥ 472,670	¥ 491,230	$4,005,678

See Notes to Consolidated Financial Statements.

LIABILITIES AND EQUITY

	(millions of yen) 2007	(millions of yen) 2006	(thousands of US dollars) (Note 1) 2007
Current liabilities:			
Short-term bank loans (Note 5)	¥ 43,174	¥ 46,534	$ 365,881
Current portion of long-term debt (Note 5)	3,974	4,132	33,678
Payables			
Notes and accounts payable, trade (Note 5)	35,806	32,501	303,441
Unconsolidated subsidiaries and affiliates	1,029	575	8,720
Other	6,615	8,034	56,059
	43,450	41,110	368,220
Employees' savings deposits	255	261	2,161
Accrued expenses	8,106	7,991	68,695
Accrued income taxes	3,545	6,344	30,042
Deferred tax liabilities (Note 7)	34	29	288
Other current liabilities (Note 5)	2,591	2,901	21,958
Total current liabilities	105,129	109,302	890,923
Long-term liabilities:			
Long-term debt (Note 5)	5,918	8,933	50,153
Accrued severance benefits (Note 6)	27,791	29,011	235,517
Deferred tax liabilities (Note 7)	39,772	48,151	337,051
Other long-term liabilities (Note 5)	12,045	8,255	102,076
	85,526	94,350	724,797
Minority interests in consolidated subsidiaries	—	21,144	—
Commitments and contingencies (Note 12)			
Equity (Notes 10 and 13):			
Common stock:			
Authorized —371,755,000 shares			
Issued			
2007 —— 201,698,939 shares			
2006 —— 208,198,939 shares	27,588	27,588	233,797
Capital surplus	20,401	20,449	172,890
Stock acquisition rights	16	—	136
Retained earnings	149,507	144,086	1,267,008
Net unrealized gain on available-for-sale securities	61,225	74,994	518,856
Deferred gain on derivatives under hedge accounting	68	—	576
Foreign currency translation adjustments	2,989	(229)	25,330
Less shares in treasury			
2007 ———— 120,524 shares			
2006 ———— 675,130 shares	(559)	(454)	(4,737)
	261,235	266,434	2,213,856
Minority interests	20,780	—	176,102
	282,015	266,434	2,389,958
	¥ 472,670	¥ 491,230	$4,005,678

Consolidated Statements of Income

Years ended 31st March, 2007 and 2006

	(millions of yen)		(thousands of US dollars) (Note 1)
	2007	2006	2007
Net sales	¥ 312,825	¥ 278,617	$2,651,059
Costs and expenses:			
Cost of sales	257,665	230,120	2,183,601
Selling, general and administrative expenses	43,609	37,973	369,568
	301,274	268,093	2,553,169
Operating income	11,551	10,524	97,890
Other income (expenses):			
Interest and dividend income	2,745	2,245	23,263
Interest expenses	(1,229)	(1,133)	(10,415)
Equity in earnings of affiliates	4,178	2,017	35,406
Other, net (Note 11)	5,840	6,167	49,492
	11,534	9,296	97,746
Income before income taxes and minority interests	23,085	19,820	195,636
Income taxes (Note 7)			
Current	5,022	9,244	42,560
Deferred	1,267	(1,805)	10,737
	6,289	7,439	53,297
Income before minority interests	16,796	12,381	142,339
Minority interests in net income	(1,689)	(1,198)	(14,314)
Net income	¥ 15,107	¥ 11,183	$ 128,025

	(yen)		(US dollars)
Per share:			
Net income	¥ 74.19	¥ 53.21	$ 0.63
Cash dividends	15.00	10.00	0.13

See Notes to Consolidated Financial Statements.

Nisshinbo Industries, Inc. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity

Years ended 31st March, 2007 and 2006

	(millions of yen)		(thousands of US dollars) (Note 1)
	2007	2006	**2007**
Common stock:			
Balance at beginning of year (2007 and 2006 — 208,198,939 shares)	**¥ 27,588**	¥ 27,588	**$ 233,797**
Balance at end of year (2007 — 201,698,939 shares; 2006 — 208,198,939 shares)	**¥ 27,588**	¥ 27,588	**$ 233,797**
Capital surplus:			
Balance at beginning of year	**¥ 20,449**	¥ 20,447	**$ 173,297**
Gain (loss) on sale of treasury stock	**(48)**	2	**(407)**
Balance at end of year	**¥ 20,401**	¥ 20,449	**$ 172,890**
Stock acquisition rights:			
Balance at beginning of year	**¥ —**	¥ —	**$ —**
Net changes	**16**	—	**136**
Balance at end of year	**¥ 16**	¥ —	**$ 136**
Retained earnings:			
Balance at beginning of year	**¥ 144,086**	¥ 135,447	**$ 1,221,068**
Adjustments due to increase in a consolidated subsidiary	**—**	(42)	**—**
Net income	**15,107**	11,183	**128,025**
Cash dividends	**(2,055)**	(2,387)	**(17,415)**
Directors' and statutory auditors' bonuses	**(120)**	(104)	**(1,017)**
Retirement of treasury stock	**(7,520)**	—	**(63,729)**
Other	**9**	(11)	**76**
Balance at end of year	**¥ 149,507**	¥ 144,086	**$ 1,267,008**
Net unrealized gain on available-for-sale securities:			
Balance at beginning of year	**¥ 74,994**	¥ 42,691	**$ 635,542**
Net changes	**(13,769)**	32,303	**(116,686)**
Balance at end of year	**¥ 61,225**	¥ 74,994	**$ 518,856**
Deferred gain on derivatives under hedge accounting:			
Balance at beginning of year	**¥ —**	¥ —	**$ —**
Net changes	**68**	—	**576**
Balance at end of year	**¥ 68**	¥ —	**$ 576**
Foreign currency translation adjustments:			
Balance at beginning of year	**¥ (229)**	¥ (3,040)	**$ (1,941)**
Net changes	**3,218**	2,811	**27,271**
Balance at end of year	**¥ 2,989**	¥ (229)	**$ 25,330**
Treasury stock at cost:			
Balance at beginning of year	**¥ (454)**	¥ (362)	**$ (3,848)**
Add: acquired	**(7,302)**	(99)	**(61,881)**
Add: increase in an affiliate accounted for by the equity method	**(411)**	—	**(3,483)**
Deduct: sold and retirement	**7,608**	7	**64,475**
Balance at end of year	**¥ (559)**	¥ (454)	**$ (4,737)**
Minority interests:			
Balance at beginning of year	**¥ —**	¥ —	**$ —**
Reclassified balance as of March 31, 2006 (Note 2. *(k)*)	**21,144**	—	**179,186**
Net changes	**(364)**	—	**(3,084)**
Balance at end of year	**¥ 20,780**	¥ —	**$ 176,102**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years ended 31st March, 2007 and 2006

	(millions of yen)		(thousands of US dollars) (Note 1)
	2007	2006	**2007**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 23,085**	¥ 19,820	**$ 195,636**
Adjustments to reconcile net income to net cash provided by operating activities:			
Income taxes-paid	**(7,841)**	(6,830)	**(66,449)**
Depreciation and amortization	**14,984**	13,835	**126,983**
Impairment of long lived-assets	**1,328**	5,415	**11,254**
Amortization of goodwill	**686**	951	**5,814**
Equity in earnings of affiliates	**(4,178)**	(2,017)	**(35,407)**
Provision for (reversal of) doubtful receivables	**589**	(159)	**4,992**
Provision for accrued pension and severance benefits	**2,415**	3,727	**20,466**
Payment of accrued pension and severance benefits	**(3,631)**	(2,103)	**(30,771)**
Directors' and statutory auditors' bonuses paid	**(136)**	(107)	**(1,153)**
(Gain) loss on sale of property, plant and equipment	**(831)**	77	**(7,042)**
Gain on sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	**(10,668)**	(13,732)	**(90,407)**
Loss on plant closures	**2,649**	487	**22,449**
Other	**(302)**	520	**(2,559)**
Changes in operating assets and liabilities:			
Receivables	**(773)**	(637)	**(6,551)**
Inventories	**343**	4,200	**2,906**
Payables	**3,334**	(682)	**28,254**
Other	**(1,701)**	(290)	**(14,415)**
Net cash provided by operating activities	**19,352**	22,475	**164,000**
Cash flows from investing activities:			
Proceeds from sale of property, plant and equipment	**2,918**	1,088	**24,729**
Proceeds from sale of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	**14,364**	20,646	**121,729**
Payment for purchase of property, plant and equipment	**(18,629)**	(14,921)	**(157,873)**
Payment for purchase of investment securities and investments in and advances to unconsolidated subsidiaries and affiliates	**(9,497)**	(11,417)	**(80,483)**
Decrease in time deposits	**1,642**	114	**13,915**
Cash acquired from newly consolidated subsidiaries, net of payment for purchase of companies	**—**	(13,907)	**—**
Other, net	**(907)**	(449)	**(7,686)**
Net cash used in investing activities	**(10,109)**	(18,846)	**(85,669)**
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	**1,072**	1,352	**9,085**
Repayment of long-term debt	**(4,369)**	(3,031)	**(37,026)**
Proceed from issuance of new stock	**—**	1,271	**—**
Decrease in short-term bank loans	**(3,658)**	(4,162)	**(31,000)**
Cash dividends paid	**(2,055)**	(2,387)	**(17,415)**
Payment for purchase of treasury stock	**(7,302)**	(99)	**(61,881)**
Increase in other long-term liabilities	**3,476**	—	**29,458**
Other	**(395)**	(415)	**(3,348)**
Net cash used in financing activities	**(13,231)**	(7,471)	**(112,127)**
Effect of exchange rate changes on cash	**1,049**	656	**8,889**
Net decrease in cash and cash equivalents	**(2,939)**	(3,186)	**(24,907)**
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	**—**	209	**—**
Cash and cash equivalents at beginning of year	**28,703**	31,680	**243,246**
Cash and cash equivalents at end of year	**¥ 25,764**	¥ 28,703	**$ 218,339**

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS:

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese 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.

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 ¥118 = $1, the approximate exchange rate at 31st March, 2007. 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 of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange 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 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. Contributions in aid of purchases of property, plant and equipment from national and local governments are deducted from the acquisition costs of related assets in accordance with tax regulations.

(h) Goodwill

Goodwill is carried at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.

(i) 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.

(j) Stock options

On 27th December, 2005, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No.8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after 1st May, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

The Company applied the new accounting standard for stock options to those granted on and after 1st May, 2006. The effect of adoption of this accounting standard for the year ended 31st March, 2007 was to decrease income before income taxes and minority interests by ¥15 million ($127 thousand).

(k) Presentation of equity

On 9th December, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after 1st May, 2006. The consolidated balance sheet as of 31st March, 2007 is presented in line with this new accounting standard.

(l) Research and development costs

Research and development costs are changed to income as incurred.

(m) Bonuses to directors and corporate auditors

Prior to the fiscal year ended 31st March, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, "Accounting treatment for bonuses to directors and corporate auditors", which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on 29th November, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly changed to retained earnings. This accounting standard is effective for fiscal years ending on or after 1st May, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors in the year ended 31st March, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended 31st March, 2007 by ¥104 million ($881 thousand).

(n) 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.

(o) 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, 2007 and 2006 were as follows:

	(millions of yen) 2007	2006	(thousands of US dollars) 2007
Finished products	¥ 26,450	¥ 26,715	$ 224,153
Work in process	15,274	14,907	129,440
Materials and supplies	12,055	12,066	102,161
	¥ 53,779	¥ 53,688	$ 455,754

4. MARKETABLE AND INVESTMENT SECURITIES:

The carrying amounts and aggregate fair values of securities available-for-sale included in marketable and investment securities at 31st March, 2007 and 2006 were as follows:

	(millions of yen) 2007	2006	(thousands of US dollars) 2007
Cost	¥ 32,313	¥ 37,239	$ 273,839
Unrealized gains	104,460	127,331	885,254
Unrealized losses	(420)	(54)	(3,559)
Fair value	¥ 136,353	¥ 164,516	$1,155,534

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

The annual interest rates applicable to the short-term bank loans at 31st March, 2007 and 2006 were 0.6% to 8.8%.

Long-term debt at 31st March, 2007 and 2006 consisted of the following:

	(millions of yen) 2007	2006	(thousands of US dollars) 2007
Long-term debt with collateral:			
Loans from banks maturing serially to 2011, ranging from 1.1% to 2.3%	¥ 934	¥ 1,285	$ 7,915
Long-term debt without collateral:			
Loans from banks maturing serially to 2010, ranging from 0.8% to 5.4%	2,656	4,122	22,509
Capital lease obligations, due through 2010	6,302	7,658	53,407
	9,892	13,065	83,831
Less current portion	(3,974)	(4,132)	(33,678)
	¥ 5,918	¥ 8,933	$ 50,153

Annual maturities of long-term debt were as follows:

Year ending 31st March,	(millions of yen)	(thousands of US dollars)
2008	¥ 3,974	$ 33,678
2009	2,741	23,229
2010	2,504	21,221
2011	628	5,322
2012 and thereafter	45	381
	¥ 9,892	$ 83,831

At 31st March, 2007 and 2006, 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)
	2007	2006	**2007**
Property, plant and equipment	**¥ 9,688**	¥ 10,595	**$ 82,102**

In addition, pledged assets as collateral for liabilities other than the above were as follows:
Assets pledged:

	(millions of yen)		(thousands of US dollars)
	2007	2006	**2007**
Property, plant and equipment	**¥ 315**	¥ —	**$ 2,669**
Investment securities	**410**	354	**3,475**
Time deposits	**209**	209	**1,771**
	¥ 934	¥ 563	**$ 7,915**

Liabilities with collateral:

	(millions of yen)		(thousands of US dollars)
	2007	2006	**2007**
Other long-term liabilities	**¥ 3,959**	¥ —	**$ 33,551**
Notes and accounts payable, trade	**184**	184	**1,559**
Other current liabilities	**183**	180	**1,551**
	¥ 4,326	¥ 364	**$ 36,661**

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.

The liability for retirement benefits for directors and corporate auditors at 31st March, 2007 and 2006 were ¥433 million ($3,669 thousand) and ¥388 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, 2007 and 2006 consisted of the following:

	(millions of yen)		(thousands of US dollars)
	2007	2006	**2007**
Projected benefit obligation	**¥ 50,965**	¥ 52,401	**$ 431,906**
Fair value of plan assets	**(29,290)**	(29,707)	**(248,220)**
	21,675	22,694	**183,686**
Unrecognized prior service cost	**2,734**	2,977	**23,170**
Unrecognized actuarial loss	**58**	104	**492**
Unrecognized transitional obligation	**(191)**	(238)	**(1,619)**
	24,276	25,537	**205,729**
Prepaid pension cost	**3,082**	3,086	**26,119**
Net liability	**¥ 27,358**	¥ 28,623	**$ 231,848**

The components of net periodic retirement benefit costs for the years ended 31st March, 2007 and 2006 were as follows:

	(millions of yen)		(thousands of US dollars)
	2007	2006	2007
Service cost	¥ 2,516	¥ 2,338	$ 21,322
Interest cost	1,097	1,162	9,297
Expected return on plan assets	(332)	(319)	(2,814)
Amortization of prior service cost	(1,236)	(234)	(10,475)
Recognized actuarial loss	215	634	1,822
Amortization of transitional obligation	48	48	407
Net periodic benefit costs	2,308	3,629	19,559
Defined contribution pension cost	94	93	797
Retirement benefits paid due to restructuring of business operations	1,969	81	16,686
Total	¥ 4,371	¥ 3,803	$ 37,042

Assumptions used for the years ended 31st March, 2007 and 2006 were set forth as follows:

	2007	2006
Discount rate	2.0% ~ 2.5%	2.0% ~ 2.5%
Expected rate of return on plan assets	1.0% ~ 2.0%	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, 2007 and 2006 were as follows:

	(millions of yen)		(thousands of US dollars)
	2007	2006	2007
Deferred tax assets:			
Inventories	¥ 461	¥ 435	$ 3,907
Tax loss carryforwards	4,757	4,641	40,314
Allowance for doubtful accounts	443	111	3,754
Accrued employees' bonuses	1,790	1,735	15,169
Accrued severance benefits	11,206	11,733	94,966
Impairment of long lived-assets	1,075	1,455	9,110
Other	1,795	2,143	15,212
Less valuation allowance	(6,763)	(6,193)	(57,314)
	¥ 14,764	¥ 16,060	$ 125,118
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (42,359)	¥ (51,768)	$(358,974)
Deferred gains on sale of property	(4,163)	(4,253)	(35,280)
Other	(3,557)	(3,500)	(30,144)
	¥ (50,079)	¥ (59,521)	$(424,398)
Net deferred tax	¥ (35,315)	¥ (43,461)	$(299,280)

A reconciliation between the normal effective statutory tax rate for the years ended 31st March, 2007 and 2006 and the actual effective tax rates reflected in the accompanying consolidated statement of income was as follows:

	2007	2006
Normal effective statutory tax rate	40.7%	40.7%
Dividend income not taxable	(0.5)	(1.7)
Expenses not deductible for income tax purposes	0.6	0.5
Equity in earnings of affiliates	(7.4)	(4.1)
Lower income tax rates applicable to income in certain foreign countries	(2.3)	(3.1)
Valuation allowance	1.5	4.1
Tax credit for research and development costs and other	(3.7)	(2.7)
Other	(1.7)	3.8
Actual effective tax rate	27.2%	37.5%

8. LEASES:

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

Total rental expenses for the years ended 31st March, 2007 and 2006 were ¥491 million ($4,161 thousand) and ¥559 million, respectively, including ¥491 million ($4,161 thousand) and ¥559 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, 2007 and 2006 was as follows:

	(millions of yen)		(thousands of US dollars)
	2007	2006	**2007**
Acquisition cost	**¥ 2,240**	¥ 2,604	**$ 18,983**
Accumulated depreciation	**(1,129)**	(1,416)	**(9,568)**
Net leased property	**¥ 1,111**	¥ 1,188	**$ 9,415**

Obligations under finance leases:

	(millions of yen)		(thousands of US dollars)
	2007	2006	**2007**
Due within one year	**¥ 408**	¥ 455	**$ 3,458**
Due after one year	**703**	733	**5,957**
Total	**¥ 1,111**	¥ 1,188	**$ 9,415**

Depreciation expense under finance leases:

	(millions of yen)		(thousands of US dollars)
	2007	2006	**2007**
Depreciation expense	**¥ 491**	¥ 559	**$ 4,161**

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, 2007 and 2006 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheets at 31st March, 2007 and 2006, 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, 2007 and 2006 were as follows:

	(millions of yen)						(thousands of US dollars)		
	2007			2006			**2007**		
	Contract amount	Fair value	Unrealized gain(loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain(loss)
Interest rate swaps:									
Fixed rate payments, floating rate receipt	**¥6,007**	**¥ 342**	**¥ 342**	¥ 4,989	¥ (243)	¥ (243)	**$50,907**	**$2,898**	**$2,898**
Foreign currency forward contracts	**¥ 457**	**¥ 456**	**¥ (1)**	¥ 159	¥ 164	¥ 5	**$3,873**	**$ 3,864**	**$ (9)**

10. EQUITY:

On and after 1st May, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after 1st May, 2006 and for the fiscal years ending on or after 1st May, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, the Board of Directors may declare dividends (expect for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

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)
	2007	2006	**2007**
Gain (loss) on sale of property, plant and equipment	**¥ 831**	¥ (77)	**$ 7,042**
Gain on sale of securities	**10,668**	13,732	**90,407**
Loss on inventory disposal	**(401)**	(678)	**(3,398)**
Impairment of long lived-assets	**(1,328)**	(5,415)	**(11,254)**
Loss on plant closures	**(2,649)**	(487)	**(22,449)**
Provision for loss from guarantee of indebtedness of affiliated	**(92)**	(132)	**(780)**
Retirement benefits paid due to restructuring of business operations	**(1,969)**	(81)	**(16,686)**
Amortization of goodwill	**—**	(575)	**—**
Other, net	**780**	(120)	**6,610**
	¥ 5,840	¥ 6,167	**$ 49,492**

12. COMMITMENTS AND CONTINGENCIES:

Contingent liabilities at 31st March, 2007 and 2006 for loans guaranteed amounted to ¥1,999 million ($16,941 thousand) and ¥1,998 million, respectively.

Commitments for capital expenditures outstanding at 31st March, 2007 and 2006 were in the approximate amounts of ¥13,169 million ($111,602 thousand) and ¥12,881 million, respectively.

13. SUBSEQUENT EVENT:

Year-end cash dividends

On 30th May, 2007, Nisshinbo's Board of Directors declared year-end cash dividends (¥10 per share) in the amounts of ¥2,015 million ($17,076 thousand).

14. SEGMENT INFORMATION:

(1) Industry Segments

Information about industry segments of the Company and its consolidated subsidiaries for the years ended 31st March, 2007 and 2006 were as follows:

(millions of yen) 2007

	Textiles	Automobile Brakes	Papers	Chemical Products	Electronics	Real Estate Leasing	Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income									
Sales to customers	¥ 82,243	¥ 61,764	¥ 29,908	¥ 35,850	¥ 76,068	¥ 4,788	¥ 22,204	¥ —	¥ 312,825
Intersegment sales	5	—	16	759	0	532	353	(1,665)	—
Total sales	82,248	61,764	29,924	36,609	76,068	5,320	22,557	(1,665)	312,825
Operating expenses	81,809	54,755	28,674	35,761	75,027	2,709	24,029	(1,490)	301,274
Operating income (loss)	¥ 439	¥ 7,009	¥ 1,250	¥ 848	¥ 1,041	¥ 2,611	¥ (1,472)	¥ (175)	¥ 11,551
II. Total Assets, Depreciation and Amortization, Impairment of Long lived-assets and Capital Expenditures									
Total assets	¥ 77,712	¥ 66,323	¥ 20,205	¥ 23,248	¥ 89,097	¥ 21,347	¥ 19,752	¥ 154,986	¥ 472,670
Depreciation and amortization	¥ 2,682	¥ 4,139	¥ 1,302	¥ 928	¥ 4,044	¥ 773	¥ 1,116	¥ —	¥ 14,984
Impairment of long lived-assets	¥ 292	¥ —	¥ —	¥ 49	¥ —	¥ —	¥ —	¥ 987	¥ 1,328
Capital expenditures	¥ 1,841	¥ 4,568	¥ 1,275	¥ 898	¥ 3,762	¥ 3,492	¥ 2,470	¥ —	¥ 18,306

(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

(thousands of US dollars) 2007

	Textiles	Automobile Brakes	Papers	Chemical Products	Electronics	Real Estate Leasing	Others	Eliminations/ Corporate	Consolidated
I. Sales and Operating Income									
Sales to customers	$ 696,974	$ 523,424	$ 253,458	$ 303,814	$ 644,644	$ 40,576	$ 188,169	$ —	$2,651,059
Intersegment sales	42	—	135	6,432	0	4,509	2,992	(14,110)	—
Total sales	697,016	523,424	253,593	310,246	644,644	45,085	191,161	(14,110)	2,651,059
Operating expenses	693,296	464,026	243,000	303,059	635,822	22,958	203,635	(12,627)	2,553,169
Operating income (loss)	$ 3,720	$ 59,398	$ 10,593	$ 7,187	$ 8,822	$ 22,127	$ (12,474)	$ (1,483)	$ 97,890
II. Total Assets, Depreciation and Amortization, Impairment of Long lived-assets and Capital Expenditures									
Total assets	$ 658,576	$ 562,059	$ 171,229	$ 197,017	$ 755,059	$ 180,907	$ 167,390	$1,313,441	$4,005,678
Depreciation and amortization	$ 22,729	$ 35,076	$ 11,034	$ 7,864	$ 34,271	$ 6,551	$ 9,458	$ —	$ 126,983
Impairment of long lived-assets	$ 2,475	$ —	$ —	$ 415	$ —	$ —	$ —	$ 8,364	$ 11,254
Capital expenditures	$ 15,602	$ 38,712	$ 10,805	$ 7,610	$ 31,882	$ 29,593	$ 20,932	$ —	$ 155,136

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended 31st March, 2007 and 2006 were as follows:

	(millions of yen) 2007					(millions of yen) 2006				
	Japan	Asia	Others	Eliminations/ Corporate	Consolidated	Japan	Asia	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 259,752	¥ 36,616	¥ 16,457	¥ —	¥312,825	¥233,837	¥ 30,269	¥ 14,511	¥ —	¥278,617
Interarea transfer	10,081	13,298	96	(23,475)	—	7,255	8,907	266	(16,428)	—
Total sales	269,833	49,914	16,553	(23,475)	312,825	241,092	39,176	14,777	(16,428)	278,617
Operating expenses	263,143	46,588	14,851	(23,308)	301,274	233,876	36,076	13,871	(15,730)	268,093
Operating income (loss)	¥ 6,690	¥ 3,326	¥ 1,702	¥ (167)	¥ 11,551	¥ 7,216	¥ 3,100	¥ 906	¥ (698)	¥ 10,524
Total assets	¥272,732	¥ 32,406	¥ 17,151	¥150,381	¥472,670	¥ 261,539	¥ 27,031	¥ 18,606	¥184,054	¥491,230

	(thousands of US dollars) 2007				
	Japan	Asia	Others	Eliminations/ Corporate	Consolidated
Sales to customers	$2,201,288	$ 310,305	$139,466	$ —	$2,651,059
Interarea transfer	85,432	112,695	814	(198,941)	—
Total sales	2,286,720	423,000	140,280	(198,941)	2,651,059
Operating expenses	2,230,025	394,814	125,856	(197,526)	2,553,169
Operating income (loss)	$ 56,695	$ 28,186	$ 14,424	$ (1,415)	$ 97,890
Total assets	$2,311,288	$274,627	$145,348	$1,274,415	$4,005,678

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended 31st March, 2007 and 2006 amounted to ¥84,898 million ($719,475 thousand) and ¥55,087 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, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2007 and 2006, 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

28th June, 2007
Tokyo, Japan

Nisshinbo History

1907 Nisshin Cotton Spinning Co., Ltd. established.
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).
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).
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 Machinery 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 shares.
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.
2003 Saeron Automotive Beijing Corporation (China) established through complete financing from the subsidiary Saeron Automotive Corporation.
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.
2006 Nisshinbo Postal Chemical Co., Ltd. (currently consolidated subsidiary) merged with Nisshinbo Engineering Co., Ltd.
Acquisition of additional shares of Japan Radio Co., Ltd. and Nagano Japan Radio Co., Ltd.

Nisshinbo Group

The Nisshinbo Group consists of Nisshinbo Industries, Inc., its 59 subsidiaries, and 40 affiliates.

Main Group Companies (As of March 31, 2007)

Consolidated Subsidiaries

Company	Location	Capital	Business
Nisshin Toa Inc.	Tokyo, Japan	¥450 million	Textiles, Papers, Food Ingredients
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
Tokai Seishi Co., Ltd.	Shizuoka, Japan	¥300 million	Papers
Nisshinbo Postal Chemical Co., Ltd.	Tokyo, Japan	¥310 million	Papers, Chemical Products
NIPPON KOHBUNSHI CO., LTD.	Aichi, Japan	¥310 million	Plastic Molded Products
Kohbunshi (Thailand) Ltd.	Thailand	THB100 million	Plastic Molded Products
Pudong Kohbunshi (Shanghai) Co., Ltd.	China	US$7 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

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	US$3.68 million	Automobile Brakes
ALOKA CO., LTD.	Tokyo, Japan	¥6,465 million	Medical Equipment
Japan Radio Co., Ltd.	Tokyo, Japan	¥14,704 million	Electronics
Nagano Japan Radio Co., Ltd.	Nagano, Japan	¥3,649 million	Electronics

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, Senior Executive Managing Officer
Shizuka Uzawa

Director, Executive Managing Officer
Yoshihito Onda

Director, Executive Managing Officer
Yoshihiro Sakaki

Director, Executive Managing Officer
Masaaki Isobe

Director, Managing Officer
Masaya Kawata

Director[2]
Tomofumi Akiyama

Director[2]
Toshiya Hanawa

Director[2]
Koji Kato

*[2] Outside director

Standing Statutory Auditor
Masashi Shinagawa

Standing Statutory Auditor
Shoichi Hayashi

Statutory Auditor[3]
Yoshikuni Utsunomiya

Statutory Auditor[3]
Toshihiko Tomita

*[3] Outside auditor

Managing Officers

President
Takashi Iwashita*

Vice President
Kunihiro Toda*

Senior Executive Managing Officers
Yasuo Takeuchi*
Shizuka Uzawa*

* Board member as well

Executive Managing Officers
Yoshihito Onda*
Yoshihiro Sakaki*
Masaaki Isobe*

Senior Managing Officers
Takeo Shimura
Yoshio Ide
Kazuo Manaka

Managing Officers
Masaya Kawata*
Akihiko Ishikawa
Hitoshi Ito
Michihiro Ohga
Shigenori Mori
Toshihiro Kijima
Koji Nishihara
Syuichi Fukuda

Corporate Data

(As of March 31, 2007)

Founded: February 5, 1907

Head Office: 2-31-11, Ningyo-cho, Nihonbashi,
Chuo-ku, Tokyo 103-8650, Japan
Tel: 03-5695-8833 Fax: 03-5695-8970
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	2,797
Subsidiaries	9,947
Total	12,744

Common Stock:

Authorized: 371,755,000 shares

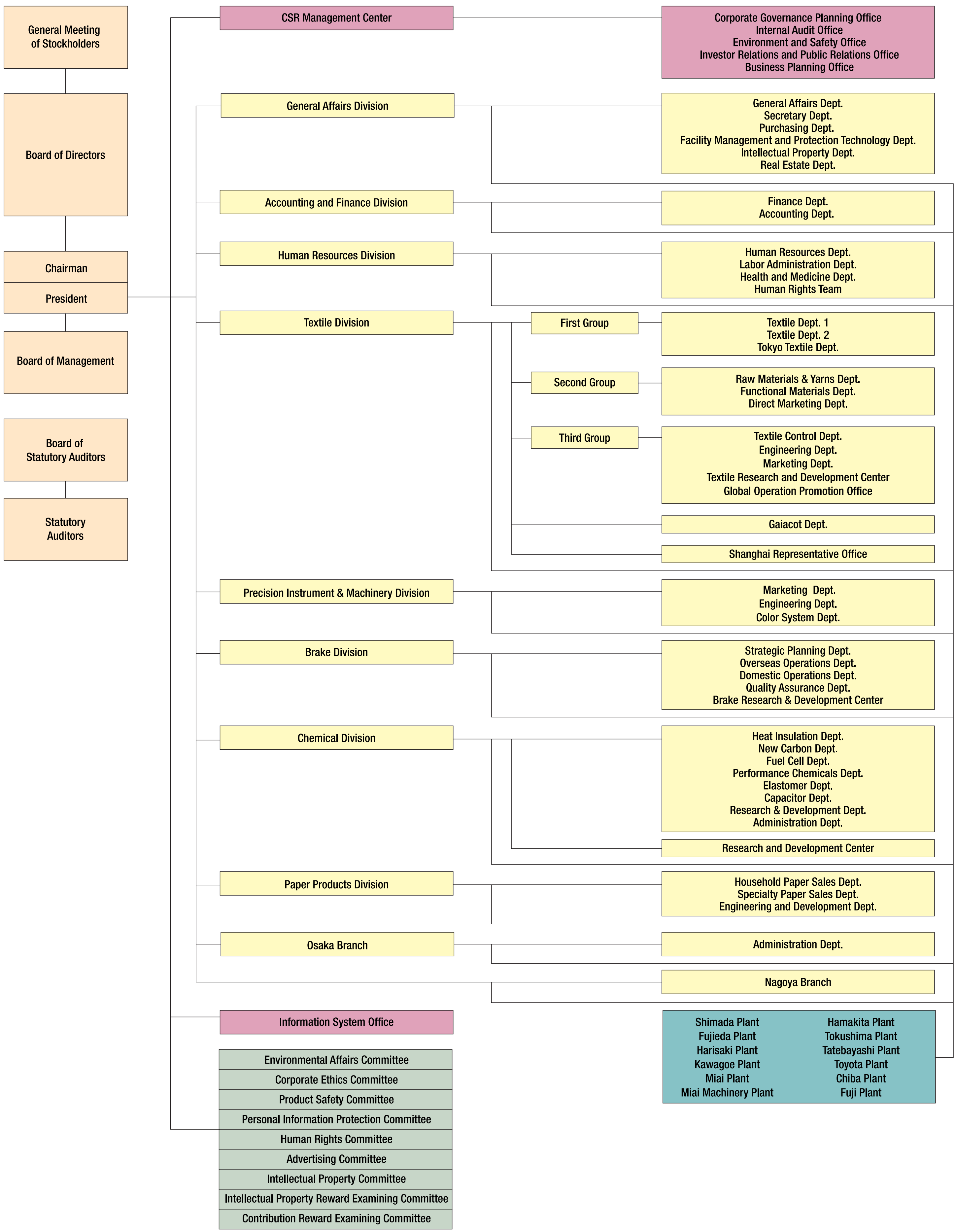
Issued: 201,698,939 shares
¥27,588 million — US$234 million

Shareholders: 12,113

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 1, 2007)*



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